When and how to use price controls? Towards Economic Disaster Preparedness

Forum New Economy, Berlin

Isabella Weber, May 8, 2023

CONSUMER ALERT: Attorney General James Warns Against Price Gouging During Winter Storm Elliott

Franklin St
PARK
ONE WAY

Why can firms gouge prices in emergencies?

"An abnormal market disruption is characterized by an abnormal increase in demand or a decrease in supply (or both) of a vital or necessary good or service. It gives existing sellers the power to raise prices on the products they already have in their inventory. … In economic terms, an abnormal market disruption is characterized by short term demand that cannot be met by short term supply."

"the heart of the statute is a prohibition on firms taking advantage of an abnormal market disruption to unfairly increase their per-unit profit margins."

NY Attorney General

Opinion
Inflation

This article is more than 1 year old

Could strategic price controls help fight inflation?

Isabella Weber

Wed 29 Dec 2021 11.20 GMT

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To prevent inflation after World War II, America's leading economists recommended strategic price controls. Is there a case for doing so today, too?

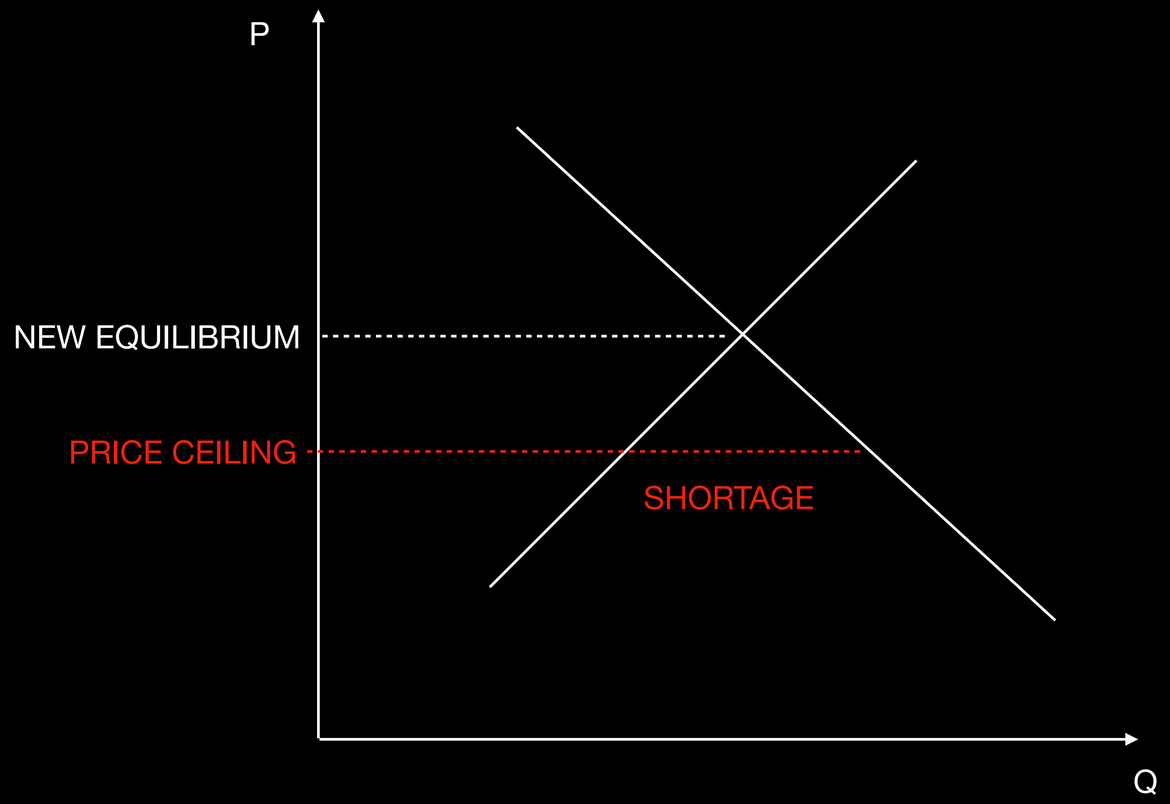
in output was almost beyond imagination. After the war, the question was what to do with the price controls. Should they be released in one big bang as southern Democrats, Republicans and big business were urging? Or did price controls have a role to play in the transition to a postwar economy?

Some of the most distinguished American economists of the 20th century called for a continuation of price controls in the New York Times. This included the likes of Paul Samuelson, Irving Fisher, Frank Knight, Simon Kuznets, Paul Sweezy and Wesley Mitchell, as well as 11 former presidents of the American Economic Association. The reasons they presented for price controls also apply to our present situation.

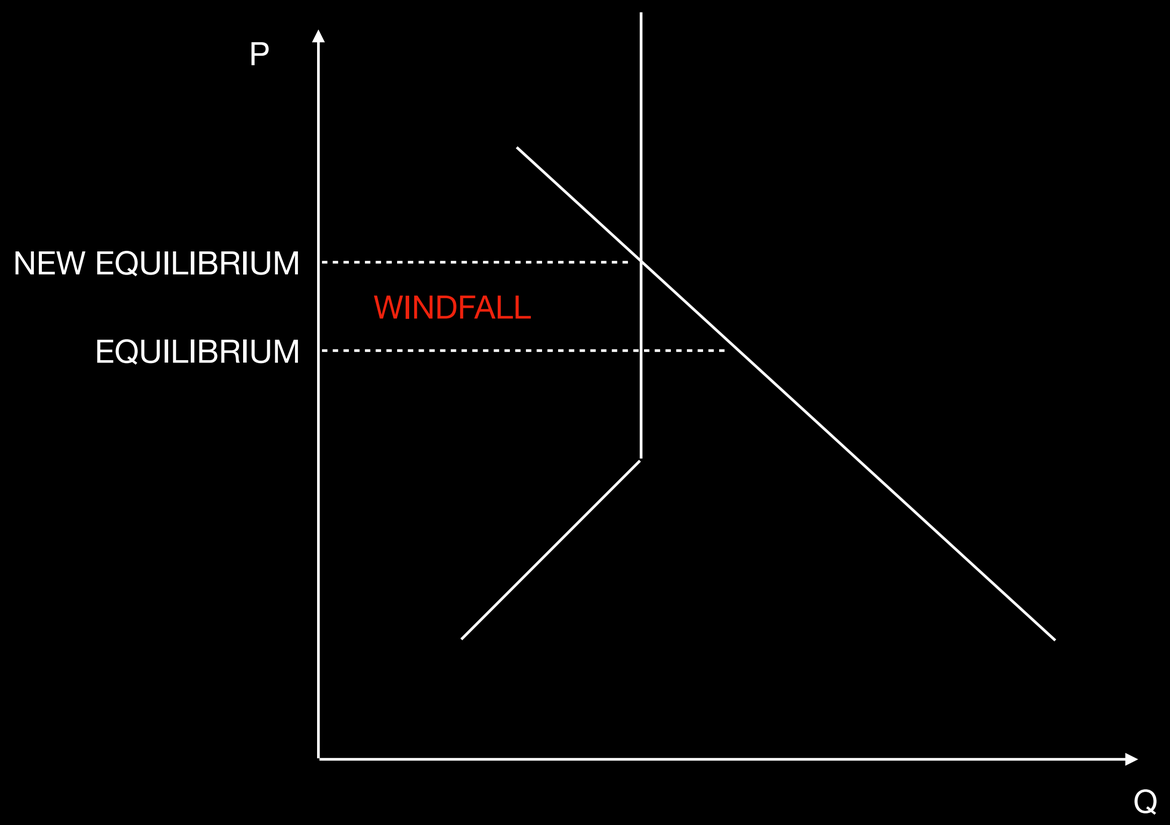
They argued that as long as bottlenecks made it impossible for supply to meet demand, price controls for important goods should be continued to prevent prices from shooting up. The tsar of wartime price controls, John Kenneth Galbraith, joined these calls. He explained "the role of price controls" would be "strategic". "No more than the economist ever supposed will it stop inflation," he added. "But it both establishes the base and gains the time for the measures that do."

President Truman was aware of the risks of ending price controls. On 30 October 1945, he warned that after the first world war, the US had "simply pulled off the few controls that had been established, and let nature take its course". And he urged, "The result should stand as a lesson to all of us. A dizzy upward spiral of wages and the cost of living ended in the crash of 1920 - a crash that spread bankruptcy and foreclosure and unemployment throughout the Nation." Nevertheless, price controls were pulled in 1946, again triggering inflation and a boom-bust cycle.

TEXTBOOK CASE



STATE OF EMERGENCY



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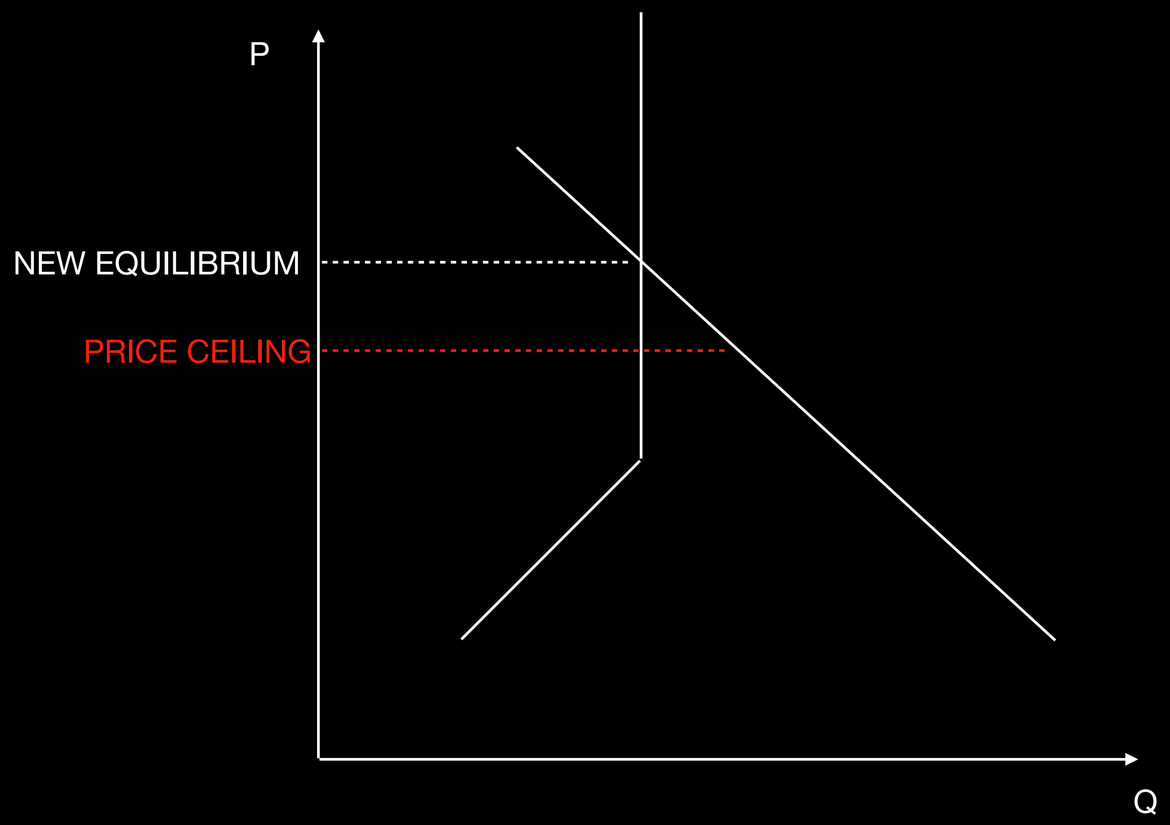

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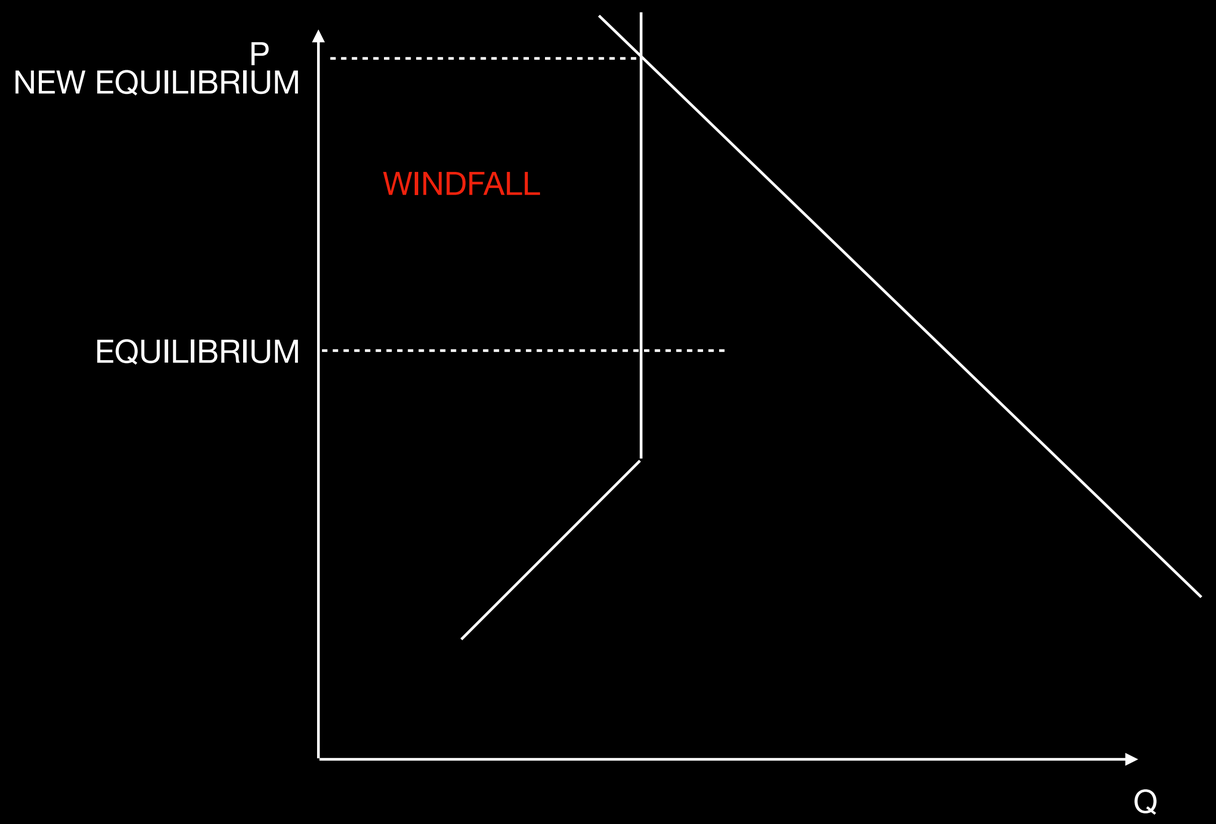

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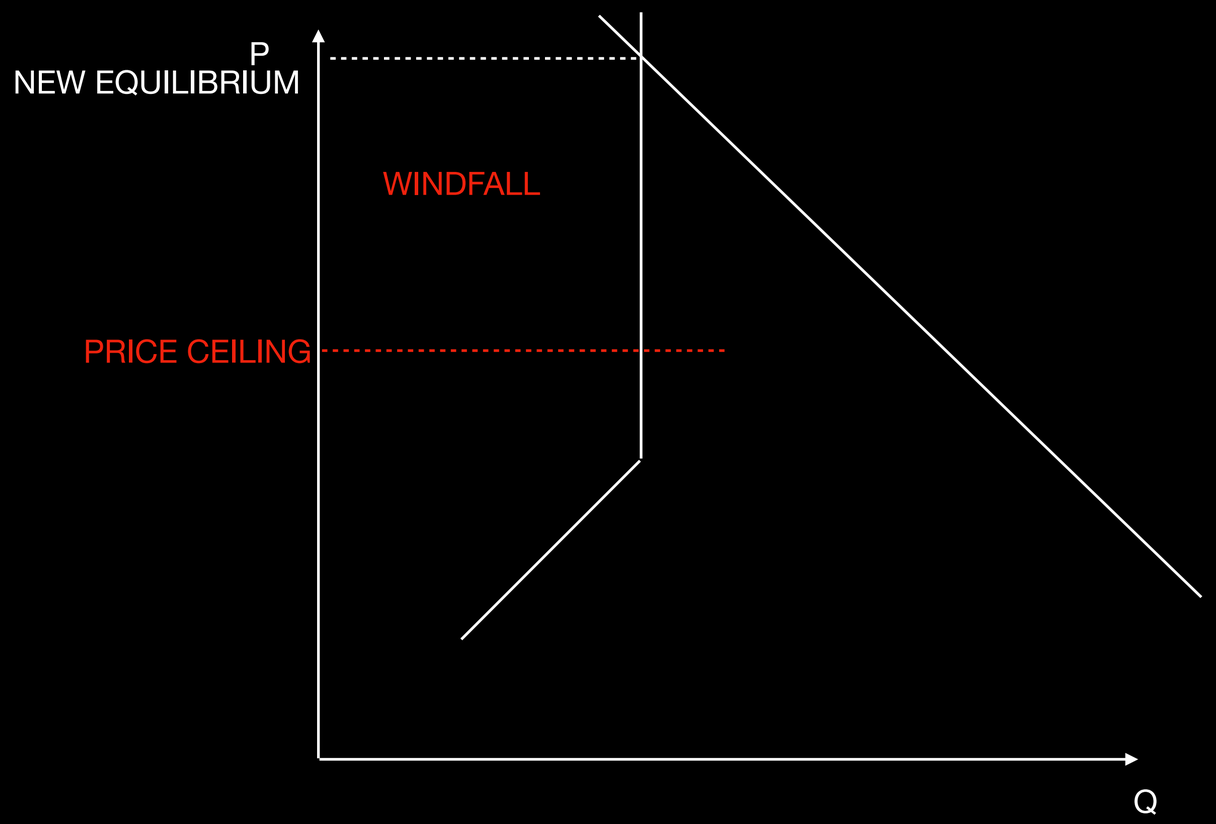

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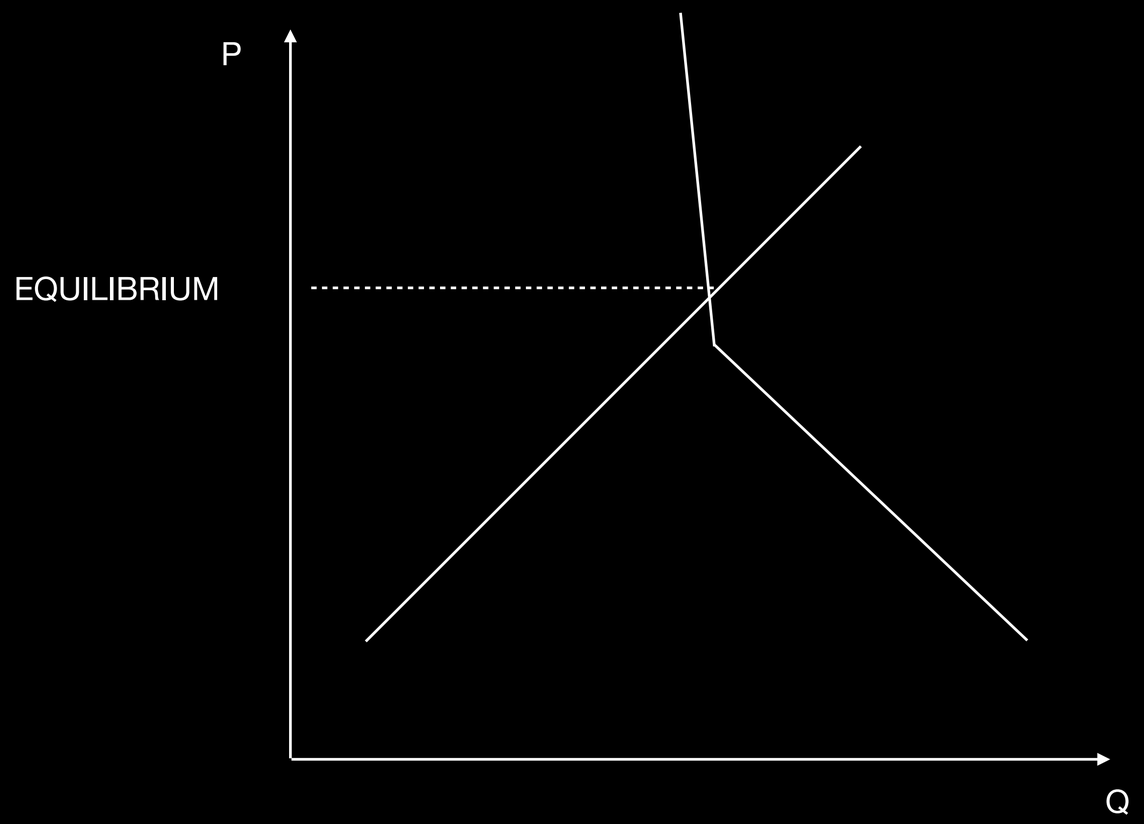

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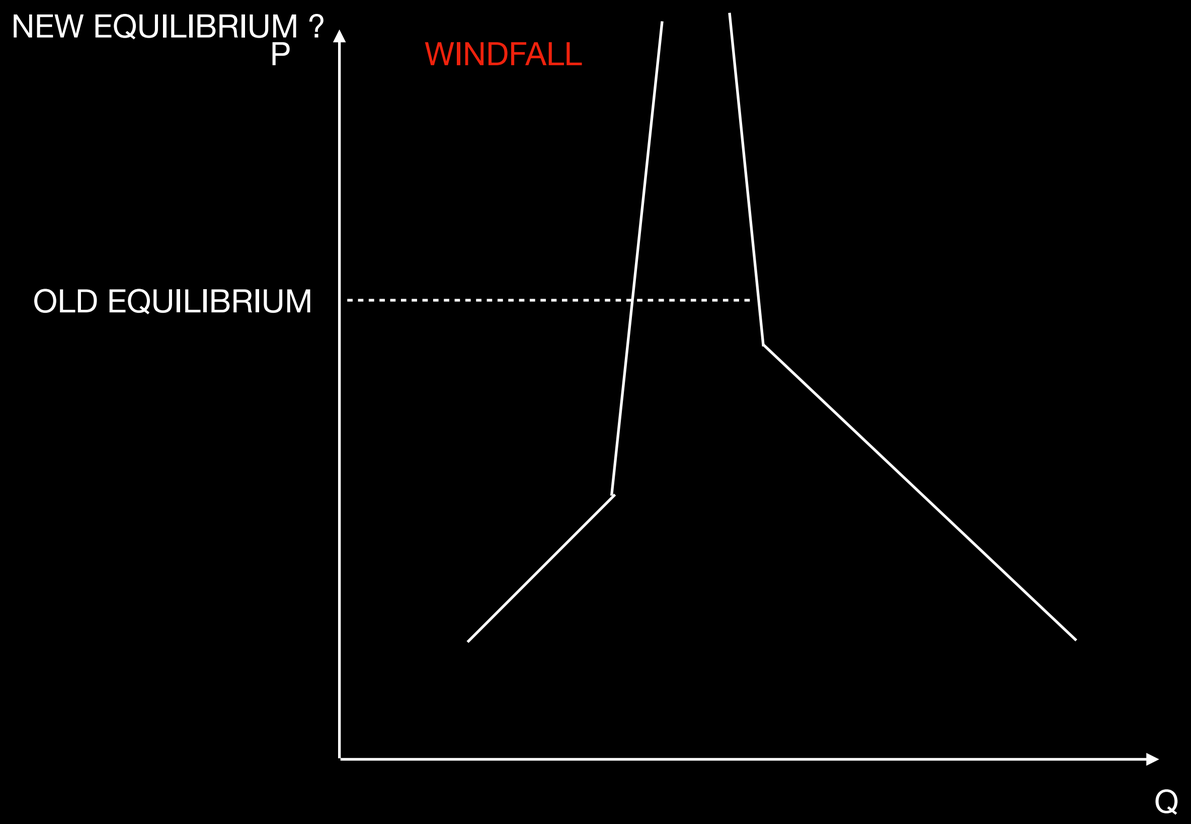

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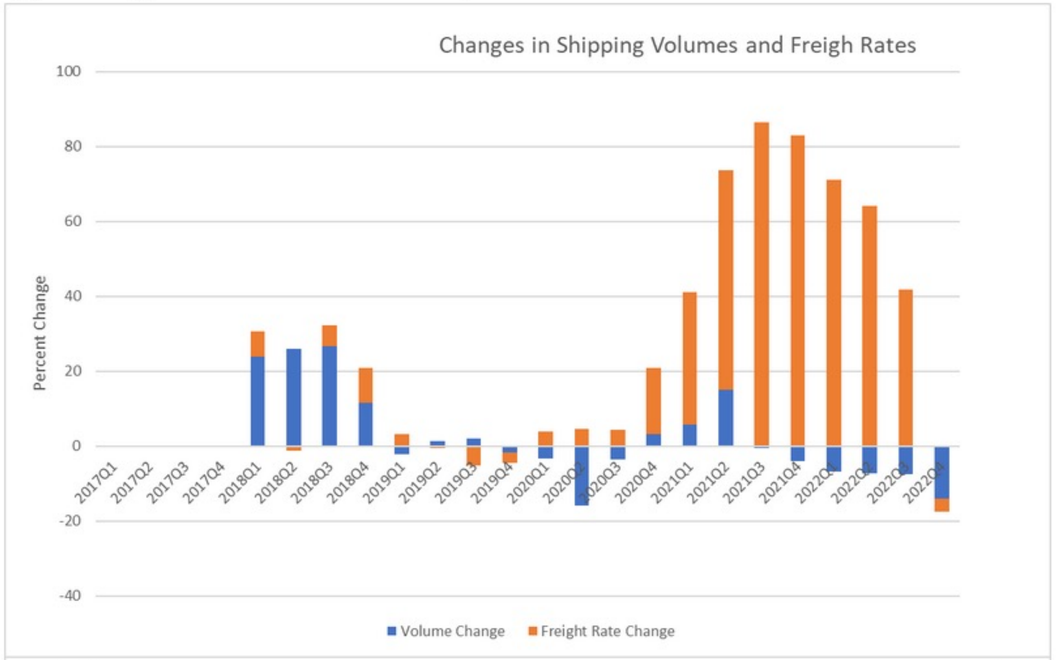
Changes in Shipping Volumes and Freigh Rates
Percent Change
100
80
60
40
20
0
-20
-40
2017Q1
2017Q2
2017Q3
2017Q4
2018Q1
2018Q2
2018Q3
2018Q4
2019Q1
2019Q2
2019Q3
2019Q4
2020Q1
2020Q2
2020Q3
2020Q4
2021Q1
2021Q2
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2021Q4
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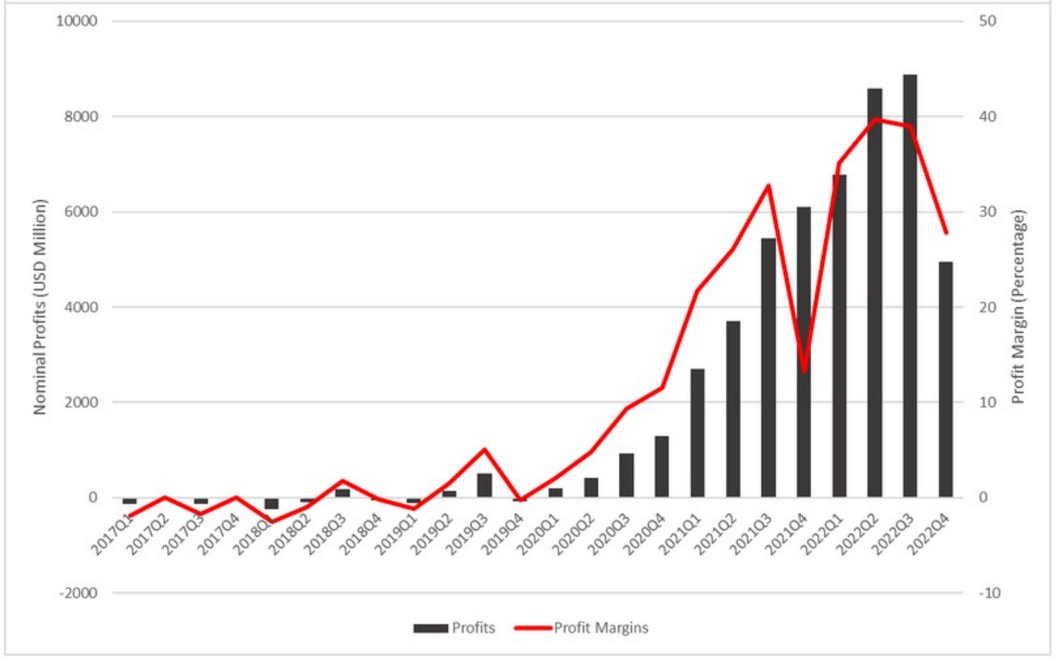
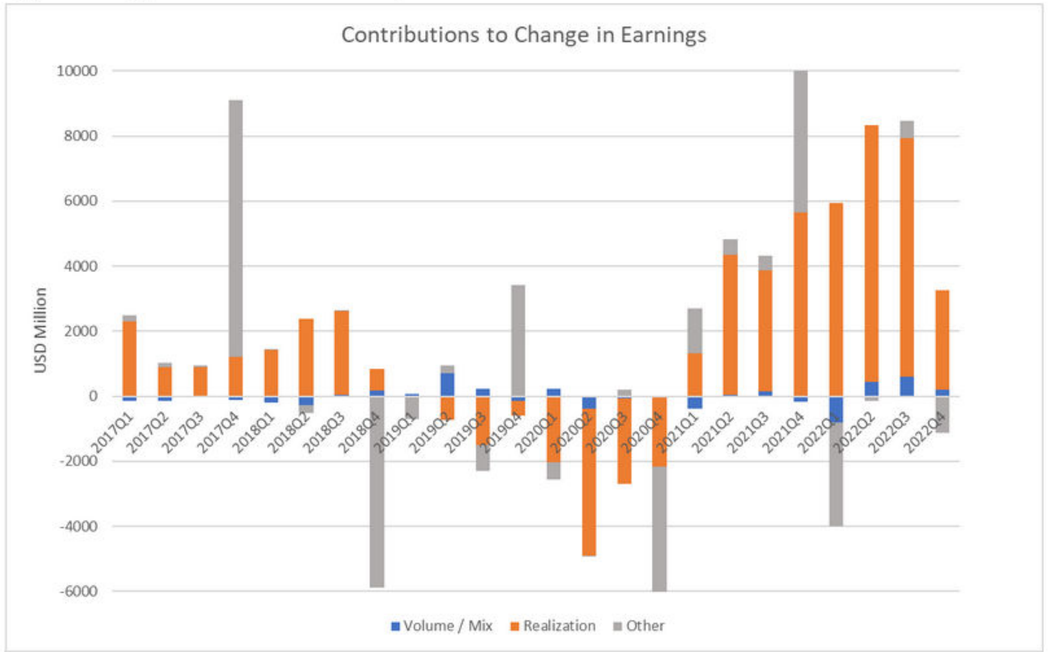
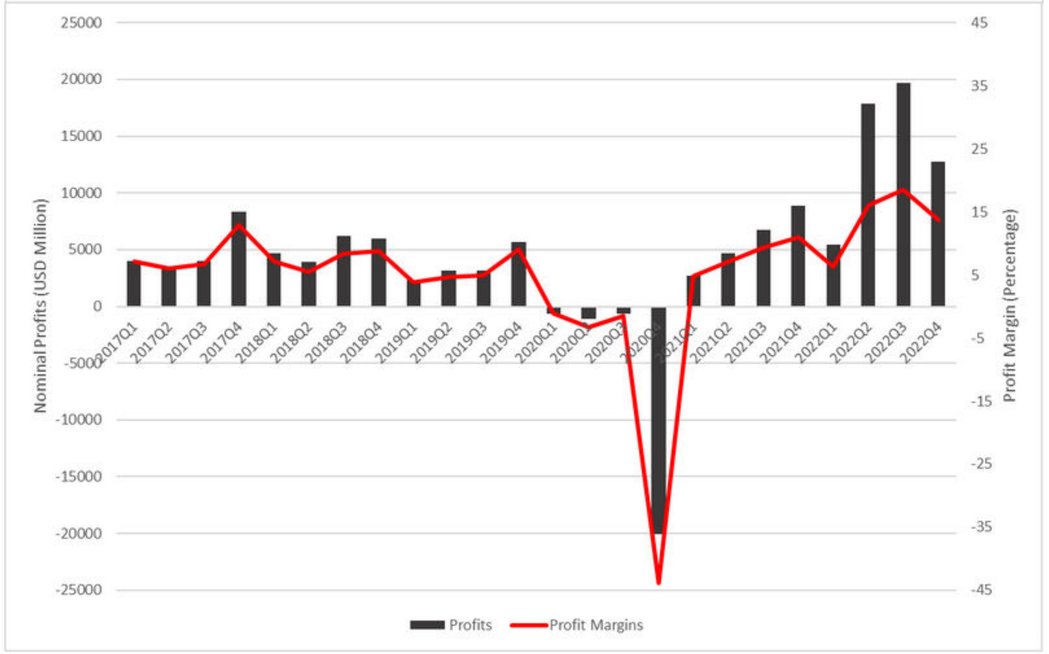
2022Q4
Volume Change
Freight Rate Change


Nominal Profits (USD Million)
Profit Margin (Percentage)
10000
8000
6000
4000
2000
0
-2000
50
40
30
20
10
0
-10
2017Q1
2017Q2
2017Q3
2017Q4
2018Q1
2018Q2
2018Q3
2018Q4
2019Q1
2019Q2
2019Q3
2019Q4
2020Q1
2020Q2
2020Q3
2020Q4
2021Q1
2021Q2
2021Q3
2021Q4
2022Q1
2022Q2
2022Q3
2022Q4
Profits
Profit Margins

Exxon Mobil

Chief Executive Officer, Darren Woods: ‘we’ve created this hole with a lot more capacity coming off-line without a whole lot of new capacity…. That capacity is not coming on. So we've got this gap, demand recovers, and we don't have the capacity to meet that, which has led to a record, record-high refining margins’

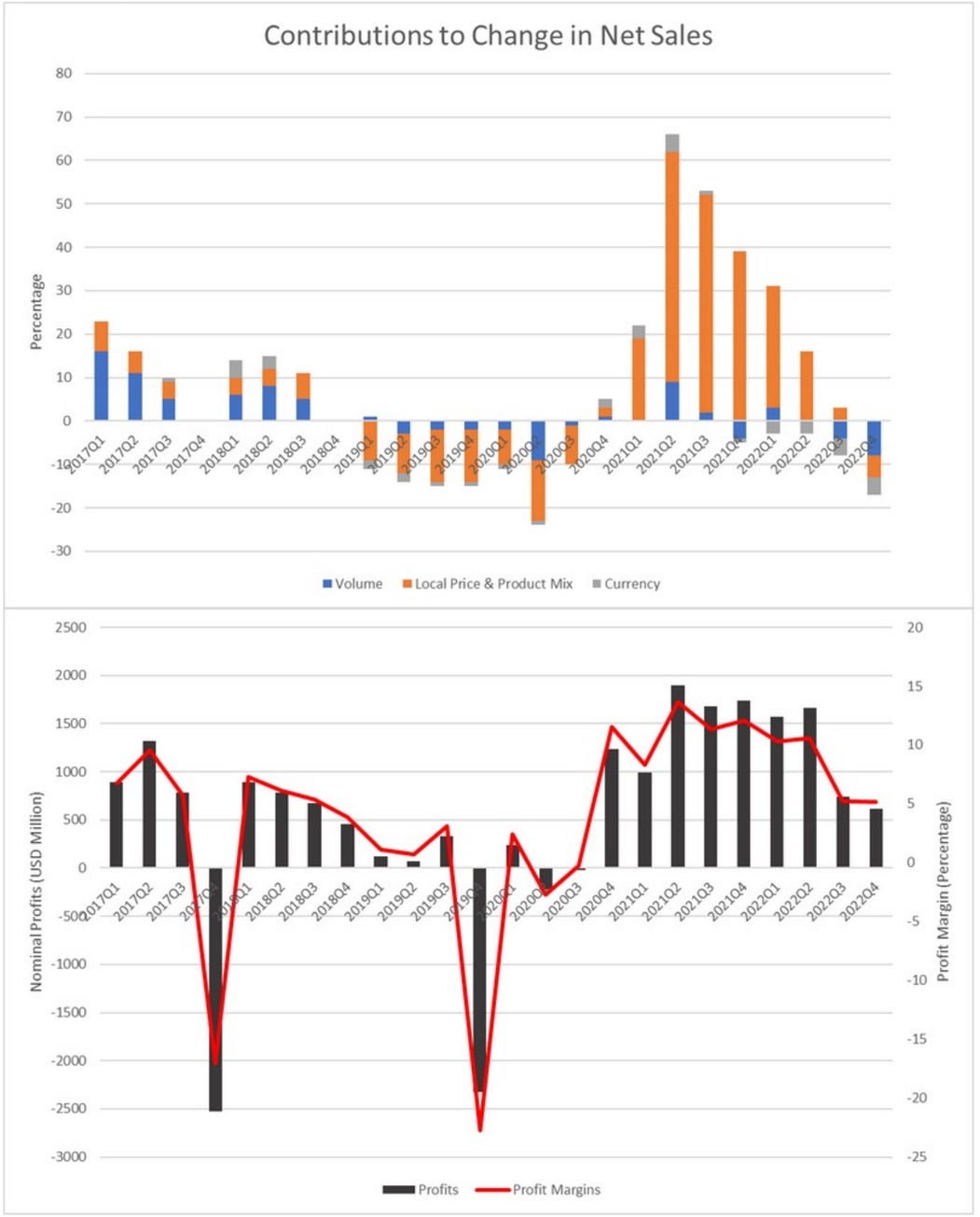




Dow chemicals

Q: '…do you think there's enough supply [disruption due to winter storm Elliot] to kind of rebalance the polyethylene market and move higher from here?'

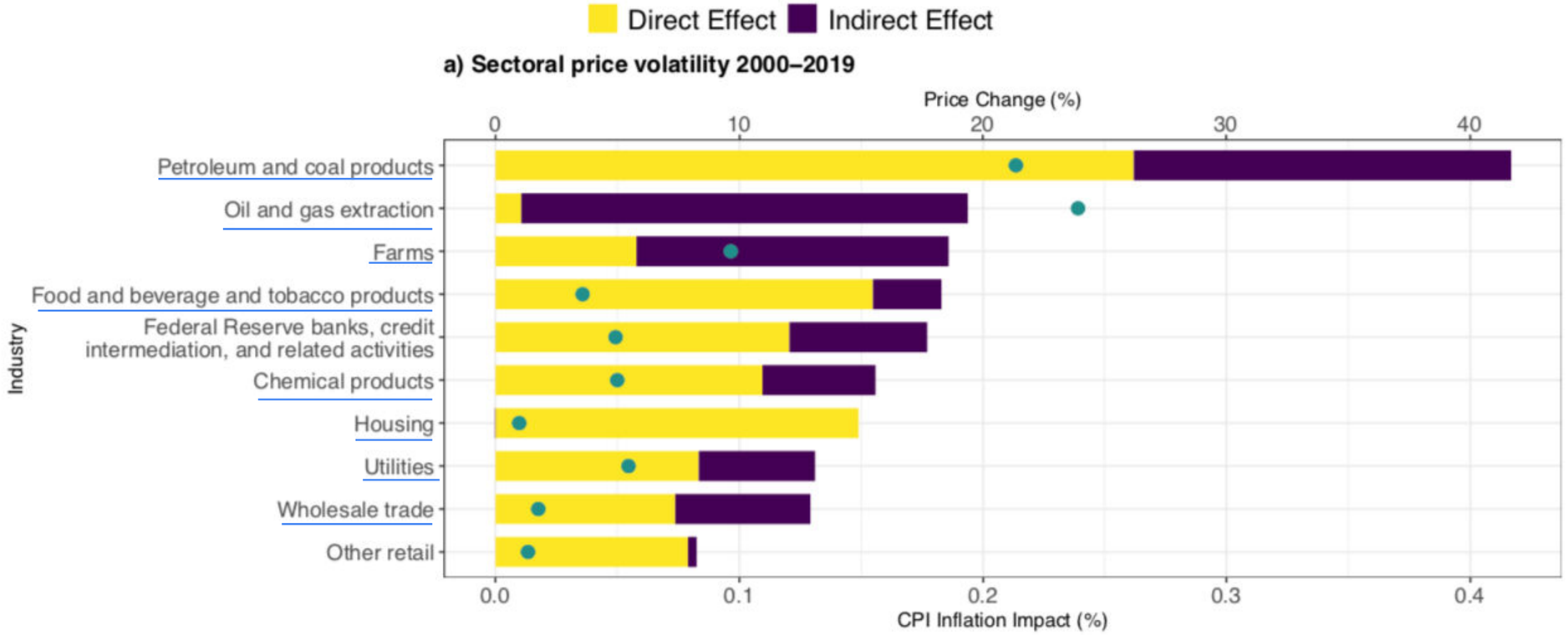
A: 'I think there has been enough, obviously, to give good momentum to these price increases in the first quarter. And so I think we will see the margins expand, as I mentioned earlier on one of the other questions.'



Latent systemical significance

Inflation in Times of Overlapping Emergencies: Systemically Significant Prices from an Input-output Perspective*

Isabella M. Weber† Jesús Lara Jauregui‡ Lucas Teixeira§ Luiza Nassif Pires¶



Three groups of systemically significant sectors

1. Basic necessities

Housing, Food, Farms, Utilities, Petroleum and gas products

2. Basic production inputs

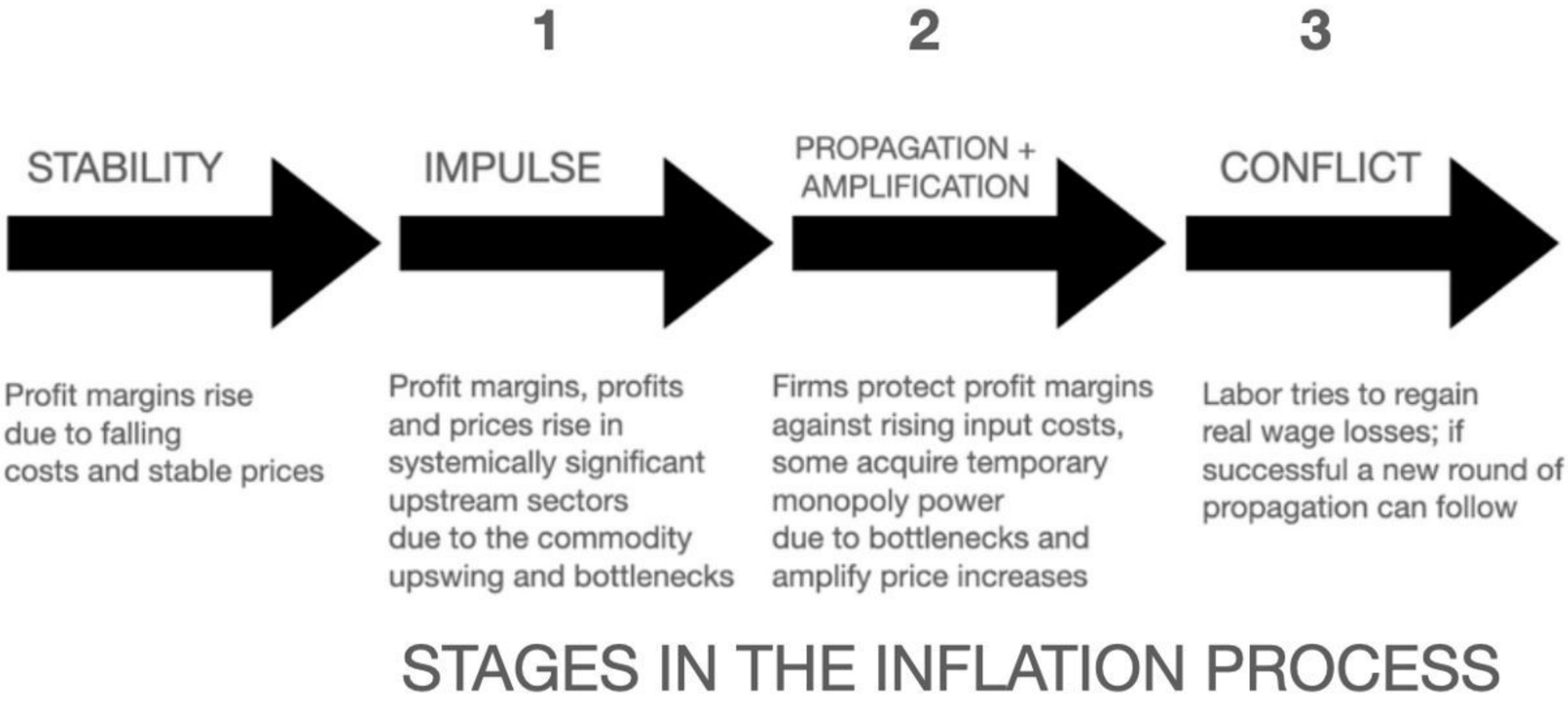
Petroleum and gas products, Oil and gas extraction, Chemical products

3. Basic circulation

Wholesale trade, (truck transportation)

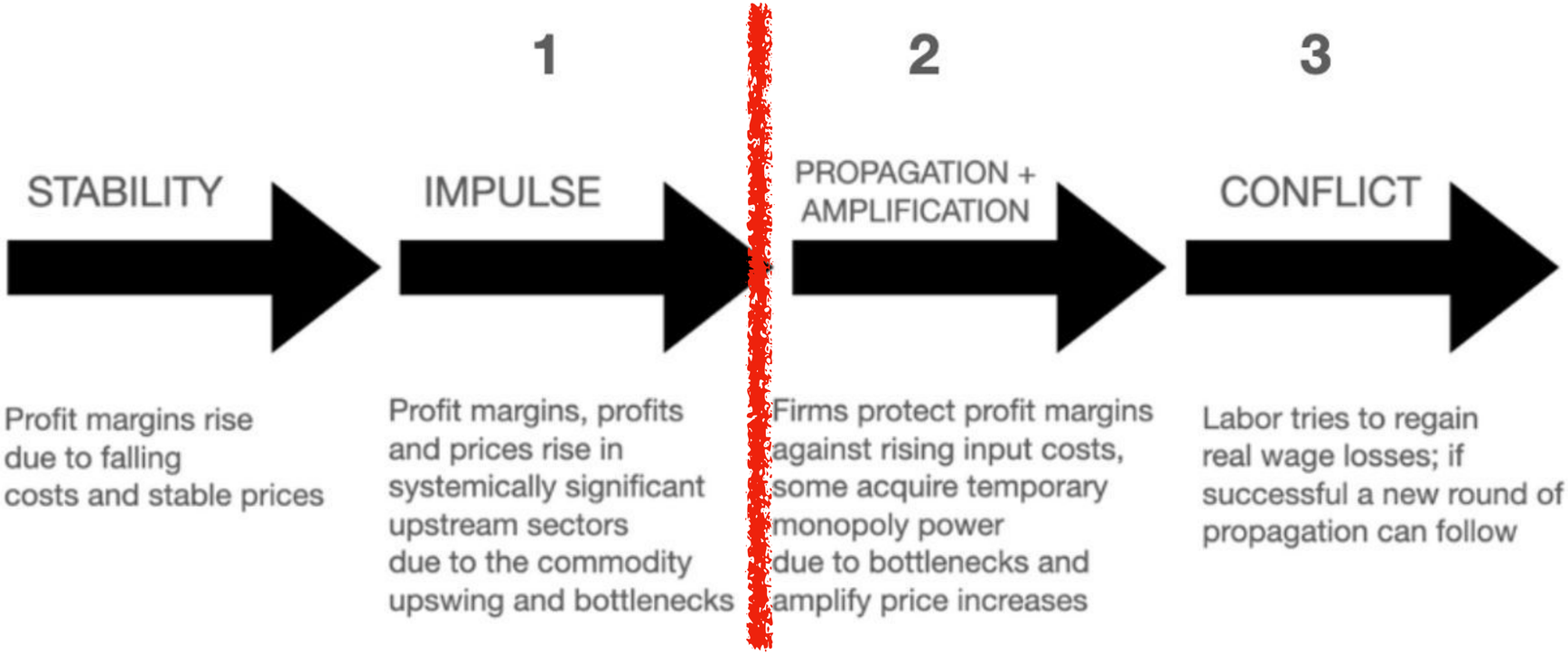
Sellers' Inflation, Profits and Conflict:
Why can Large Firms Hike Prices in an Emergency?

Isabella M. Weber*, University of Massachusetts Amherst
Evan Wasner, University of Massachusetts Amherst



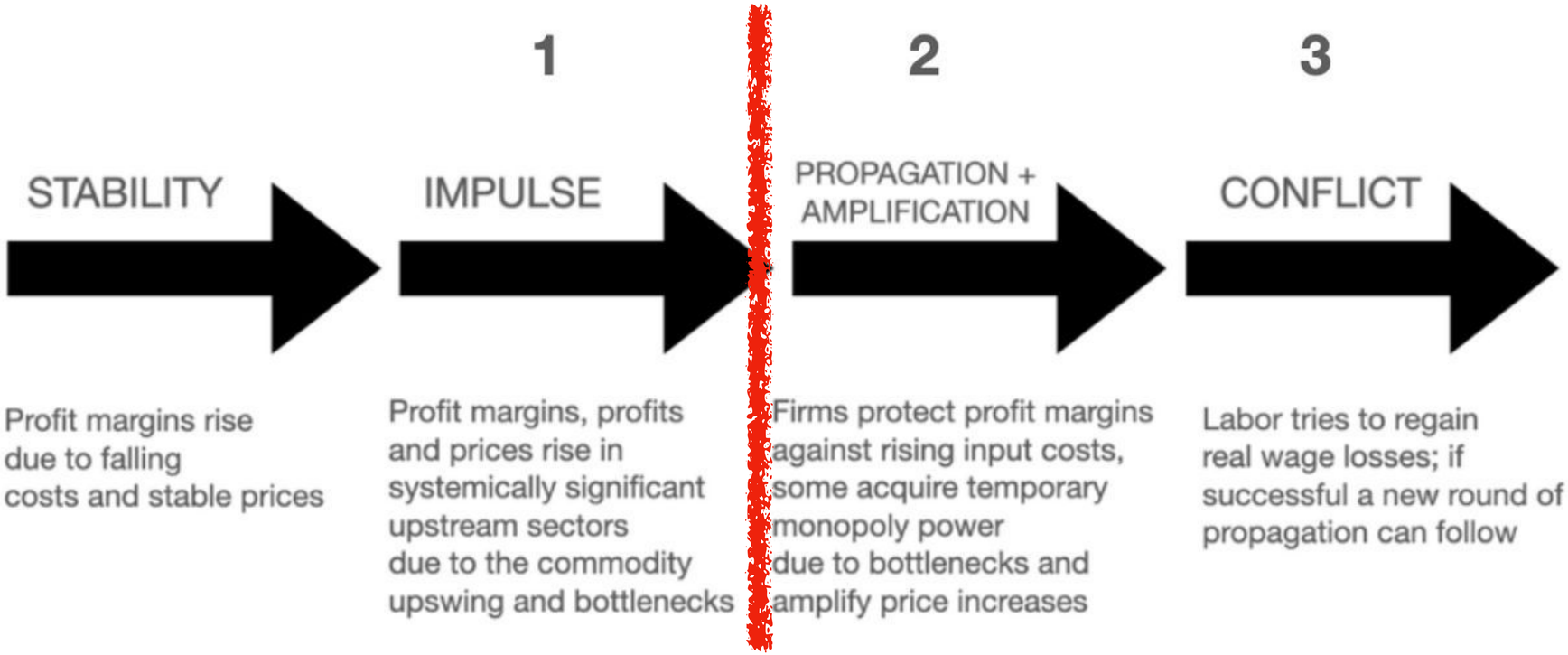
DISASTER PREPAREDNESS FOR
SYSTEMICALLY SIGNIFICANT AREAS

PRICE POLICIES AS MEANS TO BUY TIME
TO CORRECT SHORTFALL OF SUPPLY



STAGES IN THE INFLATION PROCESS

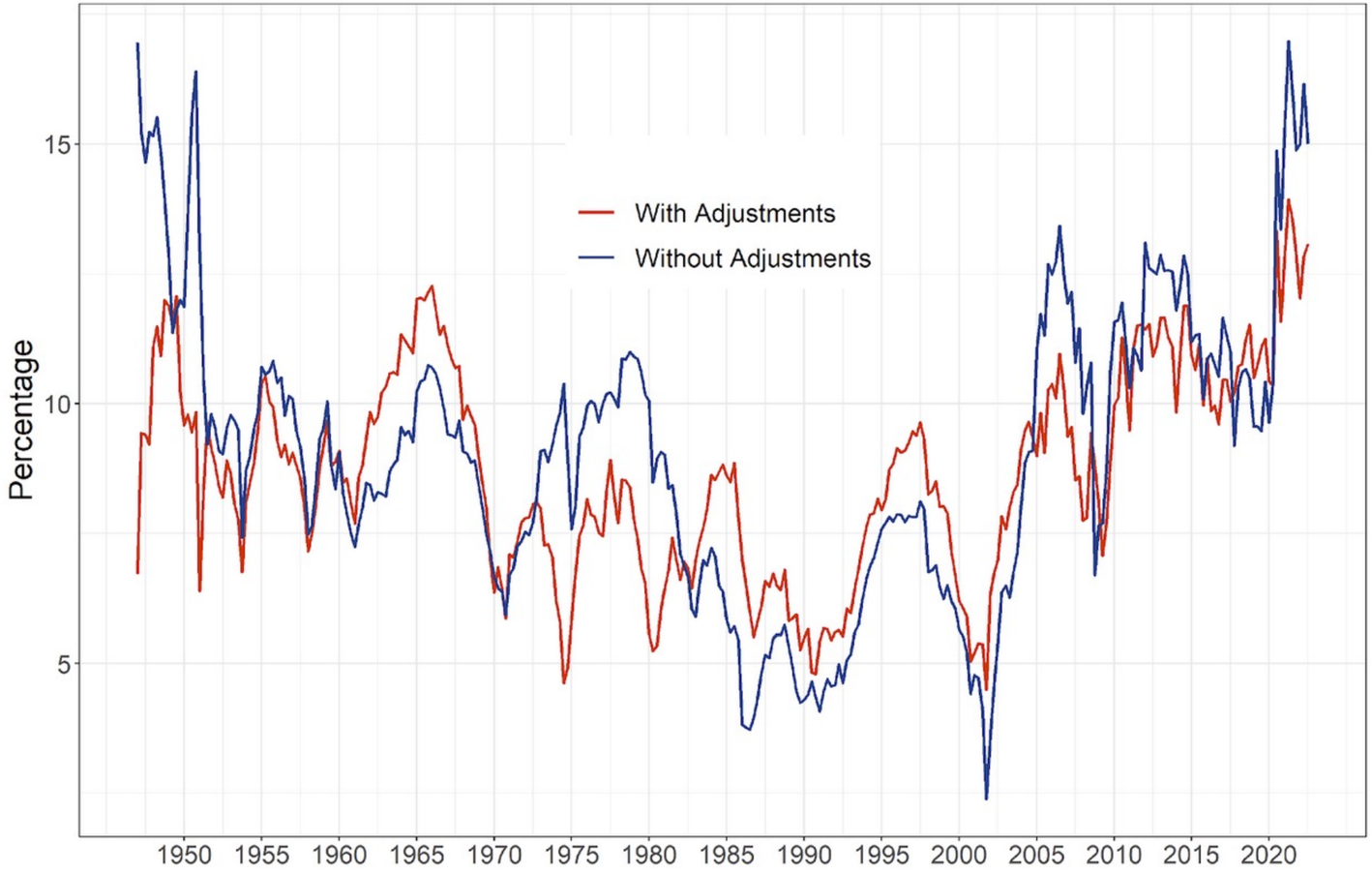
PRICE POLICIES TO BUY TIME
TO CORRECT SHORTFALL OF SUPPLY



STAGES IN THE INFLATION PROCESS

WINDFALL PROFIT TAXES AS A SECOND LAYER OF DISINCENTIVE

Figure 1: After-tax profit margins of non-financial corporate business



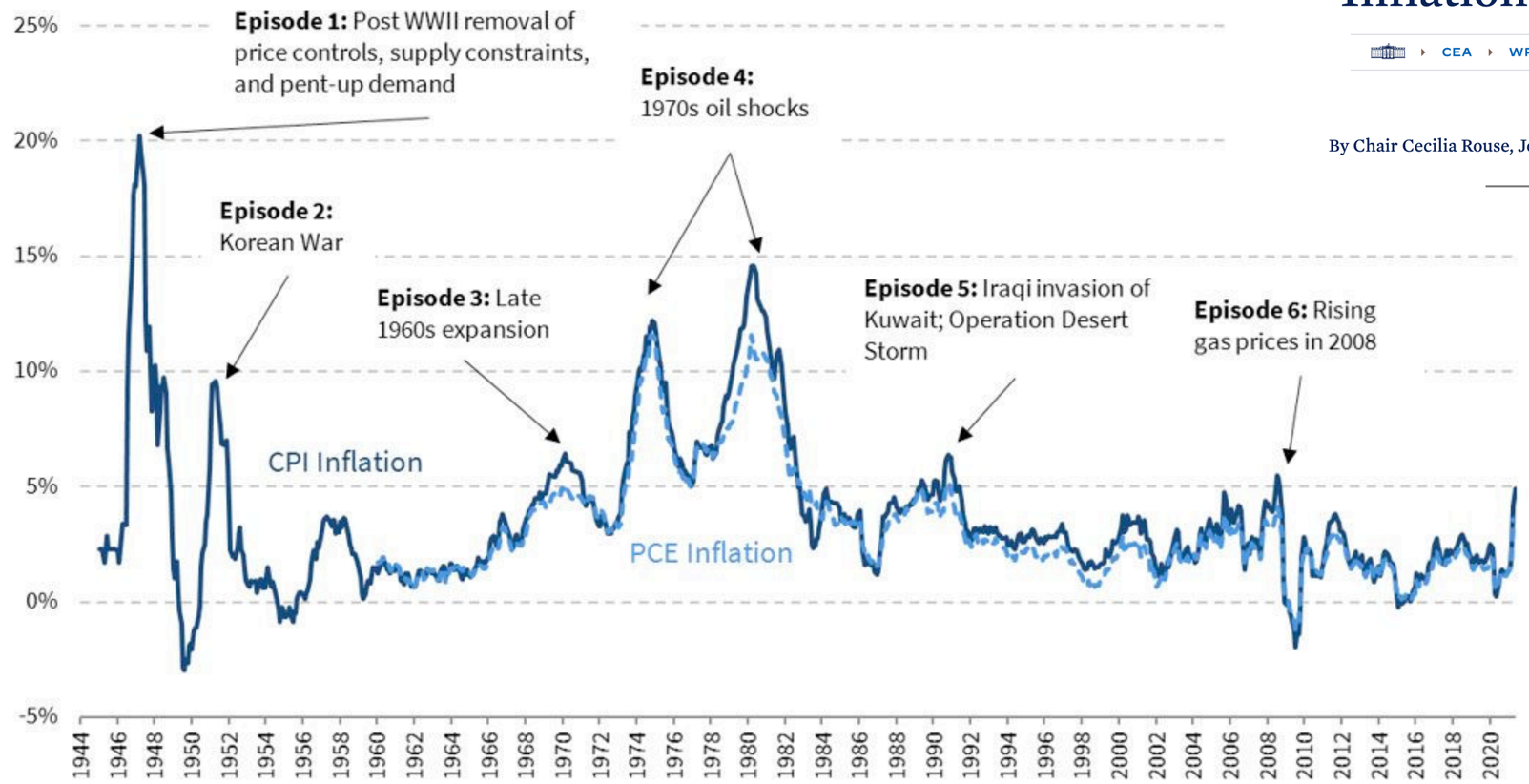
JULY 06, 2021

Historical Parallels to Today's Inflationary Episode

By Chair Cecilia Rouse, Jeffery Zhang, and Ernie Tedeschi

Figure 1: Six episodes of post-WWII inflation

Percentage change, year-over-year



Source: Federal Reserve Economic Data (FRED), Haver Analytics, CEA Calculations.