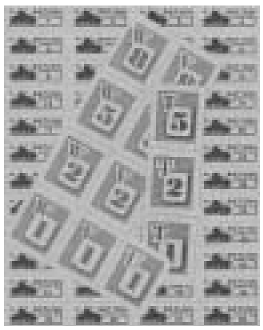
The Two-Price System: U.S. Rationing During World War II

BY ROBERT HIGGS

As the United States mobilized for war after mid-1940, the government's demands for munitions and related resources began to put pressure on certain markets, and soon prices began to rise. In 1941 they rose faster: from December 1940 to December 1941, the producer price index increased by 17 percent, the consumer price index by 10 percent. In response the government imposed a growing number of selective price controls, enforced by the Office of Price Administration and Civilian Supply, an agency created by executive order on April 11, 1941. The Emergency Price Control Act of January 30, 1942, provided a statutory basis for a successor agency, the Office of Price Administration (OPA). Strengthened by later legislation and executive orders, the OPA eventually administered a price-control system that encompassed almost all civilian goods and services. Thus from early in 1942 until late in 1946, the OPA endeavored to control prices by administrative decree.



Ration coupons.
Ames Historical Society

As the government's war outlays rose steeply and the incomes of a growing legion of war-industry workers rose along with them, consumer demand for goods and services increased rapidly. If prices had been unregulated, this increasing demand would have pushed prices ever higher, especially given that the resources available for augmenting the supply of civilian goods were being depleted by the government's buildup of the armed forces and the war industries. But because price controls eventually kept the legal prices of civilian goods and services from rising substantially, civilian markets became subject to excess demand and the available goods had to be rationed by nonprice means, such as first-come-first-served transactions and discrimination according to race, sex, and friendship.

Supplies of some goods—including rubber products, sugar, and coffee—had been diminished by Japanese capture of supply sources (Malayan rubber plantations) or by naval warfare or scarcity of shipping services (German U-boats sank many U.S. merchant ships early in 1942). Government claims on rubber and tin cut further into supply, creating extreme excess demand for these goods. Shortages arose for automobile, truck, and tractor tires as well as for sugar and coffee—goods obtained largely from Latin American sources. Canned foods grew much scarcer because imports of Bolivian tin, used to coat the inside of cans, had been diminished by the increased shortage of shipping services. Therefore, many consumers could not obtain certain goods they normally consumed, and workers and housewives grew restive.

To curb the growing dissatisfaction, the OPA subjected scores of basic goods and services (which accounted for about one-seventh of all consumption spending) to rationing, creating a two-price system. To purchase a rationed good legally, the buyer had to surrender to the seller not only the (controlled) money price but also a stipulated amount of ration coupons or stamps ("points"). The system quickly became complex, and it remained subject to periodic changes and to a variety of exemptions for certain classes of buyers and goods. The table on the next page shows the program's coverage and duration.

Rationing greatly increased the transaction costs of shopping for ordinary goods. Historian Richard R. Lingeman writes in *Don't You Know There's a War On?* (1970):

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For the housewife, the rationing system meant the mastery of a constantly changing system of point values in the papers; while shopping, she kept one eye peeled on the monetary price and the other on the little red numerals posted on the shelf below products indicating their point price. She practiced double budgeting: money and points. She had to keep track of which stamps were valid during a certain time period, which were outdated, and what they might buy.

Rationed products	Effective dates
Sugar	May 1942 to June 1947
Coffee	November 1942 to July 1943
Processed foods	March 1943 to August 1945
Meats, fats, canned fish, cheese, and canned milk	March 1943 to November 1945
Rubber footwear (six heavy-duty types)	October 1942 to September 1945
Shoes	February 1943 to October 1945
Fuel oil and kerosene	October 1942 to August 1945
Stoves	December 1942 to August 1945
Solid fuels (Pacific Northwest only)	September 1943 to August 1945
Tires	January 1942 to December 1945
Automobiles	February 1942 to October 1945
Gasoline (initially East Coast only)	May 1942 to August 1945
Bicycles	July 1942 to September 1944
Typewriters	March 1942 to April 1944

Mastering the prevailing stamp regime was only half the battle. Lingeman writes, "Housewives trekked from one market to another seeking meat for tonight's supper; some days they were lucky to get frankfurters." All sorts of expedients cropped up in response to these shortages. Lingeman continues, "So in demand were [frankfurters] that OPA told meat-packers to stretch them with various fillers such as soybeans, potatoes or cracker meal." Coffee also suffered the addition of various fillers. Even gasoline was adulterated, with a substance known as Lubrigas. Even so, gasoline—along with sugar, butter, beef, pork, and bacon—at times disappeared from local markets. Lingeman concludes that "compared to the average level of peacetime living that most [Americans] were used to, they underwent hardships." So much for "wartime prosperity."

Making Crime Pay

Price controls and rationing created opportunities, however, for people willing to break the law. Active black markets developed all over the country. Substantial proportions of all transactions in some goods—especially beef and gasoline—occurred illegally. Housewives routinely bent the rules by trading, giving away, or selling ration stamps, which the law forbade. Mobsters entered the scene en masse, stealing ration coupons from OPA offices and reselling them, counterfeiting ration coupons and selling them, and hijacking trucks and selling their cargos without collecting ration stamps. Cattle rustling made a comeback.

Between February 11, 1941, and May 31, 1947, the OPA instituted 259,966 sanctions of various sorts. "One in fifteen businesses—wholesale, retail, service and so on—was charged with illicit transactions," and "one in five of all establishments in the country received some kind of warning short of criminal prosecution," according to Lingeman. Of course, many violations escaped notice, even though the OPA enforcement corps included at various times 2,000-5,000 investigators, working under 500-1,000 attorneys, and many thousands of part-time volunteers. As economic historian Hugh Rockoff notes, "[B]lack-market activities do not leave good statistical records and any estimate must be viewed as having a wide margin of potential error." Yet he also remarks that "the appearance of deterioration and related evasive schemes in relatively homogeneous commodities," such as fuel oil, coal, and gasoline, "testifies to the ubiquity of evasion."

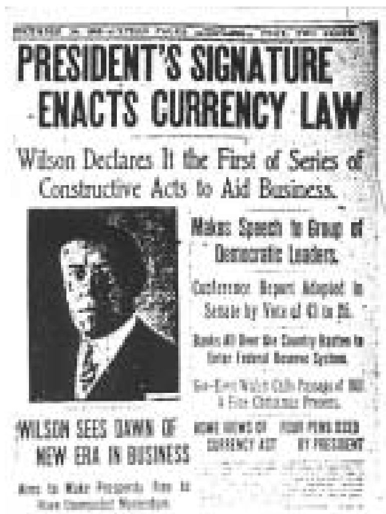
After an extensive study of wartime price controls during World War II, Rockoff concludes in his book *Drastic Measures* (1984): "The modern state has the power to control prices even in the face of a vast expansion of aggregate demand relative to output, but it can do so only through a drastic regimentation of economic life." Rationing was an important part of that regimentation. FEE

A Crisis of Political Economy

BY CHRIS MATTHEW SCIABARRA

One of the things that I have long admired about Austrian-school theorists, such as Ludwig von Mises, F. A. Hayek, and Murray Rothbard, is their understanding of political economy, a concept that conveys, by its very coupling, the inextricable tie between the political and the economic.

When Austrian-school theorists have examined the dynamics of market exchange, they have stressed the importance not only of the larger political context within which such exchanges take place, but also the ways in which politics influences and molds the shape and character of those exchanges. Indeed, with regard to financial institutions in particular, they have placed the state at the center of their economic theories on money and credit.


PRESIDENT'S SIGNATURE ENACTS CURRENCY LAW

Wilson Declares It the First of Series of Constructive Acts to Aid Business.

Makes Speech to Group of Democratic Leaders.

WILSON SEES DAWN OF NEW ERA IN BUSINESS

Establishing the Federal Reserve cartelized banking and created a mutually reinforcing state-banking nexus.

Throughout the modern history of the system that most people call "capitalism," banking institutions have had such a profoundly intimate relationship to the state that one can only refer to it as a "state-banking nexus." As I point out in *Total Freedom: Toward a Dialectical Libertarianism*:

> A nexus is, by definition, a dialectical unity of mutual implication. Aristotle . . . stresses that "the nexus must be reciprocal . . . [T]he necessary occurrence of this involves the necessary occurrence of something prior; and conversely . . . given the prior, it is also necessary for the posterior to come-to-be." For Aristotle, this constitutes a symbiotic "circular movement." As such, the benefits that are absorbed by the state-banking nexus are mutually reinforcing. Each institution becomes both a precondition and effect of the other.

The current state and the current banking sector require each other. They are so reciprocally intertwined that each is an extension of the other.

Remember this the next time somebody tells you, as *New York Times* columnist Bob Herbert did, that "free market madmen" caused the current financial crisis that is threatening to undermine the global economy. There is no free market. There is no "laissez-faire capitalism." The government has been deeply involved in setting the parameters for market relations for eons; in fact, genuine "laissez-faire capitalism" has never existed. Yes, trade may have been less regulated in the nineteenth century, but not even the so-called Gilded Age featured "unfettered" markets.

One reason I have come to dislike the term "capitalism" is that, historically, it has never manifested fully its so-called "unknown ideals." Real, actual, historically specific "capitalism" has always entailed the intervention of the state. And that inter-

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