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Convergence on inflation and divergence on price control among post Keynesian pioneers: insights from Galbraith and Lerner[1]

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Abstract:

This article proposes a historical and analytical reconstruction of a debate that never happened between John Kenneth Galbraith and Abba Lerner over the issue of price controls. While they adopted a similar analysis of underemployment inflation, shared by many post Keynesians, Lerner and Galbraith remained fundamentally opposed as to the effectiveness of price controls. Indeed, while both agreed on the relevance of price controls in the specific context of World War II, they disagreed over including price controls within the conventional framework of economic policies, as illustrated by their respective stances in the debate surrounding the stagflation of the 1970s. Throughout the paper, we provide the rationales behind their divergence on price controls by investigating its theoretical, epistemological, and normative roots. Finally, we put into perspective the contemporary debates about price control in the context of resurgent inflationary pressures with some salient points drawn from our reconstruction of the debate that opposed these two pioneering post Keynesians economists.

Keywords: Price control - Wage control - Inflation - Unemployment - Stagflation

JEL Codes: B22; B31; E12; E64

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Introduction

Economics, as a field of scientific knowledge, is shaped by external and internal forces. In this early twenty-first century, both are contributing to the revival of interest in price controls as tools for handling inflation and distributional conflicts.[4] On the one hand, the Covid-19 pandemic and then the war between Russia and Ukraine have caused supply-chain breaks, bottlenecks, and tensions in key energy industries. On the other, the publication of *How China Escaped Shock Therapy* by Isabella Weber (2021), accounting for the Chinese dual-track price system and contrasting China's transition toward a market economy with Russian shock therapy, has revived interest in price controls. Then, a tribune she wrote for *The Guardian*[5] fostered public controversies. For instance, Nobel Prize winner Paul Krugman immediately tweeted his opposition to Weber's advice to consider strategic price controls as effective tools in the current macroeconomic situation, whereas James Galbraith (2022) defended her proposal. A few months later, Krugman acknowledged that a price cap in the energy industry might be useful, provided it was only transitory. The rationale he gave is that "right now protecting families and preserving a sense of fairness have to take priority over textbook market efficiency."[6] This clearly suggests that when conventional market instruments fail to do so, price controls can be tools not only for handling inflation *per se* but also for managing distributional issues. The recent publication of a study by economists from the IMF research department (Alvarez and al. 2022), challenging the idea that, between the 1960s and the 2020s, increases in nominal wages necessarily led to a wage-price spiral, against which price control has often been considered as a useful tool, might also fuel the debate.

The tools of price control, often wrongly equated to a "price freeze," could refer to various instruments such as floor prices, cap prices, sliding scales, or guideposts.[7] Moreover, price controls might either be general or targeted at certain sectors only. Historically price controls have often been combined with wage controls on the one hand and rationing on the other, hence the tendency to conflate these macroeconomic policies which were regularly used during World War II and its aftermath. In 1981, Alan Blinder and William Newton commented that "for better or worse, controls over wages and prices have become a standard component of the macroeconomic policymaker's arsenal" (1981, 1). Ironically their statement was enunciated at the very moment price controls were tending to disappear from the conventional arsenal of many

[4] The view of inflation as a distributional conflict has recently reappeared on the public scene following the positions taken by Olivier Blanchard, Larry Summers, Marc Lavoie, Jean-Phillipe Rochon, and James Galbraith. See Galbraith (2023a).
[5] https://www.theguardian.com/business/commentisfree/2021/dec/29/inflation-price-controls-time-we-use-it
[6] https://www.nytimes.com/2022/09/08/opinion/europe-russia-energy.html
[7] For typologies, see Cheung (1974), Galbraith (1987), and Weber (2020).

western countries.[8] This paper proposes a step-back into the history of economic thought to shed new light on contemporary debates on the (in)efficiency of price controls. Looking back into history is particularly justified since "price controls were one of the most controversial wartime measures discussed after 1945" (Paesani and Rosselli 2017, 197).

When they launched the *Journal of Post Keynesian Economics* in 1978, Paul Davidson and Sidney Weintraub lamented that "innovative ideas on inflation and unemployment have been routinely suppressed by prominent journals" (JPKE 1978, 4). Among the pioneers of post Keynesianism mentioned in the journal's statement of purpose, and then invited during the 1979 session sponsored by the *JPKE* during the annual meeting of the American Economic Association, figured John Kenneth Galbraith and Abba Lerner, who devoted much of their writings to the issue of inflation.[9] The stance any economist takes on price control depends on many variables, at the forefront of which are their analysis of the causes of inflation. Galbraith and Lerner shared many insights in this regard. They belonged to the "non-dominant brand" of Keynesianism in post-war economics that opposed neoclassical synthesis models where "concepts are cast in real terms" and excluded "monopoly power" and "administered prices" from the discussion (Weintraub 1960, 149). In fact, Lerner and Galbraith proposed a macroeconomic analysis framed outside the formalized models developed by Hicks, Hansen, and Samuelson and supposed to embody the "Keynesian revolution." Moreover, they saw inflation as both an economic and also a political problem. First, inflation was an expression of distributional conflict between social groups. Second, inflation posed a major threat to democratic stability (Galbraith 1952b, 9; 1952a, 198; Lerner 1949, 196). But despite this common ground, Galbraith and Lerner nonetheless opposed one another over the effectiveness of price controls in fighting inflation. While Galbraith, partly because of his experience at the head of the Office of Price Administration (OPA), was one of the leading proponents of price control in the post-war period to complement fiscal and monetary policy, Lerner proved to be a forceful but cautious critic. How could Galbraith and Lerner share a common analysis of the causes of inflation while largely diverging over the usefulness and effectiveness of price controls?

[8] Price controls never disappeared completely. But it is conventionally acknowledged that price control as one of the main tools of macroeconomic policy disappeared in the U.S. in 1974 with Richard Nixon but after his re-election (Rockoff 1981, 1984), in the United Kingdom in 1980 with Margaret Thatcher (Pass and Sparkes 1983), in France in 1978 with Raymond Barre and 1986 with Jacques Chirac (Warlouzet 2022). Before that, the use of price controls was so common that the OECD wrote in a 1972 report that out of 23 member countries, "the only OECD countries that have refrained from extensive controls in the recent period are Australia, Germany, Switzerland and Japan" (OECD 1972, 78).

[9] Letter of December 9, 1979 from Davidson to Members of the Board of editors of the JPKE. *John Kenneth Galbraith personal papers, JFK Library*.

By investigating their respective positions, this paper aims at discussing the advantages and shortcomings of price control as well as investigating the range of variables—theoretical, epistemological, normative—that explain the great divide between economists regarding this weapon in the arsenal of macroeconomic policies. It also complements several strands of the literature. First, it is related to Keynes and the post Keynesian analyses of inflation. On this matter, Lavoie (1985) stressed that, until the late 1950s, "neoclassical Keynesians" traditionally considered inflation only at full employment while "Cambridgian Keynesians" in the UK simply ignored it.[10] On the contrary, the emphasis on inflation lay at the core of the thinking of Galbraith and Lerner as early as the 1940s (Galbraith 1941, 1947, 1952a, 1952b; Lerner 1947, 1948, 1949, 1951a, 1951b). Thus, their early theorization of inflation as a distributional conflict, likely to occur in a situation of underemployment, made Lerner and Galbraith precursors of the post Keynesian analysis of inflation. Among the other economists to develop such an approach, perpetuating Keynes's analysis of "semi-inflation" (Lavoie, 1985), were Joan Robinson (1948), Gardiner Means (1959), Sidney Weintraub (1960), and Nicholas Kaldor (1964).[11] However, while all these authors agreed to a large extent on the causes of cost-push inflation and on the fact that this inflation remained the most difficult to eliminate, real oppositions still persist on the question of how it should be fought. The subject remains a factor of deep "dissension among post-Keynesians" (Lavoie, 1985, 194). These dissensions can be found in the opposition between Lerner and Galbraith on the question of price controls.

This paper also contributes to the literature dealing with the connection between Keynes or the post Keynesians and Galbraith on the one hand (Davidson 2005, Parker 2005, Laguérodie 2007, Dunn 2011, Chirat 2022a) and Keynes and Lerner on the other hand (Colander 1980, 1984b, Aspromourgos 2014). By contrasting the views of Galbraith and Lerner on the efficiency of price controls, it complements the history of economic thought literature on price control (Bartels 1983, Colander 1984a, Laguérodie and Vergara 2008, Paesani and Rosselli 2017). The reconstruction of Galbraith and Lerner's thinking also contributes to the literature on the eventual trade-off between inflation and unemployment (Leeson 1997, Forder 2014). James Forder (2014) has recently debunked several textbook myths about the Phillips curve. First, the idea of a potential trade-off between inflation and unemployment pre-dates the debate arising out

[10] The claim that the representatives of the neoclassical synthesis only think about inflation when there is full employment is exaggerated. As early as 1946, Paul Samuelson was for instance explicit on this issue, as stressed by Galbraith (1947, 293). See also Milner (2019, 45). However, it is true that the main models of the neoclassical synthesis (IS-LM, 45° diagram) do not allow consideration of inflation with underemployment, since prices are exogenous.

[11] They perpetuate it but without necessarily referring to Keynes's analysis of semi-inflation. For instance, Lerner even described the coexistence of inflation and unemployment as "un-Keynesian" since "Keynes not only did not see this possibility himself but even succeeded in banishing it from the vision of others" (Lerner 1967b, 2).

of Phillips' work (1958) and its reformulation by Samuelson and Solow (1960). This research confirms that claim, even if both Lerner and Galbraith precisely reflected on mechanisms that could supersede it. Second, the Phillips curve, as a tool for assessing public policies, became prominent only in the 1970s, as illustrated by the debates surrounding the Hawkins-Humphrey Act (Goutsmedt 2022). It was precisely at that time that explicit attempts to appraise price control through the framework of the Phillips curve were made too (Gordon 1972, 1977, Blinder and Newton 1981, Colander 1984a, Hagens and Russel, 1985, Malinvaud 1990).

As a reminder, this paper aims at understanding how Galbraith and Lerner, sharing a common analysis of inflation, endorsed diverging opinions on the relevance of price controls as macroeconomic tools. To do so, we first set out Galbraith's and Lerner's respective analyses of underemployment inflation (Section 1). We then account for their theoretical differences (Section 2) as well as the epistemological and normative differences (Section 3) explaining their opposing views on price control. Considering these elements, we focus on Lerner and Galbraith's opposition to the economic policy developed to combat the situation of inflation and then stagflation, and in particular we focus on the wage and price guidepost under President Kennedy and the price controls under President Nixon (Section 4). Finally, we draw some insights likely to enlighten and feed the contemporary debates (Section 5).

Section 1: The analysis of underemployment inflation

Even if often forgotten, Keynes's *General Theory* (1936) provides an important distinction between "absolute inflation" at full employment and "semi-inflation" at underemployment. While being somewhat equivocal and with evolving views (Keynes 1939) further to challenges from Dunlop (1938, 1939) and Tarshis (1939) to his assumption of a negative correlation between nominal and real wages,[12] Keynes considered that semi-inflation could appear before full employment and without an excess of aggregate demand, since it is generated by "some elements of a wage-price spiral" (Lavoie 1985, 177).[13] Although unthinkable with the main models of the neoclassical synthesis, the idea that inflation could appear despite underemployment is at the heart of the analyses of Galbraith and Lerner, who, as said, belonged to the non-dominant branch of Keynesianism (Weintraub 1960). In this section, we account for their respective

[12] On this challenge, see d'Aspremont et al. (2011). Interestingly, Dunlop refers to Galbraith's (1936) first work on monopoly power to give a theoretical foundation to his challenge to Keynes's view (Chirat 2022a, 266-268).

[13] Lavoie explains in particular how the determination of money wages began to play a crucial role in Keynes's thinking on semi-inflation as soon as the neoclassical hypothesis of decreasing returns was set aside.

analyses in terms of "cost-push" inflation, where inflation is seen as the result of distributional conflicts.

Already in the 1940s and 1950s, Lerner gradually moved away from an analysis of demand-push inflation to acknowledge the possibility of cost-push inflation, driven by a distributional conflict that could arise even in periods of underemployment. Schematically, Lerner's view of inflation developed during four main periods.[14] In his initial writings on functional finance[15] (1943, 1944), Lerner defined inflation as an excess of demand over supply, as a result of excessive total spending in relation to the quantity of goods and services available. Consequently, it could be effectively fought by taxation and by reducing public expenditures, so that "total spending can be kept at the required level" (Lerner 1943, 40). But from the second half of the 1940s, Lerner (1946, 1947) became alarmed by inflation originating in mark-up and wage behaviors. He argued for instance that "the power of the trade unions has become too great for the purpose of determining wages by collective bargaining" (1947, 315). As a result, the wage increases obtained were passed on in prices by employers, so that union officials then asked for further money wage increases which resulted, through a wage-price spiral, in widespread inflation.[16] This reasoning led Lerner to acknowledge the existence of a trade-off between inflation and unemployment in the short run, i.e., that it was impossible to simultaneously guarantee full employment and price stability. He claimed that "unless an alternative wage-determination mechanism is put in place, a policy of full employment will mean inflation" (Lerner, 1947, 315-316). While Lerner recognized that this "dilemma can be resolved only by the government going to work on both money wage determination and on markup rates" (1947, 316), he already took the view that this form of inflation could occur with less than full employment. He argued for instance that "the workers' bargaining power may still be too great

[14] We do not fully repeat the sequence proposed by Sobel (1983, 13), mainly because we choose a different time frame. First, Sobel ignores the period before 1946. On the contrary, it seems necessary here to evoke Lerner's initial position. Second, Sobel considers the concept of anticipated inflation, which Lerner hit upon in 1973, as the fourth step in his sequence. Because of the chronology we adopt, this point will be addressed in Section 4, on the stagflation context.

[15] Functional finance, first detailed in a 1943 article, is a framework for macroeconomic analysis that rejects the doctrine of "sound finance" and promotes a "functional" conception of public finance. In this framework, government fiscal policy, which Lerner summarized in three pairs of instruments (spending and taxing, borrowing and repaying, and buying and selling), should be evaluated only in terms of its effects on the real economy, rather than with a balanced budget standard. Furthermore, Lerner based his analytical framework on a chartalist reading of Knapp, leading him to think of money as a "creature of the state" (Lerner 1947). This meant he could assert that expenditures always precede revenues. From then on, the purpose of both taxes and state loans was not to finance state expenditure, but to regulate the level of inflation and interest rates. For further details, see Forstater (1999) and Nell and Forstater (2003).

[16] See Lerner (1947, 315), (1951a, 191-209).

for price stability, even when economic activity is below the optimum level" (1948, 26). However, although Lerner contemplated this possibility, the idea was only fully developed in his 1951 book.

The third period began with *Economics of Employment* (1951a), in which Lerner paid close attention to the possibility of underemployment inflation and distinguished between "high full employment" (estimated at 2 million unemployed) and "low full employment" (6 million unemployed). Low full employment referred to the situation beyond which, although non-frictional unemployment remained, "any increase in monetary expenditure would no longer bring about an increase in employment but would result only in inflation" (Lerner 1951a, 193).[17] Reaching "low full employment" had "the effect of giving excessive bargaining power to labor" so that "wages rise more rapidly than productivity of labor" (1951a, 197). As a result, Lerner conceded the possibility of "a region in which we have both depression and inflation" (1951a, 193), especially because of downward money wage rigidity that materialized above a certain rate of employment, different from "high full employment."[18] The causes of this downward wage rigidity were multiple and involved more than the bargaining power of workers alone. Indeed, Lerner also mentioned the elements reducing the mobility of the factors of production as well as the conventions shared by employers and workers that there was a "reasonable wage" or that it would always be anti-social to reduce wages (Lerner 1951a, 208).[19] Scitovsky (1984) observed that, from his 1951 book onwards, Lerner gradually changed his mind about the role of institutions in his analysis of the inflationary process where, paradoxically, he put forward the existence of underemployment inflation. Lerner began to move from an analysis of the institutional determinants of wages—which led him to emphasize the role of unions and collective bargaining—to a study emphasizing the role of individual behaviors (Lerner 1951a, 204, 224). This position finally led him to criticize the "Keynesian neglect of microeconomic - or market - analysis" (Lerner 1977b, 10). Similar criticism was also voiced by Galbraith (1952a, 1967, 1978), but on institutionalist grounds.

In a fourth period, Lerner refined and clarified his approach to inflation by distinguishing between two mechanisms at the origin of price increases: "buyers' inflation" and "sellers' inflation" (Lerner, 1958). He argued that "excess demand by buyers is not the only possible cause of inflation, and our inflation is not the kind that is caused by such excess demand" (1958, 110).

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[17] As Tibor Scitovsky (1984, 1562) points out, this full employment echoes a form of "natural unemployment," seventeen years before Friedman (1968) introduced the concept, a proximity that Lerner (1973) was to acknowledge.
[18] Lerner would later reject the use of the concept of "low full employment," a euphemism that in reality refers to a situation of underemployment. He explained the use of this term by an inability to move away from the "Keynesian" approach: "the only excuse I can give for calling this any kind of full employment is that I had not at that time realized that this was a basic departure from the Keynesian view" (1972, 125).
[19] See also Lerner (1967, 1-2).

Buyers' inflation thus corresponds to a situation of demand-pull inflation, in which buyers try to buy more than 100% of the products available. Sellers' inflation refers to cost-push inflation driven by distributional conflict, i.e., a situation in which "wage-earners and profit-takers together attempt to get shares that amount to more than 100 per cent of the selling price" (1958, 116). That is why it is "more general" than wage-push inflation (Samuelson and Solow 1960, 177). The term "sellers" is used to designate both the sellers of their labor power, seeking wage increases, and the sellers of products, the firms seeking to increase their margin rate. In other words, it is the combined desire of workers and firms to increase their share of income that generates inflation. To the extent that this form of inflation does not depend on the level of aggregate spending, it is compatible with high levels of unemployment. "This appears paradoxical only because of our habit of using one word, 'inflation,' to represent two different things—rising prices and excess demand—that do not necessarily have to go together in the actual world" (Lerner 1958, 114). Lerner indeed claimed that sellers' inflation remains possible in a situation of underemployment if unemployment is not so severe as to "hamstring the price and wage administrators" (Lerner 1960, 135).[20]

Lerner's (1958) concept of sellers' inflation vividly echoes the analysis produced at that time by Galbraith (1952a, 1952b, 1957). For Galbraith, the cause of inflation before full employment was reached lay primarily in the power of large firms to control their prices, a power that made the wage-price spiral possible (Laguérodie and Vergara 2008, 587-588). However, unlike Lerner, Galbraith had always stressed the possibility of underemployment inflation. As early as 1941, in a debate about the measures to be implemented to prevent wartime inflation that pitted him against Hansen (1941)—and indirectly against Keynes (1940) and his famous plan proposed in *How to Pay for the War*—Galbraith asserted that one could not wait for full employment before withdrawing purchasing power from the economy, in order to reduce excess demand, without risking high inflation (1941, 83). To ensure a "reasonable full use of resources without inflation" one should not rely exclusively on fiscal or monetary policies to lower aggregate demand (Galbraith 1941, 84). Galbraith's involvement in this debate eventually led him to work for the Office of Price Administration and Civilian Supply (OPACS) under Leon Henderson and then to run the Office of Price Administration (OPA) between April 1941 and

[20] While this approach is clearly in line with conceptions of inflation as the result of a distributional conflict, it is noticeable that contemporary post Keynesian works that mobilize a reading of inflation from the perspective of a distributional conflict (Charles and Marie 2016; Vera 2010, 2017) never refer to Lerner as a source of inspiration. Moreover, like Lavoie (1985), it is worth noting the proximity of the post Keynesian analysis of inflation to certain sociopolitical approaches (Addison and Burton 1977; 1984).

May 1943.[21] This experience proved crucial in how Galbraith appraised inflation as well as how he considered price controls as a tool to handle it.[22]

In 1947, Galbraith published a paper in the *American Economic Review* entitled "The disequilibrium system." The OPA experiment was seen as an opportunity for theoretical development insofar as the purpose of the economic system was fixed once and for all: achieving by whatever means, but without inflation, the greatest possible mobilization of resources. Galbraith looked at the war economy as a theoretical model whose functioning was worth examining. The three main characteristics of this model were direct controls of resource allocation, price controls, and a constant excess of demand over supply—hence the name "disequilibrium system" given to this model (1947a, 287-288). Excess demand in the absence of any state intervention would theoretically result in higher prices. Thus, all other things being equal, the rise in prices would lead to a new equilibrium between supply and demand at a lower level of output. Underemployment in this case was the adjustment mechanism of the economic system (1952b, 34, 62-65).

In *A Theory of Price Control*, Galbraith depicted this traditional inflationary process as a "self-equilibrating" mechanism but only if there were "no further interaction of process and wages" (1952b, 64).[23] However, he immediately added that the structures of the U.S. economy were not the competitive ones described by neoclassical theory, which were required to lead to this self-equilibrating mechanism. Galbraith argued instead that "in modern labor and product markets," an initial price increase caused by excess demand "leads inevitably to [money] wage demands," even if the economy is not at full employment (1952b, 64). By modern markets, Galbraith was referring to corporations enjoying market power in oligopolistic industry and strong labor unions. If such wage increases were granted in these sectors, then the pressure on the supply of products from demand would continue to grow and production costs to increase. This might lead to a further increase in prices, which in turn might lead to further wage increases. This process of "open inflation" could "continue without limit" insofar as there was "some continuing supplement to demand" (1952b, 64).[24] Galbraith and Lerner converged in their

[21] As Laguérodie (2007, 105) summarizes, Galbraith calls for considerably more controls than Keynes and Hansen. His proposals call for direct state intervention in the economy. In this sense, he is in line with the proponents of historical institutionalism and the first New Deal. Although they disagreed about the order of priorities, Keynes, Hansen, and Galbraith did agree on the means at their disposal—taxation, price controls, and rationing.
[22] See Galbraith (1952b, 1981), Parker (2005), Laguérodie and Vergara (2008), and Chirat (2022a, 307-348).
[23] In this regard, he expressed "the traditional confidence in the idea that competitive pricing guarantees the efficient allocation of scare resources" (Paesani and Rosselli 2017, 206) and by and large espoused the concepts of neoclassical economics, especially that of equilibrium (Colander 1984).
[24] Because of such an analysis, Colander (1984, 34) claimed that Galbraith "preceded both Edmund Phelps and Milton Friedman in clearly spelling out the 'accelerationist' hypothesis." Yet, the causal analysis remains different.

analysis of the process of cumulative inflation as generated by distributional conflicts. Indeed Galbraith defended the argument for the mutual interest of management and labor in corporate sectors in favor of inflationary regulation. Under the assumption that the demand for labor and the demand for goods were sufficiently strong, it was the quantities available at the current price, not the prices themselves, that limited sales. He echoed this idea in *American Capitalism*. When demand was elastic and, consequently, firms were unable to raise their prices, then "the trial of strength between union and management" was mainly over profit sharing. Galbraith took the view that it was a "healthy manifestation of countervailing power" (1952a, 133). In contrast, inelastic demand gave "a radically different form" to bargaining since management did not fear a reduction in the volume of sales: "the firm that first surrenders to the union need not worry lest it be either the first or the only one to increase prices" (Galbraith 1952a, 133).[25]

To sum up, Galbraith and Lerner came up with similar analyses of underemployment inflation, expressed in terms of a price-wage spiral, and of the existence of some dilemma between inflation and unemployment in the absence of macroeconomic intervention or oligopolistic market structure. They came to their views in the 1940s, whereas cost-push inflation only became a well-publicized issue in the 1950s (Tobin 1972, 2).[26] However, they held diverging views of the role of mark-up rates in the inflationary process, which determined their respective positions regarding the response to underemployment inflation. While Lerner advocated wage control only, Galbraith spoke out for combined control of both wages and prices. Moreover, Galbraith's emphasis on the institutional and conventional dimensions of cost-push inflation, in contrast to Lerner's tendency towards traditional microeconomic analysis of individual behavior, explains part of their divergence on the relevance of price controls. However, their opposition cannot be reduced to this aspect, as we shall now see.

Section 2: Theoretical divergence on price controls, except in a war-time context?

[25] At a conference on the role of trade unions the year before, John Maurice Clark (1951) defended an argument like Galbraith's, as he had done ten years earlier (Clark 1941). The closer we come to full employment, the more the behavior of interest groups contributes to inflationary pressures. Fiorito and Vernengo (2009, 910) insist, however, that Clark's relationship between price levels, employment, and output is not as mechanical as suggested by the Phillips curve as presented in the 1960s by Samuelson and Solow (1960) and then by Phelps (1967) and Friedman (1968). In view of the importance that Galbraith, like Clark, attached to the concept of bargaining power, his perspective did not have the mechanical character conveyed by Phillips curve type representations. To assess the fundamental discrepancy between Friedman's monetarist analysis of inflation and the institutionalist analysis of Clark and Galbraith, see Friedman (1951) and the synthesis by Schwarzer (2018).

[26] Another economist to have hit upon a similar analysis is Sumner Slichter (1946, 1954).

It is necessary to distinguish between two aspects of the fictional dialogue on price controls between Lerner and Galbraith that we reconstruct here. Lerner and Galbraith had profound disagreements about the control of mark-ups and about the consequences of suppressed inflation and of the additional savings resulting from controls. However, their analyses converged on the application of price controls in the very specific experiment of World War II. So, while the two economists disagreed about the appropriateness of price controls as one of the conventional instruments of macroeconomic policy, they agreed on their usefulness in an economy that was fully mobilized for war.

The issue of how mark-ups are determined underpins post Keynesian microeconomics (Melmiès 2022). However, Lerner's approach was asymmetric in its analysis of the inflationary process insofar as he took mark-up determination to be a secondary problem compared to the problem of wage setting, whereas the two were largely inseparable for Galbraith. We have already seen that Lerner recognized the existence of cost-push inflation, at the heart of which was a distributional conflict between "sellers" of labor power (employees) and "sellers" of products (firms). Lerner also acknowledged that the dilemma between inflation and unemployment could be solved "only by the government going to work on both money wage determination and on markup rate" both of which were "problems of monopoly" (1947, 316). However, within the inflationary dynamic, the problem of wage determination appeared to him to be much more difficult than that of the determination of mark-up rates by firms. This point may seem surprising at first glance from the author of a leading article on the measurement of the degree of monopoly (Lerner, 1934b). It is therefore necessary to understand why Lerner gave a back seat to the mark-up, and therefore to the market power of firms, in his analysis of cumulative inflation.

Lerner's relegation of this issue is justified on two counts. First, as he later explained, Lerner viewed the question of the market power of monopolies as a separate issue from that of inflation: "diminishing the degree of monopoly in the economy is a separate objective which deserves to be pursued quite independently of whether there is any inflation problem or not" (Lerner 1972a, 68). He believed that this question should be approached from the point of view of the suboptimal allocation of resources in the economy, and not by its impact on inflationary dynamics. To that extent, he argued that "markup rates must be reduced by anti-monopoly measures of the kind the government was working on when it was interrupted by the war" (Lerner 1947, 316). He even proposed an indirect price control mechanism, counterspeculation,[27] to counteract the effects of monopolies. This mechanism—insofar as the target price was achieved through public intervention in the market—was never presented as a means of resolving the distributional conflict at the heart of the process of sellers' inflation.[28] Indeed, the wage control mechanism remained the priority for this purpose. Moreover, Lerner was to distance himself from this mechanism. While this counterspeculation device was envisaged in 1944 as a remedy like any other, Lerner later spoke of it as a solution of "last resort" (1967, 13). This shift can be explained by the fact that the mechanism was too close to direct price controls, from which Lerner later sought to clearly distance himself. Thus, as summed up by Colander (1980, 359), Lerner considered that "control of wage inflation is sufficient to control price inflation."

Second, and more importantly, Lerner saw full employment as the best way to reduce corporate mark-ups, insofar as full employment policies would make it profitable for firms to operate with lower margins. He argued that "there is good reason to believe that the maintenance of full employment itself, by raising the break-even points, would automatically reduce the rate of markup" (Lerner 1949, 198). He explained that, at full employment, "more people [would] want to go into business", since they would anticipate strong demand, which would strengthen competition and so reduce mark-up rates (Lerner 1951a, 235). Thus, for Lerner, the impact of the market power of imperfectly competitive firms on prices would decline as the economy approached a high level of full employment. Conversely, the bargaining power of workers would strengthen as the economy approached high full employment. That is why Lerner was more concerned with wages than with mark-ups in the inflationary dynamic. This asymmetry in Lerner's perception of the problem of cost-push inflation proved a decisive theoretical factor in his understanding of price control. Indeed, abandoning the control of the evolution of mark-up

[27] "The government through a special board estimates what would be the price of the good that would make demand equal to supply if there were no restriction of the kind we wish to abolish. It then guarantees this price to all the sellers in the case of a seller's restriction or to all buyers in case of a buyer's restriction. (…) The Board of Counterspeculation then buys in the free market what it has promised to sell to buyers at the guaranteed price or sells in the free market all that it has undertaken to buy from the sellers at the guaranteed price" (Lerner 1944, 55). This mechanism is, according to Scitovsky, one of the only economic policy proposals made by Lerner that was adopted in practice, namely by central banks on the foreign exchange market (Scitovsky 1984, 1566).

[28] We note that the tool of indirect price control envisaged here by Lerner echoes the position of interwar economists on the subject. During the interwar period, price controls were considered not as a means to fight inflation but instead as a means to combat the consequences of imperfect competition. For instance, Franco Modigliani (1937, 563) argued that "wherever a price has been fixed not in such a way as to assure the maximum benefit of the collectivity combined with that of the individual, but only the advantage of the individual and the exploitation of the collectivity, then the State has not only the right but the duty to intervene" by controlling the price. From a similar perspective, one author argued for "the governmental enforcement of prices low enough to eliminate monopoly profits and the growth of excess capacity" (Fowler 1939, 118). There are also writings by legal scholars along these lines (Jaffe and Tobriner 1932; Hale 1934). It seems thus that it was the experience of World War II that really led some economists to consider price controls as a tool of anti-inflationary policy.

rates—which could be achieved through a policy of price control in addition to anti-trust policies—Lerner sought to establish a wage-setting mechanism as an alternative to wage bargaining. He was to emphasize this point in the stagflation context: "for the purpose of an anti-inflationary incomes policy, by far the most important regulation concerns wage administrators" (Lerner 1972a, 68).

Finally, Lerner did not envisage price controls as a means of resolving the distributional conflict at the root of sellers' inflation by getting entrepreneurs to limit their mark-up. He implicitly refused to consider this solution when he argued, regarding the role of mark-ups in the inflationary process, that even if wage increases were controlled, "prices are left for the market to determine" (1972a, 115), thus leaving the mark-up to be determined by "the existing degree of competition." However, Lerner was aware of the criticism that might emerge from this asymmetry when he argued that "subject to severe criticism would be the apparent concentration on the regulation of wages, with the regulation of prices all but forgotten" insofar as "the employer monopolists would be taking advantage of the wage regulation to increase their relative markup" (1967, 13). However, in his framework, this problem fell under the heading of competition policy—the purpose of which went beyond the fight against inflation—but certainly not within the scope of price policy.

Unlike Lerner, Galbraith's insistence on the market power of large firms led him to consider both the effect of the setting of mark-ups and wages in the inflationary process. As early as 1936, Galbraith proposed a dual vision of the American economic structure, with competitive sectors on one side, where prices were flexible, and oligopolistic sectors on the other, where prices were more rigid because of conventions between corporations (Galbraith 1936, 1952a, 1952b, 1967, 1978, 1979). Although Colander (1984, 32-38) argues, in discussing Galbraith's analysis of price controls, that the distinction between a system with rather flexible competitive prices on the one hand and rather rigid administered prices on the other is irrelevant for a theory of price control, we strongly doubt this. First, this overlooks Galbraith's requirement of realism to produce useful analyses that could lead to effective implementation of public policies (Stanfield and Wrenn 2005, Dunn and Mearman 2006). Second, the price controls advocated by Galbraith did not apply identically to all market structures. Indeed, Galbraith argued for price controls that recognized such dualism of market structures.[29] In wartime, for markets that

[29] Martin Bronfenbrenner (1947, 1954), an economist at the University of Wisconsin, was interested, like Galbraith, in the topics of price controls in imperfect markets and the power of trade unions. He agreed with Galbraith that repressed inflation is preferable to open inflation and that direct price controls achieve higher levels of resource mobilization than indirect controls. Like Samuelson, however, he rejects the idea that price controls can work over relatively long periods of time in both "liberal-capitalist" and "liberal-socialist" economies.

operated roughly according to the model of pure competition, excess demand required, in addition to price controls, the implementation of rationing by federal agencies.[30] The aim was to prevent an increase in the price of goods that were part of everyday civilian consumption. Such increases were likely to generate demands for wage increases, thus contributing to an increase in excess demand and, potentially, to an open inflationary process (1947a, 300). Price controls, by indirectly limiting demands for wage increases, would avert this interaction. But Galbraith acknowledged that in practice it was impossible to control the price of some goods provided by competitive markets such as "fresh vegetables" (1952b, 12).

In oligopolistic sectors, price control was on the contrary facilitated because firms already relied on a form of demand rationing: "Demand in the imperfectly or monopolistically competitive market, especially those that are characterized by small numbers, is subject to an informal control by the seller which is frequently the effective equivalent of rationing" (Galbraith 1952b, 11). The firm operating in an oligopolistic industry wielded market power over its customers. In the so-called bilateral oligopoly case, Galbraith pointed out that the market relations between a firm in an oligopolistic sector and its customers were no longer impersonal. The buyers were *its* customers. It could determine the allocation of resources among them. He concluded that "the market as an abstract entity disappears" to make space for another form of coordination (1952b, 11). The legislator needed therefore simply to be able to set price schedules in a flexible manner, depending on the degree of excess demand, the aim being to ensure the desired increase in savings. Thus, all else being equal, an increase in the "inflationary gap,"[31] namely excess demand relative to supply for a given product, required an upward revision of price schedules. As noted in the introduction, price controls were not the same thing as price freezes.

For Galbraith, wartime economics showed that "a stable equilibrium [in terms of prices] is possible with full employment when there is bilateral monopoly in the factor markets and parallel monopoly power in the product markets" (1947a, 292). The main reason was that "the industrial concentration and trade union power that allows corporations and unions to increase their prices and wages also simplifies the task of control" (Galbraith 1952b [1980], foreword). Oligopolistic markets, in addition to *de facto* rationing by firms, enjoyed three other advantages (1952b, 10-19). First, there was informal self-control by the actors, since there were few of them. Second, the price initiative came only from sellers, not from buyers. Third, oligopolistic firms had a

[30] On the complementarity between rationing and price control, see also Kalecki, who argued that "it is always useful and in most cases necessary to supplement rationing by price control" (1944, 32).
[31] See Galbraith (1947, 292) and Scitovsky et al. (1951, 105).

"preference for price rigidity" (Chirat 2022a, 232-245), set by convention rather than any rationale of maximization because of the uncertainty surrounding firms' behaviors (Galbraith 1936, 1948, 1952a, 1952b). Hence Galbraith's famous statement that "it is relatively easy to fix prices that are already fixed" (1952b, 17). While oligopolistic market structures were a favorable condition for the effective implementation of price controls, we shall see, however, that they were not a sufficient condition.

A second level of opposition between Galbraith and Lerner related to a difference in the assessment of the damage caused by price controls. Unlike Galbraith, Lerner considered price controls to be unsuitable for fighting demand inflation. Indeed, in a 1949 paper—before he had explicitly distinguished between demand-pull and cost-push inflation—Lerner argued that price controls missed the essence of inflation, which he precisely defined as an excess of demand over supply. Here Lerner borrowed the term "suppressed inflation" popularized by Wilhelm Röpke (1947), who warned against the practice of price control.[32] "Suppressed inflation" refers to inflation, defined as an excess of demand over supply, which, although it cannot be expressed through an increase in prices, nevertheless continues to exist. Thus, with price controls, "only the rise in prices is suppressed, the underlying inflation or excess demand remaining as strong as ever" (Lerner 1949, 195). Lerner therefore insisted on the unfairness of price controls for "those who are excluded by the substitute rationing mechanism" (1949, 196).[33] So, while Lerner put "open inflation" and "suppressed inflation"—through price controls—on the same footing, this was not the case for Galbraith, who argued that "open and suppressed inflation do not represent the same magnitude of danger" (1952b, 63). Indeed, Galbraith stated that "the effects of suppressed inflation are limited to the effects of the current excess of demand", insofar as price controls made it possible to limit claims for wage increases (1952b, 65). In so doing, suppressed inflation broke the price-wage spiral and at the same time limited the increase in demand resulting from wage increases. While "open inflation can run away; suppressed inflation cannot" (Galbraith 1952b, 65).

By the same rationale, our two economists did not consider the macroeconomic consequences of the savings surplus resulting from price controls in the same way. It is this question that led Lerner (1948), again in line with Röpke (1947), to defend the idea that the

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[32] Although Röpke admitted that open inflation was a catastrophe and that price control proved both "effectual and necessary during the war," he coined the concept of repressed inflation to "convey the idea of an inflation which is really only stifled or smothered without being effectually suppressed." He then associated repressed inflation with collectivism and coercion (1947, 242-243), echoing Hayek (1944).

[33] Keynes (1940, 52-57) had already raised this criticism in *How to Pay for the War* against generalized rationing and price controls, to emphasize the superiority of his deferred payment scheme. However, he admitted the relevance of targeted rationing and price controls, precisely to avoid a process of cumulative inflation.

introduction of partial price controls should necessarily lead to universal price controls, which would be doomed to fail except in a situation of total war. Lerner's reasoning ran as follows. Price controls could only be effective when, because of price setting by the controlling authority, supply increased as much as demand. Galbraith precisely stressed the importance of increased production in the medium term, at constant or even decreasing costs, during World War II, in the success of the OPA's mission. Indeed, price controls were useful to prevent inflation "when expenditures occasioned by *the force majeure* of defense or small wars may raise demand beyond *the current capacity* of the economy" (Galbraith 1952a, 186). However, in most cases, Lerner asserted that not only "supply will be reduced rather than increased," generating a form of rationing, but also that consumers who would have more liquidity because of rationing would increase their spending on other consumption so that "the pressure will merely have been shifted onto other prices." Therefore, "price control and rationing can thus spread over the whole economy without doing anything at all about the basic cause of the rising prices" (Lerner 1948, 25).[34]

In this regard, the OPA experience was particularly interesting. Galbraith explained *a posteriori* that in the World War II context of full mobilization, its initial plan of targeted controls and rationing struggled to contain inflation, whereas the enactment of the General Maximum Price Regulation in 1942, establishing generalized controls, worked much better. Like Lerner, Galbraith also addressed the problem of managing the additional savings resulting from price controls.[35] He explained that if price controls were put in place, the imbalance between demand and supply theoretically translated into increased savings. During the war, despite an increase in unsatisfied demand, and therefore a corollary increase in savings, whose marginal utility was supposed to decrease, employees and employers alike retained incentives to work and invest, making it possible to increase production. How could this phenomenon be explained? According to Galbraith, it was the promise of future goods, beyond patriotism, that accounted for this effort (1947a, 293). The strength of this promise could lie either in confidence in the stability of the value of money for the purchase of goods after the war—confidence that was maintained precisely by price controls; or in fear of a new post-war depression, which would only have strengthened the value of the savings acquired. Galbraith, however, pointed out that there were

[34] This argument that sectorial price control necessarily calls for the development of an overall price control is, in the U.S., at least as old as the American Revolutionary War, during which the founding father John Witherspoon stated that "[i]f we limit one article, we must limit everything, and this is impossible" (Rockoff 1984, 30).

[35] The problem of managing savings is not unique to price controls as an institutional device. Hayek (1940) argued, for example, that the crucial questions raised by Keynes's (1940) deferred payment scheme concerned the rate at which and the form in which, after the war, deferred wages would be returned. In his view, a return in the form of "cash" risked generating inflation. For this reason, he argued in favor of transforming these deferred payments into share ownership held by an ad hoc pension fund.

"margins of tolerance" that had to be observed in order not to disincentivize labor supply (1952b, 35).[36]

The issue of the management of savings accumulated led Lerner, like Galbraith, to argue in favor of extending the controls put in place during World War II.[37] The analyses of our two economists on the specific question of wartime price controls partly converged. In April 1946, Lerner even signed an open letter published in *The New York Times* with 54 other economists—including Edward Chamberlin, Irving Fisher, Alvin Hansen, Frank Knight, Simon Kuznets, Paul Samuelson, and the brothers Alan and Paul Sweezy. The letter urged Congress to extend generalized price controls for another year. They argued that "demand is likely to be unprecedented because of the excess of purchasing power" and that "the supply of raw materials and consumer goods, at current demand, is inadequate to stave off serious inflation in the next year, unless price control is continued without crippling amendments" (Weber 2021, 57). At that time, Lerner developed a much more nuanced position than the one he was to put forward in the 1970s regarding price controls. He clearly stated his support for the price control system put in place in the United States during the war:

> It is argued with great plausibility that sudden and large shifts of resources, as in the shift from peace to war production, cannot be induced rapidly enough through the price mechanism. During the war, the price mechanism was abrogated by general price ceilings, and resources were allocated by authority with the help of an excess demand which greedily attracted all available resources wherever they were not restricted by the controls. This is elevated by Galbraith into a "disequilibrium system" which worked marvels in our war production. (Lerner 1949, 197)

Lerner's analysis is interesting because, while he disagreed with Galbraith over the problem of repressed inflation, he shared his view that general price controls had been effective during the war for reallocating resources. With respect to the OPA experiment, Galbraith argued that the war mobilization system should be evaluated as a whole, looking not only at price indices but also at output indices (1947a, 300). Yet the results, were strikingly different from those of World War I. While, in the first 52 months of World War I, prices rose by 77.8% compared to only 25% for output, in World War II, prices rose by 21.8% compared to 131% for output

[36] Taking the counterexample of Germany, which had implemented a similar system of price controls and rationing, he explained that saving for future consumption ended up providing little incentive to work because of the decline in the value of the mark and insufficient control of excess demand. The savings generated in this way were too overabundant (Galbraith 1947a, 290-294). It is for this reason, to mitigate this risk, that the levels of the price scales matter. They must be adjusted judiciously according to the evolution of the gap between supply and demand.
[37] For Haberler (1948), whose position against price control echoed Lerner's in terms of repressed inflation, extending these controls to limit inflation was on the contrary not a solution, since it was "unrealistic" to believe that the "artificial price level" inherited from the war could be validated after the return to a "free market economy" (1948, 11).

(Laguérodie and Vergara 2008, 582). First, Galbraith stressed that price control had an advantage over taxation for handling inflation generated by an excess of current demand, since taxation would lead to a reduction in demand that would then reduce output and employment (1952a, 196). Second, the allocation of resources through market coordination was "incapable of producing the comprehensive transfers in resources employment that any considerable mobilization requires" (1947a, 288). Taking the example of the automobile industry at the end of 1941, he mentioned the fact that market incentives were not sufficient to generate a reallocation from automobile to tank production. Moreover, the lags of adjustment through the market were generally longer than the lags of adjustment through government control (Laguérodie and Vergara 2008, 576).

In addition to this allocative efficiency, Lerner argued that, in the war context, price controls remained a socially fairer method, with respect to distributional conflicts, than inflation. While inflation allowed entrepreneurs to make large profits, price controls "instead of aggravating the inequality of real income diminished it very much" (Lerner 1949, 197). However, while Lerner showed his explicit support for the "disequilibrium system" described by Galbraith, he continued to defend the theoretical superiority of a solution based on a market price mechanism. Referring implicitly to an unpublished article he wrote in 1942 (Lerner 2013), he asserted that "devices could have been worked out that would have overcome without compulsion such obstacles as the automobile manufacturers' preference for making automobiles rather than tanks or the inelasticity of demand for essential raw materials" and that these devices "would have made the war economy even more productive than it was" (1949, p 197).[38] Lerner's support for price controls during World War II at the end of the conflict thus appeared to be circumstantial,[39] his position of principle remaining rather a rejection of price controls, whereas Galbraith's *A Theory of Price Control* called for including price controls among the conventional arsenal for fighting inflation.

[38] Here Lerner refers to a draft written during the war, in which he proposed replacing bureaucratic rationing management with a price system. Although never published during Lerner's lifetime, this paper seems to have circulated within "influential economic circles" (Daniel Cuda 2013, 614).

[39] This idea of making a clear distinction between the exceptional use of price controls in times of total war and the banalization of the instrument in normal times was dominant among economists of the period, whether or not they were in favor of it. Thus, one can read that "the choice in the postwar years between continuing and widespread regulation of prices by government and the abolition of such controls, perhaps after a short transition period, is no less a question than that of the fundamental character of our future economy" (Sumner 1943, 409), or that "while World War II lasted OPA was more successful than many ever thought possible" it remains that "resort to price control and rationing is to be avoided if at all possible" (Haley 1950, 200).

Section 3: Epistemological and normative divergences over price controls

We have argued that the opposition between Lerner and Galbraith over price controls can be explained in part by theoretical differences, particularly over the symmetry of mark-up and wage control, the consequences of repressed inflation, or the savings surplus resulting from controls. However, it should be added that their opposition was also grounded on epistemological and normative divergences. Epistemologically their relationship to the market mechanism was fundamentally different, in particular because of an institutionalist anchoring for Galbraith and a neoclassical one for Lerner. This divergence was reinforced by Galbraith's practical expertise—not only within the OPA but also the United States Strategic Bombing Survey and then the State Department—as well as his field knowledge—notably through his activity at *Fortune* magazine, whereas Lerner's activities remained largely confined to academia.[40] Normatively Lerner had an almost dogmatic fascination for the market price mechanism, in the name of the principle of consumer sovereignty which lay at the core of neoclassical welfare economics.[41] Besides, it was Lerner (1972) whom Solow eventually chose as an "orthodox discussant"[42] following Galbraith's repeated attacks on the relevance of such a normative criterion (Chirat 2020).

As noted, Lerner's and Galbraith's differing assumptions about the importance of the price mechanism in a market economy provide a key to understanding their diverging analyses of the effectiveness of price controls. Lerner's admiration for the market price system[43] is evident in his description of it as "one of the most valuable instruments of modern society" (1949, 196). In the context of the Korean war, he even argued that the price mechanism was "our greatest secret weapon" in the struggle between U.S. democracy and Soviet authoritarianism (1951b, 196). He added that the price mechanism "contributed so much toward making the modern standard of living possible" (1951b, 229). It was this absolute belief in the superiority of the market price mechanism that led him to write his proposal in 1942 to replace military production planning and rationing with a market price system (Lerner [1942] 2013). Convinced at the time that Lerner's proposal was too radical, Tibor Scitovsky persuaded him to abandon the publication of his

[40] One should note that Lerner worked as an advisor to the Treasury of Israel between 1953 and 1956 (Sobel 1983, 17). He discussed some challenges of his mission in Lerner (1967).
[41] On the direct link between endorsing consumer sovereignty and rejecting price control, see also George Hildebrand (1951, 1952). On Lerner's adhesion to the principle of consumer sovereignty and the related defense of a non-contributory guaranteed cash transfer, see Jager and Zamora Vargas (2023).
[42] Letter from Solow to Galbraith, January 25, 1971. JKGPP, Series 5, Box 505.
[43] Which is defined by Lerner as "a means for the distribution of a commodity or service among its different users when there is not enough of it for everybody to take as much as he would like to have" (Lerner [1942] 2013, 627).

manuscript. Lerner himself was already convinced of the practical inapplicability of his proposal (Cuda 2013, 617).

This attachment to the market mechanism can be explained by Lerner's academic training at the London School of Economics in the early 1930s and was particularly obvious during his participation in the great debate on socialism.[44] At the LSE between 1929 and 1935, Lerner was in contact with both Lionel Robbins, with whom he maintained a well-documented intellectual relationship despite their political differences, and Friedrich Hayek (Sobel 1983, 6). We find echoes of the arguments of the *Road to Serfdom* (1944), as well as those of Röpke (1947), when Lerner highlighted the risk of bureaucratic drift of price controls. He asserted that suppressed inflation through price controls "threatens democracy by the development of bureaucracies" (1949, 196). As early as 1942, he claimed that price controls led to "bureaucratic hordes who inevitably tie up the whole economy, including themselves, in ever more complex confusions of red tape" (2013, 627). In his view, bureaucracy undermined consumer sovereignty insofar as "the rationing authority, no matter how great a bureaucracy it builds up, cannot take into account the different needs of different individuals or families" (1972b, 16-17).[45] This principle of consumer sovereignty, the idea of "giving people what they want" (Lerner 1934a, 53), or more precisely the idea that the preferences of individuals should govern the allocation of resources in the economy, always remained a cardinal normative principle for Lerner, that could only be achieved through coordination by the market prices.[46]

His controversy with Dobb provides a paradigmatic illustration of his normative defense of consumer sovereignty (Chirat 2022b, 10-11). Unlike Dobb, Lerner considered such a principle to be compatible with "socialist" ideals. He even specified that he was "particularly sympathetic to the slogan of 'scientific socialism', namely 'to each according to his needs'" (Lerner 1934a, 53-54). Vincent Desreumaux explains that in the view of Lerner and other market socialists, such as Lange and Dickinson, the market price system is seen, as an institutional device, as a "tool that contributes to the advent of socialism" (2013, 90). It is therefore understandable that a device such as price controls, which disrupts the very heart of the functioning of a market economy, was not favored by Lerner as a matter of principle. One should also emphasize that market socialists and Austrian economists, whom Don Lavoie (1981) opposes in his account of the socialist

[44] This debate has raised two main questions. The first concerns the efficiency of an economic system. The second concerns the link between the form of the economic system and the ideals of freedom and democracy. On this subject, see Schumpeter (1942), Bergson (1948), Lavoie (1981), Persky (1991), and Caldwell (1997).

[45] This criticism was also addressed by Keynes (1940, 52-57).

[46] "The argument [of Lerner] against controls is a microeconomic one. It focuses on relative prices. The establishment of controls would destroy the flexibility of the microeconomic market for relative prices. Controls are the antithesis of the market" (Colander 1980, 359).

calculation debate, fully converged regarding the importance they ascribed to this normative principle of consumer sovereignty.

Galbraith's view of the market price system was more nuanced than Lerner's. Three elements help to explain why. First, under the influence of the empirical works of Gardiner Means (1935, 1936) and the emergence of industrial economics at Harvard, Galbraith observed that an increasing number of prices charged by firms in industrial sectors were administered prices rather than market prices (Guicherd and Chirat 2022). Second, his experience as head of the OPA, especially following the implementation of generalized price controls as advocated by Bernard Baruch, showed him that an economic system was able to function even when the market price system was "in limbo." In his memoirs, Galbraith (1981) explained that he had to radically abandon the belief shared by both neoclassicals and Keynesians that the regulation of the economic system necessarily took place through price movements. He conceded that this was particularly difficult when one had been trained in economics: "an economist without a price system is a priest without a divine being" (Galbraith 1981, 134). Third, his conception of freedom differed from freedom conceived as the absence of coercion (Waligorski 2006), which led authors like Hayek and Röpke to consider market price coordination as an impersonal and impartial mechanism guaranteeing freedom.

The divergence with Lerner about the price mechanism was particularly apparent regarding the great debate on socialism. Although Galbraith seemingly had a relatively frustrated knowledge of the latter, it lay just beneath the surface in *American Capitalism* (1952a) as well as in an unpublished manuscript titled "Individualism, Collectivism and Economists" (1951). Several elements justify this assertion. First, Galbraith's critique of the concept of consumer sovereignty was the foundation of his theory of consumption (Chirat 2020). He wrote at the time that "the large corporation can have significant power over the prices it pays, even over the mind of the consumer whose wants and tastes it partly synthesizes" (1952a, 7), which led him to question the relevance of individual preferences as a normative criterion. Secondly, the controversies surrounding planning in the U.S. brought to light the opposition of two visions of freedom, either as the absence of coercion in the pursuit of one's needs, or as the capacity to satisfy one's needs. In a speech at the University of Chicago entitled "The Meaning of Economic Freedom," Galbraith called for a balance between these two forms of freedom. Yet such a balance between "individual choice" and "expanding the range of choice" might require state intervention (1953). Finally Galbraith argued that the competitive model, although no longer an accurate description of reality, had continued to develop because of its allocative efficiency properties, i.e., its normative attraction. In this respect, Galbraith explicitly referred to "socialist theorists" such as

Barone and Lange—and Lerner can be added—who made "the theoretical success of the competitive model the objective of the socialist state" (Galbraith 1952a, 30).

The opposition between Lerner and Galbraith on the relationship between price control and cost-push inflation has led us to highlight theoretical, epistemological, and normative differences. But their intellectual posture as economists also contributes to our understanding of their respective outlooks. Some commentators have pointed out that Lerner tended throughout his career to make policy recommendations as purely logical arguments, without necessarily considering political and institutional realities (Sobel 1983, Scitovsky 1984).[47] This appears to be closely linked to him holding the perfect competition model as a normative benchmark, from which Lerner directly drew his policy proposals (Colander 2005). Lerner's disinterest in taking political and institutional factors into account as well as his "inability or unwillingness to sell his ideas in ways more persuasive than their intrinsic logic" is the rationale provided by Scitovsky to explain Lerner's poor academic recognition despite his prolific work (1984, 1550). On the other hand, Galbraith remained very concerned with economic realities and so sought to formulate realistic political recommendations that were logically separate from theoretical analyses. Starting from the American economy as it was—composed of oligopolistic structures—he revised both his initial plan of action at the head of the OPA—substituting strategic price control for generalized price control—and his beliefs as an economist. On the contrary, Lerner always held his priors on the theoretical and normative superiority—the two being intrinsically mixed in Lerner's view—of the competitive market price mechanism. This position prevented him from giving serious consideration to price controls and led him instead to look for market-inspired mechanisms such as the Wage Increase Permit (WIP), which we discuss below. The respective reactions of Lerner and Galbraith to the emergence of stagflation allow us to support this claim while studying their divergence over price control in another context.

Section 4: Divergences over price controls in the stagflation context

During the 1960s, the Kennedy administration's guidepost policy and Nixon's price-control policy were two episodes that fostered debates about price and wage controls. This was an opportunity for Galbraith and Lerner to reaffirm their divergences over this instrument.

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[47] As Aspromourgos (2014) shows, Keynes himself had already criticized Lerner for this, in particular regarding public debt. Friedman makes a similar critique in his recension of *The Economics of Control* when he argues that "the institutional problems are largely neglected and, where introduced, treated by assertion rather than analysis" (Friedman 1947, 405); or about Lerner's functional finance when he asserts that "the relevant question is whether the discussion of 'functional finance', besides being a logical exercise, is also a prescription for public policy. The answer, it seems to this reviewer, is clearly negative" (Friedman 1947, 413).

Because of the dualism of industrial structures, Galbraith did not believe a restrictive monetary policy could effectively combat inflation in oligopolistic structures, unless it came at a very high cost in terms of slowing down economic activity and generating unemployment (1957a).[48] However, as he stated at The Industrial Relations Conference at the University of Michigan on June 22, 1957, he ruled out "planned employment" as a solution to inflation, which he considered "the most single poisonous idea known to democratic politics" (1957b, 9). In *The Liberal Hour*, a manifesto of sorts for the 1960 presidential election, he reaffirmed his proposals from the 1950s on the need for price controls and wage negotiations, arguing for the establishment of tripartite commissions in oligopolistic sectors where prices were administered (Galbraith 1960, 78-79). Kennedy's presidency was the subject of tension between Galbraith and the representatives of the New Economics, foremost among whom were Walter Heller—president of the Council of Economic Adviser—Paul Samuelson, Robert Solow, and James Tobin.[49] Galbraith—supported by Alvin Hansen and Leon Keyserling—opposed the tax cut proposed by Heller—supported by Samuelson and Solow (Cherrier 2019). All these economists converged, however, on the use of guideposts to combat inflation. Although Heller and Samuelson believed in their short-term effectiveness while Galbraith defended their longer-term effectiveness in generating non-inflationary growth, this unanimity was enough to convince Kennedy. Tobin, who unlike Galbraith was skeptical about the explanation of inflation by monopoly power, expressed the goal of guideposts in the framework of the Phillips curve, namely that it aims at "talking down" the curve (1972, 17).

As a reminder, under the Kennedy Presidency, the steel unions were demanding wage increases. Galbraith and the CEA members recommended limiting those increases to halt a potential inflationary spiral, because of the importance of steel as a raw material. The Minister of Labor, Arthur Goldberg, took up the task (Laguérodie 2007, Widmaier 2005). A tripartite agreement was reached in the fall of 1961, endorsing a moderate wage increase. But in April 1962, the U.S. Steel Company announced a substantial increase in the price of steel of $6 per ton, i.e., nearly 3.5%. It was followed in this by many companies in the sector. The very next day, Kennedy gave a press conference denouncing such behavior as a "wholly unjustifiable and irresponsible defiance of *the public interest*."[50] This public criticism, the threat of antitrust laws and the defection of the Ministry of Defense, which was one of their main customers, finally made the corporations of the steel sector back down. The steel price increase was cancelled. Lerner said that the event led him to give "more credit than [he] once did to the effectiveness of sermons by

[48] For more details and the controversy it fostered with Baumol (1958), see Chirat (2022c).
[49] See Parker (2005), Laguérodie (2007), Romani (2018), and Chirat (2022a).
[50] Kennedy quoted in Widmaier (2005, 564).

the administration" (1967, 13). As for Galbraith, he sent a message to Kennedy from New Delhi where he was serving as ambassador. He welcomed the reaction predicting it would lead to strong non-inflationary growth and reduce the gap to full employment. He also welcomed the use of the rhetoric of the public interest and was all the more pleased with the President's action because he believed himself to be "the spiritual father of this policy."[51]

In the Richard T. Ely lecture he delivered in 1966, Lerner took advantage of the audience he was given to emphasize, on the one hand, "the un-Keynesian coexistence of unemployment with inflation" and, on the other, that "cost inflation and administered inflation or markup inflation is now receiving much attention" (1967, 2).[52] He then argued against the cognitive framework of the Phillips curve that "we can arrange to enjoy the benefits of high full-employment and price stability" thanks to "incomes policy and the wage and price guideposts." Lerner insisted, however, that guideposts could not act as a substitute for monetary and fiscal policies, but only "as a replacement for a part of the competitive price mechanism that has broken down" (1967, 7). In other words, guideposts were a desirable policy when the economy was faced with a "double monopoly," in other words, the phenomenon described by Galbraith (1952) with his concept of countervailing power. However, in line with his normative defense of the market price system, Lerner stated that "the guideposts must get wages and prices to behave as if they were market determined" (1967, 9). To do this, wages should move not in line with relative productivity differences between industries, but rather in line with the evolution of productivity as a whole and the differences between supply and demand in each specific industry, to provide the necessary incentives for the reallocation of factors of production. Thus, "the wage increase should be greater than the average where the demand is greater relative to the supply than on the average, and it should be less where the reverse is the case" (1967, 11).[53] Again, Lerner's preference was for wage controls. He even explicitly pitted his wage adjustment rule against direct price control (1967, 12).

A few years later, the stagflation situation facing the Nixon administration rekindled these same issues. Faced with rising unemployment and prices, the failure of monetary policy and current account imbalances, the Joint Economic Committee Congress (JEC) convened a series of hearings in July 1971. Galbraith was invited to testify on the July 20, the same day as Franco

[51] Letter from Galbraith to Kennedy, April 17, 1962, reproduced in Galbraith (1998, 45-46).

[52] Although Lerner used the term "administered inflation" mainly popularized by Means (1959, 1972), Lerner credited Sidney Weintraub instead for his work on the subject.

[53] Lerner actually proposed a similar mechanism of sectoral wage control as early as 1947, which he further developed in his 1951 book.

Modigliani of the MIT.[54] For Galbraith, who refused to place the responsibility solely on the Republican administration, "the first cause of the crisis in economic policy is an error that is implicit in nearly all economic thought" (1971, 73). Economists have neglected the change in the nature of the institutions of American capitalism that he described in *The New Industrial State* (James Galbraith 1984; Baudry and Chirat 2018). President Nixon had said a few months earlier on television, "I am now a Keynesian in economics" (Parker 2005, 488). Galbraith testified before the Joint Economic Committee Congress that "Mr. Nixon has proclaimed himself a Keynesian at the moment in history when Keynes has become obsolete" (1971, 74). He agreed with Arthur F. Burns,[55] then chairman of the Fed board, when he reiterated his judgement on the ineffectiveness of monetary and fiscal policies in a situation of cost-push inflation. Galbraith defended a short-term "general freeze" policy in order to "break the structure of inflationary expectations on which all collective bargaining now proceeds," namely, "to break the cycle of inflationary expectations" (1971, 78). Once prices had stabilized, fiscal measures, in this case spending increases—Galbraith went on opposing tax cuts—could combat unemployment.

> We have this problem [of cost-push inflation] because we already have private wage and price fixing. The market isn't allocating resources; it is the unions and the corporations that are doing so. Thus the appeal to the market is a disguise for inaction. The specter of the black market is also a fraud. Controls are not a substitute for a fiscal and monetary policy that maintains a general balance between aggregate demand and supply; no sensible economist regards them as a substitute. They are an essential supplement to such a policy, one that keeps it from being destroyed by cost-push inflation (Galbraith, 75).

Parker has documented the Nixon administration's reaction to Galbraith's congressional hearings. In particular, he explains that Nixon told Connally, his Treasury Secretary, that Galbraith was one of his "best enemies" and that "this son of a bitch has unmasked what these

[54] On this occasion, Modigliani claimed "I am not against [price control] because I believe in perfect markets, or in the instant power of monetary and fiscal mix, or anything like that. […] Can you imagine Mr. Galbraith deciding what is an appropriate wage settlement in the steel industry, because that is the kind of thing he would have to get into. I cannot see that we are ready, or conditions warrant a measure of this kind. I would like to quote Professor Samuelson, when he says that, 'under some conditions, if used very rarely, these kinds of controls will work'" (Modigliani 1971, 117). When asked about the dilemma between inflation and unemployment, Paul Samuelson evokes Galbraith's solution of price and wage controls to curb inflation. However, he argues that in "modern mixed economies" the effects work only in the short run (Samuelson 1977).

[55] Arthur F. Burns was an institutional economist, working with Mitchell at Columbia and the NBER (Burns and Mitchell 1946). In his hearings before the JEC in 1971, he stated: "In my judgment, and in the judgment of the Board as a whole, the present inflation in the midst of substantial unemployment poses a problem that traditional monetary and fiscal remedies cannot solve as quickly as the national interest demands" (1971, 269). But unlike Galbraith, he added "I am not calling for price controls; this is a drastic remedy. The time may come when we need it but I definitely do not think the time has come" (Burns 1971, 271).

bastards, all these bright New Dealers, want. They want another OPA, they want to control the economy, they want to control wages and prices" (Parker 2005, 491-492). In addition to Arthur F. Burns, however, John Connally favored a policy of direct price controls as early as February 1971 (Abrams and Butkiewicz 2017, 64). Like Galbraith, Nixon had worked for the OPA during World War II. However, he drew opposite conclusions, believing that price controls could not work in peacetime and would amount to "a scheme to socialize America." But Connally, supported by Burns (Chairman of the FED), Herbert Stein (Member of the CEA), and Paul Volcker (Undersecretary of the Treasury for Monetary Affairs), helped convince Nixon. In the summer of 1971, Nixon decided, in parallel with the suspension of the dollar's gold convertibility, to implement a 90-day price and wage freeze policy, from August 15 to November 15, 1971. This first and last experiment in direct generalized price controls in peacetime[56] in the United States was part of Nixon's "New Economic Policy" (NEP): a set of measures aimed at fighting rising unemployment, inflation, and international currency speculation (Abrams and Butkiewicz, 2017).[57]

Galbraith's reaction was mixed at that time. While he welcomed the use of price controls, he expressed his disagreement with the measures taken by the Nixon administration, the most important of which were the undermining of the Bretton Woods system and the fiscal stimulus through tax cuts. As Parker summarizes, "he was willing to support Nixon's shift to wage and price controls not as an end in itself, but as a step toward public support for Keynesianism and for liberal, activist government" (Parker 2005, 498). As time passed, Galbraith became increasingly critical of Nixon's price control policy, which he saw as a purely electoral and short-term strategy rather than as part of a long-term plan for social control of the economy (Laguérodie 2007, 233-235). While some empirical studies attribute to this price freeze policy a responsibility for a subsequent "catch up" inflation (Gordon 1973; Blinder and Newton 1981), Galbraith had a very different analysis. The controls worked, at least to reverse inflationary expectations, and were precisely abandoned by the then new Treasury Secretary George Schultz because "they were working" (Galbraith 1978, 80; 1979, 10). Unlike Galbraith, Lerner was not caught up in the political and media whirlwind at the time of the Nixon reform. In 1972, he published *Flation: Not INflation of Prices, not DEflation of Jobs*, in which he defended, like Galbraith,

[56] It should be noted, however, that as Rockoff points out, the idea that these controls took place in peacetime "is true only in a legal sense", since "undeclared war still raged in Vietnam" (1984, 200).

[57] This initial phase of pure and simple price freezes was followed by the implementation of generalized controls. Price and wage increases had to be approved by a "price commission" and a "pay board." This Phase II remained in force for more than a year (from November 1971 to January 1973) to be replaced by a gradual relaxation of controls from January to June 1973 (Phase III). Finally, a Phase IV, marked by a gradual abandonment of controls, preceded the program's abolition in April 1974 (McCracken 1996, 175).

the idea that the situation of stagflation was the result of a misdiagnosis and consequently of the application of the wrong remedy. Lerner contemplated two explanatory scenarios for stagflation insofar as he distinguished two types of inflation compatible with a situation of economic slowdown and unemployment.

First, in line with his previous analyses, Lerner explained the "stagflation" situation by applying the appropriate remedy for demand-side inflation [Inflation I]—fiscal and monetary contraction—to a situation of administered inflation, a term he came to prefer to "sellers' inflation." However, Lerner stated that he was unable to determine whether inflation originated in "aggressive administered inflation"—in which wage and price administrators seek to obtain more than 100% of the value added—or rather in the "essentially defensive" behavior that characterized the third form of inflation identified by Lerner, anticipated inflation. This was apparently indistinguishable from administered inflation, so that "maybe we have inflation II [administered inflation] rather than inflation III [anticipated inflation]" (1972a, 88). Whether administered or anticipated inflation, Lerner remained very skeptical about the possibility of implementing effective anti-inflationary policies against either type, in contrast to Galbraith, who, as seen, thought price controls an effective weapon in the joint fight against both these types of inflation. In a sense, *Flation* was a turning point in Lerner's intellectual trajectory, because of the pessimism that beset him regarding the possibilities of a realistic policy to combat administered inflation. Rejecting both income and price control policies, Lerner ultimately recognized that administered inflation "turns out to be essentially insoluble except by the politically unacceptable extreme depression" (1972a, 78-79). To understand the intellectual dead-end in which Lerner found himself on the question of how to respond to stagflation, it is necessary to present his rejection of income policies and his criticism of the price and wage freeze introduced by Nixon.

Regarding incomes policies, again referring to the wages and prices guidepost of the Kennedy era, Lerner believed that "in nearly all cases they have broken down and been more or less abandoned" (1972a, 73) for at least two reasons. First, these policies were applied uniformly rather than by sectors according to different unemployment rates, which prevented the economy from adjusting to changes in demand, supply, technology, and other conditions, since prices could not perform their function as signals. Second, he added that greater flexibility would not guarantee the success of this policy, since it could never really be accepted by workers and employers. The income policy amounted to trying to "persuade workers and employers to be satisfied with smaller percentages of the total product" (1972a, 77), which would be seen as unfair by both sides. We see here that the rejection of wage control thus stemmed in part from Lerner's definition of sellers' inflation as being based on a distributional conflict. We also note that, while incomes policy contradicted the "aggressive" dimension of the dynamics at the heart of administered inflation, it might, at first sight, appear compatible with the "defensive" nature of expected inflation. Moreover, income policy in the context of expected inflation required a certain degree of trust on the part of workers in the word of experts—economists or administrators—insofar as such a policy involved going against the expectations formulated by the agents themselves.

Therefore, Lerner was highly critical of Nixon's price and wage freeze policy. He recognized that from a theoretical point of view, such a policy could be adapted to the fight against anticipated inflation, insofar as "if wages and prices could stay frozen for a sufficiently long period, the memory of inflation might perhaps fade away, and the expectation of further inflation disappear" (1972a, 98), ultimately making it possible to lift the freeze. Nevertheless, Lerner did not believe that such a scenario was realistic, for two main reasons. First, the level of inequity arising from the immediate application of the freeze made it socially unacceptable: some prices and wages might have been due to increase just after the freeze, while others might have been increased just before. Moreover, the timing of the implementation of the freeze would always be the subject of numerous disputes. Lerner observed that, following the introduction of the freeze on August 15, 1971, "an especially loud complaint was heard about the abrogation of agreements made before the freeze for wage increases to be started after this date" insofar as the freeze infringed the "sacred principle of the validity and enforceability of contracts freely agreed upon" (1972a, 101). Secondly, he insisted on the increase in economic inefficiency resulting from the permanence of the blockages. Although, at first, Lerner acknowledged that blocking did not disrupt "the efficiency of the market mechanism by making some prices lower than others the way selective price controls do" (1972a, 97), as production and consumption conditions changed, the price rigidity that resulted from blocking tended to become an "increasing burden" since "the price mechanism thus cannot perform its function" (1972a, 100). The blockade then collapsed following an increase in social discontent resulting from the paralysis of the price mechanism. Here we find the arguments classically advanced by Lerner against price controls.[58]

Thus, while Lerner and Galbraith started from a similar observation about the causes of stagflation, and both rejected the solution of sending the economy into depression, their

[58] Lerner's opposition to the price freeze appears to be consistent with his theoretical, epistemological, and normative position presented above: only the exceptional case of war could temporarily justify the introduction of a price control policy. However, one might question the fact that the United States remained effectively engaged in a war against Vietnam at the time. As noted above, Rockoff thus considers the Nixon price freeze as a form of wartime price control (1984). However, the fact that this conflict did not take place in the context of a total war, comparable in terms of commitment to World War II, makes it possible to understand the position of Lerner, who already no longer considered price controls as a solution during the context of partial mobilization for the Korean War (Lerner 1951).

economic policy recommendations tended to diverge in the 1970s, since Lerner rejected income policies in addition to price controls. This nevertheless led him to develop an original solution. Convinced of the need for a mechanism based on market micro-mechanisms, Lerner was inspired by the "Tax Incentive Income Policy" (TIP) proposed by Sidney Weintraub and Henry Wallich[59] (1973) as well as the idea of Lawrence Seidman (1976) to consider inflation as a problem like pollution, namely an externality. That is why Lerner (1977c) developed the "Wage Increase Permit" (WIP) scheme, which later became the "Market Anti-inflation Plan" (MAP) (Colander and Lerner 1982). The aim of this scheme was to internalize the negative externality resulting from wage increases that exceed productivity increases, by proposing the establishment of a market for wage increase permits. Firms wishing to increase wages by more than 3%[60] of the wage bill would be forced to buy back a number of permits—previously issued by the state—from firms that had increased wages by less than 3%. The issuance of tradable permits would then allow an optimal inflation rate to be set. However, although this mechanism might resolve the issue of administered inflation, it came at the cost of a drastic reduction in the scope of government action. Although Lerner broke the intellectual deadlock he was in when faced with administered inflation, it was at the cost of major amendments, even a rejection of his concept of functional finance, in favor of a money growth rule, leading him to a "peace settlement" with the monetarists (Wray, 2018).[61]

This paper has demonstrated that starting from a very similar approach to underemployment inflation as the result of a distributional conflict, Galbraith and Lerner came to hold radically opposed positions over price control. The disagreements between Galbraith and Lerner about price controls provide a paradigmatic illustration of the tension within post Keynesian economics. The main stakes of their fictious dialogue reconstructed here are summed up in a table in the Annex. Having taken this step back into the history of economic thought, we would like to conclude by returning to the current challenges of the early twenty-first century.

[59] A mechanism that increases the corporate tax rate in proportion to the rate of wage increases granted by companies measured against a government-defined wage increase standard.

[60] These numbers correspond to the average productivity observed at that time by Lerner.

[61] In order not to disrupt the WIP mechanism, Lerner advocated delegating to the central bank the task of ensuring stable growth of the money supply, in line with the increase in production. Because of this real rule of monetary growth, Lerner insisted that any new public expenditure must thenceforth be offset by an equivalent revenue, or even by a higher tax once the multiplier effect was considered. While his "peace treaty" with the monetarists led Lerner to support recommendations similar to those of Milton Friedman—on the money growth rule—it was because of a very different diagnosis. In no case did the money growth rule appear to be justified by the concern to combat inflation that would be the consequence of unconsidered growth of the money supply, but rather by a (post) Keynesian approach to (cost-push) inflation. Moreover, if the principle of functional finance to regulate total expenditure via the deficit was definitively abandoned, Lerner insisted that sound finance would not be restored even so. It was not because of a fear of state bankruptcy that Lerner came to adopt this position, but to be consistent with his WIP plan (1977b).

Section 5: From history back to present-day inflationary prospects

Because of the Covid-19 pandemic and political decisions following the outbreak of the Russo-Ukrainian war, inflation has reappeared in western countries. Although the causes of inflation are not strictly the same in the U.S. and in Europe, and even among European countries, three main causes are generally identified (Konczal and Luisani 2022). First, there is "demand inflation," especially in the U.S., because of post-pandemic monetary and fiscal stimuli as well as forced saving during lockdown. In a twentieth century context of a fully mobilized war economy, general price control proved to be an efficient way to contain inflation driven by demand for civilian goods. But the current situation in western countries is not one of structural and general excess of demand over supply, so general price control is not a solution.[62] While generalized price control is inappropriate, the recent raising of interest rates by the FED and to a lesser extent by the ECB has been decried, because of the current risk of recession. That is why some strategic price controls might be useful to target specific sectors of the economy (Weber et al. 2022). While acknowledging that "price controls will have negative side-effects and unintended consequences, just like any other intervention," Servaas Storm (2022) argues that "the collateral damage of temporary and strategic price controls will be smaller than that of generic monetary tightening." Remember that, despite their disagreements, Lerner and Galbraith agreed on dismissing recession and unemployment as solutions to inflation. In line with both Galbraith and Lerner, Storm adds that strategic price control might prove fairer, since the burden of price controls "will fall more heavily on the strongest shoulders (profiteering corporations and the rich) rather than on the weakest (workers losing their jobs)" (2022, 77). Furthermore, just as Galbraith observed in the context of wartime mobilization, price stability today cannot be won at the cost of sacrifices in employment and production, insofar as the ecological transition requires a high level of activity to reorganize our economies. This is developed below.

The second kind of inflation put forward is "supply inflation," because of disinvestment, broken supply chains and bottlenecks. In the U.S., the 2021–2021 inflation was for instance driven by the rise in used car prices, because of the shortage of semiconductors constraining new car supplies and resulting in backlogs (Galbraith 2023b). One major cause of supply inflation in Europe is located, because of the reduction of Russian gas exports, in the energy sector, a key industry that could propagate inflation throughout the entire economy. This rise in energy prices particularly affects Germany, because of its energy mix. François Geerolf (2022) recently

[62] Moreover, at the aggregate level, the Covid-19 pandemic already generated high levels of savings, so that "the margins of tolerance" evoked by Galbraith might be weak.

explained that the decision to stop gas imports from Russia would significantly reduce German GDP. To avoid the foreseeable dramatic political and social consequences of rising prices, Isabella Weber (2022) calls for a price cap. More precisely, she advocates that "a household would get the basic amount of electricity set below market prices by the government" and "if you go above that, you pay the higher market price."[63] In a sense, her proposal combines Galbraith's conventionalist approach to basic needs[64] with Lerner's eternal emphasis on the necessity to keep market price incentives alive.

Because monetary policy cannot cope with supply inflation, another form of strategic price control has been in operation in France since October 2021. This is, however, an indirect price control, contrary to Weber's plan. The "price shield" [*bouclier tarifaire*] implemented by the French government, namely the commitment by the government to contain rising energy prices (electricity and gas) for households within a limit of 15%, is indeed "a partial price control mechanism" (Ragot 2022, 4). Its originality lies in the fact that fiscal policy is used as a device to control prices, since the gross cost of the "price shield" amounts to €45 billion for the public budget. One of its strengths is that, in the short term, it partially relieves the monetary authority from the task of controlling inflation and might avoid policy errors—raising interest rates excessively—leading to a combination of inflation and recession. This is, however, a theoretical possibility that is not fully applicable to France since its monetary policy is decided by the ECB. Although the price shield has the advantage of being very simple to administer, it is not a targeted device. Ragot (2022) stresses that other more targeted measures would have been either energy vouchers for the more modest households or nonlinear pricing to discriminate between low and high energy consumers.

Recently, Joseph Stiglitz (2022) has defended targeted measures through nonlinear pricing in the energy sector. The rationale he provides is worth discussing, since it directly echoes our discussion on the epistemological and normative divergences between Galbraith and Lerner. Stiglitz calls for an escape from the neoclassical normative benchmarks, yet without explicitly referring to consumer sovereignty. This latter framework generally leads to an endorsement of marginal-cost pricing "because it provides appropriate incentives and because its distributive consequences tend to be small and easily manageable in normal times" (Stiglitz 2022). Yet, in the present situation, the reverse is happening. Indeed, in Europe, the electricity market "follows the

[63] https://euobserver.com/green-economy/156049

[64] This approach to needs is at the heart of Senator Bowman's proposal for an Emergency Price Stabilization Act. The bill lists food, energy, housing, health care, and transportation as goods concerned by strategic price control and adds some "strategically important prices," namely "a price associated with any good or service that is ubiquitous as a productive input, investment asset, or benchmark used to determine other prices." See *117th Congress, 2nd Session, H. R. 8658*, "To establish the Sub-Task Force on Emergency Price Stabilization, and for other purposes."

principle of marginal-cost pricing" so that "the electricity price reflects the highest-cost source of production needed to meet current demand." This leads to non-sensical situations. Stiglitz, for instance, points out that "electricity prices in energy-rich Norway, with its enormous gas and oil reserves and hydro capacity, have increased nearly tenfold." To borrow a phrase used by Galbraith to describe the challenges of his mission as head of the OPA, Stiglitz's rationale conveys the idea that the present situation requires not an optimal allocation of resources, in the neoclassical meaning of optimality, but rather a "psychologically optimal allocation of resources" (1947a, 288), coping with the demands and expectations of the various interest groups and the imbalances of their bargaining power.

The inflation due to rising energy prices is to some extent linked to the third main cause of inflation that could be identified, namely "market power," because of corporations upward price policies. If it were not conflated with supply inflation, the latter could feed the former, as stressed by U.S. Senator Jaamal Bowman in his call for an Emergency Price Stabilization Act. In fact, profound macroeconomic and geopolitical disturbances are sometimes used by corporations to raise their prices.[65] Recently Josh Bivens (2022) has shown that, since 2020, U.S. inflation has been driven for more than a half by a "historically high profit margin." While Lerner and Galbraith both considered price controls as a means of controlling the level of corporate margins, we have seen that they did not attach the same importance to this issue. We can see here that Lerner's asymmetric approach, viewing the level of margins as a secondary issue under the exclusive responsibility of competition policy and full employment policy, was unsuitable for a short-term reaction. Current inflation calls for policies that can produce immediate effects, considering the present oligopolistic structure of the economy (Autor et al. 2020). Consequently, Bivens argues that a "temporary excess profits tax could provide some countervailing weight to the pricing power firms currently have vis-à-vis their customers." Such a windfall profit tax, also advocated by Stiglitz,[66] is also a kind of indirect price control that could serve two purposes.[67] First, a temporary excess profit tax might solve the distributional conflict. This is the purpose implicitly put forward by EU commissioner Ursula Von der Leyen who argued, in the European Parliament on September 14, 2022, that "in these times, profits must be shared and channelled to those who need it [sic] the most."[68] Yet, either a permanent rather than temporary windfall profit

[65] In March 2022, the International Energy Agency estimated that European energy companies could earn a surplus of €200 billion in 2022.

[66] https://www.theguardian.com/australia-news/2022/jul/19/nobel-prize-winning-economist-joseph-stiglitz-calls-for-windfall-profits-tax-in-australia

[67] A maverick Lernerian might prefer to build a "Profit Increase Permits" plan.

[68] Such a statement indeed implicitly recgnized that the part of current inflation caused by market power expressed a distributional conflict. Surprisingly, the ECB does not explicitly consider market power as a cause of inflation (ECB 2022): https://www.ecb.europa.eu/ecb/educational/explainers/tell-me-more/html/high_inflation.en.html

tax or more direct price control through mark-up control could serve a second purpose. It would be a weapon for avoiding the profit-price spiral, rather than the post-war wage-price spiral characterizing the Fordist accumulation regime, that the U.S. is experiencing (Bivens 2022). On this point, it is interesting to note that, in his econometric evaluation of the Nixon price freeze, Robert J. Gordon considers that if the price freeze worked temporarily, it was indeed by compressing the level of margins (1973, 777).[69] We also note that, in the face of such inflation, price controls allow targeted intervention on prices whose evolution is more problematic, whereas conventional monetary policy based on raising a single key interest rate precludes such targeting. Thus, apart from the case of full wartime mobilization—in which all prices must be controlled—Galbraith defended the introduction of price controls in sectors in which "firms have undoubted discretion to move their prices," so that "price controls would be confined to imperfect markets where prices are administratively determined" (Galbraith 1952, 71).

It should be noted here, however, that the windfall profit tax is only fully equivalent to price control—and more precisely to margin control—if the last bracket of the progressive tax in question is set at 100%. Yet, it is noticeable that windfall tax schemes under consideration nowadays do not adopt this perspective insofar as, for example, the European Commission proposes a marginal rate of 33%. To consider the effects of such a tax, it is necessary to distinguish between the situation of oligopolistic firms facing perfectly elastic or inelastic demand, thus following Galbraith's approach in *American Capitalism*. In the perfectly elastic case, the 33% windfall tax effectively discourages a price increase insofar as, in addition to a drop in profitability resulting from a drop in the volume of sales further to a price increase, the firm would have to pay more taxes. In the perfectly inelastic case, however, firms have no real disincentive to raise their prices, since demand is likely to remain at the same level after the price increase. On the contrary, in this case, it is even possible to envisage—theoretically—a counterproductive effect of the windfall tax insofar as the firm may seek to offset it by raising its prices further.[70] It is clear here that the main sectors for which the exceptional tax is envisaged fall into the category of oligopolistic sector with administered prices and rather inelastic demand (energy, food, transport, etc.). Following the previous reasoning, if the objective is really to use a windfall tax in order to slow the increase in prices *per se* (and not only to settle distributional conflicts), then it would be

[69] However, Gordon was highly critical of Nixon's price control policy, which he considered a failure.
[70] Spain's recently enacted windfall profit tax on the banking sector. In order to ensure that the temporary tax on bank revenues is not passed on to customers, the law makes this behavior an offence punishable by a proportional monetary fine of 150% of the amount passed on to the institution's customers. However, the ECB is skeptical about this mechanism insofar as "considering all the different circumstances that may cause an increase in prices in the current context (...) it appears to be difficult to differentiate whether the temporary levy would actually be passed on to clients or not."
(https://eurlex.europa.eu/legal ECB 2022/36, 5)

more appropriate to consider a marginal tax rate of 100% for these sectors. This would then be tantamount to implementing an effective control of margins.

The debates that surrounded the replacement of crude oil price controls in the United States—controlled from 1971 to 1980—by a windfall tax—abolished in 1988 – justify the necessity to distinguish the windfall tax from price controls. The advent of such a tax—with a marginal rate set at 50%—was clearly thought of as an alternative to price controls, as Drapkin and Verleger (1980) explained. They argued that "one's view of the windfall profit tax depends on one's view of oil price controls and the role of the tax in eliminating price controls" and that the "windfall profit tax may represent a positive contribution to domestic energy policy by making possible the elimination of oil price controls and by minimizing the risk that price controls on oil will be extended or reimposed in the future" (1980, 699-701). Moreover, the windfall profit tax is not then envisaged as a means of stabilizing oil prices, but as a measure motivated by equity, to the extent that "as Government controls end, prices will go up on oil which has already been discovered" (President's April, 1979 Energy Address)[71] so that, without a tax, companies would enjoy an undeserved windfall profit.[72] The windfall profit tax was thus even envisaged as a means of gaining acceptance for the price increases that would result from the abandonment of price controls[73], without any guarantee that the proceeds from this tax would be transferred in the form of aid to the households most affected by the price increase, insofar it was also conceived as a means to reduce public deficit (Lazzari 1990).[74]

Taking all of this into account, the link between the superprofit tax and effective price controls should be carefully evaluated, which is not the purpose of this study.[75] The debate around this tax furthermore proves that price control cannot be a solution on its own. Indeed, national governments will remain reluctant to implement a windfall profits tax on domestic corporations until the problem of tax competition among nations is solved (Saez and Zucman 2019). We also see that Lerner thought full employment to be the best way to fight market power inflation, insofar as "more people will want to go into business," since they anticipated strong

[71] Quoted by Drapkin and Verleger (1980, 660).
[72] The government also anticipates future actions by OPEC, which could lead to an undeserved increase in profits.
[73] One might point out that this windfall tax, applied to a sector facing inelastic demand, was not passed on in prices (Lazzari 2006, 18). This might at first sight invalidate our previous theoretical reasoning. However, in this case, the tax only applies to American producers, who remain in a price-taking position insofar as the price of oil is determined on international markets. They can only pass on the increase in cost resulting from the tax by exposing themselves to the risk of seeing retailers and consumers turn to cheaper imported oil (Lazzari 2006, 18). There is therefore no contradiction with our previous reasoning insofar as it applies only to a situation in which prices are administered by firms within the sector subjected to the windfall tax. In the case under consideration here, the tax led to a reduction in the margin rate of the national oil sector, resulting in a decrease in production of domestic oil between 1.2% and 4.8%, which was offset by an increase in foreign oil imports (Lazzari 2006, 20).
[74] We have no information on how the proceeds of this tax were actually allocated.
[75] On this matter, see Baunsgaard and Vernon (2022).

demand, which increased competition, thus reducing mark-up rates (Lerner 1951a, 235). From this perspective, in a counterintuitive way, a policy of full employment could also fight inflation resulting from the market power of firms. Bringing together both Galbraith and Lerner, a price controls policy could be combined with a policy of full employment, with both policies finally making it possible to fight market power inflation.

Finally, while the inflation we are currently facing may appear to be relatively or at least partly conjunctural—because of the geopolitical context—it is also possible to consider the advent of a more structural form of inflation, linked to the challenges of the energy transition. Indeed, as stressed by Isabelle Schnabel (2022), the costs of climate change ("climateflation"), the rising costs of fossil energy ("fossilflation"), and the rising cost of the metals needed for green energy transition ("greenflation") are leading a growing number of economists to predict the entry into a higher inflation regime (Crawford and Gordon 2022). It is relevant to draw a parallel between this "new age of energy inflation" and the nature of inflation on which Lerner and Galbraith had to give an opinion in the context of World War II. Isabelle Schnabel's (2022) warning against "the imbalance between rising demand and constrained supply" directly echoes the challenge of what Galbraith called "the disequilibrium system." Indeed, in both cases, the main question is how to ensure effectively—as quickly and as fairly as possible—a massive reallocation of resources and reorganization of the productive means, while limiting the inevitable consequences of shortages—notably runaway inflation.[76] In other words, how can one articulate a high level of investment and employment—necessary for productive reorganization—within the framework of a situation of shortage, in our case, linked to the availability of energy and metals?[77] We show that despite their profound disagreements, Lerner and Galbraith both agreed on the need for price controls in a situation of total war. Indeed, Lerner considered that Galbraith's "system of disequilibrium" worked marvels during the war insofar as it enabled the economy to run at full speed—and thus supported productive reorganization—in a context of demand that was structurally greater than supply, while avoiding high inflation. He added that in this context, this solution remained socially fairer than letting the market adapt freely, insofar as "this method had the advantage that instead of aggravating the inequality of real income it diminished it very much" (Lerner 1949, 197). This position is echoed by the criticism against

[76] While we argue that the economic problems are to some extent similar, this does not lead us to advocate the establishment of a "climate war economy" in so far as "if we want to consider ecological planning today, we must first fight against the still widespread idea (…) that state intervention in the economy is only justifiable as a temporary and exceptional situation imposed by the enemy" (Monnet 2022, 50).

[77] But also socially decided shortages for certain goods, whose production and consumption must decrease. However, this involves questioning the importance in our contemporary economy of the "reversed sequence" theorized by Galbraith (1967), as well as a desacralization of the principle of consumer sovereignty.

windfall profits made by Stiglitz among others. The fact that an economist like Lerner, so viscerally attached to the market mechanism, recognized the allocative efficiency and fairness of price controls in the context of the war should at least lead us to question the relevance of this device in the perspective of the ecological transition.

All the various measures of strategic price control discussed until now aim at curbing inflation (or inflationary expectation) and the distributional conflict it conveys. As such, these measures are a response to the political dimension of (semi-)inflation diagnosed by Keynes, Lerner, Galbraith, and many post Keynesians. However, in the paper, we emphasize how, in the context of World War II, both Lerner and Galbraith acknowledged the allocative efficiency of price control in comparison to the market price mechanism to achieve a fast reallocation of resources within the economy. Given both the conjunctural problems of western countries' energy mix and the structural challenges of a transition toward a low-carbon economy, an investigation is required into how price control, in combination with its counterpart, long-term public planning, could constitute an alternative to market devices to cope with inflation related to the ecological transition. Moreover, as James Galbraith (2022) diagnoses, the current crisis disrupts the neoliberal cognitive framework where the mere possibility of price control and planning is unthinkable, whereas it was common in the three post-war decades. To determine the circumstances in which price control would prove useful in the slowly emerging new institutional economic scheme requires more empirical and theoretical work. It is quite worrying that seventy years after its publication, the judgement of Friedman (1977) about Galbraith's *A Theory of Price Control* (1952) seemingly still holds: "he is the only person who has made a serious attempt to present a theoretical analysis to justify his position" in favor of price control (Friedman 1977, 12).

Annex 1

Convergence and divergence on price control between Galbraith and Lerner

	Galbraith	*Lerner*
Points of agreement		
Early analysis of underemployment inflation.	The market power of big business and unions could generate an inflation of underemployment.	Underemployment inflation expressed a distributive conflict between sellers of labor (workers) and sellers of products (firms), hence the label "sellers' inflation."
Potential existence of an inflation / unemployment trade-off in the short run.	Dismissal of recession and unemployment as a solution to inflation as costs of this solution are higher than the evil it is supposed to fight. The potential trade-off can be overtaken by the articulation of wage and price controls.	Dismissal of recession and unemployment as a solution to inflation as costs of this solution are higher than the evil it is supposed to fight. The potential trade-off can be overtaken by wage controls, later abandoned in favor of the MAP plan.
Allocative efficiency of price control in time of total war	Favors a rapid and massive reallocation of resources and remains a socially fairer method of managing wartime inflation (limits the growth of inequality).	
Points of disagreement		
Theoretical divergence		
The issue of symmetry in profit margin and wage control	Symmetrical approach to wage and profit margin control. Price controls are thus legitimized, in coordination with wage controls.	Asymmetrical approach: control of profit margins is a secondary issue compared to control of wages. Idea that full employment is the best way to fight oligopolies.
The issue of the symmetry of suppressed inflation and open inflation	Open inflation is more serious than suppressed inflation insofar as the former can run away.	Open inflation and suppressed inflation are put on an equal footing in terms of severity.
The issue of excess savings resulting from price controls	Within certain "margins of tolerance," excess savings do not necessarily lead to a disincentive to work or invest. Thus production can continue to increase, rationing can be limited, and controls can be sustainable.	As a result of the controls, production is reduced. The surplus savings are spent on other uncontrolled goods, which in turn must be controlled. The result is a generalized price control that cannot be sustained over time and can be totalitarian.
Epistemological divergence		
Relationship to market	Abandonment of the idea that regulation of the economy necessarily	Passionate relationship with the market, as illustrated by his

mechanism	involves price movements.	participation in the debate on socialist calculation.
Relationship to public policy	Emphasis on the gap between theory and public policy practice.	Emphasis on pure theory and negligence of institutional and political constraints.
Normative divergence		
Consumer sovereignty	Dismissal of the principle of consumer sovereignty as the right normative benchmark in affluent societies.	Adhesion to the principle of consumer sovereignty and more generally neoclassical welfare economics.

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