PRICE CONTROL

IN THE

REPUBLIC OF COLOMBIA

FOREIGN INFORMATION BRANCH
DIVISION OF RESEARCH
OFFICE OF PRICE ADMINISTRATION

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The memoranda published in the following pages are being released with the consent of the United States Department of State and the government of the Republic of Colombia in the hope that they will prove useful to government officials in the Western Hemisphere interested in the problems of price control, particularly as they pertain to the economies of the Latin American Republics. The memoranda in question, addressed to the Colombian Minister of Finance and Public Credit, Dr. Alfonso Araujo, were prepared by Mr. Ben W. Lewis, head of the Advisory Mission from the Office of Price Administration to the Republic of Colombia in the mid-spring of 1943. The mission, composed of Messrs. Ben W. Lewis and James R. Nelson, from the Export-Import Price Control Office of the Office of Price Administration, was sent in response to a request from the government of Colombia, which was engaged at the time in revamping its price control organization.

Mr. Lewis’ memoranda contain a general exposition of the scope and objectives of a selective price control system as one of the several prerequisites for combating inflation, as well as the application of direct price control techniques to the specific price problems of Colombia. Particular attention is paid to the proper organization of a price control office, the selection of commodities for control, the advantages and disadvantages of different pricing techniques, the guide-posts necessary for drafting price control regulations and the methods available for controlling the resale prices of imported goods.

The universally favorable reception accorded these memoranda by all who have read them has led to the belief that, despite the delay in publication, their dissemination to government officials throughout the Hemisphere would serve a useful purpose.

William S. B. Lacy
Chief, Foreign Information Branch

Henry Beitscher
Chief, Latin American Section
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>If I were Price Supervisor - I</td>
<td>1</td>
</tr>
<tr>
<td>If I were Price Supervisor - Supplement</td>
<td>11</td>
</tr>
<tr>
<td>Next Steps on Price Control - III</td>
<td>12</td>
</tr>
<tr>
<td>Model Regulations and Sample Questions</td>
<td>33</td>
</tr>
<tr>
<td>Next Steps on Price Control - IV</td>
<td>42</td>
</tr>
<tr>
<td>Next Steps on Price Control - V</td>
<td>49</td>
</tr>
<tr>
<td>Footnotes</td>
<td>68</td>
</tr>
</tbody>
</table>
MEMORANDUM

To: Dr. Araujo
From: Ben J. Lewis
Subject: If I Were Price Supervisor

You have asked me to imagine myself as the Price Supervisor under the Price Control Decree issued May 11, 1943, and to prepare a memorandum outlining the steps which I believe should be taken at once by the person named to that position. I am, therefore, writing to you as though I were the new appointee asking your approval of my projected program.

In carrying out the duties of my office, particularly in the first few weeks, I propose to maintain a careful balance between speed and certainty. I realize that the situation as regards exorbitant prices and speculation is serious and is growing daily more dangerous. Basic conditions, public opinion, and the prestige of my office all demand immediate action. At the same time these identical considerations require that I move with sureness, that I proceed on the basis of facts rather than by intuition and guesswork, and that my several acts shall constitute consistent parts of a thoughtfully developed program. Specifically, I shall not publish a resolution attempting to control drug prices this afternoon - before I have built up my organization, developed essential facts, and received essential advice - just because I know (as a matter of common knowledge) that drug prices are much too high. But I can assure you that, if you approve my program, I shall take action within the next ten days that will hold the prices of all important drugs in check, will reduce the prices of many, and will
not affect adversely the very necessary flow of drugs into the country. I shall outline this action later in this memorandum.

The work of my office is of a dual kind: study and action, and the relative emphasis on each of these will vary from commodity to commodity, and will differ from time to time. For instance, I believe that the present situation in regard to drugs is sufficiently serious to warrant rapid action based upon only that minimum amount of study and analysis absolutely required to preclude serious errors in regulation. Once the first action is taken, continuous study and analysis must be had as a basis for revision and adaptation of action to new or newly discovered circumstances. On the other hand, I have no present reason to believe that textile prices call for early control. None the less, I shall undertake at once a program of study and analysis of the textile trade which will enable me to act swiftly and with confidence if and when the need develops. In short, I propose an organization that will be continuously in command of the over-all price situation, that will be versed in the essential facts peculiar to the production and trade in all important groups of articles, and that will be prepared to deal in each case by the method and with the vigor dictated by knowledge, understanding and judgment. The point I want particularly to make is that there is no inconsistency between research and knowledge, and action. I shall plan my personnel and my organization and my program along these lines; I propose to act, but, even more, I propose to be ready to act.

PERSONNEL AND ORGANIZATION

Price Supervisor: I understand that, as Price Supervisor I am to be in complete charge of the price control program, subject only to the over-riding authority of the Minister of National Economy and to the advice of the Committee. I propose to accept complete responsibility, but to concern myself primarily with major problems of program and policy, and with industry and public relations. I shall have little time for details of price actions or for the minutiae of staffing and organization.

Deputy Supervisor: I shall want to appoint a Deputy, to act in my absence, to follow closely the details of price actions, and to direct the immediate work program. My appointee to this position will be a person in whom I have great personal confidence, since, of all the men on my staff, he will work most closely with me in the development of price control. I shall make him directly responsible for the field organization.

Executive Secretary: I shall want to appoint a man to this position who has had experience in office organization, who
is familiar with government procedures, and, if possible, who has
some acquaintance thru study or experience, with price control
work. It will be his job to handle all matters of office "house-
keeping", and staff personnel problems, and to follow thru all
actions being taken by the Office to be sure that all points of
Office procedure have been covered, all parties notified, all
materials mailed, etc.

Legal Adviser: Since the work of the Office will
affect the rights of individuals in new and strange ways and since
the cries of "bureaucracy" and "action in excess of authority" are
bound to be raised, I should like to appoint an attorney to be
available constantly for advice on the drafting of resolutions,
exemptions and adjustments, enforcement, etc.

Economic Adviser (part-time consultant): I shall
have need for the part-time services of a professional economist,
to advise on the over-all effects and implications for the national
economy of proposed actions, and to assist in the direction of
economic studies which my Office must undertake if our work is to
be effectively synchronized with the total private and governmental
economy.

Accountant (Full-time or consultant): Very soon
after operations begin, I shall need the services of an experienced
accountant who is familiar with industry and trade accounting prac-
tices in Colombia, who is sympathetic to the price control program,
and who has some skill in devising accounting inquiries so as to
supply the Office with absolutely necessary information at the cost
of the least possible irritation to business.

Director of Information: The price control program
must be sold to the public; public support, including the support
of controlled industries, is an absolute pre-requisite to the suc-
cess of the work. It is true, of course, that the Office will be
judged by the substantive character of its performance, but it is
equally true that it is what people think of the work of the Office
that counts, and a skilled information man can do a very great deal
to influence public thought. He must understand the program and
policies of the Office, and he must know Colombian people and
Colombian newspapers. He will work with the press, and with clubs
and business men's organizations; he will help to put the neces-
sarily technical resolutions issued by the Office into language
that can be understood, and will see that simple explanatory
materials are made available to the public. He will help to plan
public appearances, and he will advise as to the public demand for,
or receptiveness to action by the Office. An unsympathetic public will kill our program; a good director of information will occupy a key position on my staff.

Commodity Price Director for:

1. Food
2. Textiles and apparel
3. Drugs, Chemicals and Health Articles
4. Construction Material, Tools, Machinery and Parts, Consumer Durable Goods and School Supplies
5. Rents and Fuel

I shall appoint the Directors of these five Commodity Price Divisions at once, and start them immediately to work along lines indicated later in this memorandum. At this point, I want to emphasize that while I shall try to name men who have had business or public experience and who stand sufficiently high in public opinion to bring some prestige to the Office, I shall not select men whose business experience and connections lie in the field or Division in which they will be placed in the Office. Except in rare instances, to name (for example) a food man to control food prices would result not only in a loss of confidence by the public generally but, also, in the generation of jealousies and the loss of confidence within the trade itself. The men named to these key Commodity positions will be directly responsible to me for the entire planning and operation of the price program within their respective Divisions. I shall expect to act very largely (if not entirely) upon the basis of their recommendations, under the general supervision of my Deputy Supervisor and myself and within the limits of the general over-all policies which we shall determine. The Commodity Price Directors will be responsible for the research and the industry contacts, and for the analysis and judgment involved in reaching workable decisions. It requires men of experience and judgment to deal with large industries; to know when to rely upon voluntary action, public opinion and persuasion, and when to resort to mandatory controls; when to compromise and when to hold fast; when to be "easy" and when to be firm. These men, of course, will not work single handed. Each will be responsible for the selection, organization and work of his own technical research and operating staff. In conclusion on the subject of Commodity Price Divisions, permit me to insist on the immediate establishment of at least the five Divisions named. Price situations and problems are not, for the purposes of price control, general and common to all industries and trades; they are peculiar to each industry and individual trades. They grow out of characteristics and practices which must be painstakingly studied and intimately known and understood if effective
control is to result. Even if it is believed that in many cases there is no situation calling presently for control, the investigatory, contact and background work should be started at once. I have said earlier in this memorandum that if I am to have the responsibility for action I propose to place myself in readiness to act whenever action is called for; the time to get ready is now. You may recall, too, that in a previous memorandum to you, I made the point that "the very fact that an active readiness to undertake control is demonstrated will be a powerful force operating to keep prices down and to postpone the day when actual control becomes necessary"; the point will bear repetition in the present connection. I earnestly hope that you will approve the immediate appointment of the five Commodity Price Directors and the early staffing of their Divisions.

A Deputy Supervisor for each Department: I can not emphasize more strongly than I have done in my previous memorandum to you, the urgent necessity of treating the regional or field organization from the very beginning as an integral part of the price control Office. In line with this conviction I propose to appoint a Deputy Supervisor for each Department at once and to see that he is supplied with the stenographic and clerical assistance necessary to discharge the duties which I shall expect him very shortly to perform. In later months, as soon as the policies and organization of the Office are more fully developed and settled, I expect to place in the Departmental offices the responsibility for local price adjustments and regional or Departmental price orders, in those cases where the need for action based on peculiar local or regional characteristics outweighs the dangers of local jealousies and discrimination. At that time we shall have to consider the expansion of Departmental offices. Immediately, however, the Departmental Deputies have a very important function to perform as my personal representatives in their respective Departments. I want a man of some prominence in each Department to serve as my "eyes and ears"; to bring the program directly to retailers and consumers, and to explain it to them and to help them to realize that this is their program and not just an instance of "Bogota bureaucracy"; to answer questions and distribute materials; to receive local complaints and petitions; to make recommendations on enforcement; to gather price data and information; and to keep me constantly in touch with local opinions and reactions. The price program, let me say again, will be made or broken in the field - not in Bogota; I have immediate work for my field staff to do: I should like to start now to insure that the field organization and the field work are developed fully in keeping with their responsibility and importance.

The Immediate Work Program. I have advanced some general ideas respecting my conception of the nature of my office,
and my approach to its duties; and I have named the staff positions which I feel should be filled at once, and have spelled out the general functions and responsibilities of each position. Assuming now, that the appointments have been made and the positions filled, it remains to acquaint you with the immediate program of work which I propose to lay out for the Office. I shall outline this work organizationally, under the headings of (1) The Director of Information, (2) The Commodity Price Divisions, and (3) The Field Staff.

The Director of Information: I want my Director of Information to begin at once to acquaint business men and the public generally with the need for, and the nature of price control, and the general character of the policies which my Office will follow. This is a continuing, not a one-time task, and I want him immediately to institute his information campaign thru the newspapers, radio and public meetings - working thru the Departmental Deputies to reach every part of the country. I want him to prepare press releases and addresses in simple, understandable, effective language which will (1) give the facts on recent price increases and the facts on supplies, (2) point out and dramatize the danger to each individual and to the welfare of the nation if inflation is permitted to develop, (3) explain the background and exact purposes of price control, (4) outline the organization of the Office of Price Supervision and explain its general methods of operation and program, and (5) emphasize the reasonable, yet firm character of the policies which we shall pursue. On this latter point I want the country to know that this is a people's program, and that we expect to be sympathetic to the problems of business men and to solicit their active cooperation; but that in the last analysis our job is to prevent unjustifiable price increases and we shall be as firm as we must be to accomplish this objective. I want it known, too, that we shall undertake to control the worst situation first, and then proceed in the order of urgency - in the hope that the dislike and fear of control which is thus actively threatened may lead to voluntary price decreases.

There is plenty for a good Director of Information to do now in giving real life and drive to the program which I have outlined here in bare, brief terms.

The Commodity Price Divisions: It is the duty of the Commodity Price Divisions to carry on the main substantive work of the Office. It was to accomplish the tasks which these Divisions will perform that the Office was established, and no time should be lost in getting the program under way. We can identify at the outset two principal types of situations in which these Divisions will operate at the present moment - those where immediate price action is urgently demanded, almost by common consent, and those where
study, analysis and tactics of persuasion may be more productive
than a program of immediate, mandatory control. Let me emphasize
that all situations require study and analysis, but, as I have
stated earlier, positive action may accompany or even precede de-
tailed study in emergency cases. As soon as my Commodity Price
Directors are appointed, I shall require them within the first
week to determine whether any price situations within their re-
spective jurisdictions are of such character that control steps
are imperative immediately; and if I approve of their recommenda-
tions, such steps will be taken. For instance, I shall expect
the Food Director to give me within a week the outlines either of
a study program or an action program on bread and the marketing of
rice; the Machinery and Tools Director on farm implements (machetes,
for example); the Fuels Director on coal; etc.; in each case concen-
trating attention first on those goods whose prices have occasioned
recent public comment.

With reference to those goods which are to be made the
subject of immediate (and continuing) study, I shall require that
there be instituted some such program as follows:

1 - An immediate collection of facts from all
governmental sources relative to prices, costs, materials, labor,
imports and exports, production, supplies, investments, income,
profits, etc., broken down wherever possible in terms of branches of
the industry, geographical location, and individual companies. Ar-
rangements for continuing, cooperative furnishing of such information
to our Office, together with advice and other help from these
agencies.

2 - Conferences with persons known to be familiar with
the industry, in order to secure preliminary knowledge of trade
channels, trade practices, important firms, important industry and
trade personalities, industry "gossip" and "atmosphere".

3 - Carefully planned conferences of carefully
selected representatives of the industry, for the purpose of explain-
ing the Directors' point of view and policies; eliciting "spot" in-
formation; securing industry advice on problems, policies and programs;
and the possible naming of a cooperating industry committee, etc.
Great pains should be taken in issuing invitations to such conferences
that true representation be secured in terms of size of firm, type of
business done, industry "feeling" and "jealousies", etc. It may be
desirable to hold separate meetings for different branches or
"interests" in the trade. Care should be taken, too, to have a defi-
nite agenda and program for the conference; business men like to be
called in as representatives by the government, but they do not like
to spend time and money just for a "talk" and a "run around".
Finally, I would warn my Directors to be as definite as possible in their statements, but to avoid scrupulously the making of any commitments on policy or programs concerning the fulfillment of which there is any reasonable doubt; my Office cannot afford to break promises.

4. - The development, in the light of the foregoing, of accounting and statistical questionnaires which will bring to our office all of the additional obtainable facts necessary to determine (1) whether active control is required, and (2) what types of control are feasible, and requisite for the actual naming of maximum prices or margins in whatever detail the situation demands. The Advisory services of the Economic Consultant and the Chief Accountant will be indispensable in this connection, as well as the help of the Legal Adviser or Attorney. Again, we shall take care not to impose upon the industry any greater burden of reporting than is absolutely required for the reaching of reasonable and defensible decisions. We shall not request information duplicating that which already is being reported to other governmental agencies.

5. - Regular reports from the Departmental Directors giving advice and recommendations on the basis of their contacts with local conditions and opinions.

6. - The point particularly to be emphasized is that the entire program outlined in the preceding paragraphs is designed to make the Director and his staff thoroughly and intimately familiar with every industrial fact and circumstance that has significance for successful control of prices.

I shall take Drugs as an example of a commodity which is known to call for control of a more active, immediate nature, and, for illustrative purpose, shall outline a proposed program of the following kind:

1. - First, I must insist that my Drug Price Director be appointed before any significant decisions are reached or action taken. I need his help and advice, and as a matter of management principle I do not propose first to develop a program and then ask some one else to take responsibility both for my program and for its operation.

2. - We shall request five prominent physicians each to draw up a list of the 100 most important drugs and medicines, and from these lists we shall compile a definite list of those drugs and medicines most necessary for the health and welfare of the people of Columbia.
3 - We shall request the Ministry of Finance to furnish us, from information which (I understand) it now has and currently receives, the landed cost of the individual drug and medicine items on our list, together with the sources of these items. Through my Director of Information we shall arrange for the publishing of this list, with sources and landed costs during the past three months, in as many newspapers throughout the country as we can induce to cooperate. Unless I am greatly mistaken which consumers will make between typical landed costs and the prices charged in their local drug stores will have an immediate retarding effect on the prices of these articles.

4 - We shall put extra staff to work at once to collect information on the national and imported drug industry and trade from governmental sources, and to devise the forms necessary to collect additional information from the industry itself; and we shall call industry and trade conferences at which we shall propose a direct control program and ask for advice and for a voluntary agreement not to raise any prices, and to reduce prices wherever possible.

5 - We shall give very serious consideration to the "freezing" in all Colombian stores of the retail prices named on the so-called "Manufacturers Price List" published by many drug manufacturers.

6 - We shall give serious consideration to obtaining an inventory of stocks in the hands of importers and wholesalers, at least, and possibly retailers, of the items on our list. This inventory will throw light on the causes (local and national, and by trade branch) behind the present exorbitant rise in prices, and on the relation of possible maximum prices to the supplies held by individual dealers.

7 - While it may be possible to fix specific maximum prices, at each level of trade, for certain drugs, it appears very probable that price control in the case of these goods will have to take the form of maximum permitted margins at each level, coupled with a total over-all maximum margin limit above manufacturer's selling price or landed cost. With this in mind, we shall start at once to develop the facts necessary, and explore the alternative approaches to control of margins in this industry. This means that we shall proceed to collect data on the margin "experience" of typical groups of importers, wholesalers and retailers, on the relative amounts of supplies coming from each source, and on the distribution structure of the trade. More specifically, we may discover that the principal source of imported drugs is one single
foreign country - in which case we may set importer margins on single landed costs and permit a few excessive gains and require a few unreconciled losses; or we may discover the sources to be evenly divided - in which case we may set margins on average landed costs if the number of importing firms is small, or on individual landed costs. Retail margins may be set initially, for example, on replacement cost (regardless of actual cost) as of the effective date of our margin resolution, and thereafter on actual cost of new supplies, individually. It may well prove to be the case that effective margin regulation will require that imported drugs be brought in on government account, and resold through regular commercial channels on the basis of average landed cost to the government. I am mentioning these possibilities to you not in any attempt to foreshadow the decision which we shall reach, but to indicate my belief that prices can be controlled even in this most complicated trade, that we have a program definitely pointed to practical results, and that we must start at once to collect the information necessary to reasoned conclusions.

8 - As part of any enforcement procedure we shall, of course, proceed to the development of a system of licensing to accompany our maximum price resolution, when issued.

By comments on control of drug prices are intended to demonstrate, by illustrative example, the type of action program which we are prepared to devise, on short notice, in any emergency situation. As a matter of fact there will be few articles likely to be considered for this purpose for which it will be more difficult than in the case of drugs, to institute a program of immediate action.

The Field Staff: The first step to be taken with reference to the Department Deputies following their appointment is to bring them into Bogota for a two-day group conference with me, my Commodity Price Directors, my Economic and Legal Advisers, and my Director of Information - the program to be in charge of my Deputy Supervisor, who is to supervise the work of the field staff. You will recall that the Department Deputies are to be my representatives in the field and that their work is to begin as soon as they are prepared to undertake it. The group meeting in Bogota will supply as much preparation as we can give in advance; the rest must come from actual working experience. From my Economic Adviser they are to learn the basic facts of the price and supply situation and the philosophy of price control; from my Commodity Price Directors and me they will learn the nature of the program and of the policies of the Office; from the Legal Adviser they will learn something of the techniques of public relations, and the nature of the information program and their own part therein; and from the Deputy Supervisor and the Executive Secretary they will learn the techniques of gathering and reporting data and information for the Central Office, and office organization and procedure.
General: It is to be assumed, of course, that while the above program for the operating Divisions of the Office is getting under way, the work of filling the less important positions, settling the office, printing stationary, developing forms and form letters, etc. will also be progressing.

At the end of the first week I propose to call the first meeting of my Advisory Committee, to acquaint them with the steps taken to date and to seek their advice on such major questions of policy as may have arisen. I plan, until the work of the Office is well along, to call such meetings at weekly intervals.

Since I shall need the help of the Price Judge very soon in connection with the necessary examination of business books and records, may I ask you to use your influence to expedite his appointment?

May 19, 1943

MEMORANDUM

To: Dr. Araujo
From: Ben W. Lewis
Subject: If I Were Price Supervisor - Supplement

In my memorandum to you, dated May 14, 1943, under the above title, I neglected to outline one very important step which should be taken by the Price Supervisor within a few days after he assumes office. The step has been discussed indirectly in the above and other memoranda, but has not been positively developed as a matter of immediate action.

It was recommended that soon after the Directors of the Commodity Price Divisions are appointed they should call meetings of representatives of the country's leading manufacturing industries, for the purpose of eliciting information and advice and acquainting the industries with the program and policies of the Office. I strongly recommend that at the conclusion of each of these meetings there be secured a promise from the representatives present that their companies will not raise prices on any items in any amounts without first discussing the proposed increase with the Price Supervisor or his representative.

This type of action was employed very successfully in the United States during the early days of price control. It affords...
an immediate check to price increases, even before there is time
to study the situation carefully; and industry can not reasonably
refuse to make such a promise because it involves the obligation
only to discuss, not to await permission. As soon as facts and
experience make further action necessary and feasible, it is easy
to develop the promise to discuss into an understanding or agreement
not to raise prices without permission; and finally into a formal
price control resolution, if conditions so dictate.

From actual experience I can recommend this step as
an excellent device to check and retard price increases, to develop
sound relations with industry, and to work gradually and effectively
into more formal, positive control.

May 17, 1943

MEMORANDUM

To: Dr. Araujo  
From: Ben W. Lewis and James R. Nelson  
Subject: Next Steps on Price Control - III

The present memorandum, following the first two in
this series which dealt principally with organization, selection of
commodities, certain general considerations, and the level of prices,
will be concerned with Pricing Techniques. The problem here treated
is not "How high shall the maximum be placed?", but rather "What
method of pricing shall be employed?". I lay it note, at this point,
in connection with our earlier memoranda as well as with the present
and future memoranda in this series, that we are taking pains to
discuss many matters which may arise in Colombia only far in the
future, if at all. We are attempting to give immediate help on
your current problem, but it is our belief that the price inter-
ventor, into whose hands these papers will presumably fall, should
have the benefit of as much of the total experience we have had with
price control in the United States as we can possibly convey - as
part of the general background of his thought and activity, if not
as an immediately determining guide for "spot" operations.

The principal price control methods or techniques are:

I. "Freeze" of controlled prices at the levels
existing on a certain base date or during a certain base period. The
base date or period is fixed in the resolution, but the resolution
does not set forth specific prices.

II. A statement in the resolution of specific named
prices, in pesos and centavos, for the commodity or commodities
controlled.
III - Formula resolutions specifying the absolute or percentage margins or mark-ups which will be remitted above costs to the seller.

We will discuss each of these in turn:

I - "Freeze" of controlled prices as of some base date or period.

A - Advantages.

1 - A "freeze" is the quickest possible method of controlling prices, since it requires no research or particular knowledge of the trade affected. General knowledge as to the past history of the prices to be frozen, their present level and some idea of their probable future course is, however, required.

2 - As a consequence of this minimum knowledge requirement, the imposition of a "freeze" requires a relatively small administrative staff; this staff may also be relatively unfamiliar with trade practices and customs.

3 - Sellers may take more kindly to a "freeze" than to other types of price control because the "freeze" simply translates into law the prices which sellers were voluntarily charging on the base date. Thus sellers have less reason to argue that their prices are controlled by an arbitrary, ignorant, and irresponsible bureaucracy.

4 - If the regulated product is extremely complicated, appears in numerous forms, and is sold through many types of channels and on widely varying terms, a "freeze" resolution may afford the only possible semblance of price control. Thus, machinery prices may be frozen simply because any other control method requires endless calculations for both controller and controlled. Even the margin method may be inapplicable to some such cases because of deficient cost records or widely varying margins on similar products. Obviously, too much should not be expected even of a "freeze" under these conditions.

5 - The "freeze" may be given considerable necessary flexibility by:

a) Freezing prices of different sellers or types of sellers at different dates. Thus importers' prices might be frozen at their level of two months ago and retailers' prices at their level as of the present.

b) Varying the date or period for which all levels of prices are frozen. If prices were both lower and more "normal" three months or three years ago, prices may be frozen as of one of these periods.
c) Lengthening or shortening the base period to which the "freeze" applies. This may eliminate extreme irregularities or provide required price increases or decreases.

d) Providing that prices shall be those of a specified day or days plus or minus an absolute or percentage amount. This amount may be varied according to the attendant circumstances.

e) Choosing between average prices charged in the base period and maximum prices charged. If prices were very irregular in the base period, the former may be preferable in spite of the difficult calculations required to determine permissible prices. If prices were not unduly disorganized in the base period, the highest price charged during the period may be made the legal maximum.

f) Special adjustment provisions may be inserted to permit price increases for sellers whose base prices were abnormally low in relation to their competitors.

7 - For the reasons enumerated above, the freeze technique is peculiarly applicable if:

a) Price control of all commodities or of large groups of commodities must be undertaken quickly in order to head off a threatened general price advance.

b) A particular commodity shows signs of increasing greatly in price, and must be controlled temporarily while a permanent regulation is being worked out.

c) Sellers engage in deliberately obstructionist policies to avoid the furnishing of necessary information. A freeze as of a base date when prices were low will increase the willingness of those controlled to furnish information necessary to establish a reasonable price.

B - Disadvantages:

1 - A freeze simply legalizes speculative excesses if prices have already risen unjustifiably. On the other hand, a base period as of a past date before great price increases occurred is open to the following objections:

a) If the base date is far in the past, many buyers and sellers may have no idea as to the level of prices then prevailing, and their memory lapses may lead to endless disputes which are incapable of satisfactory solution.
b) Enforcement is impossible if no records exist. It is difficult even if such records are available because the consuming public which should be a powerful aid in enforcing price control cannot be expected to remember the prices that existed at some remote past date on individual articles in individual stores; and the public cannot be expected to understand or to appraise the merchants' records even if he is quite willing to show them upon request.

c) Costs may have risen greatly since the base date. These increases may be partially balanced by the operation of the freeze itself, because this device will frequently lower costs to the seller, as well as the prices to the buyer. But cost increases on imports probably cannot be avoided; and domestic manufacturers and farmers are not likely to benefit from cost reductions on their products. The whole weight of the lowered price is therefore likely to fall on them unless the cost to them of all the things they buy is simultaneously reduced in line with the reduction in the prices of the things they sell.

2 - Regardless of the base date chosen for the freeze, present or past, time-lags create difficulties. Thus, for example, a retailer who has followed the practice of selling goods at a certain percentage over the actual price he has paid for them will find, following a freeze imposed at a time of rising prices, that his frozen selling price no longer reflects his normal profit margin; indeed, continued lawful sales may be possible only at an out-of-pocket loss. His frozen costs will, of course, be those prevailing at the time of the freeze rather than the earlier lower costs on which his now frozen selling prices were calculated. It is difficult, if not impossible, to find any single freeze date or period which is free from this difficulty and which, at the same time, is suitable on other counts.

The problem can be partly solved by introducing time-lags into the freeze itself. Thus the importer's price might be frozen as of December 1, 1942, the wholesaler's as of February 1, 1943, and the retailer's as of April 1, 1943. But determination of the proper turnover period for each level of trade requires elaborate investigation and is productive of endless controversy, and therefore tends to nullify the freeze method's advantage of simplicity. Furthermore, the import trade in particular has been so dependent upon restricted and intermittent boat arrivals and upon overtaxed port and inland transportation facilities that a normal "lag" may well have no present meaning.

3 - Any freeze penalizes the public-spirited business man who has refrained from raising his prices "with the market", and rewards the speculator, who, at the time of the freeze is charging prices so high that his goods are being kept from actual sale. While a freeze as of some remote past date might minimize this difficulty, it would for other reasons be entirely unfeasible.
Such a situation is administratively as well as socially undesirable, since it is bound to produce strained relations between the intervener and those business men who would ordinarily be most cooperative. Finally, it may also divert supplies largely if not entirely to the highest-priced sellers, because they may be the only ones who can afford to buy them. Thus a freeze is likely to cause actual prices to advance to the level being charged by the highest-priced seller on the freeze date.

4 - The ultimate buyer is the best enforcement agent for any price control program, if he takes the program seriously and honestly tries to cooperate. A freeze confronts him with different prices at different stores, and gives him almost no opportunity to check the legality of the various prices charged. It is true that a freeze at least permits the buyer to know that once the seller has established his price, this price must remain constant. Further, a freeze as of the present or some recent date permits many buyers to judge, within limits, the legality of the seller's price. But on the whole, the freeze method does not facilitate buyer enforcement.

5 - Both the freeze method and the method of naming specific prices fail to provide an automatic method for the determination of the prices of new products. The freeze method has a further disadvantage in this respect - in the very common case of a new seller, dealing in products he did not offer for sale during the base period, no prices are automatically established by the method. This problem can be attacked by prescribing that he use the price of the "most nearly comparable" article he sells, or the price charged for the same article by the "most closely competitive" seller, but the obvious difficulty of determining and checking prices by this method constitutes a very serious limitation. The experience with this device under the general price freeze in the United States is not encouraging.

6 - Freezes may establish relatively high prices in certain geographical areas due to changes in production, transportation, or demand conditions since the base date. If the freeze is not altered, supplies will gravitate to the highest-priced market. If both trade and transportation were disorganized in the base period, or are changing constantly and unpredictably, the freeze method becomes hopeless. This problem, it may be pointed out, is extremely difficult to handle regardless of the type of price control employed.

6 - Problems:

1 - A single seller may have widely differing prices for the same product, depending on his classification of various buyers. A freeze regulation may fit this case by providing that the maximum price shall be the highest price charged during the base period to any buyer of the same class. Lacking information about the trade, however, the intervener may be unable to check
illegal prices or to determine exactly what the maximum price should be in particular cases. Usually a satisfactory maximum price can be finally determined, but the necessary investigation may require much more staff time than the interventor can afford to employ for this purpose.

2 - Frequently the seller made no sales of the commodity during the base period. In this case, his offering price may be taken as a base unless this offering price was clearly designed to drive purchasers away, as part of a scheme of speculation.

3 - Commodities ordinarily marketed in only part of the year may have no representative price during the base period, or the price may fail to reflect normal yearly fluctuations. This problem may be met by going back to the last representative sales period and using it as a base, and allowing the addition of specified carrying charges if this seems necessary.

4 - Since the freeze results in a definite maximum price for each particular seller's transactions in the article controlled, the buyer of a business may have no maxima. The resolution may provide, however, that the buyer of a business shall inherit the frozen prices of the vendor.

5 - Tax changes may alter the whole market position after the imposition of a freeze. To avoid confusion and possible hardship, a freeze resolution should state which present taxes are included in the frozen price, and which future taxes or increases of present taxes may, and may not, be added to maximum prices.

This problem, incidentally, also arises in connection with specific prices.

II - Specific named prices:

A - Advantages:

1 - Specific named prices constitute an excellent method for winning public support and facilitating enforcement both by government agents and the public. Everyone knows, or has an opportunity to know the exact maximum lawful price for every article included in the resolution. The specific price method prevents confusing and apparently random price fluctuations and guarantees that the same product will be sold at different stores at prices which are either identical or graduated on some consistent basis.

2 - The specific price furnishes a known fact as a point of departure for considering price adjustments. A freeze method gives no strong reason for raising prices if costs increase, because the prices may have been frozen at too high a level in the first place. A specific price permits comparison both of costs and cost increases, with a known and comparable quantity.
3 - In some cases, manufacturers or traders will have standard list price books which have always been recognized in the trade as giving the proper sales prices for the goods included. If investigation establishes that these standard list prices are reasonable, their incorporation in a maximum price resolution is extremely simple—simpler, in fact, than framing a freeze regulation. Furthermore, this method, unlike a freeze, does not involve the interventor in the task of making corrections for individual deviations from "normal" prices due to speculation or "special bargain" sales during a base period. Many manufacturers' or traders' price lists are in the possession of most retailers already, thus facilitating a rapid imposition of control. Of course, the list price may not be the best possible price. In particular, it may be too high. But this possibility can be investigated, and maximum price changed, if such action is indicated.

4 - In markets for many products—especially agricultural products—freezes may perpetuate every speculative excess, and margin control can not be employed because no ascertainable costs exist to which a margin may be added. Specific prices are therefore the only possible solution, even though the specific prices named in the resolution may, to some extent, be arbitrary.

5 - Products of standard grade, easily measured on a weight, length, or volume basis, are particularly suited to specific price control. This is especially true if the products are sold in large volume, and if each seller trades in a fairly restricted line. Important products justify careful market study and prompt adjustment in price if these become necessary and hence, in these cases the rigidity of the fixed price method can be overcome with no greater expenditure of time and effort than would necessarily be employed in any event, and under any other method.

B - Disadvantages:

1 - Specific prices share with freezes a lack of flexibility if costs change markedly after the regulation is first brought out. A specific price may be changed more readily and more systematically than a freeze, but both involve time-consuming investigation as a preliminary to adjustment. Imports, in particular, may require a more nearly automatic method than the naming of specific prices. Their prices are often uncontrolled at the source, and specific Colombian selling prices unadjusted for long periods, may ruin importers or cut off essential supplies.

2 - Some products are sold in so many forms and under so many different conditions that listing all possible prices would result in a price catalog of unusable dimensions. If each separate type is sold in small quantities, efforts spent in setting prices on all of them would be largely wasted.
3 - Specific prices require more knowledge of the trade - except when they are based on price books - than the knowledge required to issue an acceptable freeze or margin regulation. They also require careful continuing investigation and as a result, a sizeable staff. The practical course may be to start with some other price control method, and to introduce specific prices as the staff gains in size, organization, and experience.

4 - Some distributors, or some trades, may habitually think in terms of margins rather than in terms of specific selling prices. This disadvantage should not be crucial if the specific price regulation is carefully drawn and explained, and if sellers do not have to bear the entire brunt of cost increases.

5 - Unless relationships between specific prices are carefully established, evasion by shifting to the most profitable product is likely, and may, therefore, make necessary the adoption of direct restrictions against such shifting. Specific price regulations should also contain very exact definitions of the product regulated, and full provisions for price premiums and discounts if the product differs from standard.

III - Margin or mark-up control

Since we have noticed a very considerable disposition on the part of those authorities with whom we have talked in Colombia to support margin control, at least in the early stages of price regulation we shall devote more space to this than to the other methods.

By "Margin control" is meant any of the following:

a) Allowing the seller his purchase price, either with or without qualification as to how this shall be calculated, plus a specific absolute amount stated in pesos and centavos.

b) Allowing the seller his purchase price, as in (a) above, plus a specified percentage. This may be stated either in the form of a specific percentage to be added to this purchase price, or a division factor of less than unity by which this purchase price is to be divided, or a multiplication factor of greater than unity by which this purchase price is to be multiplied. The form of calculation chosen should depend upon which device is simplest for the seller to employ and which most nearly approaches his customary practice. It has no further significance.
c) Specifying certain elements of cost, with or without further instructions as to the method by which, and the rates at which those elements are to be calculated, and providing for the addition of a margin to these costs. This method is particularly applicable to manufacturing enterprises or other concerns which incur considerable costs of a standardized character and keep adequate and systematic records of their cost commitments. It has also been used in United States regulations in dealing with import prices affected by fluctuations in war risk insurance and ocean freight rates: many regulations provide that these costs may be added.

A - Advantages.

1 - If cost prices to the controlled seller cannot be or are not being controlled, margin control or any of the types listed above permits automatic price adjustments as costs of acquisition (or fabrication) change, thereby eliminating both the frictions and delays which special individual adjustments would require, and the psychological disadvantage of having price control apparently in full retreat as soon as it begins operation.

2 - If the price controlled articles traded in by any one controlled seller are very numerous, margin control is to be preferred to an attempt to establish specific named prices for each article which would involve the control organization in the arduous and more or less irrelevant task of ascertaining a multitude of individual prices and translating them into the prices desired, and result in a price document of frightening size.

3 - Many prices are customarily stated as f.o.b. or f.a.s. foreign source, c.i.f. or c. and f. port of entry, or f.o.b. domestic manufacturing establishment or other source. Freight to the buyer's warehouse or store varies with the location of the buyer; if transportation conditions are abnormal, warehousing may introduce a further cost element which cannot be reduced to any definite money value. Therefore, even if the price at the source of supply can be and is stated as a certain fixed amount, convenience may dictate the use of margins to control the prices of resellers who are geographically or temporarily removed from the original seller.

4 - Importers, wholesalers, and retailers may be more likely to think in terms of margins between buying and selling cost than in terms of the absolute levels of either buying or selling prices. Thus a measure specifying normal margins may be more in accord with their customary thinking and hence receive their more whole-hearted support.
5 - Margin control is relatively easy for the price interventor to apply. While it involves him in all of the investigation and analysis necessary to determine the size of the margin to be allowed, he is relieved of the vast calculations required in the naming of specific prices.

B - Disadvantages.

1 - Administrative convenience frequently dictates the imposition of price control at certain strategic points or levels in the economic system. Thus, in the United States, prices of metalliferous ores are in general uncontrolled because they are produced under differing conditions by a host of mining companies of all sizes and financial conditions; prices of the metals produced from these ores are controlled by specific prices, however, and hence, while it is necessary to exercise direct control over only a few large refiners, indirect control over ore prices follows automatically: refiners, forced to sell at a specific price, can not afford to bid up the prices of ores too high. This control method has also been used for many farm products. Although admittedly it has been rather unsuccessful as a device for holding down farm prices, it has had the advantage of avoiding the extreme administrative burden of attempting to police the sales of millions of farm producers.

Such concentration on the level most easily controlled, whether because a relatively few large producers dominate the industry at this level, because the product whose price is being established is most easily identifiable here, or for any other reason, is impossible on a margin basis, unless precautionary clauses are added. United States regulations which control only one or a few of the levels of production and distribution by the margin method have also contained statements that raw material or other costs must be calculated as of a certain base date or may not be reflected in price increases beyond a certain named amount. Even with these qualifications, such regulations have not been particularly successful partly, of course, because of the basic failures to control cost prices, but partly also because the margin method is not well suited to this type of strategic control.

2 - More generally, the margin method gives no incentive for the seller to exercise care in his purchases. If the maintenance of supply is extremely important, this is not crucial, but if some supply can be foregone or if producers are bidding against each other for a supply which will not increase as their price offers rise, margin control results in unnecessarily high prices. This is likely to be true even if margins are initially
set at an unduly low level; it will be especially the case if margins are set on a percentage basis - here the producer or distributor may have an actual financial incentive to increase his costs wastefully.

This argument applies with particular force to Colombian imports from the United States. Here supplies are limited both by War Production Board allocations and, more particularly by an extreme scarcity of shipping space. Furthermore, prices are controlled at the source and cooperation to establish specific export prices for important commodities is available. Therefore, competitive bidding for goods to be exported from the United States can result in no more supplies; it simply makes United States export price control more difficult. The possibility of establishing specific maximum prices for important standardized products f.o.b. United States supplier, or f.a.s. United States port should be considered by the Colombian Price Interventor.

3 - Margin control may result in the appearance of new and unnecessary transactions in the distribution system, either because existing distributors create "dummy" organizations in order to increase their total mark-up by duplicating the margins allowed them, because independent but non-functional distributors appear to take advantage of margins allowed to any distributor, or because distributors at the same level (e.g. importers, retailers) by in-trading among themselves, add part or all of their allowable mark-up on each sale. This disadvantage is probably not inherent if a regulation is carefully drawn and well enforced. It will be further discussed below, under "Problems".

4 - Percentage margin control will pyramid every cost increase. Thus, if an import from the United States passes through three hands before it reaches the ultimate consumer, and each of these sellers is allowed, say, a 50% mark-up, a 10% increase in war risk insurance rates will result in a price to consumers increased by much more than 10%.

5 - Consumer policing of prices is impossible with margin control: the consumer can not know where, when, and from whom the product was bought, and therefore he can not judge as to the legality of the price charged him.

Margin control may result in prices for the same article which are entirely different from all normal price relationships. Thus, if the same drug is imported by Colombia from the United States and Argentina, the operation of margin control may allow an Argentina price far higher than that allowed for the United States product. Part of this problem, of course, stems from the
lack of either domestic or export price control in (for example) Argentina: since the base price is variable and likely to increase, any pricing method must necessarily run into difficulties. Margin control at least does not threaten to shut off high-cost supplies or to ruin importers or other Colombian sellers, but it does have the following peculiar disadvantages under conditions of high-cost and low-cost sources:

a) If the margin is a flat percentage for each product at each level regardless of cost to the seller, the tendency will be for sellers to refrain from buying from the low-cost source and to secure their supplies instead from the high-cost source.

b) Regardless of how the margin is calculated, some identical products may have two prices. Since on many standard products the country of origin may be impossible to establish (this is particularly true if the high and low costs goods are subject to additional processing or manufacture), many sellers even, and certainly all buyers will be unable to determine the appropriate selling price. Thus honest failure to comply with regulations is made possible, and dishonest failure is made easy.

c) The public will be confused, to say the least, if the same or similar goods have different prices. Ordinarily, the lower cost good would drive the other from the market, but under present conditions shipping or other supply problems may prevent such a result.

C - Problems.

Some of these problems have already been fore-shadowed in the preceding discussion of the disadvantages of margin control; others relate more to techniques than to principles.

Permissible distributive channels must be clearly defined, and the permissible mark-up for each level of distribution must be so drawn as to fit the individual circumstances of every major type of sale. This requires, to begin with, knowledge on the part of the price interventor of the "normal" channels of trade - through how many and what hands most goods move to consumers. Thus, in the drug trade, the following "legitimate" distributors may exist: foreign manufacturers' or exporters' agent, domestic importer, domestic wholesaler, domestic importer - wholesaler or importer - wholesaler - retailer, domestic manufacturer, domestic wholesaler - retailer, domestic retailer, etc. Every combination need not be explored, but the typical trade channels should be determined and established in the resolution.
Next a decision must be made as to whether it is wise to "freeze" existing channels by providing that goods can move to consumers only through specified means (as, for example, from foreign manufacturers' agent to domestic retailer or to domestic wholesaler). Further, "freezing" of the firms in an industry - particularly of import firms - may seem desirable in order to restrict the trade to established and therefore presumably reputable and law-abiding firms who have future good-will to consider, and to prevent other firms whose stock in trade is no longer obtainable from swarming into the fields still open and cutting down volume of sale per firm with consequent increased costs per unit sold.

More important, over-all margins should be established so that resort to unnecessarily circuitous distribution methods is unprofitable. A regulation might state, for example, that the retailers' margin should be so much and that the sum of all distributive margins below the retail level should be so much, thus penalizing unnecessary buying and selling. This principle may be carried even farther by prohibiting sales by one wholesaler to another, but such prohibition will create problems if the same firm undertakes several functions at once, e.g., importing, wholesaling and retailing, and it should be avoided if the method of maximum permissible margins for each specified level of distribution can be enforced.

2 - The margin allowed the agent of a foreign manufacturer is meaningless without a clearly established base price on which the margin may be computed. Perhaps the best basis, both to facilitate enforcement and to ensure comparability with domestic importers, is the domestic selling price of the agent's principal in the foreign country where the good is produced, plus necessary freight, insurance, customs duties, etc.

3 - The position of wholesalers and commission agents should be clarified in the following respects:

a) Are they necessary to the trade? If not, it should be determined whether their fees should be specifically outlawed in the resolution.

b) The maximum fee and method of calculation should be determined, and written into the resolution.

c) Do they customarily charge the buyer, or the seller for their services? The custom here might be made the absolute rule in order to avoid confusion; in any case, a broker should be forbidden to collect his maximum commission from both buyer and seller.
4. The problem created when the same article is available from two or more sources at different prices, may be approached as follows:

a) If the difference is not great and will probably not be greater in the future, it may be simplest to provide that the buyer from these sources shall be allowed to resell all of the articles at a single maximum price equal to his cost plus a conservative mark-up on the highest-cost product.

b) If by far the greater proportion of the supply is coming and will probably continue to come from one source, the mark-up should be calculated on the basis of cost from this source.

c) If supplies are available and will probably continue to be available in more or less constant proportions from high-cost and low-cost sources, the mark-up may be calculated on the basis of the weighted average of costs from these sources. This calculation is, of course, made difficult by the fact that different importers may draw from each source in different proportions. A pooling plan to equalize the portion of these importers is theoretically possible but practically complex.

d) Even if supplies arrive in different proportions from time to time, a weighted average method may be employed. The pooling adjustment would be still more complex, however, in this case, and the possibility of difference in the position of individual importers even greater.

e) It is always possible, of course, to provide that the allowable mark-up may be added to each individual cost, resulting in different maximum sale prices for substantially identical goods.

f) The Government may buy direct or through importers or other merchants from high-cost sources, or from both high and low-cost sources. Such purchases may be resold at a loss, at average cost, or at a profit.

g) The Government may attempt to obtain more supplies from the low-cost source, and fix markups on the basis of the low-cost source with the deliberate intention of cutting off high-cost imports.

h) If the high-cost supply is imported from a foreign country, the Government might approach other nations purchasing from this country with a plan for unified joint buying. Such a plan would probably reduce prices somewhat in the high-cost country of origin.
Point 4 has been discussed in terms of control at the import level or as near to the source of high-and-low cost goods as possible. This was done because of a feeling that plans for equalizing costs or for direct Government trading should be carried out with a minimum of disturbance to the majority of sellers. Distributors below the retail level are likely to be larger, fewer in number, more accustomed to Government control and more accurate in their book-keeping than retail stores. Therefore, intervention to equalize prices or reduce the final price of high-cost products below the amount allowable with standard margins should be concentrated below the retail level.

5 - Inventory problems: inventories bought at different prices cause difficulties in addition to those discussed above in considering purchases from high and low cost sources. They also present a special problem of definition - if a margin is established to be added to the cost of a particular good, on what basis is this cost to be figured?

Provision for determining inventory valuation may take many forms, but the main possibilities are as follows:

a) "First in, first out" - meaning that the cost of the good sold is taken to be the cost of the good which has been longest in stock.

b) Average - meaning that the average cost or preferably the weighted average (cost of each item in the inventory; quantity of inventory bought at this cost; the results added and divided by total quantity of inventory on hand) is taken to be the cost to which the allowed mark-up shall be applied. This method is, of course, not independent of the inventory valuation method applied by the individual merchant to the separate items in his stock. Like method (a), this device has the advantage of slowing price increases by introducing a lag between costs and sales prices. Therefore, both of these methods have some efficacy in checking inflation, although if costs of new goods being added to inventories are advancing, control based on these methods can constitute no more than a delaying action. These methods (a) and (b) may also operate to cause some check on prices paid for supplies from sources whose selling prices are not controlled.

Both methods, however, suffer from the following disadvantages:

1. If costs are not and cannot be controlled, to use the cost of that part of the inventory which was purchased first, or to use the average cost of inventory held, may result in
a maximum permitted price which is lower than the replacement cost of the goods currently being sold. It will be hard to convince any merchant that he is not being slowly bankrupted by the operation of such a system. On the other-hand, if the margin is made high enough to allow a reasonable return on replacement cost, the method becomes practically that described in (c) below, but with the disadvantage not shared by (c) that if costs of acquisition become relatively stable in the future, the margin is excessive.

Example:

Origin cost of article now in stock which was purchased at a time six months in the past - 10 pesos per unit.

Average cost of inventory now held - 15 pesos per unit.

Replacement cost of good being controlled - 25 pesos.

"Normal" mark-up in the trade for this type of dealer - 30% over cost.

If "first in, first out" is used as the cost criterion, and margins are established on the oldest article in stock, the result is 10 pesos + 30% or Ps. 3 = 13. This, in turn, means quick depletion of capital and probable bankruptcy.

If average cost of inventory is used as the "cost" to which the "normal" margin is to be added, the result is Ps. 15 + 30% or Ps. 4.5 = Ps. 19.50. The results are the same as above, although the process is slower.

If either of these two methods is used but the "normal" mark-up is adjusted upward so as to give a return in pesos equal to that obtainable by a "normal" mark-up on replacement cost, the following will occur:

30% of Ps. 25. = replacement cost equals Ps. 7.5.

Add this to Ps. 25. and the result is Ps. 32.5.

If the "first in, first out" method is used, the mark-up over cost required to yield a selling price of Ps. 32.5 is 22.5% = Ps. 10.5 or Ps. 22.50 equals Ps. 32.50.
If the averaging method is used, the required mark-up is 116 2/3%, giving this result - Ps. 15. + 116 2/3% or Ps. 17.5 equals Ps. 32.50.

Unless cost prices keep rising by a constant percentage, and this becomes a practical absurdity and even a mathematical curiosity once prices have reached a certain level, the result is that the high percentage mark-ups which were allowed to prevent bankruptcy when control was first introduced now mean fantastic profits. Thus, if the cost price stays at Ps. 25., the 225% mark-up over cost of oldest inventory will eventually yield prices of Ps. 25. + 225% or Ps. 66.25 equals Ps. 91.25. The averaging method, with its associated mark-up, leads to the same absurd situation in lesser degree.

ii - Different retailers, importers, etc. have stocks of the same article bought at different times and bearing different relationships to their annual volume of sales of the article. These variations are likely to be greater when the supply situation becomes as abnormal as it is at present. Thus, if "first in, first out" or "average inventory cost" is prescribed as the base to which the permitted mark-up shall be applied, permitted maximum prices will vary greatly from store to store. Furthermore, no two stores will be permitted to raise their maximum prices exactly the same time or by exactly the same amount. This is bound to confuse both sellers and the public.

iii - Use of either the "first in, first out" or "average" methods for determining base costs is difficult even if inventory records are kept on a systematic basis and according to a definite method. Enforcement would demand the tedious investigation of records by export accountant, and the checking of these records against physical inventories held. If the price controlled is that of drugs, for example, this checking of physical inventories is likely to require more technical knowledge than the average accountant possesses.

iv - If inventory records are not kept, or if the seller employs no system in keeping them, he will be completely at sea as to how he should determine his maximum price. He must determine his price quite arbitrarily, and no definite check as to the legality of this price can be made because no worthwhile records are available upon which the check may be based.

The averaging method has a further disadvantage: in theory, the average cost of inventory changes every time a sale is made except in the unlikely case that all of the existing
inventory was bought at the same price. To require such exhaustive recalculation would be absurd. Part of this difficulty may be overcome by requiring periodic recalculation of average inventory cost, but if the period is short the labor involved approaches that required for recalculation after each sale. Furthermore, many businesses have no experience in making such calculations, and therefore recalculation even at long intervals may be burdensome. The longer the interval between recalculations, of course, the greater is the possibility of intermediate cost changes and of consequent complaints directed against control.

c) Replacement cost is the remaining important inventory method. This device does not suffer from the disadvantages discussed above: it is easy to calculate, does not cause hardships to sellers if their costs advance, and ensures a certain degree of uniformity in the prices of various sellers. Since all may not replace their stocks at the same time, some divergencies may still exist. Also, if costs are steadily rising, replacement cost allows windfall profit to sellers because they are able to figure their "stocks" on the basis of a cost higher than that actually paid. This is a definite disadvantage; its solution depends on much the same sort of action as that discussed in connection with high and low-cost supplies bought from different places, although here the question is one of high and low-cost stocks bought at different times.

Use of the replacement cost method also permits the rapid transmission of possible price reductions from the import or manufacturer level to the consumer. In other words, it is an immediate means of removing inflated mark-ups throughout the distribution system. This may cause temporary hardship to some distributors who purchased their previous stocks at inflated levels, but this would not be a continuing situation since use of replacement cost would allow them a reasonable mark-up on purchases of future stocks. Incidentally, this type of hardship is quite familiar to businessmen operating under conditions of plentiful supplies and competition.

The foregoing discussion has assumed that all existing stocks offered for sale shall be offered at a mark-up figured on the basis of the last shipment bought. This method is simple if merchants selling a given article mark their prices only by commodities. If they mark prices on each unit of the commodity offered for sale (for example, by placing the sale price on each bottle of a certain drug specialty), this method would require constant erasures and revisions which would consume their time.
and make the purchaser suspicious of the maximum price currently marked. When this system of marking individual units is employed, "replacement cost" might better be defined as follows: at the date the regulation becomes effective, the allowable mark-up for all units then in stock is to be taken from a base price determined by the net invoice cost of the last shipment purchased, plus transportation charges if these were not paid by the supplier. Subsequently, the cost of new supplies is to be taken as the base to which the maximum mark-up is to be added to determine the selling prices of these new supplies, but the selling prices on previous supplies are not to be changed in an effort to give one single price for all supplies offered. Further, the oldest supplies are to be sold first, regardless of whether or not they are higher or lower in cost.

Of course, a seller need not sell at a price as high as his maximum price. But if price control is to have any meaning, many prices will be reduced by regulation below the level they would reach in a "free" market; also, the very announcement of a maximum price or maximum price method results in some tendency for prices to be at the maximum even though they might otherwise be below this level. Therefore, the emphasis put on maximum prices as actual prices in the foregoing discussion is probably reasonable.

6 - The problems of quantity discounts, discounts to particular classes of reseller or types of trade outlet, cash discounts and credit terms for overdue accounts, are not peculiar to margin control, and the general aspects of this discount or price structure problem will therefore be discussed in a later memorandum. But margin control is based on acquisition costs, and the possibilities of high prices through carelessness in purchasing or outright evasion are probably greater here than in the case of any of the other methods or techniques of price regulation.

A good margin regulation should contain the following types of provisions:

a) A clear statement as to whether margins for manufacturers, importers, wholesalers and other sellers who do not deal directly with the public in making part or all of their sales are "gross" (before subtraction of any "discounts); based on the highest price charged to any class of business in a preceding period; or based on prices charged on the most important volume of sales in a preceding period.
b) A statement as to the amount, and the criteria for adjustment of maximum or average margins to arrive at the margins applicable to different types of sales. If the trade has a fairly uniform discount structure for sales of different quantities, sales for cash or on credit, etc., this structure may be "frozen" by stating that these differentials, discounts, etc., are to be retained. If this structure is fairly simple, or if the trade has become very disorganized due to speculation or other factors, it may be wise to determine and specify the discounts which are to be subtracted from maximum prices, together with the types of business to which they apply. Or certain practices, such as splitting an order so as to avoid quantity discounts by delivering very small quantities at very high prices, may be expressly forbidden. Since the seller may make an extra profit from this type of practice, and since the buyer may be able to pay exorbitant prices and still sell the article to the public or to another seller at his maximum permitted mark-up, definitions should be clearly established and wasteful practices (e.g., sales to retailers only in very small quantities) should be discouraged.

7 - If sellers regulated by the margin or "Mark-up" device actually perform operations which change the form or character of the product regulated, or if they buy in bulk and repackage the product for redistribution, a margin over cost of raw materials alone may not be adequate. This is particularly true, of course, if the regulated sellers are manufacturers. Unless other costs are important, and unless they are changing or will change rapidly, a flat margin with no qualifications is probably the best control device. However, if containers and packaging, for example, are changing rapidly in cost, it may be necessary to allow a fixed margin, plus or minus change in container cost from a given base date or base amount. If manufacturing operations are involved, the only solution may be a pricing formula which specifies the costs to be included and the rates (either stated in absolute terms or as of a certain base date) at which these costs shall be calculated. Such a pricing method is only workable if the enterprises controlled have adequate accounting records kept in accordance with a system which does not vary too greatly from firm to firm; and if all costs are changing rapidly, it may be desirable, for lack of any better solution, to apply this method even if the controlled businesses have accounting records which, relatively, are quite inadequate.

8 - There remains to be mentioned one final important problem: how is the size or amount of the margin (in pesos and centavos, or percentage) to be determined? This problem is essentially one of the level at which maximum prices are
to be established, and the significant criteria and considera-
tion have already been discussed under the title "The Level of
Prices" on pages 7-8 of memorandum No. II of this series. There
needs to be added here simply the observation that maximum margins
for a particular article may take the form either of (1) an indi-
vidual mark-up for each separate seller (presumably based upon his
"custom" or "experience"); (2) a single mark-up for all sellers of
the article; or (3) different mark-ups for classes of sellers,
grouped by size, volume of business, or type. The form to be
selected depends entirely upon the kind of article and the nature
of the trade - considerations which the price interventor must
study and analyze, and with which he must be thoroughly familiar
before he issues the price control resolution.

In conclusion on the subject of price techniques
we may point out that during the many months of price control in
the United States all of the techniques discussed above, (freeze,
specific named prices, and margin control) have been employed, with
respect both to different articles and to the same articles at
different times. All of these techniques are still in use. In
so far as there has been any noticeable progression, however,
under circumstances which would permit all of the techniques to
be made effective, the course has been from (1) freeze to (2)
margin control to (3) specific named maximum prices.
MEMORANDUM

To:       Dr. Araujo
From:    Ben W. Lewis and James H. Nelson
Subject:  Model Regulation and Sample Questions

This memorandum is concerned with the points and provisions to be kept in mind in drafting a price control resolution, and the kinds of questions to which the Price Interventor should seek an answer in arriving at workable decisions on maximum prices. The drug trade has been used, purely as an example, in drawing up typical questions on industry facts. Do not be disturbed by the length of the list of points and questions; not all of the items covered are of equal importance, and not all of them need to be considered and answered in every instance; we have tried to make the list inclusive, with the intention that the Interventor shall make such use of it as seems appropriate to him in individual cases. The arrangement of the suggested points and provisions, and of the questions, is entirely arbitrary.

I - In drafting a price control resolution the Interventor may well consider the following list of provisions as a check-list:

1 - Effective date or dates of the resolution.

2 - Coverage of the resolution:
   a) Products or services covered, carefully described.
   b) Transactions covered, carefully defined (e.g., sales by manufacturers? By wholesalers? By retailers?, etc. All transactions in the commodity named, or those transactions specifically named, or all transactions except those specifically excluded)
   c) Persons covered (natural or legal; agents, etc.)
   d) Geographical coverage (e.g., goods bought and sold in Colombia, goods bought in Colombia, goods sold in Colombia, goods

May 19, 1943
3 - Maximum Prices or maximum price method. Quality standards and definitions should be included here; and transportation charge and all discount provisions should be carefully detailed, here.

4 - Treatment of Outstanding Contracts:

a) To be carried out regardless of the legal maximum price if entered into before a certain named date (preferably a considerable time before the effective date of the resolution).

b) To be carried out regardless of the legal maximum, but only until a certain named date in the future.

c) Combination of (a) and (b): to be carried out if entered into before a certain past date, but only until a certain future date.

d) To be nullified after the effective date of the resolution if the contract provides for prices higher than the legal maximum.

In any case, the resolution should forbid any new contracts entered into after the effective date of the resolution, which provide either specifically or by the operation of a formula for prices in excess of the legal maximum.

5 - Price Adjustment Procedure to be followed by sellers who are not satisfied with the legal maximum prices:

a) Time limit, if any, before which any petition for adjustment must be submitted.

b) Time limit for action on the petition by the Interventor.

c) Information which must be submitted by the petitioner, and form in which it must be submitted.

d) (Possibly) allowing the petitioner to change his price, with the express permission of the Interventor, while his petition is being considered - subject to final change on the basis of the Interventor's final decision on the petition.
6 - Procedure for Pricing New Products: What the seller must do, and what the Interventor must do (e.g., no price for - and no sales of a new product without express permission of the Interventor; price to be fixed by the seller according to stated formula, subject to disapproval by the Interventor, etc.)

7 - Provisions against Evasion. These may be in detail, or simply in the form of a general prohibition against any practices which tend directly or indirectly to defeat the purposes and provisions of the resolution. Probably the practices should be spelled out carefully, followed by a general prohibition.

8 - Licensing Provisions: Procedure for obtaining licence (whether all sellers at the beginning are to be considered as licensed, as a matter of course; or whether applications must be made); standards, if any, for granting licence; procedure for revocation of licence; standards for revocation.

9 - Information Requirements:

   a) Records which must be kept for the Interventor's inspection, if he so requests, and the form in which they must be kept.

   b) Provisions for posting maximum prices, marking articles with the maximum price, or informing customers in some other way of the maximum prices. These provisions are particularly important in the case of those selling to the general public (retailers).

   c) Provision for notifying the buyer that the seller is subject to a maximum price resolution, or that the buyer is subject to such a resolution if he re-sells the articles purchased.

   d) Provision for the seller to furnish the buyer with a record of the sale and the price charged.

   e) Provision for the seller to furnish a certificate of his compliance with the resolution, to the buyer at the time of sale or delivery.

   f) Reports which must be submitted to the Interventor: what these must contain, in what form and detail, dates for submission, whether sworn statements, verified statements, etc. The Interventor may find it desirable to provide those controlled with standard forms for reports, to be filled in and returned.

10 - Relation to Previously Issued Resolutions. Does this resolution supersede or complement previous resolutions? Entirely or only in certain respects - and in what respects?
II - Penalties and Sanctions. Either in detail, or by reference to the Price Control Decree.

II - In examining an industry situation to determine whether prices should be controlled and, if so, the techniques to be employed and the level of prices to be established, it may be that the Price Intervenor will find useful as a check-list the following questions which have been devised, for illustrative purposes only, to serve as an approach to the control of drug prices:

I - What products are involved?
A - Pharmacopoeia (unbranded) fine chemicals and drugs
   1 - For human use?
   2 - For animal use?
   3 - For use as agricultural insecticides and fungicides?
   4 - For use as household insecticides and fungicides?
   5 - Others,

B - Proprietary medicines - brand names - same sub-heads as A above.

C - Mixtures - prepared from A or B or both by pharmacists, etc., to fill Doctors' prescriptions, to put out under their own names, etc.
   Same sub-heads as A above

II - Quality problems.
A - Are various fixed grades recognized in the trade?
B - Are the specifications for these established in detail?
C - Are these specifications already enforced by other legislation or are they readily and easily identifiable by investigation?
D - Any evidence of quality deterioration?

III - Price problems:
A - Have retail prices of any or all drugs risen?
B - What figures are available to illustrate the articles, if any, for which retail prices have increased, and the absolute and relative amount of this increase? How were these figures obtained and compiled? Do they seem to be representative of conditions in the entire country, or do they refer to particular areas or to particular establishments within these areas?

C - If retail prices have risen, is this due entirely to speculation at the retail level or have costs to retailers risen by the same amount? Are these increased costs to the retailer due to increased costs to wholesalers, importers, manufacturers, etc., or to speculation at one or all of these levels?
IV - Distribution channels; structure of the market:

A - Imports:

1 - From where - United States, Argentina, Great Britain, Canada, etc. - How do present price levels and the amount of price increases from each of these sources compare?

2 - Number of exporting firms in each country dealing with Colombian importers - does each of these firms sell a large variety of drugs, or is the trade characterized by specialization on one or a few drug products?

3 - Number and status of importing firms in Colombia:
   a - Total number, and number of important importing firms,
   b - What is the approximate capitalization, annual volume of business, and credit position of the firms doing the majority of the country's drug importing?
   c - What is the connection between the major importers and their foreign sources of supply - do they act as agents, or do they buy outright?
   d - Does each importer concentrate on the products of one foreign manufacturer or supplier, or does he buy from or act as Agent for several suppliers? In the latter case, is there a tendency to concentrate on suppliers of one country, or do some importers bring in drugs from several national sources?

4 - Have foreign sources of supply changed recently and is there a likelihood of further changes due to relative abundance of supplies, shipping problems, etc.?

B - Domestic Production:

1 - Number of firms.
2 - Size of firms
3 - Financial and operating condition of firms - at present and relative to recent years?
4 - Are some or all of materials used imported? If so, see questions under "Imports".
C - Wholesale, retail, etc., distribution channels:

1 - Do all drugs move through more or less the same channels to consumers? If not, can groups of drugs be classified together in regard to the channels through which they move?

2 - Are wholesalers or jobbers typically found between importers or domestic producers and retailers, are there none, or do retailers do some or all of their own importing?

3 - Has a tendency appeared in the last two years to introduce more middlemen or to eliminate some previous stages of distribution?

4 - Are retailers be sub-divided as independents, chains, or branches? If so, has there been and is there any marked and consistent difference in prices charged by each group?

5 - Is retailing carried on through specialized drug stores, through drug stores also handling other products, or through general or department stores? Is the method used the same throughout the country, or does it vary from place to place?

V - Cost position and cost information:

A - What is considered to be the "normal" relationship between cost and price at all levels of production and distribution? Are standard cost methods widely used for costs other than raw materials, or does this vary? Inventory valuation methods?

B - Cost changes during the past two years:

1 - Importers -
   a - Change in buying price abroad? Due to:
      (1) Price increases before United States regulations were introduced
      (2) Price increases since then - domestic price increases or export price increases?
      (3) Movement through different ports abroad, with possible changes in foreign transport charges.
      (4) Domestic or export price increases in countries not controlling either or both. In countries controlling domestic but not export prices, what has been the change in the relationship between the two?

   b - Change in exchange rates governing conversion of Colombian pesos into other currencies. Due to:
      (1) Alteration in export - import value ratios.
(2) Change in exchange control regulations of the Colombian and other governments.

c - Ocean shipping and other "International trade" cost changes.
   1. Increased ocean freight charges.
   2. War risk insurance
   3. Marine insurance
   4. Warehousing charges in foreign or Colombian ports, due to delays in shipment or increased warehousing rates.

d - Changes in cost in Colombia
   1. Diversion to ports not previously used for particular drug imports - different handling charges? Different freight costs to destination?
   2. Reduced imports, and uncertainty of supplies, with resulting slower turnover and allied necessity to increase margin of profit per unit sold in order to receive same return on capital invested.
   3. Increased spoilage or other depreciation.
   4. Other cost changes.

VI - Flow of supplies:

A - Scarcities due to decline or suspension of imports:
   1. Irregular flow due to irregular ship movements, sinkings, port and transport congestion.
   2. Diminished volume.

B - Scarcities due to increased demand.

C - Speculative hoarding:
   1. Can this be defined as ratio of stocks to sales or a variant of this?
   2. At what levels has this occurred - manufacturers, importer, wholesaler, retailer, etc.

VII - Coverage of price regulations:

A - What drugs, medicines, or fine chemicals shall be exempted?
   1. Non-essentials - which are they?
   2. Products with no uniform or well defined marketing channels?
   3. Products whose prices have not increased speculatively or inordinately?
   4. Products produced for the first time domestically to replace foreign supplies which have disappeared?
B - What outlets or importers or manufacturers shall be exempted?
1 - New and experimental manufacturers?
2 - Medicines compounded in local pharmacies to fill prescriptions?

VIII - Possible methods of pricing:

A - Freeze as of base date?
1 - Identification of items?
2 - Possible lags in price increases (or declines) going from first seller through to retailer, so that in extreme cases retailer might have to pay as much or more to replace his stock as his ceiling price allows him.
3 - Possible great difference in prices, with low-price stores feeling that their treatment has been inequitable simply because they had not been speculating.

B - Specific prices:
1 - Identification of articles to which prices apply?
2 - Government information on "normal" price conditions.

C - Margin control (control of margin between price and cost) - Same questions as B above, plus question of definition of costs.

D - Any other formulas or methods.

IX - Necessary information and record requirements:

A - Information.
1 - Do cost of living records for Bogota, and Medellin include any drug items? If so, how many?
2 - Do Chamber of Commerce and other sources have price information?
3 - Have domestic manufacturers or importers issued catalogues or price books during any or all of past several years, and do these price books, if any, represent actual selling prices? If not, can a consistent discount policy be discovered?
4 - Do Government income tax returns, corporation studies or reports, or stock exchange publications or records show financial and profit position of main drug manufacturers, importers, wholesalers and retailers for past several years?
5 - Does drug control board possess records on drug prices and costs?
6 - Any other source of information.
B - Record and/or reporting requirements for dealers in goods whose prices are regulated:

1. Records of stocks on hand
2. " of annual volume of business,
4. Submitting ceiling prices to government? Posting ceiling prices in stores?

X - Possible evasion:

A - Elimination of discounts previously given.
B - Short weight or measure
C - Inferior quality
D - Combination sales
E - "Black market" sales.
F - Introduction of "new" products which are practically the same as the old but command a higher price.

See point II - "Quality Problems".

XI - Industry personnel and trade practices:

A - Who are the industry leaders at each stage:
   1. Best known
   2. Best reputation in trade or with public
   3. Largest sellers
   4. First to establish prices that other sellers follow.

B - Any trade association, trade price-fixing plan, or other trade organization?

C - Do co-operatives exist and are they important?

XII - Importance of other Government Agencies:

A - What other Government control organizations exist in the drug field? Central or local?

B - What information have they as to quality standards, enforcement problems, trade policies and prices?

C - Can a co-operative arrangement be worked out with them?

D - What positive controls do they now exercise?
XIII - Other remedies for high prices:

A - Direct government buying (at what stages) and resale (at what stages).

B - Subsidies - to whom and on what basis?

C - Government production.

D - Government encouragement of co-operative or similar outlets.

May 20, 1943

MEMORANDUM

To: Dr. Araujo
From: Ben W. Lewis and James R. Nelson
Subject: Next Steps on Price Control - IV

The present memorandum, the fourth under the above title, is concerned with problems of price control most of which have been mentioned or discussed briefly before, but which seem to us to warrant fuller treatment than it has been possible to give them in our earlier statements. The selection and arrangement of topics is arbitrary.

1 - Geographical Price Patterns: Geographical price patterns must be recognized and taken account of in establishing schedules of maximum prices in order to keep price control from producing an abnormal distribution of goods. Shortages in one area and surpluses in another will always occur, even in normal times, and they will, of course, be accentuated under present condition of abnormal transportation. But, whereas under normal circumstances automatic price adjustments tend to correct shortages and surpluses, the imposition of price control, by preventing automatic price responses, will greatly aggravate the problem, unless steps are taken along the following lines:

a) Ascertain the present and probable future location of surplus and shortage areas for specific products to be regulated. Thus a price in Cali predicated upon delivery from Buenaventura may result in a shortage in this area if the next shipment arrives in Barranquilla. A bad wheat or rice harvest may change one area from
surplus to deficit almost overnight, and the price controller must move quickly to adjust maximum prices to permit the necessary reversal in movements of the products.

b) Ascertain the prevailing method of price quotation for the product delivered to the buyer, f.o.b., c.i.f., f.a.s., delivered in particular zones, with prices varying from zone to zone, freight allowed to certain customers or destinations etc. Unless surplus areas become deficit areas, or vice versa, the f.o.b. point of origin (domestic goods), and c.i.f., port of entry or f.a.s., port of shipment (imports) methods of quotation are the best for determining maximum prices without causing local surpluses and shortages. This may be true even if the product regulated was formerly sold on a delivered basis, but any change in methods of price quotation should be thoroughly studied in co-operation with the industry before it is introduced.

c) Keep informed as to the status of transportation throughout the country, and as to the existence of partial or total transportation stoppages which suspend supplies or necessitate re-routting. This is particularly true if minimum prices are decided on, since such breakdowns may overwhelm the government with produce for sale at the minimum price. It is also true that, if the re-routing adds expense, immediate price adjustments may be necessary to avoid severe local shortages.

d) Draw the transportation provisions of price resolution (especially those stating prices on an f.o.b. basis or allowing margins or mark-ups over cost) so as to discourage or prevent the use of costly and wasteful transportation methods and routes. This is necessary not only to prevent excessive prices, but also to reduce the strain on the overburdened transportation system.

2 - Temporal Price Patterns: Temporal price patterns must also be carefully watched. Many products incur considerable warehousing and other storage charges between production and consumption. This is particularly true of bulky agricultural products, and of products whose production and sales volumes vary independently of each other throughout the year. If the price of the product has shown marked and characteristic month-to-month fluctuations in the past, this fact should be recognized in the price regulation. Failure to do so may mean market demoralization and an alternation of feast and famine.

3 - Provisions against Evasion: Price resolutions are meaningless unless certain effectively enforceable provisions against evasion are incorporated. The more common types of evasion, and the more common measures taken to prevent them, are as follows:
a) Short weight or measure. This can be checked either by specifying the unit to which the decreed price refers, or if this unit has not been standardized on a liter, kilogram, or similar basis, by providing for a minimum content, length, etc., which may be sold at the price established.

b) Quality deterioration. Control of the prices of goods without controlling their quality affords only empty protection to consumers. The customer is interested in what he receives fully as much as in what he pays; and if quality deteriorates, the fact that the price remains constant is small comfort. This method of evasion is hard to check, because tests of quality are extremely difficult to devise and frequently involve personal opinions on what is "good", "better", etc. The problem cannot be avoided, however, and resolutions setting maximum prices must define as clearly as possible the nature and quality of the goods to which the prices apply, and must provide for a scaling down of the price if the quality of the goods is permitted by the seller to deteriorate. Definitions of "quality" must be carefully drawn, and it must be determined in each case, in advance, whether the significant factor is one of cost, physical composition, design or usefulness, or some combination of these. It should be kept in mind that mere change in composition or design does not necessarily constitute quality deterioration. A system of premiums and discounts may be included in the resolution, to adjust the price of the goods to any change in quality. The adjustment in price may reflect changes in cost, or it may be made to penalize the production of certain qualities or characteristics, and reward the production of others deemed more desirable.

Nothing should be done, except in rare cases where valuable materials are being wasted in the making of completely unserviceable goods, to prevent the making of lower quality goods; but it should be insisted upon that if lower quality goods are made, the maximum price, too, shall be lowered.

The resolution may stipulate that the percentage of low-quality, low-price goods to the total sales of each seller must not be reduced, or that it must be at a certain level. This may be necessary if materials become scarce, in order to prevent concentration of production or sale on more profitable high-price items, with the result that the customer gets fair value for his money but is forced to spend more than he used to spend, and possibly more than he can afford, for the article. The purpose of such control is highly commendable, but it should be used only if the disappearance of low-priced items is forcing many needy purchasers out of the market. It presents grave administrative problems, especially if the public taste has genuinely shifted to the higher-priced product.
c) Discounts which have been regularly allowed prior to control for contract purchasers, purchasers in large lots, purchasers of particular types (e.g., wholesaler, large retailer, small retailer), purchases for particular uses, purchasers for cash, etc. may be changed by sellers, to evade price maxima, unless prevented. Minimum discounts should be set forth in the price control resolution if it affects sales at any level below the final consumer. If the trade is complex, and clear information on its discount structure or concise and comprehensible translation of this information into the language of a price regulation is impossible, the only solution may be a "freezing" of discounts which have been allowed to particular classes of customers (carefully defined) as of a given date. Evasion by means of changing discount practices should be prohibited otherwise concealed price increases will occur and the customary channels of trade may be distorted.

d) Combination sales (i.e., sales requiring the purchase of some other uncontrolled article along with the article whose price is controlled) should be prohibited if they were not customary in the last "normal" business period before the resolution is issued. Even if such sales were customary, the accompanying circumstances should be thoroughly investigated, and the custom changed by the resolution if its continued operation will defeat the purposes of price control.

e) Discontinuance of free deals, "special offers", etc., should be specifically forbidden if such practices are known to exist in the trade regulated, and if the seller can not prove that these offers which existed prior to regulation were purely temporary in nature.

f) Forcing the buyer to bear more than his customary share of transportation expenses may be checked by specifying exactly what division of transport costs between buyer and seller is legal, by "freezing" transportation provisions as of a particular date, or by forbidding any change which requires the buyer to pay a larger share of transportation expenses than he has normally paid to this seller.

g) Contracts may be written which provide "escalator" clauses allowing the payment and receipt of prices above the legal maximum. If the contract flatly states that the price is to be above the legal maximum, it is obviously illegal. If it provides for increased prices depending upon the operation of certain stipulated factors, it may result in the payment of illegal prices. This evasion can be checked by stating that no prices above the maximum may be charged regardless of the terms of any contract. If the resolution permits a specified margin above cost, evasion can be prohibited by providing that costs not specifically enumerated in the resolution may not be included in the cost calculation, or by excluding any portion of those costs not calculated as provided in the resolution.
h) Miscellaneous evasions may take an endless variety of forms. They may be covered by a "portmanteau" clause forbidding "any other device to evade the intent of the price regulation directly, or indirectly" or by a specific statement that prices named are gross prices which can not be exceeded by any device whatsoever.

4 - Licenses: Licensing may be necessary to control the trade. The most expeditious method of introducing such a system is to provide that all sellers are automatically licensed when the resolution is published or when they commence sale of the article controlled. This eliminates the tedious chore of receiving hundreds of thousands of applications for licenses and issuing slips of paper to each applicant, and it makes available the device of revocation of the license to sell the controlled article as one means of compelling observance of price regulations. On the other hand, to require individual applications for licenses will furnish trade information not otherwise available, and such applications may be especially helpful if investigations of stocks on hand are anticipated.

5 - Restriction of Entry into Trades: Restriction of entry into the trade may be necessary to prevent sellers whose supplies of goods are no longer available from entering into new fields where supplies are also short. Such action leaves still fewer goods for each person in the trade invaded; it may also lead to inefficient distribution channels and methods. In either case, a future clamor for higher prices is possible.

Canada has flatly forbidden the sale of articles by persons who were not selling them on the date of the order. The United States has in general refrained from taking such action. Unless the invasion of particular trade channels is threatening to defeat price control, such freezing of distribution may seem unwise. It grants a pre-emptive right to existing sellers, is hard to enforce, and achieves no primary price control objectives except in extreme cases.

6 - Required Selling: If sellers at retail also engage in sales to competing retail stores, regulation of the proportion of total sales which must be made to these other stores may be necessary, in order to keep the smaller retail outlets in business. This phenomenon of refusal to sell is not attributable to price control; in fact, price control may induce an increase of sales to other retailers, by fixing an upper limit to the prices the large retailer may receive from sales direct to consumers. Its cure involves an administratively difficult task. But the problem should be recognized if small retailers can not get supplies of many items, they will clamor for higher prices on items they are still able to obtain, in order to stay in business.
7 - Control of Trade Channels: In general, normal distribution channels should be known to the interventor before a resolution is issued, and they should be recognized in the resolution unless good reasons exist for eliminating them. At the same time, careful draftsmanship is necessary to prevent the appearance of new and unnecessary hands through which goods must pass on their way to the consumer. Such multiplication of trade outlets may amount to evasion; it may occur in good faith, but lead to inefficiency. Regardless of the reason for their appearance, new levels of distribution should be forbidden or at least forced to prove themselves necessary. The foregoing applies particularly to brokers and commission men. If these are not customary in the trade, brokerage and similar commissions should be forbidden, or the seller should be required to absorb them instead of adding them to his maximum price.

8 - New Products: New products present a problem for any type of price control. These new products may be the result of simple relabeling, or of some other device to evade a regulation; they may be necessitated by the impossibility of obtaining raw materials formerly used; they may represent technical advance or the answer to a new public demand. They can not be forbidden, but, unless evasion is to become rampant, their prices should be controlled on principles consistent with those applied to the prices of the most nearly comparable product whose price is regulated. Any seller of a new product in a regulated field should be required to inform the price interventor of this fact at least two weeks before the product is to be sold. He should also furnish a brief description of the proposed use of the product, its physical ingredients, appearance, etc. If the interventor considers control of the price of this product to be necessary, he should use the facts submitted plus any other he requests to determine the most nearly comparable price-controlled product. Then he should apply the general pricing method used for this comparable product to fix a price or pricing method for the new article. This price should be low enough to check evasion, and high enough to allow the continued appearance of new articles.

Some lines of business bring out enormous numbers of new products. The interventor may save time and trouble for both his Office and the businesses affected by establishing a prescribed method for the pricing of such new products. This may be for the use of the interventor’s staff only, or it may be published for the convenience of sellers who may then submit a proposed price, based on the prescribed method of calculation, for approval. Such applications may be further expedited by providing that the proposed price shall automatically become the legal maximum unless the interventor rules otherwise, or requests additional information within a specified (and preferably brief) period of time.
9 - Renting of Goods: Certain products may remain useful for months or even years. Some articles in this "durable goods" category cannot easily be rented (e.g., clothing). Others, such as building materials, are incorporated into further products whose rental is a matter of course. Certain types of machinery and automotive equipment are well adapted to renting; and therefore a regulation governing their sales price must also consider the possibility of the article being leased. To prohibit rentals may work hardships and prevent efficient utilization of limited supplies. A more practical approach is to establish maximum rental rates at the same time that maximum sales prices are set. Since many kinds of goods, although rentable, have not in fact been rented, in the past, the Interventor may have to pioneer in establishing a rental system. Too, rentals may occur as devices of evasion even where they have no economic justification or standing in ordinary commercial practice; therefore such a stop may be necessary.

10 - Services Rendered with Sales of Goods: All sales involve the performance of certain personal services; some require services which employ numerous raw materials to make an entirely new product. Many retailers carry on small-scale "custom" manufacturing operations. In such cases, the character of the service should be examined as carefully as the character of the materials used. Both form an integral part of the "product" sold. If customers do or may furnish the materials themselves (e.g., custom tailoring), a separate price for the service is essential. Even if customers do not furnish materials, evasion of a price regulation by this device seems highly unlikely, a separate service price may result in a simpler and more equitable price regulation.

11 - Unusual Sales: Certain abnormal types of sales exist which should be mentioned either in particular regulations or, if possible, in a general regulation applicable to all controlled commodities. These abnormal sales include auction sales, transfers of a business to a new owner; foreclosure sales, other liquidations, etc. If it is decided to regulate this type of sale when other sales of the same commodity are controlled, specific provisions as to the application of price control to these cases should be drawn up. For example, if the maximum price on a certain article is to apply to "ordinary" sales at retail and to auction sales, and if several bidders each offer the maximum price at a particular auction, they may be required to draw lots to determine the "highest" bid.

A provision to prevent a wholesale auction from using retail maximum prices should also be drawn up. A single paragraph to cover all possible types of this situation may be impracticable; if so, it should be omitted from a general order and placed instead in each resolution.
Selective price control may tempt sellers to shift their production or trade to fields not yet controlled. With importers, wholesalers, and retailers this danger is not acute; if some discontinue operations, those remaining do more business, and the government can step in if acute disruption of trade organization appears. The problem is more complicated when manufacturers or farmers are involved. A maximum price on one product may cause a pronounced shift to the production of other products. The controller should have a general idea of the possible shifts that may result from control of any one product. He may discover that he must control some prices which otherwise would not have been supervised simply to prevent shifts in production; or conversely, control may be deliberately held in abeyance in order to prevent shifting into less necessary products or to permit sellers to retain a high-profit portion of their business. Finally, the decree provisions for enforcing continued production may be applied. This is probably a last resort which would be particularly hard to apply to trade in agricultural products.

May 21, 1943

MEMORANDUM

To: Dr. Araujo
From: Ben W. Lewis and James R. Nelson
Subject: Next Steps on Price Control - V

Much interest has been evidenced in the possibility of achieving effective control of the prices of goods imported into Colombia, and the present memorandum - the last in the present series - will be devoted to that subject.

We shall consider here only the question of controlling prices of imports up to the point of their first domestic sale in Colombia. Beyond this stage, the problem seems to be a domestic one involving the issues which we have discussed previously.

Import prices are governed by two distinct sets of factors, depending upon the country from which the imports come. Imports from the United States are subject to export control in that country, and the problem is one of utilizing existing control mechanisms, collaborating with the Office of Price Administration to
make them more effective, and extending the benefits of a controlled price to the final consumer in Colombia. Imports from other countries are not, in general, subject to price control at the source, and therefore a prior question arises concerning the propriety of efforts to regulate prices Colombian buyers may pay abroad. Furthermore, some identical imports are received from both the United States and other countries, and methods worked out for one of these cases may be inapplicable or undesirable when both are combined.

In light of these factors, this memorandum will be developed according to the following outlines:

I - General Considerations.

A Information already available.
B Advantages of beginning price control with imports.
C Problems of import price control.
D Criteria for selecting import prices to control.

II - Imports from United States.

A Control mechanisms now functioning in Colombia and the United States.
B Factors making for ease of administration in regulating the prices of imports from the United States.
C A suggested plan of control.

III - Imports from countries other than the United States.

A - Peculiar Problems.
B - Suggested solutions.

IV - Imports of one commodity from both the United States and other countries.

A - Peculiar Problems.
B - Possible solutions.
I - General Considerations

A. - Information already available:

1 - Colombian consular invoices (original and four copies) for each shipment - one being kept at the consulate abroad, one sent to the Colombian customs authorities, one to the Comptroller General, one to the bank or final owner of the goods, one to the importer's agent.

2 - Colombian import manifest (original and six copies) for each shipment - one for the importer, one for the importer's agent, two for the Comptroller General, one for the Minister of Finance, one for the customs office at the port of entry, and one for the customs warehouse at the port of entry.

3 - Summaries of the information contained in (2) above published in the "Anuario del Comercio Exterior". This source is invaluable for determining the relative importance of imports, and recent and probable future changes in their countries of origin.

4 - Commercial invoice and other papers delivered to the buyer or his bank by the seller.

Since many Colombian customs duties are on a specific (weight, number, volume, length) rather than an ad valorem basis, the value of the information furnished by 1, 2, and 3 above is altered by the following considerations:

a - A specific duty gives neither the exporter nor the importer any incentive to attempt to alter the true value of the article in declaring it to the customs; therefore a study attempting to discover the level of past prices could probably rely with confidence on the figures for articles governed by specific duties. Ad valorem duties may lead to attempted under-reporting; therefore past figures may be somewhat less reliable.

b - If price control is introduced on a cost-plus basis (margin method), the existence of specific duties makes a check on valuation extremely difficult. Customs authorities have no interest in the declared value of products if these products pay duty on the basis of their weight or other physical characteristics. Therefore, the Price Intervener must either find some means of checking values recorded on customs entries, or work out an entirely new system for obtaining accurate information. Since ad valorem duties involve higher customs payments as declared values increase, some automatic check on over-reporting already exists in this case.
Furthermore, customs officers are more likely to scrutinize all declared values if the duty is ad valorem, and therefore the check of a higher duty is reinforced by the further check of a closer investigation.

B - Advantages of beginning price control with imports.

1 - Any price control must pass through a period of trial-and-error before it reaches peak efficiency. If domestic manufacturers or agriculturalists are subjected to inevitable delays and suffer from unavoidable mistakes, the resistance to price control is likely to grow; if part of the burden falls on foreign exporters, the domestic discontent will tend to be lessened.

2 - Domestic transactions are constant in most articles. Every day hundreds or thousands of sales are made in every large town in the country. Imports, on the other hand, arrive at relatively few ports of entry; they are handled by a restricted group of merchants; they arrive in large shipments, with long gaps in between. Control of prices at the import level involves control of fewer sellers, and of supplies whose appearance on the market is discontinuous. Therefore the problem is easier to handle by reason of the long gaps between ship-arrivals which allow plenty of time for discussion with the trade and for reaching mature decisions.

3 - Reliable figures on costs of domestic production may be difficult or impossible to obtain. Even if every domestic producer of a controlled article keeps exhaustive accounts, and even if these accounts are kept on an absolutely uniform basis, the job of control requires fairly elaborate cost investigations in many cases. If domestic producers keep their accounts on several different bases, or do not keep adequate records at all, the problem of domestic price control becomes more complicated, and the possibility of claims of arbitrary action increases.

Imports, on the other hand, have one cost which is capable of rigidly objective determination without recourse to accounting subterfuges—the landed cost of the article at the Colombian port of entry. Furthermore, certain elements in this cost can be defined so as to eliminate evasions of control. This is particularly true of insurance and freight. Finally, even though valuation of inventories on hand when the regulation becomes effective may be difficult, this problem is one which necessarily disappears as price control continues in operation. If costs of additions to inventory are clearly recorded, and if sales of the article are constantly taking place, the indefiniteness as to costs resulting from old inventories will gradually disappear.
4. Acute shipping reductions have resulted in severe import shortages. This has meant extreme price increases - probably far greater, in general, than increases in the prices of Colombian-produced goods. Thus price regulation of imports can achieve certain immediate and marked price reductions without giving sellers any legitimate grievance against the Price Intervenor.

5. Many imports are sold to Colombian manufacturers and industrialists who use them to produce articles for the Colombian market. If price control is able to reduce the costs of these imports to some extent, two results may be anticipated:

a. Colombian producers will discover that price control may operate to their immediate advantage, as well as to a restriction on their activities. Therefore they may be more willing to enter into voluntary agreements with the Price Intervenor - such as, for example, an agreement not to raise prices without first discussing the matter with the Intervenor - and to accept such compulsory control as may be necessary.

b. Insofar as higher costs of imported raw materials, etc. have resulted in higher prices of finished products of Colombian production, lowering these costs ought to operate to some extent to reduce prices.

6. The United States is now regulating export prices. This regulation was based on the following main considerations:

a. That American sellers should not be allowed to impoverish other countries who depend on the United States for supplies of many articles which they have not the facilities to produce at home and which they literally cannot obtain elsewhere.

b. That high export prices should not be permitted, since these prices might drain off into export channels goods needed for consumption in the United States.

c. That high export prices would lead to excessive profits for exporters, with resultant ill-feeling among domestic sellers operating under rigid price controls.

Point (b) has become largely inoperative both because of direct distribution controls over many products (e.g., metals) by the War Production Board, and because of the extreme shortage of shipping, which has set rigid physical limits on the possible volume of exportable goods. This shipping shortage has also operated to lessen the significance of point (c). Exporters have suffered an acute decline in sales volume and as a result their unit costs of sale have increased greatly. Furthermore, exporters particularly have had to bear the burden of costly and time-consuming government controls; practically every wartime control has affected them directly in such a way as to increase their costs of doing business.

Points (b) and (c) have therefore declined in importance; and at the same time, many critics point out that holding down the prices...
of exports from the United States has not solved the problem for most
foreign consumers who are being charged fantastic prices for United
States products. Export control, they say, has simply deprived
the American exporter of a large profit and presented it to foreign sellers.
At the same time, drastic shipping restrictions have led to the accumula-
tion of enormous dollar balances in other countries, with resultant in-
flation of all prices in these countries. Therefore, the argument
concludes, removal of export price control in the United States would
cause no additional hardship to foreign buyers, who are paying excessive
prices at present; it would even reduce generally inflated prices in
other countries by lowering excessive dollar balances.

There is no reason to believe that these considerations
foreshadow the discontinuance of export price control in the United
States criticism has neither been very loud nor very persistent. But
the argument as outlined has some logic. It has at least operated to
modify the application of really thoroughgoing export price control in
the United States. Control of final prices for imported goods in the
country of import would certainly aid United States export price control
and refute a considerable amount of the criticism directed against it.

C - Problems.

This section will not be developed in full detail, since
many problems can better be discussed under II, III, and IV below.

1 - Legitimate elements in landed cost should first
be determined for imported commodities in general before any specific
import action is taken. Such determination both proves to importers
that the Interactor knows what he is doing, and establishes a framework
into which the peculiarities of individual commodities can be fitted.
An illustrative, although not exhaustive, list of these possible cost
elements is the following:
a - Domestic price in country of origin.
b - Export packing.
c - Colombian consular fees.
d - Freight forwarders' fees, if any.
e - Demurrage charges incurred by the exporter
before the goods are loaded on board ship.
f - Exporter's premium.
g - Charge of exporter, foreign bank, or
domestic bank for extension of credit.
h - Insurance - marine and war risk.
i - Ocean freight.
j - Customs duties.
k - Unloading and other stowdoring charges.
l - Colombian warehousing charges.
m - Colombian stamp tax for import manifest.
n - Import license fee.

2 - Having determined the kinds of costs which are
legitimate, attention must next be centered on allowable amounts. Two
separate questions arise here: First, do the importer's alleged costs
represent what he has actually paid? Second, were these payments reasonable.
and legitimate?

Those questions will be considered with reference to the list in No. 1 above.

a - Domestic price in country of origin.

If the exporter's country controls the price of the article exported, the maximum price for the product in the country of origin should be obtained. This is true regardless of whether the exporting country controls export prices. An inquiry should be sent to Colombian embassies and consulates abroad, asking them to forward information as to the existence of price control in the countries where they are stationed, and as to the status of price control on a list of articles dispatched to them. This list should be made up from the latest available Colombian import statistics, and should be compiled on a country-by-country basis to include all of the important exports sent by each country to Colombia.

If possible, further inquiry should be made as to whether the maximum price set has any relation to prevailing market prices. The maximum prices set by the United States on wool, for example, are far above actual selling prices.

If the maximum prices set in the country of origin are in absolute terms - that is, if they are stated in terms of dollars and cents, pounds, shilling, and pence, etc. - copies of the price regulations should be sent to Bogota.

If no maximum prices exist in the country of origin, or if they are calculated on the basis of some formula which precludes determination of their proper level in Bogota, customs declarations reduced to f.o.b. terms are probably the only solution, unless consular officers can be prevailed on to keep the Interventor informed as to market prices in foreign countries.

In any case, consular officers should be instructed that a copy of the invoice which the seller transmits to the buyer should be made a condition for the issuance of a consular invoice. This will provide the Interventor with continuing information as to the prices paid by Colombian importers, and, if the article involved is controlled, it will provide a check on the accuracy of importers' statements and the adequacy of prices fixed.

b - Export packing. If this item is important in the final delivered cost of the product, the question of whether some goods are too luxuriously packed might be taken up with importers. In any case, the Interventor should have a fair general idea as to what constitutes a reasonable charge for this service.

c - Colombian consular fees. This item should be easy to check. Since the same applies to customs duties, Colombian warehousing charges, Colombian import manifest stamp tax, and import license fee, these cost elements will not be discussed separately.
d - Freight forwarding fees are not likely to be important enough to warrant separate investigation. A general idea as to their level is desirable.

c - Demurrage charges incurred by the exporter. Since present ship movements are chaotic, this element may be important. It is certainly hard to control. Probably the only possible device is to gain some idea from consuls in each important port of the nature and average amount of these charges, and require the exporter on his invoice or separately to report demurrage fees to the consul for transmission to the Interventor. This report should include the length of time for which demurrage is charged, both as a check against the average rate furnished by the consul and as a means of discovering whether exporters are claiming excessive demurrage times.

f - Exporter's premium. For United States exporters, this should be required as a separate item on the invoice. For other countries, importers should be asked what they consider a fair export premium to be, and this information can be checked by comparing invoice copies received against maximum price regulations sent in by consuls.

g - Interest, etc. charges. Under present conditions, with cash balances long and goods short, it may be questionable national policy as well as bad price control to permit any addition to costs as an allowance for interest. At most, a reasonable commercial rate for good trade paper should be determined after consultation with leading bankers who are engaged in financing foreign trade transactions, and a maximum period of usance - e.g., 60 days, 90 days - should be determined by the same method. Multiplying the maximum rate by the maximum period should determine the maximum allowable interest cost. This need not be allowed on cash sales, etc., but it should provide a useful standard of reference.

h - Insurance - marine and war risk.

i - Marine insurance is not likely to be a very important element in the landed cost of goods, and standard quotations should be easy to obtain from any marine insurance company.

ii - War risk insurance, however, is both high and likely to fluctuate from time to time. The Interventor should keep posted as to developments in this field. Determination of a reasonable rate for war risk insurance on cargo should be very simple. Unfortunately, the problem does not end here - since this rate is high and will probably continue to be so, the basis upon which the rate is calculated should be carefully defined. Landed cost of goods may vary by 5% or more depending on whether the cargo is insured on its f.a.s. value, or on its c.i.f. value with an extra allowance for profit on money tied up in the shipment. The custom of the import trade should be investigated with regard to each major commodity, and the following questions asked: Who customarily pays the insurance? Upon what basis is the insured
value calculated? Will insurance companies permit any valuation which the insured cares to declare, or do they scrutinize these valuations closely?

Time may be saved by discussing the matter first with leading war-risk insurers.

1 - With ocean freight, as with insurance, the problem is at present simplified by the decline in the number of possible ports of departure for ships arriving in Colombia. Thus information need be gathered as to freight (and war-risk insurance) rates on only a few main routes. Freight rate information should be easily obtainable from any major shipping company; variations in rates are also easy to watch.

k - Unloading, etc. charges. This information should be easily obtainable at ports of entry.

The information thus gathered has value in the following respects:

First, it permits a preliminary opinion to be made as to the need for control of some products because of their unjustified advance in price and gives some indication of the level at which control is most necessary. For these purposes, detailed information is unnecessary.

Second, it aids in forming a reasonable judgment as to the proper method or technique of price control to apply to imports which must be controlled.

Third, if a freeze or specific price is decided on, this research is essential in determining the date of the freeze or the level of the specific price chosen.

Fourth, regardless of the pricing method chosen, but particularly if margin control is decided on, such information is a powerful aid to enforcement.

Certain other of this information will be discussed in connection with points II, III, and IV below.

3 - Once the importers' costs are verified in general or in detail, the question of allowable profit emerges. This question is similar to those discussed in more general memoranda on price control; suffice it to say here that the import field may prove particularly difficult because here more than elsewhere the average merchant has suffered a drastic decline in the volume of his business. (See Next Steps on Price Control - II - pages 5-6).

4 - A very complex situation exists if the importing is done by a foreign company which handles its Colombian business through agents. Here the original price charged by the seller to the buyer loses its importance as a base upon which to build price control; this original
"Price" may not even be a matter of record, and since the "seller" retains title to the product until after its importation, such a "price" is almost meaningless, even if it can be obtained. Ideally, the solution would be to ascertain the price charged by the foreign principal to customers in his domestic market and using this as a base, to calculate a fair price for Colombia. Actually, such information may be difficult or impossible to obtain. A second solution, practical in some cases, is to compare the price charged by sellers of the identical article in the foreign market, plus cost and profit mark-ups allowed Colombian importers, with the selling price of the foreign company. This solution is obviously restricted by the fact that many products, especially branded products, specialties, etc., have no recognizable duplicates. If the seller is subject to maximum prices in his own domestic market, the problem is fairly simple; these maximum prices should be obtained and used as a base for arriving at the Colombian selling price. If none of these methods is applicable, a base-date "freeze" plus price increases if certain specified costs increase may be the only method of dealing with the problem.

The proportion of sales of a product handled through domestic importers and agents of foreign companies should be established before a resolution is issued. If the percentage is very small, it may seem wise to prohibit the agency type of sale altogether, in order to prevent evasion; alternatively it might be provided that bona fide agents may retain their existing affiliations, but that they cannot take on agencies for any new products if they sell directly in the Colombian market out of their own stocks, nor can new companies appoint agents in Colombia for the products controlled. The price would then be set on the basis of the records of "independent" Colombian importers.

If agents constitute the usual channel through which the goods are sold and delivered in Colombia, the best method would seem to be to ascertain how much their prices had increased over the last eighteen months or two years. If these increases were small or non-existent, their prices could be frozen as of the present; if they were large, they should be compared with increases in war-risk insurance, ocean freight, and other measurable factors. Prices could then be frozen as of some past date plus a reasonable allowance for cost increases since that time.

The foregoing remarks about agents refer to the type who import goods either in the name of the foreign company or in their own name as agents. The same problem does not arise if the "agent" simply takes orders to be filled by independent domestic importers, or if he spends his time directing advertising and personal contact campaigns to increase the use of the product or products he represents.

D - Criteria for selecting import prices to Control.

1 - The most obvious criterion, of course, is value of imports of the product. Since import statistics for past years may be completely irrelevant to the present situation because of foreign
supply or shipping scarcities, or because of the subsequent growth of a Colombian domestic industry, these statistics should be as up-to-date as possible. They should be supplemented by discussions with the Superintendency of Imports and with importers, in order to get a general idea as to the probable future volume of imports of the products considered. a) The first step should be to draw up a list of products whose importation has been important in the recent past, and to ask qualified authorities to strike out those no longer important, and to add other products, if any, whose large-scale importation is just beginning.

2 - Commercial practices do not necessarily correspond to customs' classifications. The foregoing list must be modified on the basis of two additional considerations:

a - Many import classifications which seem to be important are in fact composed of numerous different products. This is particularly true, of course, of miscellaneous classifications: "Other products of the chemical industry", "Other rubber products", etc. It may be true of classifications which look quite homogeneous on paper. A talk with customs officials or a sample examination of customs records ought to be sufficient to weed out the most heterogeneous "major" products.

b - Minor products may be so similar to major ones that control of the latter without control of the former would simply reverse their relative positions, give the public a product it wants less rather than one it wants more, and discredit price control. Fortunately, the import statistics are assembled on a basis which makes the discovery of these affiliated minor products a relatively simple matter. Commodity experts in the Interventor's office should also be useful in helping to determine what stragglers to include.

3 - Essentiality of the product to national life is, of course, as important a criterion as it is difficult to determine. Here the experience of the Superintendency of Imports should be invaluable. Imports can at least be sorted into the obviously essential, the probably essential, and the obviously non-essential in rapid order. This sorting will spare the Interventor from ridicule which might result if for example, Scotch whiskey prices were controlled and essential drug prices left free. It will also have the best possible rationale behind it: importers of essentials are under present conditions being granted a public license to carry out a function of great public importance, and they should not be allowed to abuse this license by exorbitant charges to necessitous buyers.

4 - Essentiality of the product to low-income consumers is a further criterion which should narrow down the list compiled under point (3). Thus textile machinery may be essential to national life, but if the prices of textile products are not controlled and if such control is not contemplated, it may be useless to try to control prices charged for machinery. This problem is simplified by the fact that users of machinery, etc., are more likely to deal directly with foreign suppliers and for that reason are less likely to pay huge profits to a chain of intermediaries.
The compilers of cost of living statistics in the office of the Comptroller General will be able to give valuable information as to items which should be on the list of essential imports.

5 - Relative percentage increase in prices in the last one to three years is a further important criterion. Thus, both from the standpoint of policy and of tactics (the public will appreciate rapid and large price reductions), the first product controlled may well be the product whose price has risen most. A rough idea of the order of priorities according to this criterion may be gained by taking import figures for the last three or four years and dividing their stated peso value for each year by their weight (or other physical unit) to arrive at a unit-value index. This should uncover some of the worst increases. This method is unsatisfactory by itself, however, because:

a - Grade or quality changes may have occurred which make a unit price increase arrived at by the foregoing calculation actually meaningless. Thus the average price of a tire may have increased greatly, but the reason may be that the average tire now imported is much different from the average tire of three years ago, and the increase may only reflect this fact.

b - Some of these increases may be due to unavoidable increased costs in the exporting country; it is probable that the most extreme increases have occurred because the source of supply is entirely different from what it used to be. In many of these cases, the Price Interventor is powerless to act, and here, of course, the information gained is not very helpful.

c - Increased landed cost gives no measure of increased cost to the public. Thus the foreign seller may have charged the domestic importer a very reasonable price, but profits from that stage may have skyrocketed since the basic date with the result that the public is paying dearly for the product.

Whatever the deficiencies of this method as a means of ascertaining price increases, it at least serves as a basis for determining how much of the final price increase is due to conditions in Colombian trade and how much arises from foreign factors. Therefore, subject to qualification as indicated above, this analysis should be performed for the essential volume imports.

A further rough approximation to probable price increases may be gained by taking the amount by which necessary imports have fallen off since, say, 1939. Value figures are obviously misleading in this connection; physical figures should be used. Thus the chances of an acute price situation are greater if imports of an essential product are now only 20% of what they were in 1939, than if they are say 60 or 90%. This method is satisfactory only if an increase in domestic manufacture of similar or competing goods does not occur - the application of the method to imports of many textiles would lead to a meaningless result. Furthermore, it can be carried to an absurdity in the case of products, such as certain articles made of natural silk, whose import decline over the period has been 100%.
A still further method for determining these price increases is to examine the Comptroller General's cost of living figures as exhaustively as possible. This should give the best possible information; unfortunately, it will probably not give information on every essential import.

Again, trade channels may volunteer information. This requires some personal knowledge of the reliability of the volunteers, but with this qualification it will probably throw light on aspects of the question which cannot be illuminated by any other device.

A list of important imports might be sent thru the Departmental Price Deputies to Departmental governors, local mayors, or local chambers of commerce, to get their opinions as to the relative order of price increases, together with their comments. Many of these individuals already have considerable information available on the subject, and even rough guesses may be valuable if they are received from enough sources, and then carefully studied.

This study of cost increases will serve not only to establish the probable direction of immediate intervention; it will also bring in a wealth of information which will be of great assistance in determining the type, scope, objectives, and probably effectiveness of the control.

6 - The country of origin of the import may be a determining factor. Thus imports from the United States are more easily controllable than imports from Argentina; the system can be established more rapidly, should work with less friction, and is less likely to present the public with the spectacle of a controlled price which steadily advances.

7 - The number and trade policy of sellers is another criterion. Thus if a few sellers exist, particularly if a few sellers exist abroad, informal arrangements and an agreed course of action may be fairly simple. If these sellers publish price lists for their products which have always been recognized as giving the "fair" selling price all the way from the factory to the consumer who buys at retail, this price book may be taken over directly and every price in it converted into a maximum.

In concluding this discussion of criteria, it should be pointed out that each successive one operates as a separate examiner to weed out products passed as eligible for control by other criteria. In some cases, of course, the various criteria may point in different directions; (6) and (7), for example, may run counter to the first five. But in general the sifting function is the more important, and therefore the criterion which is easiest to apply should be used first and some products definitely eliminated before the more difficult investigations and analysis become necessary.
II - Import price control - Imports from the United States.

A - Control mechanisms now functioning:

1 - In Colombia, in addition to the controls exercised as in normal times by the Minister of Finance through the Customs organization, the Superintendency of Imports has considerable power in determining, and has complete data concerning all imports from the United States to Colombia. As has already been pointed out in the preceding discussion, this organization is an invaluable adjunct to any price control program. Since its efforts are directed at solving the problems created by shipping shortage between Colombia and the United States, its role is much more valuable in this particular setting.

2 - In the United States:

a - The Board of Economic Warfare must issue an export license for every shipment to leave the country. It is our understanding that from now on specific licenses must be issued for specific shipments, and therefore the information submitted by the American exporter must apply to each shipment he proposes to make; he can no longer describe his contemplated activities in broad terms and in turn, receive a general license. a)

b - The United States Office of Price Administration has the following control over export prices of goods leaving the United States:

i - The maximum Export Price Regulation provides that no seller may charge more for an export sale of an article than the applicable domestic maximum price (or cost to him, whichever is lower), plus reasonable additions for export packing, freight forwarding fees, demurrage paid in the United States, consul fees, etc., plus an amount not to exceed 125% of the average percentage export premium which he charged on export sales of the same type in either the last six months of 1940 or the first period March 1 - April 15, 1942, whichever period involved the lower export premium. Thus, if the exporter took an export premium of 20% in the 1940 period and 25% in the 1942 period, his allowable export premium under the regulation cannot exceed $1.25 \times 20\% \times 25\%$.

ii - The Office of Price Administration has in the past received every application for an export license submitted to the Board of Economic Warfare (these applications contain proposed selling prices), has examined these applications which seemed to call for excessive prices, and has recommended that the Board of Economic Warfare refuse those which would not bear investigation. It has also compiled statistics on average, maximum and minimum export premiums charged on certain categories of goods, month by month, since the effective date of the export regulation. It would probably examine these premiums on the basis of exports to Colombia, if the request were to be made.

The system of controlling export prices sketched above has suffered in the past from the following deficiencies: as has been
indicated, this control could not be too severe if the importing country exercised no control over final price to the consumer; therefore the exporter determines his own average premium, and these determinations are overruled by denial of an export license only when the requested premium seems obviously excessive. Secondly, no check has existed to guarantee that the price proposed on the application for an export permit was in fact the price charged the consumer; the seller still makes out his commercial invoice and dispatches it through the usual channels, without further supervision. Thirdly, there are reliable indications that the practice of splitting the difference between the declared export price and a price arrived at by informal agreement between buyer and seller has occurred; the legitimacy or prevalence of this practice has been impossible to establish in the past because of lack of price control in the importing country. Fourthly, the Office of Price Administration has in the past been able to check on only that part of total United States exports which have necessitated specific licenses; with recent changes in the export control mechanism, this particular lacuna should be eliminated. Fifthly, the agency problem is insoluble by such means. This last point has already been discussed.

In spite of these deficiencies (most of them inherent as long as prices are not controlled in the importing country, but capable of being repaired if such control exists) control of prices on imports from the United States should be relatively simple, for the reasons given below:

B - Factors making for ease of administration in regulating the prices of imports from the United States

1 - The domestic prices of all goods except agricultural products have been relatively stable in the United States since March, 1942. Since Colombia imports relatively small quantities of agricultural products from the United States, this exception is probably not important for our present discussion. Furthermore, although no one can hazard a really dogmatic opinion on future prices, it is reasonable to assume that prices will continue at about their present level. Thus the problem of pricing imports from the United States is greatly simplified, both from the standpoint of gathering information and taking action, by the presence of an extremely important stable factor - the price in the country of origin.

2 - Many United States price regulations now specify specific dollars-and-cents domestic prices. Some of these regulations are issued every day. Thus, not only may the base price be taken as fixed, but also the exact amount of this price may be determined simply by obtaining and reading a regulation. A request to the Office of Price Administration to furnish copies of all of its existing regulations, divided as between specific price regulations and others, and kept up to date by the mailing of subsequent regulations and revisions as they appear, would automatically settle the base-price problem without exhaustive research in the Colombian customs records for many products.
3 - Extra export cost - freight to United States ports, demurrage, etc. - are either not greatly important, or are matters of public record. Transportation charges which seem excessive can be checked with the Interstate Commerce Commission by the Colombian Embassy in Washington.

4 - Ocean freight and war risk insurance rates are not likely to vary greatly or rapidly from their present levels, due to the importance of the War Shipping Administration in determining the rates in both of these fields. They are also quite easily calculable for any product from any United States port by anyone at all familiar with maritime commercial practice.

5 - The Export-Import Office of the Office of Price Administration has issued, and has spent a year in administering an export price regulation. The accumulated experience of this office should prove helpful, particularly in answering questions concerning reasonable export premiums. If the Interventor desired to establish maximum export premiums which Colombian importers would be allowed to pay, he could expect both helpful advice as to a proper level for such premiums and aid in enforcing his rulings.

6 - A suggested plan for simple and effective control of prices of imports from the United States.

The following proposed plan is a purely personal expression of opinion. It attempts, however, to outline tasks which it is believed will be undertaken willingly by authorities in Washington. It also attempts to reduce the burden on the Price Interventor and his staff by utilizing existing organizations and information to the utmost practicable extent.

1 - If the product to be imported is covered by a specific dollars-and-cents price regulation in the United States, the exporter should submit a copy of the invoice he dispatches to the Colombian buyer when he applies for his consular papers. He should note on this copy the relevant "OPA" domestic maximum price schedule number; he should also itemize additions to this price, either on the invoice or on a separate paper, and he should state clearly the terms of sale - f.o.b. point of origin, f.o.b., etc.

2 - If the product to be imported is controlled by any other type of United States price regulation, the seller should submit a copy of his invoice to the buyer with a notation "examined by the Office of Price Administration". This notation would be made in Washington at the same time that the exporter's application for an export license is examined by the Board of Economic Warfare, as part of an investigation procedure similar to that now practiced. The detailed form of this investigation, and the precise papers which the exporter should present to the consul in order to receive a consular invoice, should be worked out in detail with the Export-Import Office of the Office of Price Administration.

As in the previous case, the seller should have the
option of submitting both a copy of the invoice and an attached itemized statement of how this invoice price is arrived at, if he so desires. This option would achieve the necessary goal of furnishing the Office of Price Administration and the Price Interventor in Bogota with an itemized statement of costs, while at the same time it would not force the exporter to change his bookkeeping methods in making out invoices or to disclose the amount of his premium to the Colombian buyer.

3 - The consul will then forward the information submitted in accordance with point (1) or (2) to the Price Interventor in Bogota, together with the export license number of the shipment. This latter information will facilitate checking on the shipment if further investigation seems necessary.

4 - Once the foregoing information is available, the Interventor can then proceed to take such measures as he deems proper. If the export premiums charged seem excessive or unduly variable from case to case he may present these facts to the Office of Price Administration in Washington with the request that an upper limit be set on premiums or that certain export applications be refused in the future unless premiums are reduced. He may also apply any of the price techniques discussed in our earlier memorandum (Next Steps in Price Control - III) on the basis of the cost data he receives. As cost experience accumulates, he can revise original regulations, make representations to the Superintendency of Imports as to proper minimum shipments for different categories of imports, black-list certain exporters or importers if they persistently violate regulations, etc.

III - Imports from countries other than the United States

A - Peculiar problems:

1 - The country of origin may have no domestic price control on the articles exported to Colombia. In this case, no fixed base for an import price can be found. Any constant level of prices over a long period is likely to be fortuitous. An attempt to regulate prices which Colombian buyers may pay abroad may simply shut off supplies, unless the market for the product is mainly outside of the country of origin and other countries are also interested in holding down the prices they are forced to pay for the product.

2 - The country of origin may have domestic price control but no export price control. If the foreign market for the product is fairly restricted, and if other foreign buyers are interested in the price problem, joint action may bring results. The difficulties of individual action in this field may be illustrated by an example: The British control both the domestic price and domestic allocation of cresylic acids, which are indispensable for the production of certain plastics, etc. They did not originally control the export price of these acids. The result was that prices in Britain to United States importers reached fantastic levels - as much as three times the domestic maximum price. The Office of Price Administration took the matter up with the British Government, who cooperated by fixing a reasonable maximum price for export sales.
to the United States. The result was that for a six-month period all supplies went to Brazil and Argentina, because prices to these markets were uncontrolled. Finally, in order to assure United States importers of any supplies at all, prices were fixed for all export sales.

In both the cases discussed above, control is difficult because it may result in a disappearance of supplies offered to Colombian importers. Especially in the case of purchases in a country with no domestic price control, checking of evasion is also difficult - even if the buying-price problem is avoided by introducing a margin regulation which allows the importer a specified amount or percentage over his landed costs, the question of checking the correctness of reported landed costs remains.

B - Suggested measures for solving these problems

1 - Regardless of the price control situation in the country of origin of the article, the invoice requirement discussed in connection with United States experts may operate to furnish information as to the general level of prices in the supplying country and to check evasion by Colombian importers. If imports of one single product from a single country are of great importance, a fairly exhaustive investigation of the market situation in that country may be justified.

2 - For important products, a study of the export market in the country of origin may yield valuable information. Thus many products are now being exported from Brazil and Argentina to Colombia, Venezuela, Peru, and Chile. The investigation could be confined to the latest available export trade statistics of the country of origin. If it should disclose that most of the exports of a particular product go to a small group of countries, the matter of co-operative price control on the product might be taken up with the other countries involved.

3 - The acuteness of the shipping situation may make this proposal impractical, but it is presented for what it is worth: some articles of great essentiality may be coming in at present from sources where prices are not controlled. If their price is a matter of extreme importance, it might be advisable to shift purchases of these articles to the United States and force importers to go to other countries for articles of less essentiality which can be obtained there. The definition of essentiality used here is perhaps slightly different from that which the Superintendency of Imports is now employing. The emphasis is on the fact that the product must be available at low prices.

4 - Subsidies may be the only means of keeping prices within bounds. This method should be used with caution, however, if the market in the exporting country is a highly speculative one, the result of the subsidy may be simply to raise prices at the source to an equal degree. Furthermore, subsidies would presumably be paid only on products of enough importance to justify concern about their prices; as a corollary of this, subsidies might involve substantial sums of money. In most warri ng countries, with half or more of the national income going for war purposes, such substantial amounts are of no relative consequence;
the public has become so accustomed to astronomical government expenditures that even the biggest subsidy seems relatively trifling. Colombia's present budget is at moderate levels, and therefore a subsidy of any substantial amount would appear to taxpayers as a matter of considerable relative importance. This is particularly true since the beneficiaries of the subsidy, although in fact they are domestic consumers of the product, might be depicted as being foreign sellers. Finally, a subsidy plan involves considerable paper work for everyone concerned, and even the most elaborate safeguards cannot prevent isolated cases of undeserved subsidy payments.

5 - Some foreign suppliers may be legitimately interested in continuing to supply the Colombian market after the present abnormal situation has disappeared. In this case, an announcement that extreme advances in prices quoted to Colombian importers will be published might cause some moderation in exporters' charges. This is particularly true if the exporters feel that price reductions will be carried through to consumers of the product, and therefore that future goodwill can result from present moderation.

6 - If none of the foregoing methods offers any hope of stabilizing or reducing some import prices, the only price control possibility is probably a margin regulation specifying percentage or absolute amounts to be added to landed or other costs in arriving at a maximum price. We have discussed this price control method in detail in a previous memorandum.

IV - Imports of one commodity from both the United States and other countries.

A - Peculiar problems:

1 - The same article may have two or more different import prices depending upon the country of origin. Furthermore, the price from one or more countries may be completely stable, whereas the price from others may be subject to violent and unexpected fluctuations. The resulting rush for the cheaper article, and public justification as to the reason for the level and variations of the difference in price, may discredit price control and make enforcement very difficult.

2 - This problem is accentuated if the article with the cheaper landed cost is qualitatively superior. This may bring strong protests from sellers who are forced to sell at a cheaper price if they feel that the public will assume that theirs is an inferior article; conversely, it will augment public confusion and accentuate the rush for the better article if the quality distinction is generally recognized.

B - Possible solutions:

1 - Importers may be allowed an average mark-up.

These have been discussed at great length under the heading, "Margin Control" in the memorandum "Next Steps on Price Control - III". At this point it needs only to be emphasized that any of the
measures mentioned in that discussion should preferably be applied at the import level or even when the goods are purchased in their country of origin; administration of elaborate price plans is not difficult if the administration must deal with only a few sellers whose operations can be watched without undue inconvenience; it is almost impossible if every retail seller in the country must be watched over while he executes an elaborate plan. This argument is particularly cogent when discussing imports; in this case, the information available at the import level is unsurpassed, and the tradition of dealing with the government is so well-established that government intervention, rather than lack of it, seems the normal thing.

FOOTNOTES

Page 2 - a) Decree #928 of May 11, 1943 provides for an Advisory Board to the Price Supervisor of four members appointed by the government to represent national manufacturers, import merchants, agriculture and labor.

Page 11 - a) Because of the nature of Colombian law, it was necessary to create a Judgeship within the Price Control Office to be in charge of conducting all investigations and suits for violation of price control regulations. The Judgeship was created by Article V of Decree #928 of May 11, 1943.

Page 59 - a) The National Superintendence of Imports was created by decree #935 of February 13, 1942 and was empowered to issue Certificates of Necessity for the importation of goods subject to allocation in the United States, as well as to study import requirements and to distribute stocks of scarce imported materials to the most essential industries and areas. In addition, the Superintendence, prior to the creation of the Price Control Office, was charged with control over sales prices of imported products.

Page 62 - a) The present policy of the Foreign Economic Administration, into which the old Board of Economic Warfare has been incorporated and reorganized, is to issue general licenses for commodities not in short supply, whenever circumstances so justify. Restrictions on exports to fifteen of the Latin American Republics were further eased on January 1, 1944 by the announcement from the Foreign Economic Administration that applications for licenses to export a substantial number of commodities need no longer be accompanied by the import recommendations formerly required under the "decentralization" program.