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THE CASE FOR PRICE CONTROL  
DURING WARTIME

Frederick T. Kent Jr.  
Major, Infantry

Date submitted: 24 May 1949

The case for price control during wartime,  
by Maj F. T. Kent. CGSC. 1948-49.

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STUDENT RESEARCH DIRECTIVE FOR SUBJECT NUMBER 8-17

STUDENT Kent, Frederick T., Jr. Maj Inf  
(Name) (Rank) (ASN)

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SUBJECT The Case for Price Control During Wartime.

PURPOSE: To determine the necessity for price control during wartime, to outline the general principles governing the application of price controls to the national wartime economy, and to evaluate the employment of those principles in current mobilization planning.

SCOPE: (Brief outline of subject coverage)

1. Trace the developing needs for price control during wartime by a brief critical examination of the effects of war on the national economy during World War I, during World War II, and the expected effects during a future war.
2. Contrast the severity of these effects of war on the national economy under adequate price controls and without price controls.
3. Develop the objectives of price control with respect to the national economy during mobilization for war, during the war period and during the postwar readjustment period.
4. Examine and evaluate briefly the possibilities of meeting these objectives of price control by other means.
5. Develop the basic principles which should guide the application of price controls to the national war economy.
6. Examine critically the employment of these principles in the current planning for economic mobilization, particularly with respect to:
  - a. Areas of the economy to be covered.
  - b. Timeliness of application.
  - c. Control agencies.
  - d. Extent of decentralization of control.
  - e. Flexibility of controls to meet new situations.
  - f. Liaison between interested civilians and military agencies.
  - g. Provisions for postwar decontrol.

NOTE TO STUDENTS: Make specific recommendations concerning improvements in employment of these basic principles governing price controls in current mobilization planning.

1. The scope suggested above is intended as a guide only and is not to be construed as a limitation on the students perusal of the subject. The student is encouraged to modify the above scope as he may find necessary to outline and define the specific problem he visualizes and proposes to develop in his research study.

(over)

2. The references below are furnished to give the student enough material with which to begin his research. It is anticipated that the student will make use of other available sources in order to give adequate scope to his subject, and to include latest developments pertaining to the subject.

REFERENCES:

Pam Sec

1284.....Economic Stabilization, Heflebowor, ICAF.

1129.....Relationship of Military and Civilian Price Policies to Procurement in Wartime, Wallace, ICAF.

Archives

R-16030.....Pricing Policies of the War and Navy Department, ICAF, 1946.

48-68.....Economic Mobilization - Student Committee Report ICAF 1947-48. See Annex No. 8, Price Control.

For additional references consult card index files of Library Pamphlet Section and Archives.

COORDINATION: (Confer with the authors of these subjects for pertinent information and coordination)

8-15

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REMARKS:

COMMAND AND GENERAL STAFF COLLEGE

FORT LEAVENWORTH, KANSAS

Logistics Specialized Course  
Regular Class 1948-1949

THE CASE FOR PRICE CONTROL DURING WARTIME

Frederick T. Kent, Jr.  
Major, Infantry

Date Submitted: 24 May 1949

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COMMAND AND GENERAL STAFF COLLEGE

Department of Logistics

Fort Leavenworth, Kansas

24 May 1949

File No. 8 - 17

SUBJECT: The Case for Price Control During Wartime

TO: Director, Department of Logistics, C&GSC

1. PROBLEM.-- To determine the necessity for price control during wartime, to outline the general principles governing the application of price controls to a wartime economy, and to evaluate the employment of those principles in current mobilization planning.

2. ASSUMPTIONS.--a. That economic activities will operate under private management, subject to only the minimum essential governmental controls.

b. That any future war will require the maximum possible national effort.

c. That our entry into any future war will be sudden.

3. FACTS BEARING ON THE PROBLEM.--a. The law of supply and demand breaks down during wartime (Annex 3).

b. Inflation has always developed during wartime when prices were not controlled (Annex 3).

c. Application of price controls during World War II arrested the inflationary trend (Annex 3).

d. Gradual, selective application of price controls was not completely effective in maintaining a stable economy. (Annex 3).

4. DISCUSSION.--a. The national economy can operate on a sound financial basis under an adequate price control system, at the same time maintaining high national morale and maximum production (Annex 4).

b. Observance of all principles of price control is necessary for proper functioning of the control system (Annex 4).

c. Planning a price control system and enacting the required legislation takes considerable time (Annex 5).

d. Alternative methods of maintaining economic stability can not be relied upon (Annex 3).

e. Munitions purchases may be exempted from price controls and fair prices obtained by careful cost analysis and negotiation.

5. CONCLUSIONS.--a. Price control during wartime is essential to prevent inflation.

b. Controls must be applied at the beginning of a wartime period, and the price control system must be ready for application at that time.

c. Controls must be applied simultaneously to all prices, wages, and rents for maximum effectiveness.

6. ACTION RECOMMENDED.--a. That legislation providing for control of prices be drafted and enacted without delay, to become effective upon declaration by the President that a national emergency exists (Annex 5).

b. That the National Security Resources Board be assigned the mission of planning and administering the price control system (Annex 5).

c. That this study be approved and forwarded to the Director of Logistics, GSUSA for consideration (Annexes 1 and 2).

*Frederick T. Kent Jr*  
FREDERICK T. KENT, JR.  
Major, Infantry.

ANNEXES:

1. Draft Memorandum to the Commandant, C&GSC.
2. Draft Letter of transmittal to Director of Logistics, GSUSA.
3. The Case for Price Control During Wartime.
4. General Principles of Price Control.
5. Employment of Principles of Price Control During Current Mobilization Planning.
6. Bibliography

Concurrences.--Omitted.

Nonconcurrences.--Omitted.

Consideration of nonconcurrences.--Omitted.

Annexes added.--Omitted.

\_\_\_ May 1949

APPROVED:

F. A. HENNING  
Colonel, FA  
Director

COMMAND AND GENERAL STAFF COLLEGE  
FORT LEAVENWORTH, KANSAS

SUBJECT: The Case for Price Control During Wartime

(IDENTIFY THIS MEMORANDUM SLIP WITH PAPERS TO WHICH ATTACHED.)

TO	SUBJECT MATTER	FROM DATE AND INITIAL
Commandant  C&GSC	1. I concur in the recommendations of the attached research study.  2. Request that this study be transmitted to the Director of Logistics, GSUSA, by means of a letter, (Annex 2) which has been prepared for your signature.	F.A.Henning Colonel, FA Director Dept. of Logistics

Annex 1



COMMAND AND GENERAL STAFF COLLEGE

FORT LEAVENWORTH, KANSAS

SUBJECT: The Case for Price Control During Wartime

To: The Director  
Logistics Division, GSUSA  
The Pentagon  
Washington 25, D.C.

1. The attached staff study, title "The Case for Price Control During Wartime" is transmitted to you for consideration and appropriate action.

2. The research study was prepared by a student in this College and concurred in by the Director, Department of Logistics. The recommendations for the preparation of a price control system during peacetime and for its operation during wartime appear to have considerable merit.

M. S. EDDY  
Lt. General, USA  
Commandant

Annex 2

Annex 2

## ANNEX 3

### THE CASE FOR PRICE CONTROL DURING WARTIME

1. Introduction. The basic and underlying reason for controlling prices of commodities and services during wartime is the maintenance of a stable economy which can furnish adequate support to military operations and, at the same time, provide the non-combatant civilian population with the minimum essentials of the standard of living enjoyed in peacetime. It is the purpose of this staff study to establish the necessity for the application of such controls, to designate and discuss the various objectives which are to be attained, and to develop the general principles which must be observed in the establishment of the system of price controls.

The employment of the principles of price control in current mobilization planning will be discussed briefly in order to establish the close relationship which must exist, in the event of a national emergency, between the implementation of the plans for the mobilization of both the military forces and industry.

#### 2. Historical Background of Price Control.

a. Prior to World War I. A study of recorded history indicates that the use of price control as a means of maintaining economic stability is by no means new. As far back as the year 2000 BC there is evidence of its application. Hammurabi, the sixth king of ancient Babylon, is said to have employed price controls effectively in his highly successful reign.

Diocletian, emperor of Rome during the years 284 to 305 AD, issued an imperial edict in the year 301 AD which fixed maximum prices for provisions and other articles, and a maximum rate of wages. The penalty for exceeding the established maximum prices was death or deportation. This edict was an attempt to alleviate the distress caused by several poor harvests and commercial speculation, which apparently was producing a serious inflation.

The entire plan failed, however, and was soon abandoned.

Intervening periods of history between the time of Diocletian and the twentieth century need not be analyzed or discussed except to point out that during every period of wartime inflationary trends developed which seriously affected the national economy. In the United States, uncontrolled inflation was evident during both the Revolutionary War and the Civil War.

b. During World War I. Passing now to the period of World War I, the first major international conflict in which the United States became involved after the Civil War, we find that prior to the time of our entry into the war there were no provisions for price control, and the country was operating on the long-established theory that government should not interfere with the processes of business any further than was necessary to preserve the principle of fair competition and to insure the observance of ordinary legal obligations. As a result of the failure of the Government to apply timely and effective controls, the usual inflationary trend developed. Increased purchases of critical war materials produced shortages. This resulted in competition for the available materials, which in turn caused prices to rise.

The various agencies created by the Government - the Council of National Defense (August 1916), the Munitions Standards Board (February 1917), and the General Munitions Board (March 1917) - were inadequate to cope with the problems of wartime production and lacked the authority necessary to establish and enforce price controls. Consequently, the Munitions Standards Board and the General Munitions Board were abolished concurrently with the establishment of the War Industries Board on 28 July 1917.

The functions of the War Industries Board were generally as follows:

(1) To develop a priority system and a price-fixing plan for both government and private purchases.

(2) To analyze the needs of our Government, of the Allies, and of the civil population.

(3) To study the extent to which resources could meet these needs.

(4) To provide means and encouragement for increasing production.

(5) To promulgate rules and suggestions for the prevention of waste and unnecessary use.

It is interesting to note that no legislation was ever passed making specific provisions for the establishment of the War Industries Board, and it derived its power principally from the voluntary support of business interests and the cooperation of other agencies within the Government. It is also interesting that July 1917, the month in which the War Industries Board was created, was also the month of record price rises, and that a dangerous state of inflation existed in the nation. Related to the fact that prices were abnormally high and rising, was the fact, more injurious to the war effort, that the instability of prices was hampering production and driving business into a state of confusion.

The President finally announced, on 12 July 1917, the determination of the Government to make its purchases at reasonable costs and that prices would be fixed if necessary. He also stated that if prices were fixed, the same prices would also apply to civilian and allied purchases.

This announcement had the salutary effect of stopping the price rises and of even starting a decline, but the instability remained. Growing public discontent with the unreasonably high prices and the knowledge that price controls were being used successfully in England and France no doubt contributed materially to the force of the President's announcement.

Price control was then initiated piecemeal, commodity by commodity, as the situation required. Congress did not delegate to the President or any other agency complete authority to work out a system of price regulations. Prices were fixed by agreement between the Government and business.

The Food and Fuel Control Act, passed on 10 August 1917 authorized the President to fix prices for supplies and equipment purchased for the Army and the Navy. This act, together with the National Defense Act of 1916 and the naval appropriations Act of 1916 gave the President complete power over prices and enabled him to take over any plant not cooperating with the Government to the desired degree. Why the President failed to exercise this power to prevent the inflationary price rises prior to July 1917 is not known, but it appears that much expense and hardship could have been obviated by the application of these broad powers before or at least concurrent with our formal entry into World War I.

In summarizing the history of price control during World War I, it can be stated that controls were instituted too late to prevent inflation, and that the prices when fixed were much higher than they should have been due to the already-established high "market value" of materials.

c. During World War II. Many lessons were learned from the experiences of the nation in World War I, and when World War II broke out, the Government was better prepared to forestall the inflationary price rises which were sure to occur. In fact, the approach to the problem and the initiation of control measures indicated an appreciation of the dangers to come.

Although a slight rise in prices and cost of living became evident after September 1939, the total increase in cost of living amounted to only 2.1% by the end of 1940. A sharper rise starting in 1941 led to the creation by executive order on 11 April 1941 of the Office of Price Administration and Civilian Supply (name changed in August 1941 to the Office of Price Administration), whose purpose was to stabilize prices and to prevent speculation and unjustified rises in the prices of commodities and rents. The OPA was given legislative status by the passage of the Emergency Price Control Act of 30 January 1942.

During the period April 1941 to May 1942, OPA applied

selective price controls which extended to only 55% of the national economy at wholesale level and only 4% of the costs of living. The lack of controls over the remainder of the economy, together with a growing increase in national income, permitted uncontrolled prices to continue rising until the General Maximum Price Regulation was enacted in May 1942, extending controls over an additional 23% of the wholesale economy and 62% of the costs of living. Temporary Maximum Price Regulation 22, issued in October 1942, extended controls still further until a total of 86% of the wholesale economy and 82% of the costs of living was covered.

"All-out" price control did not become a reality until the issuance of Executive Order 9328 on 8 April 1943. This was the President's "Hold the line" order, and included all items affecting the cost of living. It was the final instrument in stopping any further rise in the cost of living.

OPA did not attempt to control prices in fields peculiar to the military forces or in any case where controls might have jeopardized a vital program. Commodities or services such as utility rates, which were already under control by other agencies, were not taken over by OPA.

In summary, the application of price controls during World War II was more timely, better executed, and far more effective than in World War I in spite of the tremendous difference in magnitude between the two war efforts. To OPA must go a major part of the credit for keeping prices down in World War II and preventing inflation. However, earlier and more complete controls would have prevented even those price rises which did occur.

3. The Effect of War on the National Economy. In a normal peacetime economy prices, wages, and profits are controlled automatically by the law of supply and demand; and the expenditures for military purposes take only a very small portion of the national production. For example, the defense expenditures in 1939 amounted to only 2 billion dollars. An economy of plenty exists.

The situation changes immediately upon the start of a war to an economy of scarcity, as demand overnight grows to tremendous proportions, far exceeding the initial ability of supply to meet it. Time, men, materials, and factories are all scarce. The vast increase in the size of the armed forces required to fight and win the war requires tremendous quantities of additional materials not at once available, while the normal peacetime demand remains constant or possibly decreases only slightly. The law of supply and demand breaks down as an effective control because:

a. It does not automatically increase the production of essential goods and decrease the production of non-essentials.

b. The demand for the military forces is concentrated in one customer, the Government.

c. The normal restraints of supply and demand are not experienced by the Government.

d. Civilian demand enters into competition with the Government for the available resources.

The national economy during wartime, if permitted to operate uncontrolled, would immediately enter an inflationary period which would eventually destroy the entire economy. The initial demand for goods automatically forces prices up as sellers exploit the demand. Wages rise as industries compete for labor. The expansion of wartime industries spreads rapidly to associated industries which supply equipment, materials, and component parts. Profits rise, and speculation and hoarding of scarce materials become a major problem. The insatiable demand forces prices higher and higher as an incentive to produce more, and a spiraling rise of prices, wages, and materials costs occurs. Living costs rise and cause hardship and suffering for people living on fixed incomes and those whose wages are lagging behind the rise in prices. Civilian morale suffers, and the morale of the military forces suffers as they see and hear of the incomes being earned by civilians. The Government is forced to borrow more money to meet the rising prices, as the war must be prosecuted in order to save the

nation. Additional taxes can not drain off the increasing incomes without becoming confiscatory and reducing the incentive to work and produce. Confusion soon becomes the order of the day, and it starts to hamper production as sellers start to withhold supplies in anticipation of further price rises and buyers seek to purchase quickly and in excess of their needs to avoid the additional costs of further price rises. Patriotism, voluntary controls, and taxes are inadequate to prevent inflation. Such a condition existed in the Revolutionary War, the Civil War, and in World War I prior to the establishment of governmental controls.

With adequate and timely price controls, applied with controls over wages, rents, and costs of various services, an entirely different economy exists during wartime. Prices for goods and services are so controlled as to insure reasonable profits to producers; fair and adequate wages to workers; a decent existence for persons living on fixed incomes such as pensions, annuities, and proceeds of insurance policies; reasonable prices to the Government which will keep the cost of war and the ultimate size of the national debt to a minimum. Related to price controls and necessary to the prosecution of the war, although not discussed in this paper, are rationing and control of the production of non-essential items. The end results of such a control system are the maintenance of a stable economy during wartime and a minimum problem of post-war adjustment back to normal peacetime operations.

4. Objectives of Price Control. During mobilization for war, the main general objectives of price control are to facilitate the transition from a peacetime economy to a wartime economy, and to provide a sound and reasonable price basis for the conduct of war. Price control is an important phase of economic mobilization, and the early application of price controls will arrest the development of inflationary trends during the mobilization period and will facilitate the attainment of price control objectives during a war.

The principal objectives of price control during wartime are:



- a. To stabilize prices and to prevent speculative, unwarranted, and abnormal increases in prices and rents.
- b. To eliminate and prevent profiteering, hoarding, manipulation, and speculation caused by abnormal market conditions or shortages.
- c. To insure that appropriations are not expended rapidly by excessive prices.
- d. To protect persons with relatively fixed incomes from undue reduction of their standard of living.
- e. To prevent hardships to businessmen; educational institutions; and federal, state, and local governments which would result from excessive rises in prices.
- f. To stabilize agricultural prices.
- g. To prevent a post-war collapse of values.

The attainment of these objectives will equalize the burdens of war as far as is possible; will sustain the morale of the entire population, both military and civilian; and will keep the dollar cost of the war and the increase in the national debt at the minimum consistent with the scope and duration of the war effort. The prevention of inflation will facilitate the post-war readjustment of the national economy by allowing the nation to emerge from the war with prices at reasonable levels.

Price controls during the post-war readjustment period should have as their objectives the maintenance of an orderly transition from the wartime economy to normal peacetime activities, and the prevention of inflation as industry is gradually reconverted and civilian goods begin to reappear in a market in which demand far exceeds supply.

##### 5. Possible Alternative Methods of Meeting Objectives of

Price Control. While general stabilization of prices through controls appears to be the most effective method of maintaining a stable economy, other methods have been considered and, in some cases, tried. Although they may possess inherent advantages, these advantages are in fact not capable of being realized due principally to human weaknesses

which have never been overcome.

The first alternative method of controlling prices is the excess profits tax. This would appear to keep prices to the Government constant or nearly so by returning to the Government an increasing portion of the price of an item as the price to the Government increases. The main result of an excess profits tax, however, is to increase the price as vendors seek to absorb the tax. Profits then go up unless the tax is set at 100%, in which case the incentive to produce will disappear. With any tax under 100%, more profit can be realized by raising prices. Therefore, the excess profits tax induces inflation. In addition, hardships are invoked on all whose profits or wages are not progressing with the rise in prices.

Voluntary control of prices by industry is another method which was supported by some well-meaning people during World War I. It would work if every supplier and every consumer would cooperate wholeheartedly, but the first defection would be the spark that would destroy the effectiveness of the whole plan, in that it would force others to increase their prices due to increasing costs. The entire system would soon be abandoned out of necessity.

Another system by which prices could be controlled would be for the Government to draft all labor and industry into National Service for the duration. There is no doubt that by this means the Government could regulate the entire economy as it desired, but the many and varied ramifications of such a policy militate against it. It would, in effect, result in the formation of a totalitarian state, a condition entirely unacceptable to the American people. In fact, it is very likely that in any major war the United States will be fighting mainly to prevent the imposition of a totalitarian rule over its people.

The fourth and final alternative method of price control to be considered is what may be called demand control. This includes such procedures as establishing priorities and allocations, and setting up a rationing system. This is an indirect method of controlling prices in that it acts by conserving critical materials, permitting their use

for only essential purposes, and eliminating competition to obtain these materials. These procedures tend to increase the total supply available for war purposes and prices will theoretically stay reasonably low. Actually it will not control prices because some component costs of an item, being uncontrolled, will rise and produce a rise in price of the finished product.

6. Conclusions.

a. Inflation can not be and never has been prevented in war-time without price control.

b. The excess profits tax is not a satisfactory method of controlling prices.

c. Voluntary price control will inevitably break down if relied upon exclusively.

d. Prior planning for price control must be done and the necessary legislation must be enacted during peacetime to provide the required controls without delay in the event of a sudden emergency.

e. The prevention of undesirable price rises is preferable to delayed action which attempts to reduce prices after they have risen.

f. Price controls, to be completely effective, must cover all phases of the national economy, must permit all businesses to earn a reasonable profit, must not cause hardship or suffering within the civilian population, and must be such as to maintain high morale and enthusiastic support of the war effort throughout the entire population.

## ANNEX 4

### GENERAL PRINCIPLES OF PRICE CONTROL

Timely and effective price control is based on the proper application of certain basic principles, all of which must be scrupulously observed if a stable economy is to be realized and the maximum possible war effort is to be exerted. Some of these principles are:

a. Controls must be applied before inflationary trends develop. Price levels for goods and services which have been established by the law of supply and demand prior to an emergency generally are reasonable and can be used as a basis in establishing price ceilings as the initial step in setting up a price control system.

b. Price controls must be flexible. The many variables and the changing economic conditions during an emergency should be considered, and prices should be adjusted when necessary to allow a reasonable profit to producers.

c. Prices must be based on specified standards of quality or else they will soon be meaningless. The substitution of inferior materials or workmanship will soon nullify the effect of a controlled price.

d. Controlled prices must be applied simultaneously to all commodities and services. Since everything is in short supply during wartime, the exclusion of any items from controls will permit price rises in those items which may endanger the whole economy and permit a minority group to profit inordinately at the expense of the majority. Commodities and services already under governmental control, such as utility rates, may be excluded from additional controls. Items which are specifically of a military nature and for which little or no price experience exists may also be excluded pending the determination of production costs.

e. Prices should consider regional differences in cost of production in order not to penalize the producer operating in a high cost area or permitting excessive profits to the producer operating

in a low cost area.

f. Prices should not be kept at such a low level as to retard production of vital war materials. The incentive to produce should be encouraged to the maximum.

g. Black market operations must not be permitted. Such operations divert materials from intended channels and cause inflationary trends to develop, which may impair the operation of price controls.

h. Enabling legislation must authorize the establishment of a price control organization, define the scope of price controls over the national economy, and provide the authority to enforce price control.

i. Price controls should be continued in effect following a war to prevent inflation during the transition from a wartime to a peacetime economy, but should be removed as soon as the danger of inflation has ceased to exist.

j. Violations of price controls should be dealt with severely, as they actually are, in wartime, in the same category of offenses as sabotage and treason.

## ANNEX 5

### EMPLOYMENT OF PRINCIPLES OF PRICE CONTROL DURING CURRENT MOBILIZATION PLANNING

1. General. The next war, if there is to be one, is likely to place a far greater burden on the manpower and industrial resources of the nation than was the case in World War II. This will call for maximum conservation and most effective and efficient utilization of what we have. In addition to this consideration, there is the probability that we will have little time available for mobilization for war, in contrast to the comparatively long periods which we had in which to prepare for World Wars I and II. A precipitous entry into another war will require the immediate application of complete controls over all phases of our economy in order to maintain a semblance of stability and to permit the maximum total effort to be exerted. A system of price controls which may be applied immediately in the event of a national emergency is an essential part of the control system. The following paragraphs will show the nature of the employment of the principles of price control to current mobilization planning.

2. Areas of the Economy to be Covered. In a total war, it will be necessary that price controls be established over all prices and rents in order to prevent inflation. Prices of commodities used during peacetime, including rents, should be held at definite, prescribed levels with a safety provision allowing adjustment where necessary to prevent operations at a loss. Prices for goods of a strictly military nature, for which accurate costs are not available, should be set on a flexible basis until production costs are accurately known.

3. Timeliness of Application. Legislation must already have been enacted to permit the immediate application of price controls once an emergency arises. Delays such as those which permitted highly inflated prices to develop during World War I and which allowed the beginning of

similar trends in World War II can not be tolerated in a future war which may develop far more rapidly than either of the last two in which the United States took part. For maximum effectiveness, price controls must be ready and must be applied and enforced without hesitation when necessary.

4. Control Agencies. Controls must be simple, streamlined, and finally centralized in one agency at national level in order to promote maximum efficiency and effectiveness and to minimize confusion and bickering about the delineation of authority and responsibility. Authority should be vested in a civilian agency rather than the military, since the military forces should not be diverted from their principal mission of defeating the enemy by undesirable and unnecessary administrative responsibilities. The functions of price control logically fall within the scope of responsibilities of the National Security Resources Board, since price control is directly concerned with the conservation and utilization of all national resources.

5. Extent of Decentralization of Control. Controls established at national level should be the only ones used. To decentralize the authority to establish controls will produce confusion, discontent, and loss of effectiveness. However, administration and enforcement of established controls should be decentralized to large regions and to districts within regions in order not to overburden the national agency and to provide speedy rectification of existing deficiencies and prompt punitive action against violators. A definite chain of command should exist in the price control organization to provide for adequate supervision of the operation of subordinate agencies.

6. Flexibility of Controls to Meet New Situations. The introduction of new weapons or equipment, the development of new materials, and processes, and the adoption of substitutes not previously used, will call for the establishment of new or additional price controls as the war progresses. The price control system must have the necessary flexibility to permit justifiable adjustments to be made and new

controls to be established when necessary.

7. Liaison between Interested Civilians and Military Agencies.

In order to produce the best possible plans for economic mobilization, it is essential that the price control system be established jointly by the civilian experts in the price control planning division of the National Security Resources Board and the procurement agencies of the various military services. Continuous liaison and interchange of ideas between these military and civilian planners will develop a price control system requiring the fewest changes after it has been placed in effect and will insure an initial degree of familiarity with the system which will greatly facilitate its operation and minimize mistakes and confusion.

8. Provisions for Postwar Decontrol. Postwar decontrol of prices can, if too rapid, cause an inflationary trend similar to the trend which develops at the start of the war because the same situation exists - an excess of demand over supply for many commodities.

The marked rise in prices following World War II (with the notable exception of rents, on which controls were maintained) illustrates this point. There seems to be no justification for maintaining a stable economy during wartime and permitting an unstable condition to develop after the war is over. However, the American people are naturally reluctant to permit governmental controls over business and prefer a system of free enterprise, and it seems that some thought might be given to the desirability of persuading the people that a gradual decontrol will keep prices down and preserve the purchasing power of their dollars.

The price control system, therefore, should be planned to provide for economic demobilization as well as mobilization and controls should be removed selectively and progressively as the supply of items becomes available to satisfy the demand. Mobilization planners should be aware of the potential dangers of a too-rapid decontrol program and include in their plans corrective measures to prevent a postwar inflation.



ANNEX 6

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