Inflation, Price Controls and Compliance during the Korean War

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Abstract

Price controls are generally regarded unfavorably by economists, who argue that they will lead to disruptions in production and the emergence of black markets. Using the archives of the Office of Price Stabilization, set up in the United States during the Korean War to enforce price controls, I test this hypothesis. Three results emerge. First, price controls did lead to a curtailment of the production of meat and widespread disruptions in 1951. Second, these regulations incentivized rent-seeking behavior and lobbying from meatpackers, bureaucrats and consumers. Third, most violations were benign, and arose from the widening scope of illegality consequent to the detailed regulation of prices. Overall, the perspective on price controls given by administrative archives is much more negative than what is generally recognized about the Korean experience.

Keywords: price controls, Korean War, Office of Price Stabilization, black markets, inflation, informal economy

JEL Codes: N12, N42, K23, L11, L51, M48

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The return of inflation after the Covid 19 pandemic has led to new calls to enforce price controls to limit price increases (Weber, 2021; Reich, 2022; Casselman and Smialek, 2022). Most economists are opposed to price controls because of the effects of setting a price below equilibrium, which theoretically will lead to a disequilibrium between supply and demand, shortages, black markets and other disruptions. Many examples exist of inflationary periods leading to price controls over the whole economy, or targeted to certain sectors, as is still the case today in several South American countries (Aparicio and Cavallo, 2021). Despite the interest in price controls and the record of implementing them, little empirical research has tried to substantiate the theoretical story of the economist. Do price controls always create black markets? Do they have other unintended effects? Do they fail or succeed in slowing down inflation?

In this paper, I answer some of these questions by looking at the enforcement of price controls in the United States during the Korean War. After inflationary pressures mounted during the Fall of 1950, a general price and wage freeze was decided in January 1951. In the ensuing months, the Office of Price Stabilization (OPS) created hundreds of new regulations to adapt prices to changing market conditions and to the structure of prices in the economy. Using the archives of the enforcement division of the OPS, and microeconomic data on production and prices in the meat market, I examine the influence of price regulations on inflation, shortages and the development of black markets.

The archives of the OPS give a new overview of the social cost of price controls and the way in which they were enforced during the Korean War. Previous studies of price controls often used the number of court cases brought in Federal Courts to estimate the extent of black market activities (e.g. Rockoff, 1984: 197). I argue here that this measure is biased and not very informative, and propose to look at the effects of regulations on businesses through the prism of the literature on the informal economy. This leads to a reevaluation of the success and costs of price controls during the Korean war, which can be summarized in three key points.

First, the effect of the price control program was a curtailment of production leading to shortages, which were particularly apparent in the case of the meat industry. The disorganization of the meat market occasioned by OPS regulations led to a political-economic battle that absorbed much of the work of the OPS during 1951. The story told by OPS officials about the success of their enforcement program is belied by the microeconomic data, and the easing of inflationary pressures during the second half of 1951 was much more important in the decrease of illegal activities.

Second, the new regulatory environment was conducive to rent-seeking behavior and lobbying of Congress from interest groups including the OPS itself. The potential threats of black markets, beyond their existence, were a rhetorical tool to advocate changes in regulation in Congress, by arguing that the situation had to change in order to prevent it from deteriorating.

Third, while there was some evidence of black market activities, most of the violations arose from improper filings of forms and misunderstanding of regulations, both by businesses and in some cases by OPS agents themselves. The overall impact of price controls was to steer the economy towards a formalization of economic relationships, and proved particularly hard for small businesses to adapt to, as I show through examples drawn from administrative cases.

Overall, the success of price controls to limit inflation during the Korean war seems faint, and its consequences on the economy much more costly than previously estimated. These findings contribute to three literatures: first, they give an empirical content to the economist's theoretical doubts about the effectiveness of price controls, which can be found in classic texts such as

Sowell (2000: Chapter 3), or in Friedman and Friedman (1980: Chapter 2). Basic price theory can explain the movements on the meat market during 1951, but the content of price regulations was more legalistic than economic and did not take seriously the teachings of economics. Second, I contribute to the few empirical studies on price controls that exist. This includes studies on the effects of price controls on inflation and firm behavior (Jonung, 1990; Kyle, 2007; Aparicio and Cavallo, 2021), sociological studies on the development of black markets during World War II (Clinard, 1952; Grenard, 2008; Roodhouse, 2013), and studies in economic history about the effects of price controls (Rockoff, 1981; Mills and Rockoff, 1987; Rouanet, 2023).

Third, these findings contribute to the recent literature on the drivers of the informal economy. Several studies of entrepreneurship, drawing on institutional and development economics, have reevaluated the role of informality in the economy, by studying it not as the manifestation of a primitive state of development, but as a wide-ranging and pervasive phenomena that calls for a deeper analysis. The definition of informality used by Webb et al. (2009), Godfrey (2011), and Bruton et al. (2012) is that informal firms are outside legal institutions because they fail to register their businesses or to pay taxes, but their activities are still legitimate either because they produce legal goods or goods that are conceived to be legitimate by a large enough part of the population. Recent scholarship has shown that far from diminishing, informality is increasing (Chen, 2007; Williams, 2018: Chapter 4), and this paper participates in understanding how the concomitant rise of formality can drive this process. The observation of the role of local officials in the implementation of price controls are in line with similar studies (Frost et al., 2023), and the United States context contributes to other studies which approach informality as a phenomenon not limited to developing countries (Diaz and Minniti, 2023).

To understand the effects of price control on the economy, I go over the general evolution and organization of the policy from its start in January 1951 to its end called for by Dwight D. Eisenhower in his first State of the Union Address in January 1953. I then argue that looking at criminal cases and black markets is not very informative on the effects of the enforcement program, illustrating some of the problems of this methodology with the meat market. By tracing out the meat battle that was fought during most of 1951, I show that enforcement was a function of many factors, and talks of black markets were not necessarily connected with their real existence, but rather with the political agenda of different interest groups. The effects of price controls at the business level are then discussed by drawing on investigative cases led by OPS agents.

I/ Inflation during the Korean War

One common interpretation of the inflationary episode of the Korean War goes like this: the invasion of South Korea by North Korea on June 25, 1950, led to a sudden shift in expectations. Consumers and producers, anticipating a shift of production towards defense goods and the return of wartime shortages, created a wave of speculative buying that spiraled out of control until the general wage and price freeze adopted on January 26, 1951 stopped this process (Ginsburg, 1952: 519-520; Johnson, 1952: 290; Rockoff, 1984: 177; Pierpaoli, 2000: 17; Reed, 2014: 16; Rouse et al., 2021).

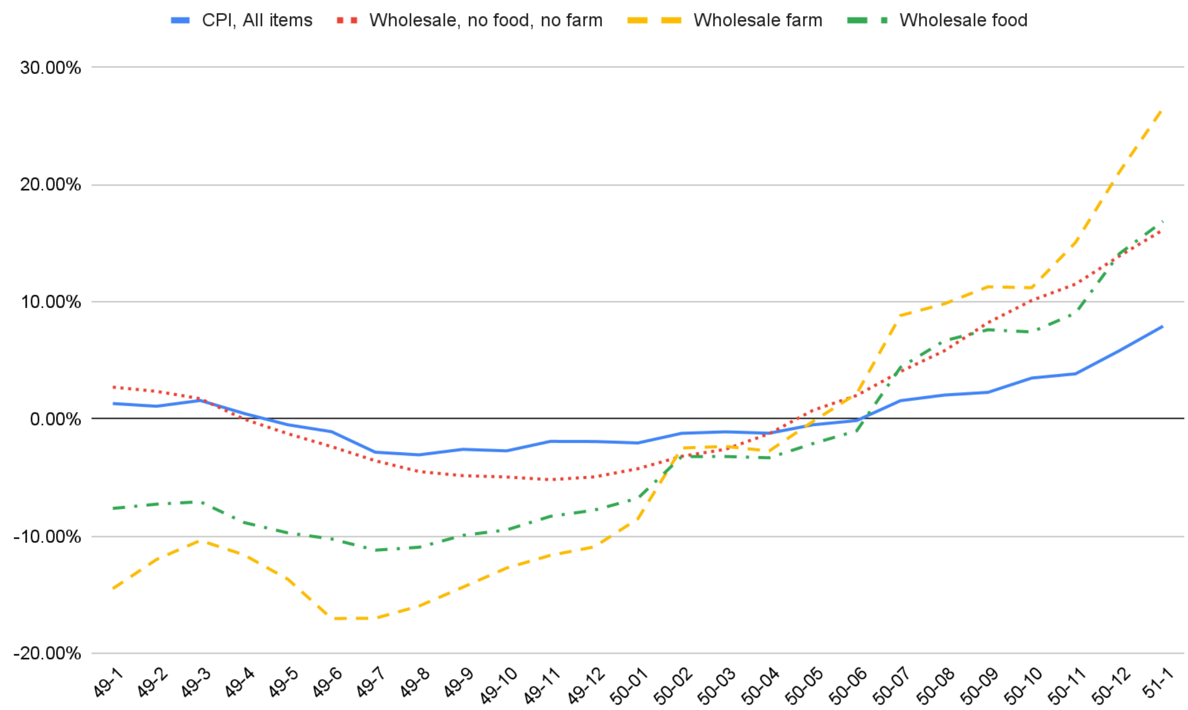

Figure 1: Year-to-year inflation rates

Figure 1 shows year-to-year changes in the consumer price index and three producer prices (food, farm and all producer prices) from the beginning of 1949 to January 1951. After the short recession of 1949, the inflation rate jumped in the summer of 1950 following the beginning of the Korean war. The adoption by Congress of the Defense Production Act (DPA) in September 1950 gave broad powers to the President to organize production and allocate essential resources, and to control wages, prices and credit. An Economic Stabilization Agency was created alongside the Office of Defense Mobilization, but the administration hesitated to use its powers to control prices, as successes in Korea coincided with a stabilization of the inflation rate in September-October.

With the entry of China in the conflict in late November, fears of a larger war drove a new wave of panic buying. Inflation went up again in the last months of 1950, and Truman resolved himself to price controls. In January, the Office of Price Stabilization (OPS) was carved out of the Economic Stabilization Agency, and put under the direction of Michael V. DiSalle. A freeze of all wages and prices was ordered on January 26, 1951, with prices capped at the highest level they had reached during the period from December 19 to January 25. This created a problematic situation, as the government had repeatedly urged businesses not to increase their prices in the previous months. Those who had heeded this advice found themselves in a much worse position than those who had ignored it and increased their prices. Consequently, the OPS adopted a number of new regulations to adapt price ceilings for most goods in the economy, either with dollars and cents ceilings, or by setting maximum mark-ups capping the prices of retailers by a fixed percentage above their costs. Following the beginning of price controls, inflationary pressures eased up after peaking in April-May 1951; in fact wholesale prices subsequently decreased, while the consumer price index stabilized at the end of 1951 (figure 2).

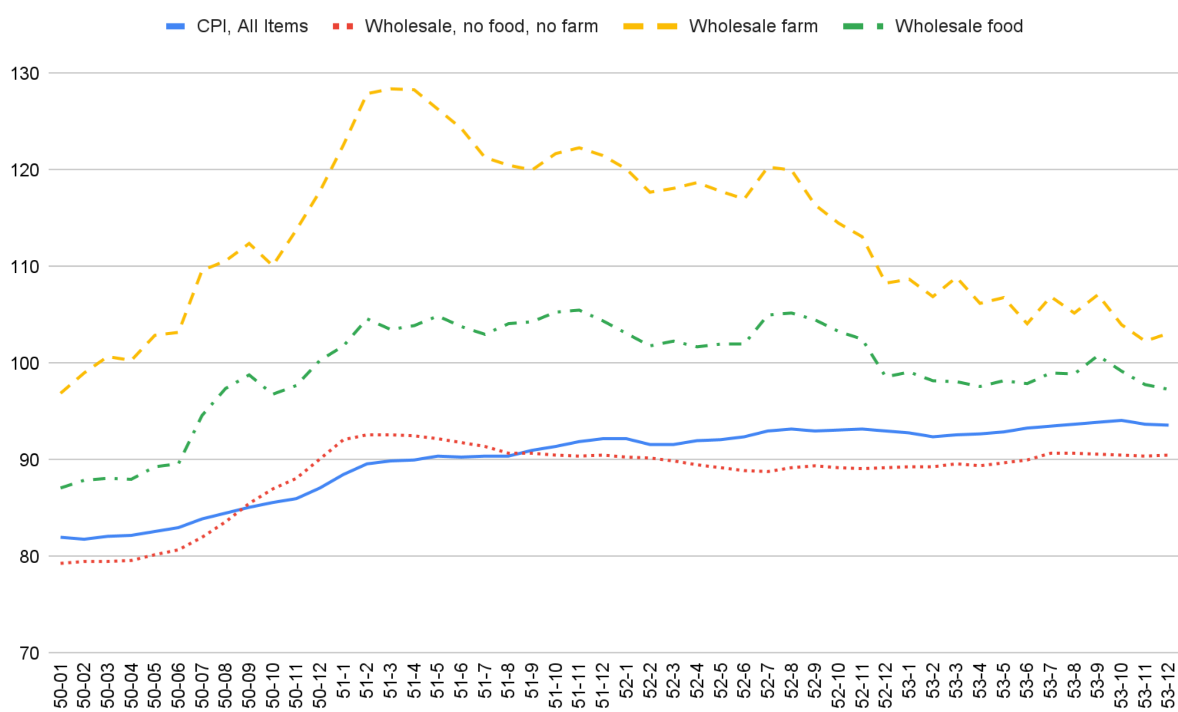

Figure 2: Index of consumer prices and three producer prices

The interpretation of the effect of price controls is much more controversial than this story lets on. The idea that controls were important to stop a wave of panic was one of the main lines of defense of the OPS, and it was echoed repeatedly in the analyses of price controls by OPS officials (DiSalle, 1951; Ginsburg, 1952; Burt and Kennedy, 1952; Heimann, 1952; Faragher and Heimann, 1953). This argument usually left little room for monetary policy, at most as a factor explaining the absence of a surge in prices at the end of the period, when Eisenhower announced the end of price controls during his first State of the Union Address (Eisenhower, 1953).

This reasoning was already criticized at the time, even from inside the OPS. The lack of empirical evidence linking the action of the OPS with changes in the inflation rate were noted by Anne Flory, who summarized the prevalent reasoning of officials as issuing regulations and assuming that compliance would follow and be reflected in price movements (Flory, 1954: 618-619). Flory's account was not so much an indictment of the agency but rather an explanation of why it failed to defend its ground with Congress; the legislator had severely limited the power of OPS to enforce price controls with two rounds of amendments in July 1951 and August 1952, and a slashing in half of the OPS budget in 1952.

Fiercer critiques came from Henry Hazlitt, who repeatedly attacked price controls as a "colossal hoax" in his regular *Newsweek* column (Hazlitt, 1951). Hazlitt argued that the source of inflation was the monetary expansion that had started in the Summer of 1950, as the government forced the Federal Reserve to expand the monetary supply by buying Treasury bonds at a fixed price. The value of Treasury Securities did increase by 30% from June 1950 to April 1951, an increase that was in part offset by gold outflows; at the same time, demand deposits and currency held only increased by about 4% during the same period, but investment and lending increased by about 30% and stabilized during the second quarter of 1951 for the rest of the war.[2]

In their monetary history of the United States, Milton Friedman and Anna Schwartz emphasized that the Federal Reserve-Treasury accord to stop supporting the prices of government bonds, reached in early March 1951, was a pivotal moment in the turn away from cheap-money policies to a new, reinforced independence of the Central Bank in order to fight inflation (Friedman and Schwartz, 1963: 623ff). This accord signaled the beginning of a tightening of monetary policy, which coincided with the decrease in the rate of inflation that characterized the rest of 1951-1952, at the same time that a surplus appeared in the Treasury consequent to the tax increases decided by the Truman administration to finance the war. This account of inflation is prevalent in stories that have looked at the episode from the point of view of the Federal Reserve. Minutes of the Federal Open Committee Meeting show that the board was acutely aware that the policy of maintaining the price of bonds at the same level led to the monetization of public debt, and was the main source of inflation (Hetzel and Leach, 2001: 47). After the Accord, Truman picked a new chair, William McChesney Martin, who committed the Federal Reserve to a restrictive monetary policy to fight inflation, disappointing Truman's hopes. The end of the support of government securities ushered in an immediate rise in interest rates (Hetzel and Leach, 2001: 52).

The effects of price controls, tighter monetary restrictions, public psychology and budget surplus are difficult to disentangle; in the following, we will delve deeper into the machinery of regulations and their effects on price, production and businesses.

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[2] The July 1951 issue of the *Federal Reserve Bulletin* went back in many details on the "recent monetary and credit developments;" data for demand deposits, investment and treasury bonds are taken from the *Bulletin* and the St. Louis Fed: https://fred.stlouisfed.org/.

II/ Price Controls and the Measurement of Black Markets

An argument frequently advanced in favor of price controls was that indirect monetary or fiscal controls would be much slower to work their effects, and that direct controls were needed to act quickly on inflationary pressures resulting from a wave of panic buying (see e.g. Johnson, 1952: 290). There is some doubt that controlling prices was a faster operation than monetary policy: it took several months to create an organization such as OPS, even though the speed at which the administration was organized was celebrated by some of its proponents (Ginsburg, 1952: 525).

In the span of a few weeks in February-April 1951, the OPS was staffed with thousands of economists, lawyers, clerks and secretaries; peak employment was reached at the end of the year with around 13'000 employees working in 89 district offices, 14 regional offices and the national office.[3] The OPS was organized in different branches, the largest of which were the pricing division and the enforcement division, accounting respectively for 40% and 25% of its budget. The focus in the rest of this paper is on the enforcement branch.

To what extent did this organization manage to hold down prices and prevent black markets from appearing? In his account of the Korean War episode, Rockoff (1984: 192-198) described some black and gray market practices, such as the use of long chains of brokers from initial seller to end-users, with phony intermediates taking new mark-ups at each point of the chain. To provide an overall measure of evasion, he used the number of court cases citing the DPA, as reported by the Administrative Office of the U.S. Courts. There are different problems with this approach, as we do not know what the nature of the violation was, on which commodity, or who brought these cases to Court (the government or a private party). More importantly, court cases only reflect one aspect of enforcement, while the OPS adopted a strategy where judicial recourse

[3] *Program Estimate for Fiscal Year 1952*, Box 3, Records Relating to Enforcement Cases, Office of Price Stabilization, Office of Enforcement, National Archives and Records Administration.

was the last resort; most cases were settled either through compliance conferences or through administrative settlements.[4]

The policy adopted by the OPS to enforce price controls was a gradation of sanctions. Businesses were supposed to report on multiple forms their costs and mark-ups with reference to the applicable Ceiling Price Regulation (CPR), and many cases were concerned with failure to file those forms with local OPS offices, or failure to keep adequate records. Especially during the first few months of operation, when a business was found to be in violation, a compliance conference was held to explain the regulations to the business owner, and a check was made to verify subsequent compliance. If violators were found to be wilful or refused to comply, the next step was to try to obtain a Court injunction, and eventually to institute civil or criminal proceedings to recover treble damages. Many cases were also settled out of Court, as we will see below.

Infractions could be found in several ways, through surveys of entire industries as was done in the case of meat (see next section), by going through supply chains to find infractions in suppliers records, or through complaints made by customers or other businesses. The OPS did not gather statistics on the origin of violations or their nature and generally did not make an effort to evaluate the effectiveness of its enforcement program, as was noted by Flory (1953: 118-123). Nevertheless, we can still find many statistics in the archives, informing us on the extent of the enforcement program.

In the period from July 1951 to August 1952, when OPS was at the peak of its activity, 157’784 investigative cases were opened by field agents. Out of these, more than 110’000 were

[4] On enforcement policies, see e.g. Stein (1953), or the *Manual for Special Agent-Attorneys*, Office of Price Stabilization (1951). Mills and Rockoff (1987: 211-212) also used court cases to compare degrees of enforcement in the United Kingdom and the United States during World War II.

closed because no violations were found or the original complaint was unfounded; 13’318 cases were closed after a compliance conference. In line with the numbers of civil and criminal suits reported in Rockoff (1984: 197), we find in the same period of highest activity 1’311 civil injunctions, 433 damage suits and 102 criminal trials, a smaller amount than the 2’908 cases settled by OPS during the same period. By the end of the program, OPS officials argued that they had recovered more than five million dollars for the American public, although they operated on a budget of more than a hundred million dollars in 1951-52.[5]

In its budget projections for 1952, the OPS asked for a special appropriation to hire more staff, forecasting around 325 new regulations to draw up and enforce, and a plateau of 20’000 cases opened per month in the Spring of 1952. In fact, the work of the division reached its peak in January of 1952, and started a long decrease afterward (figure 3). The number of agents employed in the enforcement division reached its peak in April 1952 with 1’296 agents, and similarly declined afterwards, as the focus of the enforcement turned toward closing cases.

[5] As reported by Harry Stein, acting director of enforcement, quoted in Flory (1953: 131). Most of the data in this section has been found in different folders in Box 3, Records Relating to Enforcement Cases, Office of Price Stabilization, Office of Enforcement, National Archives and Records Administration.

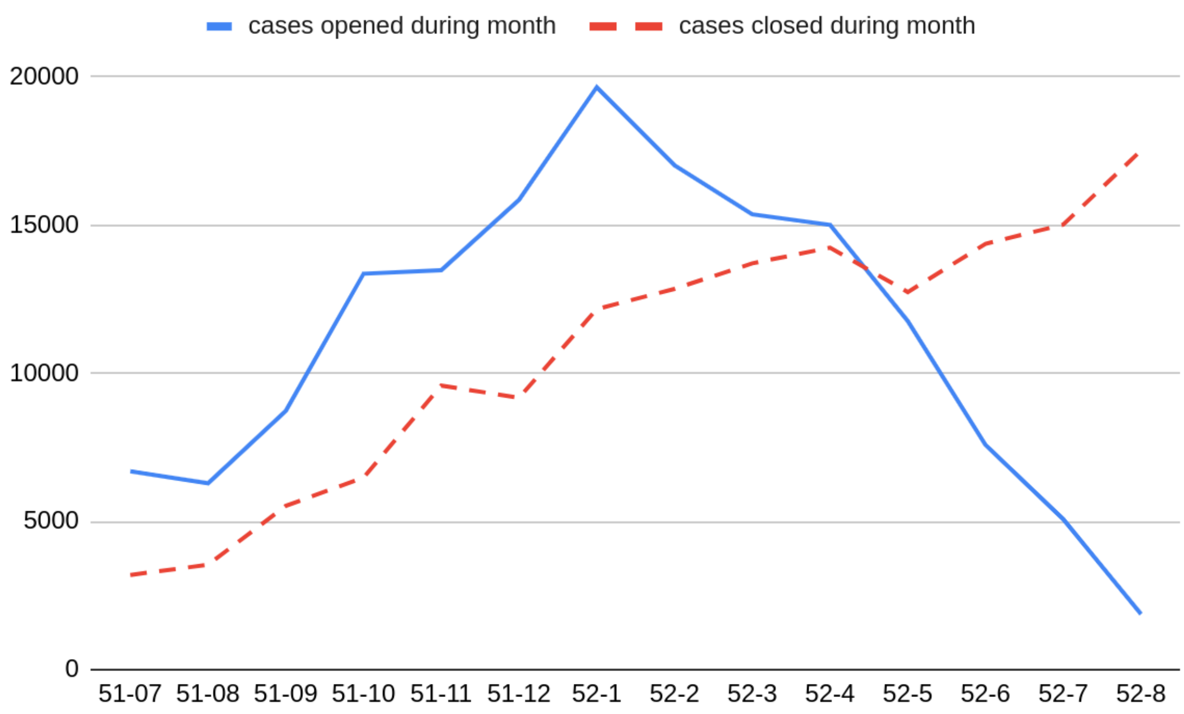
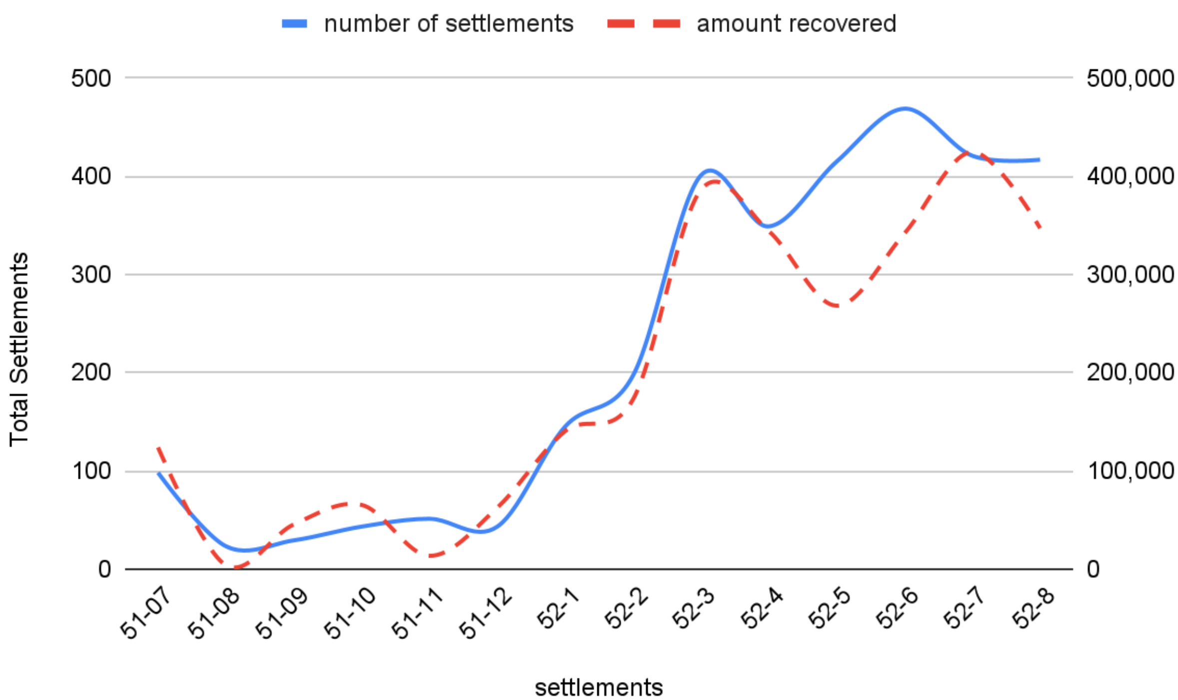


Figure 3: Number of cases opened and closed each month

The decrease in activity of the OPS was partly a function of the decrease of available funds, but more fundamentally a decrease in the reasons for its existence. As we saw, inflation had started to abate by the Summer of 1951, and by January 1952, year-to-year farm prices were declining. Thus the degree of enforcement was not only a function of the number of violations, but also of the resources that were given to the program. A more accurate measure than court cases for the decrease in illegal activity is given by the ratio of the amount collected to the number of settlements or damage suits. Throughout 1952, this ratio diminished before the number of cases was brought down, especially for damage suits, which suggests that OPS was unable to find clear-cut violations and was forced to scale back its operations (figure 4).



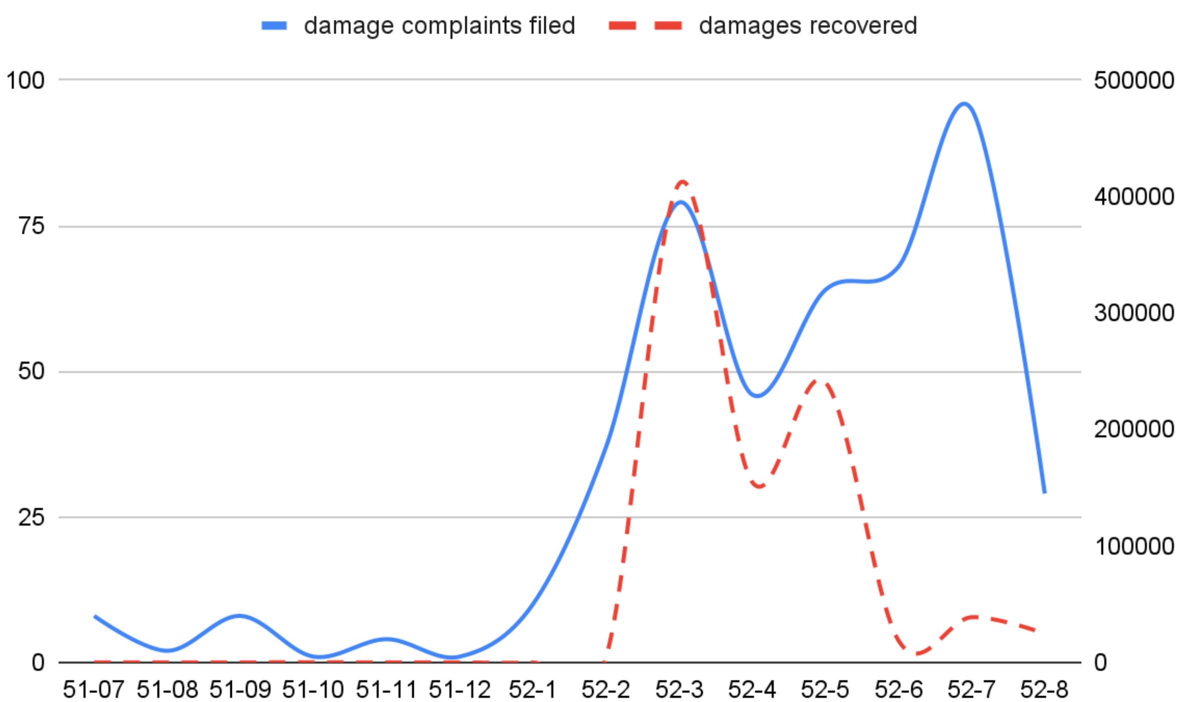


Figure 4: Number of settlements / damage suits (left) and amounts recovered (right)

While there was a small number of criminal trials, criminal filings, the closest indication of black market activity that we can find, was also heavily concentrated in three periods during the Fall of 1951, the Winter of 1951-52 and the late Spring of 1952 (figure 5).

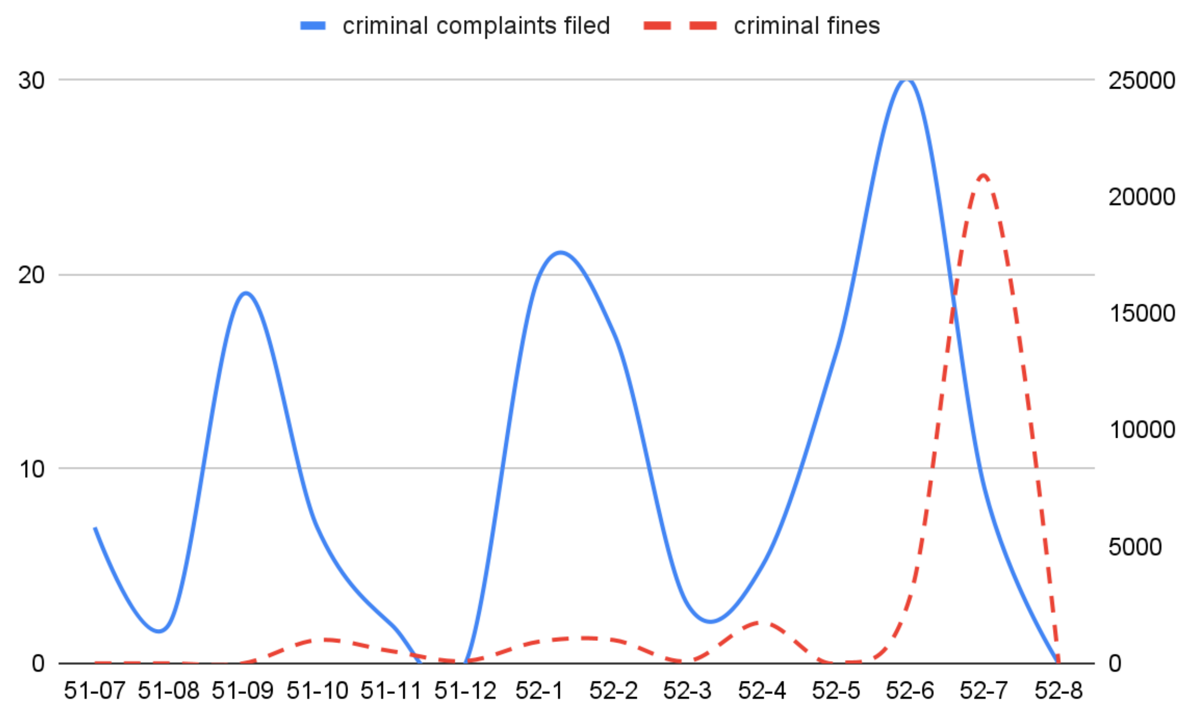


Figure 5: Criminal complaints (left) and fines recovered (right)

These numbers illustrate two points: first, as inflation was abating, violations became harder to find and prosecute for OPS agents. Second, the most egregious activities were concentrated in three clearly identified periods during which OPS filed most of its criminal suits, which raises some concerns on the reliability of this measure of enforcement. An examination of the files of several district offices and newspaper reports shows that the first spike in criminal filings is identified with troubles on the meat market. We examine in the next section what drove those filings and if ythey can be connected to an increase in black market activities.

III/ The Meat Crisis of 1951

Regulations of the Meat Market

The General Ceiling Price Regulation adopted on January 26, 1951 froze the wholesale price of beef but not the price of livestock. An announcement was made by the Director of the OPS at the same time that livestock would eventually come under control, but this took several additional weeks, during which the price of livestock continued to climb, while meatpackers could not raise their prices. The mismatch between the farm price and the wholesale price is clearly apparent in the series published in the *Survey of Business Conditions* and the *Federal Reserve Bulletin* (figure 6; both series have been normalized so that January 1949 = 100).

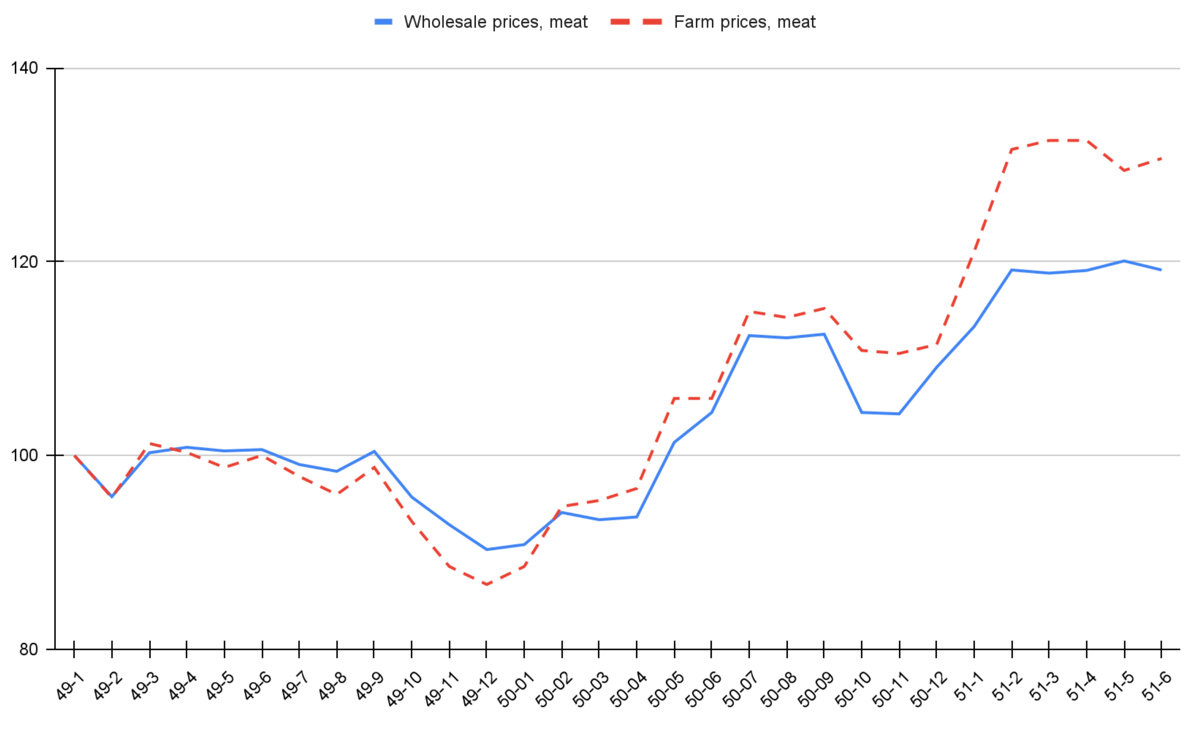


Figure 6: Wholesale and farm prices of meat

This situation was due to the difficulty for the OPS of establishing a ceiling on the price paid for live cattle, because the grade and yield of an individual animal could only be determined accurately after slaughter. The OPS thus adopted two interrelated measures to try to rein in the price of live cattle: first by implementing quotas, then by adopting price ceilings. On February 10, 1951, the OPS adopted Distribution Order 1 (later renamed Distribution Regulation 1, DR1), that set quotas on the number of cattle heads that a slaughterer could kill each month. The logic underlying this quota system in relation with the price ceilings was that the quotas would be a threat for potential violators, as they could be punished with a reduction in their allocated quotas. More importantly, it was also meant to prevent them from bidding against each other for live cattle, which would have pushed up the price of cattle. Officials argued that such bidding would price out honest packers in favor of those willing to break the ceilings, leading the “good” packers to close their doors or find another way to buy cattle; consequently, Amendment 4 to DR1 set the cattle quotas to 90% of the comparable period in the previous year.

The quota policy entered into effect in April 1951, just before the OPS adopted a series of regulations implementing new price ceilings on live cattle, wholesale beef and retail beef (Ceiling Price Regulations 23, 24, 25 and 26). Wholesalers were now subject to ceilings both on what they could pay for cattle, and for what they could charge their clients. The ceiling on live cattle, rather than applied to each animal, was averaged over a period: individual purchases could be above the ceiling, which made it hard to police the purchases of cattle, justifying for OPS officials the existence of a quota system making the ceiling “workable” by “operating as a limit on the volume of livestock for which any slaughterer could bid and as an assurance to each slaughterer that he would obtain his normal share of the total available supply without bidding up the price” (Burt and Kennedy, 1952: 356). Maintaining those shares also meant that the quotas were accompanied by provisions limiting entry into the slaughtering business, the mandatory registration of all slaughterers, the mandatory grading of their meat, and the filing of several forms with their local OPS office on their costs and calculated maximum prices. In addition, CPR 23 provided a progressive rollback of wholesale prices starting on May 20, with further price decreases programmed on July 29 and September 30.

The combined effect of the price differential between wholesale and livestock during the Spring, and the quotas imposed on the meat packers, was a sharp drop in production (Figure 7); the index for the production of beef dropped from a high of 109 in September 1950 to a low of 77 in June 1951, a decrease of almost 30%, including 26% between January and June 1951. A first drop in production followed the beginning of price controls in January, as the mismatch between the price of live cattle and wholesale started to grow; after a stabilization in April-May, a second drop followed the beginning of quotas. As production was below 80% of its levels of June 1949 and 1950, reports of shortages in Chicago and New York started appearing the same month in the *New York Times* (New York Times, 1951a;b;c;d).

Figure 7: Index of beef production, 1949-1951 (adjusted for seasonal variations)

As shortages became more apparent, illegal activities such as upgrading started to appear in newspapers in June 1951. Hearings were held at the same time, and during the Summer, Congress started debating changes in the Defense Production Act. Among the amendments that were adopted, two of them had important consequences for the meat market: the Fugate Amendment which ended the rollbacks of cattle prices, and the Butler-Hope amendment, which eliminated the quota program.[6]

The OPS Enforcement Drive

The OPS Director warned in August that the end of quotas would lead to an explosion of black market activity and an impossibility to maintain the price ceiling at its current level. He was supported by Truman in a speech to Congress (Truman, 1951). In mid-August, the national office decided to do an enforcement drive surveying wholesalers to find violations. This was officially justified by complaints from packers that they could not purchase at the prevailing ceiling price, and the apparent upward pressure in the wholesale price of meat which increased 3.3% between August 1951 and October 1951. In late September, the *New York Times* reported almost a thousand violations found during the enforcement drive carried out by the OPS, and disclosed in a press conference of Michael V. DiSalle, the director of price stabilization. Out of them, only one clear case of black market was noted in Wichita, with a company allegedly sending carloads of ungraded and unmarked beef (New York Times, 1951e).

The director of the national enforcement division of OPS, Edward P. Morgan, described the violations of price regulations as "about as devious as the human mind could devise"; singled out was the absence of records "which his office took as an indication of a black market operation" (New York Times, 1951e). Out of this national survey, a number of injunctive actions were filed

[6] See Pierpaoli (1999: Chapter IV) on the political battle around the amendments and the Revenue act of 1951.

in federal district courts, and the OPS argued that the subsequent easing up of price increase was due to this enforcement program.

The archives of the OPS paint a less dramatic picture of the Fall survey of the meat industry.[7] The survey was divided into two main branches: a survey of meat retailers in mid-September, and a survey of meat packers in early and late September. Investigations were encouraged by Instructional Memorandum No. 102, sent by the director of enforcement on September 17, 1951 to all regional and district offices. Arguing that there existed widespread violations of the meat regulations, the memo recognized that "the multitude of retailers throughout the entire country might cause our enforcement activities to be swallowed up in a 'bottomless pit' if we seek to devote all of our energies in that direction." Therefore, the enforcement effort was directed primarily "at the <u>wholesaler who has forced the retailer into violation</u>" (original emphasis). Field agents were left free to "explore all available investigative avenues," and the memo gave a non-exhaustive list of possible approaches ranging from the examination of records to the use of "services of female members of staff … wives and relatives of Special Agents [to] make purchases which indicate violations," because some cuts of meat were only sold to regular clients asking for them.

Files of the retail meat survey in Raleigh, North Carolina, show that, for retailers, out of 115 investigations, 36 were found to have collectively committed 95 violations. None of these violations amounted to serious black market activity; most of them failed to properly display prices, to separate different grades and to pre-pack specialty steaks, as was indicated by CPR 25. Only one case was opened for further investigations against a supermarket in Plymouth N.C. for

[7] This account is based on the files found in Box 1-3, Raleigh, District Office Enforcement Case Files, Office of Price Stabilization, Office of Enforcement, National Archives and Records Administration. I used in particular the "Summary of retail meat survey," in Box 1 and different folders related to the drive in Box 2.

selling ungraded meat, but the case was closed administratively when it appeared that violations remained limited.

The wholesale meat survey was a more important enterprise. It was led in two installments: the first one during September 7-13, 1951, and a follow up from September 25 to October 12. During the first leg of the survey, most firms were found in violation of OPS regulations because they did not file all the necessary forms; they were warned and the second visit turned out 16 violators out of 70 investigations, including 14 failures to file a form, 4 failures to keep kill records, 3 selling ungraded meat, one slaughtering without registration, and one selling unstamped beef.

The OPS obtained half a dozen Court injunctions against meat packers that did not file properly the required forms, but lost a case against Carolina Packers, Inc in November 1951. This case was symptomatic of the problems arising in the enforcement of price regulations. After entering the chillrooms of Carolina Packers at 6 am on September 26, 1951, three special agents of the OPS found 24 sides of beef that were neither stamped, graded or tagged with the registration number of the slaughterer. An inspection of one of its clients also revealed that the firm had sold one carcass of beef without the slaughterer's registration stamp. A complaint for injunctive relief was filed the next day by the local district enforcement director, and an order to show cause was obtained. Such expedited proceedings were justified by the director who argued in his filing that "any delay or indifference to the immediate enforcement of the applicable regulations may be fatal to the entire Price Stabilization Program and will deter and defeat the checking and control of prices and of inflationary spirals." However, an interpretation from the Office of the Chief Counsel for the OPS indicated shortly thereafter that meat that was to be processed into bologna did not have to be stamped; a follow-up investigation was led on

November 9th by the district office, revealing that the records of the firm were duly kept, and that the unstamped beef slaughtered by Carolina Packers was in fact used in the preparation of sausage products such as bologna, which were thus excluded from stamping requirements by CPR 23. Because the only violation that was left was one unstamped carcass, and the packer argued that it was an oversight, the administration decided to abandon its suit.[8]

While the OPS did not lose most of its cases, this case is symptomatic of the problems in enforcing regulations and circulating information between the national office and the district offices, and between the OPS and the department of justice (in a letter to the local Attorney General, the district director apologized profusely for not involving him in the final deal reached with the packer). It is also symptomatic of the type of violations that were enforced by the organization. In this respect, there is scant evidence of widespread black market activities that were squashed by the OPS during the Fall.

If the easing up of the meat market conditions cannot be explained by the enforcement of price controls, how can it be explained? Production conditions and stocks of meat dramatically improved after the end of the quotas system during the Summer. June 1951 was the lowest point for beef production; by the end of the year it had returned to the level reached in 1947-49, and the production index was reaching new records by the end of 1952. While OPS officials accused the meat packing industry of having created an artificial scarcity, and the packers argued that it was caused by the regulations of the OPS, there is no doubt that the end of quotas led to an increase in production by eliminating technical difficulties and disincentives. Most importantly, the price of cattle paid to the farmer showed a steady decrease during the Summer, and the spread between wholesale and farm prices returned to pre-1951 levels in October (Figure 8).

[8] Case 31-8, Box 2, Raleigh, District Office Enforcement Case Files, Office of Price Stabilization, Office of Enforcement, National Archives and Records Administration.

Figure 8: Prices at farm and wholesale price for cattle and beef (june 1950=100 for both)

After October of 1951, both prices continued to drop steadily; they eventually took retail prices with them and made the whole problem of "the inability to impose slaughter quotas academic in 1952" (Burt and Kennedy, 1952: 357). Looking more closely at the debate around black markets in newspapers and congressional debates shows that changes in enforcement were more political in nature than an indication of changes in the extent of the black market.

IV/ Price Control Enforcement and Rent-Seeking

Throughout the Spring of 1951, meatpackers and farmers lobbied Congress intensively to put an end to the meat regulations. One of their arguments was that the situation was creating shortages that would lead to the very black markets that OPS was trying to avoid; fresh in the minds of everyone, was the recent experience at the end of World War II, when a wide black market in meat had developed. Mentions of "black markets" and "meat" in the *New York Times* and the

Congressional record show that the news cycle was slightly ahead of the political cycle during the Spring (Figure 9).

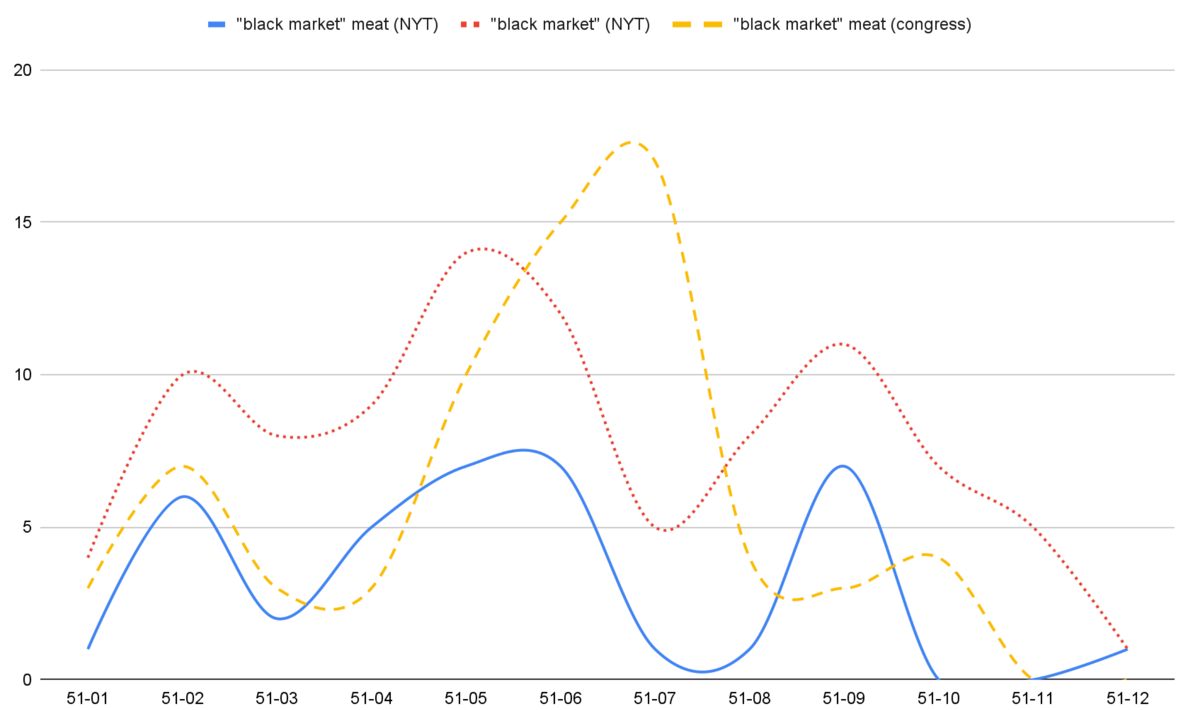


Figure 9: Number of days per month mentioning black markets in the New York Times *and the* Congressional Record

The increase in mentions of black markets during the Spring of 1951 was driven by meat packers' predictions, and their campaign clearly preceded the interest taken by Congress in the question. A few months after the meat drive, two OPS lawyers argued similarly that the change in legislation had been produced by the meatpackers campaign (Burt and Kennedy, 1952: 356). The two lawyers blamed the banning of slaughter quotas by Congress on "a lack of understanding of the problem," and dismissed business complaints to Congress about unfair administration as "in large measure unwarranted" (Burt and Kennedy, 1952: 356). They saw the reason for the OPS defeat in the arguments used to defend the program, which hinged mainly on the idea that quotas were necessary "to keep out potential black marketeers" (Burt and Kennedy, 1952: 355-6). They argued that the quotas system arose directly from the impossibility of pricing the live cattle and that limitations on production through quotas and limits to entry would maintain supply at a level compatible with the controlled price. Nevertheless, the Butler-Hope amendment banning quotas was adopted by an overwhelming majority and the amended Act was passed into law in July 1951. The registration and licensing program that had been put into place to enforce quotas was continued, but for OPS lawyers this was not enough to stop violations of the beef ceilings.

The increase in mentions of black markets during the Fall was driven by OPS officials rather than meatpackers, and by discussions of the enforcement drive that was led by the administration. The numbers given in press conferences were bandied as a justification to reinstate quotas and to restore some of the power of OPS. In the same way that the complaints of black markets emanating from cattle feeders and meat packers during the Spring were part of an effort to have Congress forbid quotas and price rollbacks, the actions of OPS during the Fall were part of its own campaign to reestablish quotas by arguing that they were necessary to fight black markets developing because some packers were priced out of live cattle and forced to violate the price ceilings (Burt and Kennedy, 1952: 358). But the reality was less dramatic than what OPS officials presented, and they failed to elicit the interest of enough members of Congress, as shown by the modest increase of discussions of black markets in the Congressional Record (Figure 9).

Thus, enforcement during 1951 was more a product of a battle between the OPS and industrials to get the attention of Congress, than a clear measure of black market activity. Evidence of real black market activities remained marginal, especially in comparison to the number of investigations opened by the Office. It appears rather that the term “black market” was used as a scare word by meat packers and the OPS to lobby Congress; this strategy is in line with classic rent seeking explanations (Olson, 1965; Becker, 1983), which have been used recently to understand the effect of price controls in another context (Rouanet, 2023). We find this discourse at all levels of the hierarchy, from the director of enforcement to the district director arguing in the Carolina Packers case that speedy enforcement was of the utmost importance, even though prices were already declining.

Rent-seeking behavior was not limited to bureaucrats or meatpackers, but was also incentivized by the existence of the price administration. The OPS encouraged customers to report on businesses if they thought that they were overcharged, and a number of cases seem to have resulted from this source. Some of these complaints were justified because the customer was overcharged, wilfully or not, and this led to around half a million dollars being returned to customers (to compare with the five million dollars recovered through settlements, and the almost ten million dollars recovered through suits conducted by the Department of Justice).

Many complaints were based on less than serious grounds, but they were systematically followed by an investigation into the accused business. Most of these complaints relied on the idea that some prices were unjust or unfair and that OPS should do something about it. For instance, an army doctor stationed at Fort Bragg, North Carolina, wrote about the price of milk in the hospital, where a quart was sold at forty cent: “It seemed to me that ‘40c’ is too much. It is not right.” The Chief of the Dairy Branch of the Food and Restaurant Division replied a few weeks later that “the price seems to be unreasonable” and forwarded it to the Raleigh district office for further investigation. The investigation revealed that the Post Exchange Services operated at the base hospital a snack bar and cafeteria which charged milk by the glass, and the file was closed without further investigations.[9]

The idea that there was a fair price or a just price was in fact at the heart of the power granted to OPS, whose basic substantive requirement for any price regulation was that it would be "generally fair and equitable" (Woods, 1952: 4). DR 1, creating quotas of livestock animals for meatpackers, was thus named "fair distribution of livestock and meat" and the phrase was invariably repeated in the statements of consideration for CPR 23-26. What is clear from the record is that fairness is an elusive goal, and perhaps not the best guide to establish durable and efficient regulations.

The incentives created by the administration of prices, rather than to promote an orderly, fair or equitable distribution, were rather to give a platform to anyone to air their grievances against other market participants. Beyond customer complaints, evidence was found in the archives that cases of anonymous informants who happen to be business competitors were systematically investigated. Letters forwarded to the national office from "a friend" denouncing black market activities, customers writing on behalf of their butchers, former agents of the Office of Price Administration calling for more sanctions, more jail time, more experienced inspectors, all obtained a sympathetic hearing from the OPS. The administration did not collect any statistics on the origins of complaints, but we can obtain a better understanding of the effects of price regulations by drawing on more cases that have been kept in the archives.

V/ Price Controls and the Informal Economy

Scholars have only recently begun to consider the informal sector not just as a primitive stage of development, but as a pervasive phenomenon that requires to be explained in relationship with

[9] Case 32-1, Box 2, Raleigh, District Office Enforcement Case Files, Office of Price Stabilization, Office of Enforcement, National Archives and Records Administration.

the formal sector of the economy (Chen, 2007). The definition of informal activities as "illegal but legitimate" captures perfectly most of the activities that were enforced by OPS agents and how this mismatch can hamper the efficiency of price controls. While most research is still focused on the transition from the formal to the informal economy, a growing literature has pointed to the benefits of the informal sector in emerging economies (Bruton et al., 2021), to the difficulty of achieving first-best institutions in every context (Rodrik, 2008), and to the principal-agent problem inherent in the enforcement of a widening formal sector (Acemoglu and Jackson, 2017; Grandy and Hiatt, 2020). Economic research has also shown that the effects of increasing the extent of regimentation can have detrimental effects to businesses and eventually reaches a point where it drives them to the informal economy as the costs of participating in the formal economy are increased (Bruton et al., 2012; Schneider and Enste, 2013). While most of the literature has focused on developing countries, the case of price controls during the Korean War shows that the same issues can be observed in developed countries like the United States.

In its report to Congress submitted in September 1952, the director of the OPS outlined that over the previous twelve months, 99 ceiling price regulations had been adopted, including ten covering all sellers; in addition, OPS issued 157 supplementary regulations, 17 general overriding regulations, 620 amendments, 47 revisions, 45 collations and 55 delegations of authority. The adoption of hundreds of regulations totalling thousands of pages of detailed rules that had to be followed by businesses throughout the country led to a widening of the scope of illegality. For instance, CPR 24 and 25 both laid out precise rules explaining how to cut the meat so that there would not be too much fat left on it. Complaints by retailers against the meatpacker Armour, one of the biggest in the country, led to an investigation which prompted the slaughterer to send out butchers to "properly trim the meat and give the various retailers credit for the excess amount of fat"; the district office still felt it was necessary to obtain an injunction against the company.[10] Selling "illegal cuts of beef" was one of the chief violations outlined by memo 102 that was sent during the meat drive in September, which raises the question of what exactly do we mean by a black market, when the detailed rules created by OPS widened so much the basis of illegality.

CPR 24 and 25 not only detailed price ceilings, they also standardized beef cuts; the regulations insisted on how much this exercise in definition was necessary in order to create uniform prices, so that the list of products to administer remained manageable. The relationship between this standardization and the enforcement of price controls was detailed by the acting head of the beef section of OPS in a letter to a representative of Motor City Packing Co. in Detroit, Michigan, who enquired in May 1951 whether he could sell cuts other than those prescribed in the regulations:

> There are many communities throughout the entire country where the style of cutting differs, sometimes in a small way, other times very substantially from those cuts which we have prescribed in our regulations. However, in setting prices we have adopted the cuts which are based on the Chicago style of cutting and which are most prevalent throughout the entire country. All sellers will have to conform their cuts to those set forth in our price regulations. If we allowed you to sell these two special items which you normally sold, we would likewise have to make similar concessions in thousands of other individual cases and we would lose the benefit of our uniform ceiling prices.[11]

This policy of uniformity and standardization was one of the consequences of the regulations and the attempt to set prices for most goods in the economy. While it made many things illegal, it did not change their legitimacy, thus driving the gap between legitimacy and legality that is at the source of most informal activities in the economy (Webb et al., 2009).

[10] Letter from August 30, 1951, Box 1, Records Relating to Enforcement Cases, Office of Price Stabilization, Office of Enforcement, National Archives and Records Administration.
[11] Letter from May 19, 1951, Box 1, Records Relating to Enforcement Cases, Office of Price Stabilization, Office of Enforcement, National Archives and Records Administration.

The need for businesses to read and apply them also had consequences for the conduct of daily affairs; if most firms complied to the best of their ability, writing sometimes to the local district office to ask for help in the interpretation of regulations, some businesses resisted passively or more aggressively. This was the case of one Mr. Zeidman in Wharton, Texas, who was sentenced to a $250 fine and thirty days in jail suspended for three years for failing to file a price list under CPR 7. Zeidman, the owner of a wearing apparel store, had told the agents inspecting his business that even though he received the regulations and forms, he would not apply them. The agents' report him as saying that he

> had taken no action in the matter because he was short handed, and did not believe it could be enforced, stating, if the OPS deemed these pricing charts so vital, important and necessary that the OPS could send someone there to prepare the charts because he simply did not have the time nor the help to get it up for them, due to the many items handled. Mr ZEIDMAN was asked if he would sign a statement confirming these remarks, he replied, NO![12]

These detailed regulations had many other unforeseen consequences, which led to amendments and revisions that made the whole regulatory environment quite unstable. For instance, CPR 25 was amended twice before a major revision in September 1951, that was itself amended five times. One of these amendments concerned section 5 of CPR 25, which prohibited certain cuts of steaks to be sold, but authorized retailers to sell some specialty steaks. It appeared rapidly that some retailers were still selling prohibited steaks by calling them specialty steaks, and the OPS decided to forbid them with an Amendment to CPR 25 adopted on July 25, 1951. After this, practices which had been unproblematic became suddenly illegal, in a pattern often repeated, and upsetting ways of doing business that were more or less entrenched.

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[12] Report of Case 9-15, Box 1, National Office Enforcement Case Files, Office of Price Stabilization, Office of Enforcement, National Archives and Records Administration.

Formalizing or regimenting the economy was not only about standardizing beef cuts, but also acted on record keeping requirements. Beyond the forms that had to be filed with information on costs and mark-ups, CPR 23 to 26 provided instructions on the way in which records had to be kept for inspection that were often more stringent than what small slaughterers were used to. From the cases opened by field offices of the OPS, a picture emerges of a country still transitioning from small businesses to larger units that were able to economize on these administrative costs (Hofstadter, 1964). The answer of a slaughterer to the legal threat launched by the Raleigh field office was typical of these small businesses who often did only some slaughtering on the side: "We wrote to you some time back and explained that during the year of 1950 we did all of our slaughtering under a tree as there is no abattoir in this county. Therefore we have no record at any abattoir for slaughtering done for this Company."[13]

Many businesses such as this one seemed to keep only check stubs as proof of payments, which made it impossible for OPS agents to verify the amounts and grades of meat they had been selling, thus constituting a violation of DR 1 and CPR 23-24. Isadore Goldstein, a farmer in Marinette, Wisconsin, was interrogated in great detail by OPS agents who contacted his clients and other relations such as the director of the town's meat locker, trying to establish whether he had sold ungraded meat to them. The farmer was described as an "uncooperative" subject, resenting being asked what he called "such damn fool questions" by the agents. As a farmer residing in Marinette since 1927, he was occasionally selling beef to a grocery store and a convalescent home; it was in the latter that OPS agents checking on another case had found ungraded meat, and discovered that it had been supplied by Goldstein after interrogating the director of the convalescent home. The farmer declared that he was slaughtering on the side

[13] Case 31-6 (meat survey), Box 2, Raleigh, District Office Enforcement Case Files, Office of Price Stabilization, Office of Enforcement, National Archives and Records Administration.

during the Winter for a few clients who did not or could not do their own slaughtering; the transcript of his interrogation highlights a central problem raised by these detailed regulations: “Special Agent Glasheen asked Subject whether or not he was able to read or write. Subject refused to answer this question.” It turned out that he also refused to sign the statement, arguing that his wife was doing all the signing for him.[14]

The economy of Marinette, Wisconsin was not well suited for the imposition of detailed regulations; meat grading had not reached businesses or practices, which were based on a mutual trust that the special agent interrogating the participants had a hard time understanding. The farmer started selling meat to the owner of the store where he was doing his groceries, and the owner of the convalescent home knew the farmer through his other venture as an oil seller. The bafflement of these farmers, storekeepers and businessmen, subpoenaed by the OPS agents, and questioned extensively about their business practices reveal two completely different worlds. Ending the interview with the director of the convalescent home, the OPS agents asked him if he wanted to share something else: “I thought that the quality of his beef was good. I knew nothing was wrong with buying it. I know it was better than I could buy in a lot of those places; whether it has a stamp on it or not, I don’t know. When I used the beef I wouldn’t say there was a stamp on it. How legal it was, one way or another, I never gave it a thought. It’s still questionable in my mind whether I should continue to buy the beef or not. If it’s wrong, I would like to know. If it’s right, well, I would like to continue.” To which the OPS agent replied that he should be aware of the applicable regulations.

Pierpaoli (1999: 106) has already noted, with reference to government documents, that the enforcement operation of the OPS was modeled on the methods of the Federal Bureau of

[14] Case 31-361, Box 2, National Office Enforcement Case Files, Office of Price Stabilization, Office of Enforcement, National Archives and Records Administration.

Investigation. Reading through the cases kept in the archives confirms this analogy. On the other hand, the rapid loss of popularity enjoyed by the price administration is made more understandable. Cases such as that of the Wisconsin farmer were brought up because the scope of illegality increased exponentially with the number of regulations, leading to large numbers of violations that were presented by enforcement officials and OPS leaders as evidence that more funds and personnel were needed to fight against inflation and its consequences.

As we saw, OPS was planning to draw up 325 new regulations for 1952 in its initial budget; one problem posed by these regulations was to make sure that not only businesses, but also OPS agents understood those regulations. In this respect, the archives abound with cases causing embarrassment for the OPS, a problem that was already noted at the time by Flory (1953: 127). In a progress report at the end of August 1951, the director of enforcement, who received hundreds of cases per month from district offices, indicated that

> Of all the cases reviewed by this office, it has been necessary to return over 90% to the field for further information, clarification, or reinvestigation. More and more I am becoming convinced that our enforcement personnel in the field do not understand the regulations on which their investigations are based, and particularly, there is every indication that they have not read the various instructional memoranda prepared for their guidance on investigation techniques, report writing, and procedure for handling investigation reports.[15]

This problem was pervasive in OPS work. Still in April 1952, the district enforcement director for the Raleigh office could point out the incoherences and inaccuracies of a report and write: "I find it difficult to believe that in our second year of operations a Special Agent would have the sheer audacity to send for typing such a poorly prepared report."[16]

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[15] Letter from August 30, 1951, Box 1, Records Relating to Enforcement Cases, Office of Price Stabilization, Office of Enforcement, National Archives and Records Administration.

[16] Case 9-3, Box 2, Raleigh, District Office Enforcement Case Files, Office of Price Stabilization, Office of Enforcement, National Archives and Records Administration.

These difficulties contributed to sink the OPS, and its leaders were acutely aware of this when they led TV and press campaigns in the Fall of 1951 to try to save and expand the program. But the OPS could not change what was viewed as legitimate in the economy, and its local officials had to negotiate with the population the enforcement of the regulations crafted by the national office. It was this gap that eventually led to the Fall of the OPS and the end of price controls, as the costs of its action in a context of stable prices began to far outweigh their benefits.

Conclusion: the Korean Experience

The Korean experience in price controls is a much less known episode of such a policy, more circumscribed in time than World War II but which offers an interesting case-study of their effects on inflation and the cost of doing business. Examining whether the same mechanisms at work led to the same results on the emergence of black markets in a less extreme scenario of inflation informs us on the generality of the economists story that a price set below clearing will lead to shortages and black markets. While some evidence of black markets in some products where prices could not adjust was found, the relatively rapid decline of inflation ensured that black markets did not have time to develop to the extent they had developed during World War II. Because of this experience that was still fresh in the minds of many people, "black market" was used by lobbyists from the private sector and the administration to pressure Congress in abolishing or reinforcing price controls.

The quick abatement of the rate of inflation translated in a smooth transition to a regime of free prices in 1953. While some observers have argued that this showed that controls were well tailored to the situation, the evidence of the enforcement program shows that these regulations disorganized industries and imposed new costs on businesses. Through the lens of recent studies of informality, which define it as the mismatch between what is legal and what is legitimate, we saw that the experience in price controls led to a large increase in the informal economy. The resulting tension between legitimacy and legality meant that the application of central regulations was very difficult, and negotiated on the ground by local officials. This approach of the costs of price controls seems more fruitful than the search for black markets, and the extent of the OPS archives means that a lot remains to be said to estimate more accurately these costs and their evolution, a lesson that can be extended to other types of regulations which have accompanied the growth of the formal economy during the past century.

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