Free Market Versus The Black Market

Can OPA Save Consumers As Much as Competition?

By Lancaster M. Greene

A 600-ton ship lay sunk in the ocean. To raise the ship from the mud numerous tugs were hooked to it. The tugs pulled and pulled but could not budge the sunken ship. This project was abandoned and a number of floats were fastened to the ship. The relatively gentle motion of waves and tides then pried the ship from the mud and lifted it to the surface—eternal forces of nature having done what the strongest tugs had failed to accomplish.

We have increased bank deposits and U. S. Treasury bonds by several hundred billions during the war. These dollars are increased claims on production and we are concerned that all these claims shall be made good—or that each of us shall be able to obtain as much for his dollar as he did before the war.

Many consumers believe that the best way to keep prices down or to get the most for a dollar is to ask the government to fix prices. The O.P.A. is the political response to this belief. Governmental regulations have been substituted for individual judgments. The belief on which this policy is based is that if price controls are removed prices will rise sharply.

It is true that if price controls were removed some legal prices would rise, but actual prices would not rise as much as legal prices. To the extent that real price rises occur, economic forces would start production that would bring lower prices earlier than price control could bring them (if it could). Nylon stocking buyers would know the right price for the first time since the war. Now they don't know whether the black market price of 7c a pair in a Detroit bar, or $5 a pair in Chicago, or $3.50 somewhere else, is the right price.

Thomas E. Wilson, of Wilson & Co., packers, reports that the black market in meat, which has flourished ever since price control was imposed, is "worse now than it has ever been." Large packers must buy at ceiling prices and can obtain little meat in competition with black market buyers who pay over-ceiling prices.

When drives are made against black markets, we find Madrid reporting that the poor are worse off than ever, for the price of black market bread went from 1½ pesetas a 150-gram loaf to 2½ pestas, or about 25 cents. The official price is 3 cents. The increase of 66 2/3% is directly due to decrees against the black market, where sellers always add a high premium to cover the legal risks they are taking.

There are other reasons why black market prices are higher than free market prices would be with no price control.

1. The attempt for the highest price possible is not balanced or controlled by any desire for good will, ethics, or publicity. The buyer of nylons or tires is easily cheated because he is in the dark about

that if the O. P. A. were abolished tomorrow, not one of them would dare to raise prices in the face of the present increased capacity to produce tires.

2. Price control reduces output and creates shortages by putting established producers out of business. The under-cover black market producers who jump in never have the capital or efficiency of regular dealers and inevitably produce poorer goods.

Where world production is available, Americans must see it go elsewhere because our ceilings are below world prices. We cannot get pepper from India because the O.P.A. says we can't buy at the market. We are short of lead for batteries as well as paint and high-test gasoline, but we can't pay over our ceiling price of around 6½ cents a pound, whereas Great Britain is paying fully half a cent a pound more.

Another symptom of price control reducing efficiency and setting back the clock in industrial progress is the return to barter by many large raw material users. To get corn, a corn user must offer paper, metal, or some commodity. Some "barter rates" are: one carload of cottonseed meal for five cars of corn; one car of bran for five of corn; one car of meat scraps for ten of corn; one car of soybeans for one of corn. (Corn sells for $1.12½ a bushel; soybeans for $2.18.

If you do not have grain or feed to "swap," you can get corn by offering the ceiling price plus a "barter premium." These plus-cash price premiums run as follows: one new tire or eight pairs of nylon hosiery on one car of corn; a car of coal on five cars of corn; a new Ford or Chevrolet on fifteen used cars; a new Oliver tractor on twelve to fifteen cars; an International Harvester medium tractor on fifteen cars.

Man tries to substitute fiat prices for competitive free market prices but one is reminded that if a man falls on a roof and drops six stories he isn't breaking the law of gravity—he is illustrating it.