# Price Control in Germany

By Ernest Doblin

EDITOR'S NOTE: This is the third in a series of articles dealing with Price Control. It was started in the Winter issue by Stewart Bates' article "Canada Erects a Price Ceiling" and continued in the Spring issue by Jules Backman with a discussion of "Wartime Price Control in the United States, 1940-1942".

GERMAN price control has gone through three stages. The first was the period of the "price stop" beginning at the end of 1936. After the outbreak of war renewed pressure was exercised on prices by the "war economy law". The third step is an experiment introduced in 1941 and still under way: the "profit stop" which tries to enforce price reductions through limitation of profits.

Price control is merely one of many forms of state intervention in German economic life. It is even doubtful whether it is the most important measure among them. It is supplemented by thorough rationing, allocation of raw materials and labour, taxation to absorb surplus purchasing power, dividend control, wage control and many other devices to regulate output and consumption and to allocate resources. The following observations, which are limited to price control in the proper sense, are thus necessarily onesided. German price control can be appraised only against the background of the whole control system.

The basic principle of the "price stop" is similar to its Canadian counterpart. A ceiling is established on all prices with October 17, 1936 as reference date. The control is exercised over commodity prices in all stages of production including retail prices, trade margins, services, rents and also prices of property such as real estate. Prices of agrarian produce—which from 1933 ceased to be influenced by the ordinary forces of the market and were determined by a system of compulsory cartels acting under state supervision—are very definitely under the rule of the price commissioner. He incidentally is now called commissioner for price formation, in contrast to the commissioner for price control of a former period, in order to indicate his much more extensive functions and powers. Wages are regulated by another agency. Share prices are not under the jurisdiction of the price commissioner, and a very few other prices (export prices, sea freight rates) are exempted. By and large, however, the price commissioner has by law every possible price under his control, and only minor items, such as stamps and objects of fine art have in practice defied regulation.

The price stop date was in general not unfavorable to producers. The year 1936 was a period of marked recovery in most branches, and during the months preceding October price increases had been quite frequent; in fact they were the reason for the introduction of the price stop. Reasonable profit margins prevailed in the majority of the industries. Moreover full use of the nation's capacity of men and materials had not yet been reached so that expansion of output under prevailing prices tended to improve the profit situation still further.

Price stabilisation applies to the individual firm rather than to an industry as a whole or to a product. Variations in prices with respect to quantity and type of customer are permitted. Regionally fixed prices of cartels and similar organizations continue to be regulated on an industry-wide basis. The authorities have again and again acknowledged the advantage of having at their disposal these private price-fixing agencies with their smooth-working machinery. They have become tools of the price commissioner facilitating the general price control enormously.

Serious difficulties arise in instances

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where no transactions occurred at the reference date. In these cases the price commissioner goes back to "comparable" prices, either prices of the same product at dates near to the basic date, or probable cost of that product at the reference date. A great deal of legal controversy centres around the problem as to which features characterize a "comparable" product, and what "partners of equal standing" are. A very detailed cost computing device was introduced in 1938 to determine prices in general contracts referring to articles of a special character which have no market price. It disregards some cost items entirely, limits other costs arbitrarily, and establishes profits as a yield on the "necessary capital" equal to the yield on government bonds plus a limited premium for the risk involved. The system was revised early in 1942 when fixed prices were established at the basis of the costs of an *efficient* concern, computed according to these rules and independent of the actual costs of the individual tender.

For products with significant seasonal price variations the corresponding prices of the previous year may be substituted for the price of the basic date. There is however a strong tendency to get rid of seasonal price differentials. The rigid agrarian price regulations contain many provisions to that effect. Seasonals are either abolished or substantially reduced, or replaced by some device that will take care of storage costs; the price at the beginning of the harvest period is increased week by week and the scale of rising prices determined in advance. It goes without saying that the auction method of disposing of produce is in direct conflict with the basic principle of price stabilization—in the agrarian field even more than otherwise since agrarian prices as a rule are rigidly protected against changes in either direction. Auctions are either completely eliminated or firmly controlled within narrow limits.

The role of the price commissioner is not confined to price stabilisation. He is responsible for the active formulation of price policy. From the outset he has exercised his influence to reduce prices if possible below the October 1936 level, partly by persuasion, partly by decree. He has on the other hand the power to approve an upward revision if the prevailing price should prove to be uneconomic for the industrial establishments affected by it. He will not act unless he is satisfied that all reasonable steps have been taken to reduce costs and to work on an economical basis, and he will intervene only in favour of industrial establishments which are "necessary" according to the standards of the Four Years Plan. He has never granted price increases merely on account of growing scarcity of a product.

Thus prices are not absolutely rigid. Nothing prevents the average producer from offering his product below the price prevailing at the basic date if he feels that market conditions warrant this decision, although the authorities did not have any illusions as to the probable scope of voluntary price reductions in a period approaching boom conditions. In a great number of instances the price commissioner has reduced prices if the profit situation seemed to justify the step and general economic considerations called for it. Whenever a price cut occurs, in one stage of production, the consecutive stages are forced to transfer the gain to the final consumer. It has been claimed that sufficient information has been collected to decide in advance to what extent price decreases for an important product would affect the costs of other products in all succeeding stages down to the retail trade.

Price increases of more than local importance may be granted by the price commissioner after the application has been sanctioned by the "group"—the self-governing body of the industry concerned of which all firms in the industry have to be members. The fact that the production of a given commodity does not yield a profit is no reason for a price increase as long as the firm produces other products on a profitable margin and thereby compensates for its losses. This principle of "social price averaging" has been officially stressed over and over again.

Successful price fixing, naturally, removes by itself the source of major increases in cost. The main remaining items which had to be dealt with were price increases in imported raw materials, use of higher priced substitutes, higher wages, and changed utilization of plant capacity. The last point was, as a rule, a reason for price reduction rather than for price increases. Wage rates were, as already mentioned, kept stable. Higher wages could originate only from a change in the composition of the employed labour; or from payment of wages above the fixed rates. This did happen: however the method was discouraged by the authorities and could hardly be harmonized with the principle of economic management. Higher prices of substitute materials constituted a legitimate claim for a price increase so far as the higher costs could not be absorbed by profits or by economizing. The most important sources of cost increases have been price changes in imported material.

Price control thus establishes a system of not completely, but preponderantly, stable prices. Some of the reactions of entrepreneurs to the control are summed up below:

1. Deterioration of quality. This occured to a large extent, often for reasons other than the price control, as for instance the use of substitutes. Such behaviour undoubtedly violates the law regulating prices on the basis of a given quality. Yet changes in quality are often difficult to discover and complaints were frequent. As a result, price fixing decrees have more and more tended to classify the prices for commodities according to quality. Consumers, on the other hand, began to show a marked preference for commodities of higher quality and this has constituted a major danger since 1940. Growing scarcity of raw material compelled the manufacturers, especially in the textile industry, to restrict production to better classes of merchandise. The buying public, too, preferred that kind of product since money income is high and under rationing the prospects of replacement are very limited. Ultimately, preference in allocation had to be granted to producers of standard quality.

2. Black markets. That they exist is indicated by newspaper items, occasional remarks in official speeches, circular letters of the price commissioner and actions of the local police. There are, moreover, obvious discrepancies between the price index figures and published individual price changes in the building industry and elsewhere. However, there seems to be agreement among the critics that the black markets are by no means as numerous and important as during the last war. The punishment is incomparably heavier and the control of all phases of production makes outright lawbreaking on a large scale far more risky.

3. Joint sales. "Combination" sales are the easiest reaction to *partial* price control. If *all* prices are fixed there is less obvious advantage in making the sale of one product dependent upon the sale of another product. Since however the profit margins on various goods are not necessarily equal, sellers can even apply this technique to good advantage under a comprehensive system of price control. The price commissioner has fought a steady fight against it. Joint sales are against the spirit of the price stop decree, they have been definitely outlawed in the food trade and are officially frowned upon in other fields.

The tendency to reduce prices got a new impetus by the war economy law according to which prices have to correspond to the "necessities of an economy devoted to the war effort", which simply means that prices should be reduced wherever profits permit any such reduction, no matter what the ceiling prices are. These rules were combined with new regulations with regard to cartel prices. The main complaint of long standing against cartels referred to their supposed practice of basing their prices on the costs of their weakest member. According to the new law cartel prices are to be fixed on the basis of the costs of an establishment of average efficiency—the representative firm rather than the marginal unit that is able to survive merely because of the industry concerned exploiting a monopolistic position.

The "profit stop" of 1941 is the direct outgrowth of the war economy law. Instead of the previous attempts to reduce prices here and there in a rather haphazard way, a comprehensive *system* was established aiming at a concentrated attack on all prices at the same time.

Technically the "profit stop" is a tax measure designed to do away with "excess profits". However its purpose is neither equalitarian nor fiscal, but definitely price reduction. The tax yield is a by-product. Connected with the tax payment is the duty to reduce prices in the future to an extent which would prevent a recurrence of these surplus profits. The tax form was chosen with regard to past profits of 1940 simply because prices charged in the previous year could not be reduced.

The technique is highly complicated. "Excess profits" are established by a method which corresponds roughly to the average profit method or the invested capital method of the American Excess Profits Tax. It differs from the American practice in that the choice between the two methods is not left to the tax-payer and that the forms which he has to fill are far more detailed and elaborate. This is particularly true for the manufacturing industry. The permitted capital yield is partly a percentage of the "necessary capital", partly a percentage of the value of sales. It varies from industry to industry and even from firm to firm according to their efficiency, and is to that extent, a matter of bargaining between price commissioner and the firm in question. The problem of price reduction is solved in an even more arbitrary manner. It is up to the business man in his month-to-month decisions to see to it that he keeps prices so low as to earn not more than the permitted standard profit.

The profit stop was generally disliked from the outset, not only because of its radical nature but also on account of its arbitrariness. It has already been changed substantially in the short time it has been in existence. In November, 1941, the permitted basic profits were generally reduced by 10 to 20 per cent. Some months later, however, profits arising from governmental orders were totally exempted from the profit stop and brought under special control—the beginning of the disintegration of the all-round profit stop rule. Very recently the price commissioner who was in office since 1936 and who was instrumental in introducing the profit stop, was dismissed. The step seems to indicate a turn in the economic policy towards less drastic procedures, and a reduction of the profit stop tax rate, decreed a short time thereafter, apparently confirms this view.

Little is known as to the actual size of price reductions under the profit stop. It seems that they were modest. From the long term point of view the whole experiment from 1936 on proved rather successful as the following table of price indices shows, even if interpreted with the necessary qualifications. In fact quite a number of individual prices—such as the highly important steel prices—have remained completely unchanged since 1936. But again it must be emphasized that the result was due toe the functioning of an elaborate coordinat ed system of economic controls rather than to price fixing as an isolated measure.

**PRICE INDICES**

| | Wholesale 1913=100 | Cost of Living 1913–1914=100 |
|---|---|---|
| Annual Average: | | |
| 1936 | 104 | 125 |
| 1937 | 106 | 125 |
| 1938 | 106 | 126 |
| 1939 | 107 | 126 |
| 1940 | 110 | 130 |
| 1941 | ... | ... |
| Monthly Average: | | |
| January | 112 | 132 |
| February | 112 | 132 |
| March | 112 | 132 |
| April | 112 | 133 |
| May | 112 | 134 |
| June | 112 | 136 |
| July | 112 | 136 |
| August | 112 | 133 |
| September | 113 | ... |
| October | 113 | ... |
| November | 113 | ... |
| December | 113 | ... |
| January, 1942 | 114 | ... |