The Opacity of Opax

THE FOUR STEPS in the shift from a free to a regulated market place, from the democratic to the planned economy, are: priorities, price control by fiat, price control by taxation, rationing.

Bureaucracies for the first and second have been established in the United States, the third step is under discussion and, according to news reports, is now being blue-printed. The ultimate procedure of rationing, a pre-determination of the kind and amount of desires the individual may seek to satisfy, is the only one that can put effective control in the hands of the planners.

Because rationing is so violent a change in the mode of living, and therefore likely to bring about social and political repercussions, it must be delayed until the other three steps bring about the necessary pre-conditioning of economic habits.

Price control has been thrown into relief by the recent creation of the Office of Price Administration and Civilian Supply (OPAX). Leon Henderson, its head, has selected steel as the first commodity on which to set a top price.

A market price is the value at which two people are willing to exchange ownership. (This discussion is not concerned with the price set by an owner in anticipation of future value.) The buyer will give as little as possible to obtain the thing he wants; the seller will seek the most he can get.

Eventually the price agreed upon must assure the seller a return at least equal to what he gave up to get ownership of the thing he is selling, or something equivalent to it. That is, he must get his cost. If he must sell below cost he will not produce any more of that commodity. To assure a continuance of production, therefore, price must at least equal cost.

Cost consists of three prime categories: wages, interest and rent. Wages are determined by the competition of workers for jobs, the marginal or least productive worker setting the standard for all above him. Interest is the return paid for the use of the tools of production, and the amount is determined by the competition between borrowers and lenders of these tools; if the borrower does not, at the least, return the capital intact, there will be no incentive for future lenders to accumulate capital. Rent is the payment for the use of the natural resources in production, and it determined by the least productive land in use.

Now the seller of steel has no control over the wages or interest costs; but because through monopoly ownership he can determine how much iron ore land will be used, the item of rent becomes a matter of importance. He can reduce the supply of steel on the market by closing his mines, thus increasing the price of steel. In this way he can demand from the buyer a greater rent.

Mr. Henderson attempts to control this rent-exaction by a fixed price of steel. But steel takes many forms before it reaches the consumer. It is the skeleton of a skyscraper, and it is a two-bit pocket knife; it is a battleship, and it is a junk pile. All that Mr. Henderson has attempted, so far, is to fix the price on the basic commodity.

Suppose you own some stock in the United States Steel Corporation and, because of the fixed price, your returns are not so great as they could be. General Motors stock, if price-fixing has not reached the automobile, shows a big yield. You sell the one security and buy the other. You thereby collect your monopoly iron mine rent in automobile securities.

When price-fixing reaches General Motors, you will find the second-hand automobile business very profitable. Or you will transfer your interest to junk; or perhaps the price-fixer has overlooked cobbler's nails.

Somewhere in the process of turning steel into human satisfactions the rent of the iron ore mines will show up. If nowhere else, it will appear in illegal trading. You cannot be asked more than the fixed price for a frying pan, but if you want the frying pan badly enough you will have to throw in some onions to sweeten the fixed price.

So the course of price-fixing must extend from one commodity to another, until the entire process of making and exchanging things has been covered. What the price-fixer is really trying to do is to harness monopoly rent after it has taken flight. It cannot be done. The place to catch it is at the source: the land.