

War Prices and Demand and Supply

The solution of our present economic problem is not to be found in permitting demand and supply to have free play, but in controlling prices through negotiation and co-operation

By W. W. SWANSON, Ph.D.

On no important question of the day is there so much confusion of thought as in prevalent discussion on the causes of the determination of prices. The press is filled with articles designed to prove that the law of supply and demand is obsolete, that it never had any validity in fact, and that it is ready to be thrown upon the scrap-heap. In a word, it may be said that the general conclusion reached is that the economists have been proved altogether in error, but with respect to their forecasts as to the effect of a great war upon the economic life of mankind as well as in the various theories which they have propounded, and which have been made the basis of a considerable body of legislation.

Limits of space will not permit of our giving a detailed answer to such criticism, nor indeed would it be worth while. The simple truth, however, is that the economists have proved up to the hilt their general contention that war waged on the grand scale would dislocate the industrial and financial life of the whole world, and inflict misery upon all mankind. And with respect to the second contention, that the law of supply and demand does not inevitably determine market prices, it may be said that no economist, of any repute, ever suggested that this law operated in a simple and direct line for the achievement of a definite subject. Only a slight acquaintance with the body of economic literature would demonstrate the fact that economists realize full well that supply and demand rarely, if ever, work without friction—that obstacles intervene, either through the action of men or nature, to prevent such a simple determination of market price. Therefore, scores of cases are considered wherein cost of production, on the one hand, as it affects supply, and utility, on the other hand, as it affects demand, are investigated. And notably constant costs, increasing costs, and decreasing costs in their bearing upon the supply, and hence upon the market price, are carefully investigated to the end that supply and demand may have some rational bearing on the price problem. In a word, economists are not so foolish as to imagine that hypothetical cases wherein supply and demand work freely can be applied without modification to the practical problems of the business world.

So much by way of introduction. The question for immediate consideration is the effect of the war upon market prices and the economic changes that have thereby ensued. We are all acutely aware that there has been an epoch-making change in food and commodity prices since the outbreak of hostilities; that this change in prices has, in effect, wrought a social revolution; and that something must be done to alleviate the burden placed upon the masses of the people if society in its political aspects is not to be shaken to its foundations. Let us consider, in outline, the chief phases of this problem.

A few weeks ago a Commission House in Wall Street issued a market letter to its clients instructing them that the market was due to take a bearish turn in industrials and railway securities. It was stated, in the letter in question, that the average price of the eight leading steel products of the United States had jumped during the week from \$99.29 to \$109.64 a ton—the largest week's gain ever recorded. This price compared with \$30.97 two years ago. The highest price in any year, previous to 1916, was \$40.63 in 1907. The writer of the letter stated that prices are now fully three times normal, and that "these are truly killing prices. They are killing the building business and nearly all peace industries, except those indirectly connected with the war industry—all of which are flourishing as never before." Be it remembered that this estimation of present economic conditions is by a leading New York brokerage concern, and that it is the deliberate opinion of hard-headed, cool-thinking business men. It merely goes to show, as has often been emphasized by the writer, that men may be sane and patriotic even though connected with big business.

IMPERATIVE.

As is well known the iron and steel trade is an excellent barometer of normal business conditions. But conditions to-day in the industrial and financial world are abnormal, and no one can adequately predict what is likely to happen even in the immediate

future. It may be safely said, however, that when prices go to prohibitive heights the common people will either starve or suffer lack of food and clothing. In that event labor will produce less and consume less, and an industrial depression will inevitably follow. It cannot be too strongly impressed, therefore, upon the financial and industrial leaders of the nation that high prices of food and commodities is not a matter of indifference to them, but that rather the return to normal conditions in these fields is imperatively necessary if stability is to be secured for the economic life of the Dominion.

STRAIN UNBEARABLE.

Simply stated, the fact is the strain upon our economic and industrial life is becoming unbearable; and it is gravely to be feared that some important part of the industrial mechanism of the nation will give way soon. This is evidenced by the actions of traders on all the important exchanges of America—the pessimists having come to the front in recent weeks, with inevitable hammering down of prices. Pacific industries are rapidly losing ground; and only in war work, or in those trades indirectly connected with war work, are usual or increased profits being secured. Millions of people in America, especially of the working class, are eating less food because they cannot buy the usual quantities, not to speak of qualities; and are buying less clothing, household supplies, and so forth. The result is, a slackening in the demand for ordinary products, and a slowing down of peace-time industry. Thousands of retail grocers and merchants in the United States and Canada are being squeezed out of business; for, contrary to accepted opinion, they are both making smaller profits on their turn-over as well as conducting a very greatly diminished business. It is well known that real estate in our largest urban centres is almost unmarketable—a sure sign of apprehension with respect to future conditions of industry and commerce. As has been implied, this is on time to be poor—it is hard enough to be rich, with the 57 varieties of taxes that assail us.

HEAVY DISABILITIES.

It is too generally assumed that present high prices mean high prosperity; prosperity for the common people and for the usual industries of peace. A moment's reflection, however, will show that almost every peace industry is laboring under heavy disabilities because of the war. Take newspapers, for example. They pay greatly increased prices for all their raw materials, for labor and machinery, and their telegraph and cable tolls impose additional heavy expenses upon them. It may be safely asserted that the majority of Canadian newspapers have scarcely held their own since the outbreak of hostilities, and many of them have lost money. As far as the farmer is concerned, while his position has undoubtedly improved since the outbreak of war, his costs of production have doubled, and \$2.21 wheat by no means indicates double prices for him. And he stands in danger of losing what he is gaining during the course of the struggle through increased taxation when peace shall have been declared. The community at large is becoming impatient with the excuses and explanations offered through government officials and the public press for prevalent high prices and their justification. We have heard once too often that every great war in the past has brought with it high prices and dislocation of the industries of peace. That may be, and is, undoubtedly, true; but it offers no moral or social sanction to profiteers and petty pilferers for taking advantage of conditions in the food and commodity markets to-day. Both workingmen, as well as clear-headed leaders of Canadian industry and finance, refuse to believe that the paralysis of the nation's economic life is inevitable; and that the country must face with resignation a post-bellum condition of turbulence, strikes and labor unrest. If the problem is not attacked and got in hand now, however, the future will be dark indeed for our merchants and manufacturers as well as for the agricultural and working classes.

INTOLERABLE CONDITIONS.

There are many indications that the masses in Canada and the United States mean to have some-

thing done to put an end to present intolerable economic conditions. We are perfectly aware that there are unavoidable hardships of war—but the avoidable hardships should be ruthlessly swept aside. The object to be attained leads to no puzzling confusion of thought; the right methods, however, of reaching that objective are puzzling in themselves and are extremely difficult to work out. In so far as the Government has taxed war profits, a long step forward has been taken in reaching the desired goal, inasmuch as the taxation of excess income, above a fair return on the cost of production, brings with it lessened taxation for the common people by way of the tariff or otherwise. It may be said, however, that gross instances of profiteering have been relatively rare in this country—it is the small, mean-minded speculator who has really added most to the burden of making both ends meet. This is true because of their number and the toll they collect at every transaction, and the difficulty involved in exposing both their methods and profits.

Coming directly to the question which lies at the heart of the whole problem, we may now inquire how prices may be stabilized and reduced to normal proportions, for it is only through the control of prices that building, manufacturing and trading under normal conditions can be again resumed. The unthinking jump to the conclusion that the whole business of regulating prices should be thrust upon the Government. It has surely been amply demonstrated that by the very multiplicity of bills rushed through the legislatures, both in the American States and the Canadian Provinces, during times of peace, the objects sought to be achieved have been frustrated. It is impossible to return to the days of Queen Elizabeth when commodity prices, and wages as well, were determined by public authority. In the very nature of the case government officials, because of lack of experience and training, are entirely unfitted for the task. What is demanded is action, not legislation and deliberation.

THE ONLY WAY.

The way out is surely indicated by the successful negotiation carried on by the coal producers in the United States and the Board of Grain Supervisors in Canada. As is well known the Federal Trade Commission of the United States, when asked to suggest a solution for the fixing of coal prices, sagely advised that the mines should be operated by the Government as well as all railroads engaged in carrying the product. This would have dislocated the industrial life of the nation; and, whatever the long-time results might have been, would have led immediately to industrial paralysis. Co-operation is the key to the problem—the getting together of the producers of the basic commodities of the country, and arbitrators or Government officers representing the Government and the people. Mr. Hanna may be well advised in fixing the prices of flour, bread and potatoes by virtue of his authority alone; but he is taking far surer ground by co-operating with millers, bakers and producers of these special products. And so in every community the best results will be achieved by consultation and co-operation, resulting in a working agreement, between let us say, such a special body as the Board of Trade representing consumers, and a committee representing the producers of raw materials and the manufacturers of the finished product. This is precisely the attitude of Mr. Macgrath with respect to coal prices in the various urban and rural municipalities. He has directed retail dealers to maintain summer prices unless they are willing otherwise to open their books for investigation in order that costs and gross and net profits may be disclosed. The only flaw in this procedure is that it has taken over long to put it into practice; and that it has been too generally ignored by dealers throughout the country. The fact is that vigorous, prompt and decisive action should be taken directly by municipal authorities, or by Boards of Trade, if real results are to be achieved.

Unfortunately comparatively little or nothing has been accomplished with respect to the regulation of prices, up to the present, in Canada. Farmers justly complain that their products alone have come under price control, while everything they consume goes without regulation. This is class legislation. The solution of our present economic problem, in so far as its bearing upon the high cost of living is concerned, is not to be found, however, in permitting demand and supply to have free play, but in controlling prices through negotiation and co-operation. But it must always be kept in mind that supply and demand do operate; and that the price fixed must be high enough to cover the costs of production as well as a reasonable profit. Any other attempted solution will lead only to economic disaster.