

It is that we are using price theories that cover only a very few cases.

"A case in point. An investigation by the Cost of Living Branch of the Department of Labor last summer showed that soda crackers in Canada were ordinarily sold at approximately their prime cost, i.e., the cost of materials and operators' labor. Ordinarily they were not expected to bear more than an insignificant share of the overhead (or joint costs). The fancy products of the industry were made to carry practically the whole burden of the factory and selling overheads. Such an arrangement is quite legitimate, but it is rather explained by the theory of railway rates than by the ordinary theories of value. This illustration throws an illuminating light on the otherwise puzzling situation in which innumerable firms were able to show that, allocating overhead costs according to the value of the product, or labor cost, or any other principle of allocation, they were losing money by selling their staple products at the market prices. The most common and indeed almost invariable rejoinder to governmental enquiry in regard to prices of any particular commodity, was proof absolute and overwhelming that the cost was greater than the price. The great bulk of our staple manufactured products are produced under conditions of joint cost, yet we have not made adequate use of the principle of joint cost in relation to general prices as has been done in regard to the particular prices of railway services. Commissions and officials innumerable have insisted on the reasonable relationship between war prices and costs when the real truth, if not accurately expressed in Professor Emory's statement, that 'the relation seems to follow no rule of logic,' was at least that it did not follow 'the rule of logic' usually applied to it.

Competitive System not Complete

"The thesis here presented is not that the competitive system is not justified by its results. (That question is quite outside the present article). The argument rather is that at present numerous facts indicate that there are large and noteworthy gaps in our ordinary assumption of competition and that even where that system is effective as a means of control, it does not necessarily or even usually work according to the accustomed formulae. Further, we have not enough data at our disposal to know just how it does work. We know that competition exists and that friction exists. We know that there is an element of joint cost in most industries and that the effect of competition is decidedly 'abnormal' in such cases. What we do not know is the extent to which these factors are involved. Once more we know the principles but the facts are lacking. Moreover, the principles without the facts are like mathematics without measurements to apply them to, very pure but very useless.

"In this situation lies the essential *casus belli* of the whole popular controversy of the war period as to prices and profits. The widespread popular demand for the fixing of prices and the general advice of economists against it, were opposed on this very basis of fact.

"The war, like every other war in history, brought with it a sudden rise in prices, a rise that was in part general and due to inflation, and in part, particular and due to the scarcity of necessary articles. Such a rise in prices with the consequent diminution of real wages, owing to the tardiness with which money wages rose, brought a shifting of standards, causing much readjustment and discomfort. 'One of the most difficult things for a people to do is to revise their standard of living—downward. A nation will without a murmur give its sons to be crippled or killed, but doubling of the price of bread, reduction of the sugar purchases and all the relatively small inconveniences which a rapidly rising price level brings home to every household, will be vigorously resisted with threats of strikes in vital industries and bitter cursings of speculator and profiteer.*' In part this is the old and ever-present difficulty of accepting an intimate, direct, and easily perceived loss, for the sake of a distant, indirect, and somewhat obscured gain.

That is the most fundamental and constant psychological fact in all social control. The case in point, however, is an instance of more than that. It was not only the indirectness of the gain, it was the doubt of its existence. The response which the Canadian people gave to appeal after appeal for funds, is conclusive proof that they were willing to meet the cost of the war in money as well as in men. They were not sure that increased prices were a part of the war. There was the rub! It was the conviction of a large part of our population that most of the increased price represented increased profit in some one's purse. It was not the cost of the war but the inequitable distribution of the burden that caused disturbances. Most of the meagre facts which were brought before the public tended to corroborate rather than disprove that view. The one notable case which came up for public review ended in the publication of a few facts, which left the head of the firm concerned convinced of his righteousness, the public convinced of his guilt and the government in a quandary. The net conclusion to be drawn is that 'business profits,' 'competitive profits,' 'fair returns,' etc., are mere terms and the facts are quite unknown.

Opposition to Price Fixing

"In regard to governmental policy, sound and legitimate reasons were given against any widespread price fixing scheme. Fixed prices are difficult to enforce. Except in highly organized markets they are impossible.† Price-fixing is a useless weapon to attack inflation. 'Prices are but symptoms; to attempt to attack the prices themselves is like attempting to cure influenza by stopping the sneeze. Neither the price nor the sneeze is the disease.‡' It is no cure to stop the sneeze, but it may well be a polite and wise measure. Price-fixing at best, however, is only an emergency measure, for the fixing of prices means the abolition of the price system, which is the mechanism for industrial and commercial control. From this fundamental cause arises the fact that fixed prices usually, if prices were rising, limited production and stimulated consumption. As Professor G. F. Warren has shown, the exports of wheat and wheat flour from the United States diminished in 1918 37% from the level of 1917. The chief reason for this he finds to have been the dumping of the entire crop on the market in the fall and the subsequent reckless consumption. That does not apply to the Canadian situation, however, for our crop was always dumped on the market in the autumn for lack of credit on the part of our farmers. (The overcoming of that annual low price period in the fall, is the justification, and the only justification for the fixing of the price of wheat in Canada. It will be permanently effected, however, not by price-fixing but by better credit organization.) In many lines the checking of production was evident though difficult to estimate in extent.

"All these reasons are sound and legitimate. They do not, however, touch the centre of the cost of living problem. They merely discredit one proposed remedy. They do not, for instance, meet statements like the following: 'If one were asked to say concisely what has made possible the present food situation in regard to prices, he could express the truth in these four words: Lack of organized resistance.§' It is obvious that the writer does not understand the whole situation. The context shows that he has a very common but very erroneous idea as to what is meant by supply and demand. He neglects altogether the important factor of inflation. In fact he has neglected most of the fundamental principles. One thing he knows. The great majority of our people also understood it. A period of rising prices does benefit the business man more largely than any other class. Profits rise much more quickly than wages. It is also understood that prices are not completely beyond the control of the business man. Only in so far as they are competitive, are they beyond his control. While the economist is at pains to show a complete monopoly is

†Vide Clark, loc. cit.

‡G. F. Warran, "Purposes and Results of Price-fixing," *Proceedings of American Economic Association*, December, 1918.

§J. L. Payne, *Scribner's Magazine*, November, 1918.

*W. C. Clark, loc. cit.