NOTES ON THE SIGNIFICANCE OF TRADE, LEGAL, AND PRICE
BARRIERS IN RELATION TO "SOCIAL PROGRESS"

by

S. von Ciriacy-Wantrup

With author's compliments!

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S. von Ciriacy-Wantrup
University of California

With the description of the many present economic and institutional barriers which has just been presented one can be in general agreement. However, some further discussion of the causes and the economic significance of these barriers in relation to "social progress" may be useful. It is our objective, therefore, not to criticize the material already before you but to supplement it with an attempt to analyze the significance of three main groups of barriers, namely, trade barriers, legal barriers, and price barriers.

First, a short remark about the concept of "social progress" may be permitted. Dr. Peterson does not define what he regards as "social progress." One is forced to conclude by inference that "social progress" is that development of society which would take place if those barriers which are mentioned were removed. Since most of the important barriers erected by governments and by monopolies are included, social progress becomes closely related to "laissez faire" and "free competition." One can have great sympathy with this point of view. It has to be discovered, however, whether or not there are barriers needed to enable free competition to function properly or to protect society from certain socially undesirable effects of competition. Furthermore, it is not certain if one is justified in defining social progress on the basis of one's own personal standards of value. It is often necessary for economists to undertake such an evaluation on the basis of the social value standards of that society with which they are dealing.

Social value standards are different for different societies existing at the same time and for the same society at different stages of its development. The specific content of social value standards finds its expression in public opinion, in the system of government, in law, and in other rules of conduct. Its changes are particularly noticeable in the social attitude towards those economic and institutional barriers which are under discussion here. In the same way as the French Revolution was only the outward expression of a change in social value standards which was under way for some time, so the social revolutions which followed the World War may be premature expressions of a fundamental change in social value standards which began in the late nineteenth century. The former may be characterized as a swing from preference for a closely regulated but secure and stable state of affairs in personal, political, economic, and spiritual spheres towards a

preference of socially stimulating and invigorating but somewhat risky and unstable freedom. Today the pendulum in social value standards seems to swing in the other direction; that is, from preference of freedom to preference of security not only in economics but in other lines of human endeavor as well. It is only if this swing proceeds rapidly, as it does today, that a larger number of people become conscious of it. Some of us who value freedom above everything else and are willing to pay the price for it in risk and instability may regret this swing. But we have to take this swing into account if the term "social economics" is to retain any meaning. A definition of social progress today may, therefore, imply a different blend of security and freedom, of barriers and initiative, of rigidities and flexibilities than that blend which prevailed during the nineteenth century.

It would lead me too far afield to go in detail into the causes of contemporary shifts in social value standards. The causes may be partly "external," that is, may consist of changes of economic "data"; for example, in the technology of production, in communication, in population growth and age distribution. Or the causes may be "internal," that is, may simply be a reaction towards the social effects of the previous "period." Today this reaction is directed particularly against the increase of insecurity of work and income, the growth of private monopoly power, and the destructive exploitation of potentially permanent natural resources.

No single definition of social progress is therefore possible. Barriers which act as breaks to the social progress at one place and time may be essential for social progress at another. At the present time we may need barriers to safeguard social progress through increasing the number of people who participate in it, through making their participation more secure, and through protecting the resource basis for participation of the next generation.

Trade Barriers

Let us consider now under what conditions trade barriers can be socially beneficial. The outstanding argument in favor of trade barriers is the infant industry argument as early formulated by Alexander Hamilton, H. C. Carey, and Friedrich List. Even if one eliminates the bulk of their arguments as ideological, enough remains to form a generally accepted, strictly economic argument in favor of trade barriers. The only objection which can be raised against the economic validity of the bona fide infant industry argument is that the industry in question may often be encouraged more effectively by a public subsidy instead of a duty. A direct subsidy could be raised through progressive taxation in a socially more desirable way than a subsidy through tariff protection which often amounts to a regressive tax on consumption.

2/ J. M. Clark correctly states that "laissez faire really means whatever system and degree of control we have come so accustomed to that we accept it as natural." (American Economic Review Supplement, March 1936, p. 335.)

More recently Keynes and others have defended trade barriers in cases in which factors of production are unemployed in the region which is to be protected.4/ There is no doubt that employment can be increased through trade barriers, but as a general permanent policy this would lead to a decrease in real incomes. Exports would decrease as a consequence of decreases in imports and the advantages of international division of labor would be lost. Other means of combating unemployment would lead to better results. As a temporary policy during depressions, however, trade barriers may often lead not only to an increase in employment but also to an increase in real incomes. This is particularly the case if public unemployment relief exists in the protected region.5/

Likewise, as a temporary policy, trade barriers will increase social security if they enable the protected industry to avoid adaptation to a temporary comparative cost superiority of a foreign industry, only, subsequently, to readapt itself to the previous situation. Such a protection is particularly important, and may be necessary over a considerable period of time, if the adaptations involve, first, deterioration and, then, reconstruction of expensive fixed equipment or of specific skills and knowledge. For instance, agriculture in older countries has to be regarded as a high fixed cost industry, the protection of which over considerable periods may be economically justified if changes in comparative costs are not clearly of a lasting nature. Several historical examples could be cited.6/

The most daring attempt to justify trade barriers with economic arguments worth discussing has been made by Manoilsco.7/ In dealing with Ricardo's classical example of comparative advantage in the wine and clothes trade between Portugal and England, he objects correctly to the assumption that wine and clothes are exchanged according to labor time costs,


7/ Manoilsco; Mihail. The theory of protection and international trade. London, 1931.
an assumption which follows from Ricardo's labor cost theory of value.\footnote{8}{A given quantity of wine is produced in Portugal by 80 workers; a given quantity of clothes is produced in Portugal by 90 workers; the same quantity of wine is produced in England by 120 workers; the same quantity of clothes is produced in England by 100 workers. The advantage of Portugal in wine production (120/80) is greater than in clothes production (100/90). Since Ricardo assumes that wine and clothes exchange at a ratio (labor time costs) of 80 in Portugal and of 120 in England, a given quantity of wine would purchase 80/90 quantities of clothes in Portugal but 120/100 quantities of clothes in England. Portugal's advantage in exporting wine and importing clothes is therefore \( \frac{120}{100} / \frac{80}{90} = 1.35 \). England has the same advantage in exporting clothes and importing wine.}

If the clothes industry is more capitalistic than the wine industry, that is, if more capital is employed per worker than in the wine industry, the average productivity of labor in the clothes industry is much greater and the product of one worker may, for example, be exchanged for the product of two workers in the wine industry.\footnote{9}{Productivity is defined by Manoilesco as "value added," \( P \), per human agent \( T \), and per capital \( C \) employed. It is formulated as \( \frac{P}{\sqrt{TC}} \).}

Portugal's advantage in exchanging wine for clothes would thereby be cut in half and turned into a disadvantage.\footnote{10}{It is not difficult to point to the misconceptions in Manoileesco's argument. First, differences in the quality of labor may cause differences in productivity of the same labor time. Second, the irksomeness of different occupations and the living conditions associated with such occupations may explain apparent differences in productivity. Labor time costs have to be weighted by what Pareto calls their "ophelimity coefficients." Third, if}
productivity is measured in monetary terms, as it must be, the purchasing power of money for real income in different economic distances from the market within the same country must be taken into account. This localization aspect of productivity is of particular importance if per capita productivities of industrial and agricultural workers are compared. Fourth and most important, the establishment of industries in an agricultural country requires capital. The capital at the disposal of a country is distributed between agriculture and industry in such a way that its marginal productivity is equal in all industries whether engaged in export or in domestic trade. This is, of course, also true for the marginal productivity of comparable units of labor. Thus, if industries more capitalistic than agriculture are established, the latter must become less capitalistic and the social product per capita in it must diminish accordingly.

Nevertheless, there may be a kernel of truth in Manolesco's argument in favor of trade barriers for agricultural countries which, incidentally, did not occur to the author. It was stated above that trade barriers may have a socially desirable result if unemployment of factors is widespread. It is not unrealistic, I think, to assume that in many agricultural regions there is rather widespread underemployment mostly disguised but often manifest. If investment opportunities are created in new industries through a protective tariff, not only employment but also the social product may be increased, particularly if the equipment for the new industry can be obtained by influx of foreign capital. The latter is usually the case if an agricultural country, which commonly has very limited investment opportunities, turns towards industrialization. It should be kept in mind, however, that the same effect may be obtained more effectively by direct subsidies to industry and by changing those features in the agricultural pattern which cause unemployment. This applies not only to countries but also to regions.

12/ It has been said, incidentally not by Manolesco, that Ricardo developed his theory under the assumption of constant costs and that his argument is not applicable if the comparative advantage of a country is in an increasing cost industry like agriculture and its comparative disadvantage in an industry with decreasing costs. Since the principle of comparative advantage applies to a comparison of marginal costs as well, little theoretical and practical validity remains for this argument, (cf. J. Viner, Studies in the theory of international trade, p. 470-482, New York 1937, and F. H. Knight, Some fallacies in the interpretation of social cost, Quarterly Journal of Economics, vol. 38, 1924, p. 592-604). The only objection, I think, which could be made against the principle of comparative advantage is that in a country with a common monetary system like the United States or in countries connected with an international standard or with flexible exchange rates, the principle of comparative advantage becomes a rather roundabout way of saying things. The monetary mechanism brings about such an adjustment in price levels or exchange rates that differences in relative prices of cost factors, which give rise to trade, become absolute differences in money costs of the same currency, taking into account the reciprocal changes of demand resulting from trade. It is possible, therefore, to operate in location theory without explicit reference to the principle of comparative advantage. This, of course, does not speak in the least against the validity of the principle of comparative advantage as restated by Taussig, Viner, and others.

13/ As done in prewar Hungary which had a customs union with the other parts of the Austria-Hungary Empire.
within a country. One may venture, for instance, the opinion that facilitating the industrialization of the Old South of the United States may be the most economical way towards rehabilitating its underemployed agricultural population. At the present time external and internal trade barriers (tariffs and railroad rates) are working in the opposite direction.

It is scarcely necessary to mention that the unemployment argument in favor of trade barriers is often very closely related to the infant industry argument, namely, if one accepts the view that industry, skill, education, and social organization of the human agent are the most important factors determining comparative advantages. Both arguments are essentially "dynamic," that is, they hold for limited periods and do not change the permanence validity of the accepted theory of free international trade. However, they may curtail the practical usefulness of the theory in a time like ours, in which cyclical and structural unemployment offers the most serious challenge to economic policy, in which national security is more important for many countries than strict economic benefits, and in which the regulatory monetary mechanisms which form an essential part of modern theory of international trade -- like the adjustment of internal price levels under an international standard or the flexibility of exchange rates under managed national standards -- have largely ceased to function. This does not apply, of course, to internal trade barriers. This country particularly was aided in its ascendency to the economically strongest commonwealth of the world by the fact that it forms in itself a free trade area which includes numerous regions of greatly different comparative advantages. It would be a great tragedy if one of the strongest pillars of American prosperity were weakened by shortsighted sectionalism.

Legal Barriers

Let me now turn to the legal barriers to social progress. It is only to be expected that in a period of rapidly changing social value standards the restraining effects of existing laws, regulations, and customs are keenly noticed. They are rightly felt as belonging to a different past. It is almost commonplace to say that if laws and legal privileges are not changed in time, they will lead to serious and permanent social maladjustments. 14/

One can thoroughly agree with Dr. Peterson's view that legal technicalities and legal administration ought to be as flexible as possible. He also correctly stressed that the legal setup of smaller subdivisions displays a socially undesirable resistance to change. Many of the smaller subdivisions were established under totally different conditions of available resources, technology of production, and communications. Their functions may now well be consolidated and entrusted to major administrative units. However, if it

14/ Since no one has given deeper and clearer expression to this than Goethe, ("Faust," Part I), permission may be asked to cite a poet-philosopher:

Es erboh sich Gesetz' und Recht
Wie eine ew'ge Krankheit fort;
Sie schleppten von Geschlecht sich zum Geschlecht,
Und rücksen sachet von Ort zu Ort.
Vernunft wird Unsin, Wohlthat Plage;
Woh dir, dass du ein Enkel bist!
comes to the essence of constitution and laws and to supreme legal administration, too much flexibility may be as dangerous to social progress as too little. As in the case of trade barriers, the question to be asked about legal barriers is not whether a society should have them or not, but how many and what kind.

It is true that some of the Supreme Court decisions mentioned by Dr. Peterson have retarded social progress in detailed matters, but the fact that the Supreme Court has acted as a break on the fast turning wheels of economic and social development may be favorable to safe social progress in the long run. Even in detailed matters, barriers erected by the Supreme Court have scarcely impeded social progress. The growth of private monopolies and the protection of inefficiencies which took place under the N.R.A., the incidence of the processing taxes under the first A.A.A., and the general economic effects of the agricultural restriction program under the present Act are several instances which scarcely deserve regrets for the pertinent decisions of the Supreme Court.

Turning to other countries, it may be mentioned that most of the revolutionary changes of government which took place in many parts of the world in the postwar period started in a rather innocent looking way by tinkering with the legal system. The legal system was declared to be a barrier to social progress. In fact, it was according to the definition of social progress adopted by the parties striving for absolute power. It seems that a society built upon personal freedom and private initiative needs a stronger legal system and a stronger legal tradition than a more socialistic society where planning and administration by strong public bodies can effectively replace legal barriers. The latter may be the solution to the future, whether we like it or not, but a maximum of personal freedom and a minimum of legal barriers will scarcely be possible at the same time. No society, any more than an individual, can have a cake and eat it at the same time.

Often legal barriers have undesirable social results not of their own account but because their administration is ineffective through inefficient bureaucracy or through the influence of political pressure groups behind the scene.15/ The remedy in such cases is, of course, a high-class civil service, not the elimination of legal barriers.

Price Barriers

The last major group of barriers to social progress we have to deal with are price barriers. In spite of the great interest which has been shown in this field recently, there are many commonly accepted notions with regard to the causes and economic significance of rigid prices which need considerable deductive and inductive clarification.

Price rigidity scarcely extends over the period of a business cycle and almost never extends over the long cycle. Price rigidity is a relative

15/ The fate of the antitrust legislation ("rule of reason") in several countries has not been free from these deficiencies.
concept. There are prices which undergo less frequent changes or changes of smaller amplitude -- both changes go together -- in relation to other prices over a given period of time. Thus, in periods of general upswing or down-swing of prices characteristic shifts in the relationship between rigid and sensitive groups of prices can be observed. This is not at all a recent phenomenon. It has been shown that these shifts in price ratios have led to serious changes in the position of whole industries which accompanied the three long depressions in agriculture and industry since the end of the eighteenth century.16/

It is not at all necessary that monopoly power in its broadest sense, that is, including imperfect competition and monopsony, is present to cause differences between rigid and sensitive groups of prices as is often believed. Likewise, price rigidity does not at all require that prices are "administered." This phrase which has recently become so fashionable seems to be rather unnecessary and misleading.17/

The causes of differences between relatively rigid and relatively sensitive prices can largely be traced to differences in relative elasticity of supply and demand schedules between these two groups of prices. The term elasticity refers to arc elasticity. For our comparisons are elasticity is somewhat more useful than point elasticity in spite of the more general theoretical validity of the latter concept. But it goes without saying that the elasticity of different points of an arc under consideration is generally greatly different. In comparing elasticities of demand, for instance, the degree of saturation already reached is an important factor determining elasticity.

Variations of price over a period of years are caused both by changes of supply and by changes of demand. One may generally say, therefore, that the relation of slope and shape of the supply schedule to the demand schedule of a commodity in comparison with the relation of the supply to the demand schedule of another commodity determines whether the price of the first


17/ The term "administered prices" has been popularized by G. C. Means.


A critical analysis of Mr. Means' approach is presented by Rufus S. Tucker and by Don D. Humphrey.


commodity is relatively more or less rigid than the price of the second. The rigidity of a price will "ceteris paribus" be the larger the more elastic supply and demand schedules are. In the subsequent comparisons between two or more commodities, the term "price variation" refers to relative variations of prices and the terms "changes of supply" and "changes of demand" refer to relative changes in position, shape, and slope of the respective schedules.

One form of changes of demand must be especially mentioned, namely, those changes of demand which are caused by changes of income. The term "demand elasticity" usually does not include income elasticity. It may be preferable to use the term "price elasticity" instead of "demand elasticity" because income elasticity also is a form of demand elasticity. But a change in terminology may lead to confusion. For that reason we shall continue to use the term "demand elasticity" in the customary sense. It is scarcely necessary to emphasize that, as demand elasticity for the same commodity is generally different at different prices, so income elasticity is different for different levels of income.

The two concepts of elasticity are important for an analysis of price rigidities because a relatively high income elasticity tends to make prices not relatively more rigid, as a relatively high demand elasticity does, but relatively more sensitive. For individual commodities, demand and income elasticity are not associated in a certain generally predictable fashion. Care has to be taken, therefore, not to confuse the two concepts.

The foregoing general statements about the effects of supply and demand elasticities upon price rigidity hold equally for pure competition and for monopoly. In the latter case, of course, marginal costs and marginal revenue of the monopolist take the place of the industry's supply and demand schedules.

One may go a step further and ask whether our conclusions with regard to the relation between price rigidity and elasticity of demand and supply schedules do not only refer to a factor which influences general price rigidity over a period of time, but is applicable also to individual price variations under specified conditions. One may investigate, for instance, under the assumption of identical supply schedules but different demand elasticities of two commodities, the effect of (relatively) equal changes of demand upon price, and similarly, under the assumption of identical demand schedules but different supply elasticities, the effect of (relatively) equal changes of supply. It can be demonstrated that our generalization holds under conditions of pure competition.

\[ o_p = \frac{\frac{dx}{x}}{\frac{dy}{y}} \]

\[ o_i = \frac{\frac{dx}{x}}{\frac{dI}{I}} \]

\[ x = \text{quantity taken} \]
\[ y = \text{price per unit} \]
\[ i = \text{money income}. \]
Under monopoly, however, the relationships are more complicated. Under the first set of assumptions, for instance, comparison cannot be made for the same price because differences in revenue elasticity result in differences in price even if marginal cost schedules are identical. If changes of revenue are compared for different prices, then slope and shape of the marginal cost schedule would cause differences. One has to assume, therefore, constant marginal costs. Under such assumptions price variations would be identical because under constant marginal cost price depends exclusively on revenue elasticity. Since "equal changes of demand" imply equal changes of elasticity, price variations must be the same.19/

It should be kept in mind that the terms "relatively more elastic" and "relatively less elastic" do not mean "elastic" and "inelastic," that is, do not denote elasticity greater or smaller than unity. A monopolist, for instance, will always strive to operate in that section of the demand curve which has an elasticity greater than unity. Otherwise it would pay him to reduce output until demand becomes elastic. A demand curve which continues to have an elasticity smaller than unity if prices are raised and output reduced is impossible. The same is true for supply curves if prices are lowered and output reduced. This is often forgotten if far-reaching conclusions are drawn from so-called inelastic schedules.

The causes for differences in slope and shape of supply and demand schedules can only be touched upon here.

The slope and shape of supply schedules are determined among other factors by the relation of fixed to variable costs and by the slope and shape of supply schedules of variable cost elements. It is often contended that a high proportion of fixed costs makes for rigid prices. Under pure competition the opposite is always -- at least theoretically -- to be expected. In other words, the more rigid costs are, the more flexible are the prices, disregarding the influence which differences in the elasticities of demand schedules may make. Under a monopoly which strives at maximization of profits this holds likewise. Under a monopoly which does not strive at maximization of profits but practices, for instance, average cost pricing, rigidity in costs may cause rigidity in price.

There may be many economically important regularities in the behavior of men which have not directly to do with maximization of profits as assumed by value theory. It is fully granted that such "unorthodox" conduct of economic affairs is of greatest theoretical and practical importance and can be studied statistically. It is contended only that monopoly power and rigid costs cannot be used as an explanation for rigid prices on the basis of accepted value theory.

The variability of labor costs has probably more influence upon the rigidity of prices and therefore upon price ratios and economic disequilibria

19/ The effects of changes of revenue elasticity, if associated with changes of marginal costs, are discussed at length by Joan Robinson. The economics of imperfect competition. London 1934, p. 60-75.
than any other single cost factor. Wage rates have always been relatively rigid but to a different degree in different occupations. Employment, on the other hand, has become very flexible in the free capitalistic economy and in this respect differs greatly from the past and from the still remaining non-capitalistic sectors of the present economy as, for instance, agriculture.

The slope and shape of demand and revenue schedules are also determined by factors which in themselves have nothing to do with the presence of monopoly power and which have always operated in the economic system. Such factors are, for instance, whether a good belongs to the necessities or to the luxuries, whether it is non-durable or durable, whether it is perishable or storable, whether it has complementary or competitive relations to other commodities, and whether its demand schedule is influenced by the expenditures of the final consumer, the trader, or the producer. It should be noted that the difference between necessities and luxuries is not one of demand elasticity but of income elasticity.

Thus far our results are contrary to an opinion one hears frequently even among well-trained economists, namely, that so-called "inelastic" demand favors rigid prices. Such a statement is either outright wrong or it confuses differences of elasticity between the demand schedules of two commodities with changes of elasticity in the demand schedule of the same commodity over time, or with differences of elasticity between different sections of the same demand curve. It may happen, for instance, during the downward phase of the short or long cycle, that a shift of the demand curve toward the left is associated with a decrease in elasticity. Under pure competition this would, at least in the short-run, lead to decreases in prices. Under monopoly, however, a decrease in elasticity causes an increase in price if it is assumed that there are no changes in marginal costs. If, therefore, an equal change of demand of this kind takes place for a commodity produced under pure competition and for a commodity produced under monopoly, the price of the latter will be more rigid than the price of the former. This is merely a special case of the general fact that changes of demand elasticity in themselves do not affect price under pure competition but do so under monopoly. This case has nothing to do with the relative elasticity of supply and demand of the two commodities under comparison.

The foregoing discussion affords a basis for appraising the correctness of Dr. Peterson's general statement that "as a rule the demand is more inelastic and the price more rigid for durable than for non-durable goods" (page 14)


21/ In the long run this is not necessarily the case if constant or decreasing costs prevail in the industry.
and his reasoning about price rigidities, particularly in the field of farm machinery.

First, it may be questioned that the demand for durable goods is, as a rule, less elastic -- I suppose Dr. Peterson really does not mean "more inelastic" -- than the demand for non-durable goods. The quality of durability in itself does not seem to point to a relatively small elasticity of demand. The purchase of durable goods can easily be postponed or anticipated in reaction to price changes. Durable goods generally have a well developed second hand market. They create, so to speak, their own substitutes. The demand for durable goods has also, as a rule, a high income elasticity. Of course, the demand for individual durable goods may have a relatively small elasticity if they belong to the producers' goods, to the necessities or if complementary relationships prevail.

Second, it may be questioned that an inelastic demand for durable goods -- if it were inelastic -- would favor rigid prices. It was shown above that inelastic demand schedules tend to make prices relatively flexible, not rigid.

It may well be that the demand for durable goods is subject to greater and more frequent shifts than that for non-durable goods, partly for the reasons already mentioned. Such a situation, however, would make for greater price variations not for price rigidity and would not mean that elasticity of demand changes relatively more.

How can one explain, then, the rigidity of farm machinery power? Farm machinery certainly belongs to the durable goods. It may be granted also that the demand for farm machinery has a relatively small elasticity, although proof is yet forthcoming. However, the demand for farm machinery would have a relatively small elasticity not because farm machinery belongs to the durable goods but because it belongs to the producers' goods. One can generally assume that the demand for producers' goods has a relatively small elasticity because of its derived character which makes it respond less to price changes than to the sales prospect for goods which are to be produced. But this in itself would make for flexible, not for rigid prices. The two following factors are more important:

First, one may assume, I think, that demand elasticity for producers' goods whether durable or non-durable changes during economic cycles. Elasticity is reduced when demand for producers' goods falls in the beginning of a depression and is increased when it rises at the beginning of a revival although it may be reduced again during the height of the boom. Elasticity during depressions is not reduced because individual demand curves become less elastic -- they, on the contrary, often become more elastic -- but because

22/ In the United States only about 500,000 automobiles were discarded in 1933 as against 3,000,000 in 1929. Automobile registrations and gasoline consumption did not decrease appreciably during the depression. Cf. George, Edwin B. op. cit. p. 287.-------

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the whole demand curve confronting a seller becomes less elastic. During the depression only financially very strong firms are able and willing to take the risk of availing themselves of price reductions for producers' goods. In addition to financially very strong firms, only those which need producers' goods very badly for immediate replacements of equipment or for fulfillment of placed orders are in the market. Thus, the new effective demand curve which is formed in the depression represents the upper loss elastic section of the old demand curve. This section representing now the new curve will probably be more elastic than it was as a part of the old curve, but elasticity may not have increased sufficiently to compensate for the fact that that section of the demand curve which was previously the most elastic has become completely ineffective under the prevailing conditions of supply.

Second, farm machinery is clearly produced under monopolistic conditions, under which, as we know, decreases of elasticity tend, ceteris paribus, to raise prices. In comparing, therefore, farm machinery prices with the prices of agricultural products, which are still largely produced under pure competition, we have the theoretical case mentioned above.

Farm machinery prices are not relatively rigid because they are prices of durable goods or because the demand for farm machinery has a relatively smaller elasticity, but because farm machinery is producers' goods, because the elasticity of demand for producers' goods changes with shifts of demand during economic cycles, and because farm machinery is produced under monopolistic conditions whereas farm products are not -- or not yet. Farm machinery prices are a good example of those many instances in economics in which statistics are used to prove a simple but unsound theory for explaining complicated relationships. The current theoretical explanations of rigid prices are not more plausible in other fields than in that of durable producers' goods.

In concluding, it may be said that differences between rigid and sensitive prices have always existed, that those differences are not necessarily connected with monopoly, "administered prices," and rigid costs, and that those rigidities become barriers to social progress mainly if the whole changes of elasticity of individual demand curves and changes of elasticity of the total market demand curve is often not recognized. J. K. Galbraith, for instance, (Monopoly power and price rigidities. Quarterly Journal of Economics, May 1936, p. 463) states that "people with decreased money incomes and increased concern for their economic security are less rather than more responsive to lower prices." He clearly has in mind the individual demand schedules for which such a generalization for all goods is rather questionable. Two sentences later he speaks of the market demand curve without noting the difference. For a more thorough analysis, compare R. F. Harrod's Law of diminishing elasticity of demand, in: The Trade Cycle, London 1936, p. 15-22, and Helen Makower's Elasticity of demand and stabilization, Review of Economic Studies, October 1939, p. 25-32.
economy is faced by factors which cause general and considerable shifts of all prices. The most important line of attack to eliminate price barriers to social progress is, therefore, the elimination of extreme fluctuations in investment and incomes. The means of accomplishing this lay in the field of monetary and investment policy. Their treatment is beyond the scope of this discussion.

If it is desired to make prices less rigid regardless of these considerations, it can be accomplished by changing the elasticities of supply and demand schedules, by eliminating private monopolies, and by direct price regulation. To make supply schedules less elastic, one may consider, for instance, making labor expenditures not only wage rates, as it is today, a fixed cost. A complete elimination of the difference between rigid and sensitive prices is possible only through complete price regulation. It seems doubtful, to say the least, if -- exempting regulation of private monopolies -- government interference with relative price movements is in the interest of social progress. Not through its economic but through its political implications, government price regulation as a remedy for rigid prices may do more harm than the disease which is to be cured.