



LUND UNIVERSITY

Price Control Policy in Sweden during the 1970s

Jonung, Lars

Published in:
SEB Quarterly Review

1981

Document Version:
Publisher's PDF, also known as Version of record

[Link to publication](#)

Citation for published version (APA):
Jonung, L. (1981). Price Control Policy in Sweden during the 1970s. *SEB Quarterly Review*, 3-4, 80-91.

Total number of authors:
1

General rights

Unless other specific re-use rights are stated the following general rights apply:
Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal

Read more about Creative commons licenses: <https://creativecommons.org/licenses/>

Take down policy

If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

LUND UNIVERSITY

PO Box 117
221 00 Lund
+46 46-222 00 00

37. Lars Jonung, "Price Control Policy in Sweden During the 1970s", *Skandinaviska Enskilda Banken Quarterly Review* 3-4, pp. 80-91, also published as chapter 18 in Hugh Rockoff, ed., *Price Controls*, Elgar Reference Collection, Edward Elgar, 1992. (*The International Library of Macroeconomic and Financial History*.)

Lars Jonung:

Price Control Policy in Sweden during the 1970s

Throughout the 1970s, many industrial countries have tried different types of price and wage controls. Sweden is no exception. The purpose of this article is to describe the extensive price control policy which has been pursued in Sweden since the autumn of 1970. The following aspects are considered: the formulation and extent of price control policy, the effects of price controls on the inflation rate, inflationary expectations and firms, the political economy of price controls and the future of price control policy. This article is based on and summarizes the Swedish Government Price Control Committee's recent publications, *Price Controls against Inflation?*, (Swedish Government Official Reports) 1981:40, 1981:41 and 1981:42.

1. Formulation and Extent of Price Control Policy

Price Controls according to the Price Control Act

The last remnants of the price control policy which had been introduced during World War II were rescinded in the early 1950s. Throughout the remainder of the 1950s and the 1960s, price formation in the Swedish economy was relatively free from government regulation, with the exception of certain sectors such as the housing, credit and agricultural-produce markets. However, in the autumn of 1970, a general price freeze went into effect and set the scene of price control policy in the 1970s. This general price freeze, which was phased out during 1971 and terminated in December of that year, had been introduced under the provisions of the Price Control Act of 1956. This was

emergency legislation intended for exceptional situations.¹⁾ Thus, it presupposed limited use of price controls. Legislative changes in 1973 extended the instrument of price controls without altering the main principles of the initial legislation. New legal types of price controls were introduced. Earlier, "an appreciable risk for a serious rise in the general price level in the country" had to prevail in order for price controls to be implemented. In 1973, this stipulation was changed to "a risk for serious price increases in the country in important goods and service sectors". Thus, these legislative changes paved the way for a more selective regulatory policy and more frequent use of price controls.

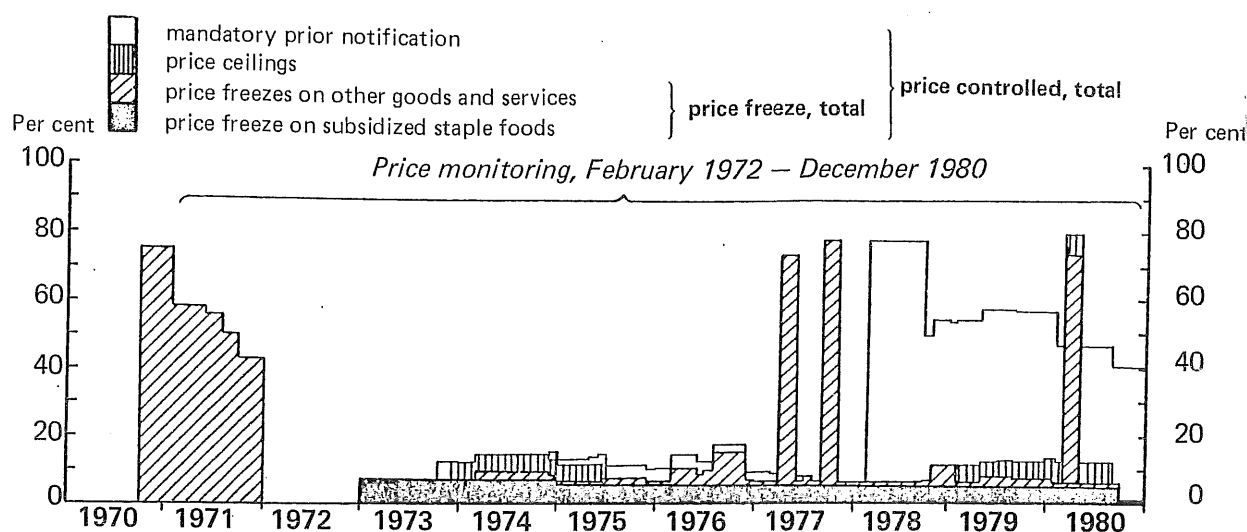
The amendments to the Price Control Act in 1973 authorized four forms of direct price control measures: 1) price freeze; 2) ceiling price; 3) pledged price; and 4) mandatory prior notification. A price freeze means that a firm's prices are frozen at the level which prevails when the measure goes into effect. A price freeze may also be retroactive, in the sense that a price can be reduced to the level which existed at a point in time prior to the price freeze. The law does not stipulate any time limit on retroactivity. A ceiling price implies that a firm's price increases are not permitted to exceed a certain maximum level. A pledged price means that a firm agrees not to exceed a certain price commitment. Mandatory prior notification implies that a firm is obligated to report and motivate planned price increases to the price control authorities at least one month in advance.

In other words, Swedish price control policy after 1973 is based on a combination of the Price Control Act of 1956 and the amendments to this Act in 1973. Applications of the different types of price control measures are described in *Diagram 1*. As shown in the diagram, a price freeze equivalent to approximately 5—7 % of total private consumption was in effect between January 1973 and De-

Lars Jonung is research director at the National Institute of Economic Research in Stockholm. He served as an adviser to the Price Control Committee, 1977—1981. He is the author of supplements to the committee's main report on the formation of inflationary expectations and the political economy of price controls. Valuable comments from colleagues at the National Institute of Economic Research and Bengt Assarsson, Lennart Göranson, Jan Herin and Eskil Wadensjö are gratefully acknowledged.

¹⁾ The Minister of Finance at the time deemed such a situation to exist in 1970—71.

Diagram 1. Share of total private consumption of goods and services subject to price controls under the Price Control Act, January 1970 — December 1980



Note: The diagram refers to the share of price-controlled goods and services at the end of each month. Almost all private consumption except housing was also subject to price monitoring by the Swedish Price and Cartel Office between January 1972 and December 1980, by order of the Government. The system of price monitoring was introduced in February 1971 in conjunction with decontrol. Beginning in January 1972, the system of price monitoring was in full effect.

December 1980. This price freeze covered a number of subsidized staple foods such as milk, cheese and meat. The diagram also indicates that price ceilings and price freezes were implemented in other goods and service sectors, in addition to subsidized staple foods, to varying degrees between 1973 and 1980. There are two high general price freeze columns during the spring and autumn of 1977. A temporary general freeze was introduced in order to curb expected price increases related to devaluations of the Swedish currency. The share of goods subject to mandatory prior notification underwent a sharp increase in the spring of 1978. Mandatory prior notification with respect to approximately 70 % of total private consumption was prompted by a desire to keep the inflation rate within the limits of the price clause stipulated by

the current wage agreement. A short-term general price freeze during the spring of 1980 was aimed at facilitating a collective wage agreement on the labour market.

Price Monitoring

In addition to measures implemented under the Price Control Act, the National Swedish Price and Cartel Office (*SPK*), which is responsible for administering the price controls legislated by the Government, has been monitoring prices ever since the agency was established in 1957. The Price and Cartel Office monitors prices according to directives from the Government. Price monitoring was expanded in conjunction with decontrol after the price freeze in 1970—71. Today, the Price and Cartel Office supervises price movements of nearly all

goods and services included in domestic private consumption by means of a reporting system. This system is very extensive and covers approximately 900 leading manufacturing and import firms and 1 600 service firms.²⁾ Any decision concerning a price change has to be reported to the Price and Cartel Office at the latest one week after having been made by the firm. In addition to price changes, firms are required to report any changes in quality, quantity, terms of payment and package size which involve a change in price. New consumer products also have to be reported.

In practice, price monitoring represents a form of price control as far as firms are concerned. In many instances, price monitoring has led to negotiations between firms and the Price and Cartel Office. The content of these negotiations is sometimes reported to the Government which, in reality, is equivalent to a recommendation from the Price and Cartel Office for intervention under the Price Control Act. Thus, there is good reason to regard price monitoring as an integral part of price control policy.

The Role of the Price and Cartel Office

The Price and Cartel Office is the authority which administers price control policy; it issues injunctions, reviews requests for exemptions, receives price pledges and ensures that price control regulations are observed. Since the Price and Cartel Office is responsible for price monitoring, it also handles contacts and negotiations with firms. In accordance with its directives, the Price and Cartel Office has to inform the government, through the

Ministry of Commerce and Industry, whenever price behaviour in a certain industry might warrant implementation of the Price Control Act, i.e. whenever there arises "a risk for serious price increases in the country in important goods and service sectors" (SFS 1973:301). The Price and Cartel Office's obligations constitute a right of initiative. It makes evaluations — on the basis of the Government's guidelines for price monitoring — as to which firms should be reported to the Government. These evaluations are arbitrary; there is no clear-cut method for determining whether price increases are "motivated" or "unmotivated".³⁾ It is then up to the Government to decide whether price control measures under the Price Control Act should go into effect.

The Price and Cartel Office's monitoring activities and reports to the Government, and the Government's subsequent legal enforcement of price controls, have developed into close collaboration throughout the years. In many instances, individual firms have not been able to distinguish between the different forms of monitoring, negotiations and legally binding controls. The Price and Cartel Office has thus assumed a dominant role in forming the policy of price controls, primarily due to its continuous contacts with and monitoring of different price-setters in the Swedish economy. The strong position of the Price and Cartel Office is also reinforced by the agency's negotiations with individual firms and its access to vital information about the firm's financial situation through the reporting system.

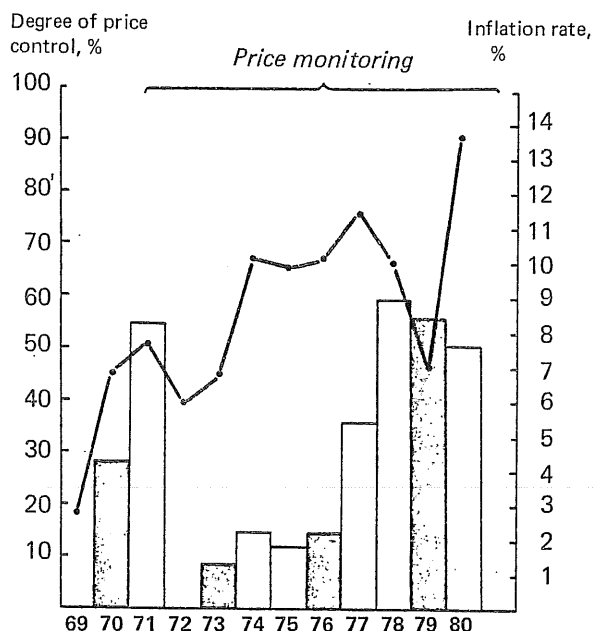
The Extent of Price Control Policy

Swedish price control policy during the 1970s has been pursued through Government intervention

²⁾ The price monitoring activities of the Price and Cartel Office are described in more detail in SOU 1981:42, Supplement 8. Price monitoring has been so extensive that the Price and Cartel Office has used data from the reporting system and supplementary price measurements to compile and publish a continuous price index for private consumption on a monthly basis. This series is generally comparable to the consumer price index compiled by the Central Bureau of Statistics.

³⁾ During the period 1977—1980, the Price and Cartel Office reported 123 firms to the Ministry of Commerce and Industry. Each report could have caused the Government to invoke legally binding price controls. The Government intervened by means of selective controls in twelve instances. See SOU 1981:41, Appendix 2, Supplement 2.

Diagram 2. Degree of price control (columns), inflation rate (continuous line) and election periods during the 1970s (election years are shaded)



according to the provisions of the Price Control Act, price monitoring and negotiations between the Price and Cartel Office and individual firms. Throughout the decade, firms have been aware of the potential threat of price controls. Even if a certain product or sector remained unaffected by price controls, conditions could change on short notice. The possibility of legally binding controls actually constitutes a form of price control. It is thus difficult to find an unambiguous measure of the total extent of price controls in Sweden during the 1970s, owing to the multitude of variations in control, monitoring and negotiations.

The degree of price control in *Diagram 2* is a minimum measure of the extent of price control policy. It measures the percentage share of total private consumption of goods and services subject to price controls under the Price Control Act during

the 1970s as annual averages of monthly figures.⁴⁾ Thus, the degree of price control covers the various forms of price controls listed in *Diagram 1* and summarizes the extent of price freezes, price ceilings and mandatory prior notification.⁵⁾ Price monitoring, which has existed alongside of the price controls implemented under the Price Control Act, is not shown in *Diagram 2*. If price monitoring were also included, then price control policy in a broad sense could be regarded as having covered nearly all private consumption in Sweden during the 1970s.

Diagram 2 indicates that the degree of price control adheres to the trend exhibited by the inflation rate during the 1970s. This development conceals a number of phenomena. When the Social Democrats were in power during the period 1973—1976, price controls were primarily selective, i.e. aimed at specific groups of goods and services. After 1976, the non-Socialist coalition governments have to a large extent linked control measures to general stabilization policy, i.e. the devaluations in 1977, guarantee provisions in the wage agreement for 1978—80 and collective wage negotiations during the spring of 1980.

Price controls have been expanded without attracting the attention of politicians or the general public. Price control policy has become a permanent feature of Swedish economic policy during the 1970s, despite the fact that the amendments to the Price Control Act in 1973 had preliminarily been based on the principle that price controls should remain in effect for short periods only. In fact, price control policy has led to prolonged controls in a number of sectors. The price freeze on subsidized staple foods, for example, lasted for

⁴⁾ The degree of price control is described in detail in SOU 1981:42, Supplement 10.

⁵⁾ Pledged prices are excluded. The extent to which this procedure is used can hardly be measured because firms merely make pledges concerning their prices. Pledged prices have been used for three commodities: bread, chicken and potatoes.

eight years (1973—1980) before it was phased out by the non-Socialist government; see *Diagram 1*. In addition, once a sector or firm has been subjected to controls, it tends to become the target of repeated controls in the future. In some cases, a price freeze in an industrial sector has been followed by more "flexible" controls such as e.g. a price agreement between firms and the Price and Cartel Office.

In terms of international comparisons, Swedish price control policy reveals several striking features. There is a strong emphasis on direct intervention. Various forms of controls, including negotiations and administrative pressure, are used to influence price determination by individual firms or sectors. This has given rise to a highly selective price control policy. Another prominent aspect is that there is no direct link between price and wage controls. There have been no constraints on price increases prompted by contractual wage increases.⁶⁾ Most industrialized countries which have tried to pursue some kind of incomes policy have as a rule applied a combination of wage and price controls.⁷⁾ The strength of the parties on the Swedish labour market probably explains why government authorities have avoided wage controls and instead concentrated on prices.

2. The Effects of the Policy of Price Controls

Price control policy can be expected to have had a number of effects on the Swedish economy. This analysis covers the effects on the inflation rate, inflationary expectations and the firms subject to price control.

⁶⁾ Since 1977, the guidelines for price monitoring do not consent to price increases motivated by wage drift, i.e. wage increases not covered by collective wage agreements. This may be regarded as an attempt — although weak — to regulate wage formation.

⁷⁾ The international experience of price and wage controls is dealt with in SOU 1981:42, Supplement 7.

Effects on the Inflation Rate

How have price controls affected the inflation rate in Sweden during the 1970s? First, there has been a rising trend in both the inflation rate and the degree of price control throughout the decade; see *Diagram 2*. Of course, this does not imply that price controls have been unsuccessful. In fact, the inflation rate might have been even higher without price controls. The best way to answer this question is by using an econometric model which describes the development that the price level would have exhibited if price controls had *not* been introduced. Such a model was estimated first for periods without price controls, mainly during the 1960s. According to the model, inflationary expectations and the international inflation rate exerted a strong influence on inflation in Sweden. The simulation model was then used to estimate the rate of inflation which would have occurred if price controls had not been implemented during the 1970s.

The results indicated that for most quarters during the 1970s, the actual and simulated inflation rates were close to each other. The price controls implemented during the first half of the 1970s might have had a slight anti-inflationary effect. But during the latter part of the decade, price controls — which were more extensive than during the early 1970s — did not seem to have any clear-cut and unambiguous effects on the rate of inflation. These results imply that the price control policy, i.e. controls under the Price Control Act and the price monitoring system, did not have any significant restraining or augmenting long-run effects on the inflation rate.⁸⁾ This conclusion is compatible with econometric estimations of the effects of price and wage controls in Great Britain and the U.S.A. during the 1970s; see SOU 1981:42, Supplement 7.

It cannot be ruled out that the earliest price con-

⁸⁾ This outcome should not be unexpected, as contractual wage increases were allowed to be fully reflected in price increases. Labour costs constitute the largest item in the overall costs of the industrial sector in Sweden.

trols, i.e. during the period 1970—71, did have some anti-inflationary effects. This result coincides with modern stabilization policy theory, which suggests that an economic policy instrument has a greater effect the first time it is tried — as in the case of price controls in Sweden in 1970—71 — than when it is used repeatedly. It appears that on later occasions, firms, organizations and the public can adapt their behaviour accordingly. The results of the econometric estimations may be interpreted in these terms.⁹⁾

Thus, in the long run, when firms and the general public have adjusted their expectations and behaviour to price controls and price monitoring, the present control system cannot be expected to have any appreciable effect on the price level.¹⁰⁾ However, if the policy of price controls and price monitoring were to undergo massive expansion, the Swedish economy would be transformed from a decentralized market economy into a "red tape" bureaucracy similar to the economies of Eastern Europe. In such a system, a shift would occur from open to suppressed inflation. Suppressed inflation is characterized by queues and shortages of goods. The primary function of the price mechanism as a system of information would be undermined. Experience has shown that significant welfare losses are thereby entailed.

Effects on Inflationary Expectations

A great deal of importance is attributed to infla-

tionary expectations in current research on stabilization policy. Many empirical studies have indicated that inflationary expectations exert considerable influence on the inflation rate, wage formation and the level of interest rates. The relation between price controls and inflationary expectations is a key factor in determining the effects of price controls. In fact, price controls have been represented as a method for "directly" reducing inflationary expectations and thereby, through e.g. wage formation, curbing the inflation rate.

What are the effects of Swedish price control policy on the public's inflationary expectations? A comprehensive answer to this question requires access to time-series data on the inflationary expectations of the general public for periods with and without price controls.

However, as time series of the public's expectations of the future rate of inflation were unavailable, the Price Control Committee took the initiative of conducting a public opinion poll in January 1978, with a representative sample of Swedish households; approximately 10,000 persons were interviewed. The poll was aimed at determining the respondents' opinions on perceived (historical) and expected (future) inflation rates. The poll provided numerical measures of perceived and expected inflation rates as expressed by the general public. The poll revealed several interesting results. Swedish households had definite views on the past and future development of the price level, which were conveyed in quantitative terms. There was a clear and firmly established opinion that an inflationary process was in progress and it was expected to continue in the future. Econometric estimations indicated a significant relation between perceived and expected inflation rates; those who regarded the inflation rate as relatively high also expected a relatively high rate of inflation in the future.¹¹⁾

⁹⁾ It cannot be precluded that the anti-inflationary effects — attributed to the price controls in this interpretation of the results — were linked to the exceptionally restrictive economic policy pursued in the early 1970s.

¹⁰⁾ The Industrial Council for Social and Economic Studies (SNS) in Stockholm conducted a poll on inflationary expectations in thirty large industrial firms in Sweden in the autumn of 1980. The study concluded that "the firms in question were of the opinion that the Price and Cartel Office did not influence their price expectations", i.e. because the firms had gradually learned to "handle price controls". This supports the above discussion on the effects of price controls; see Bentzel et al. (1980, pp. 57—59).

¹¹⁾ See SOU 1981:41, Supplement 3 and Jonung (1981).

Identical public opinion polls were conducted several times during the period 1979—80. The results of these polls are summarized in *Diagram 3*, which shows the temporal development of perceived and expected inflation rates and the actual rate.¹²⁾ The diagram indicates that perceived and expected inflation are rather sluggish in relation to the fluctuations in the actual rate of inflation, as registered by the consumer price index. Perceived and expected inflation followed the actual rate, although with much less amplitude.

The effects of the price controls on inflationary expectations cannot be tested satisfactorily on the basis of the seven polls shown in *Diagram 3* because they were carried out during periods when price controls were in effect. Data from periods without price controls are also required. Nevertheless, the potential effects of price controls on inflationary expectations can still be discussed on the basis of the public opinion polls on inflation. Three main categories of effects may be distinguished.¹³⁾ Price control policy can affect the expected inflation rate by:

1. an effect on the actual, historical, inflation rate and thus, through perceived inflation, on expected rates;
2. an effect on the perceived inflation rate and, thereby, on the expected rate;
3. a direct effect on the expected rate of inflation. This effect could be achieved if the public were to regard the introduction of price controls as a signal for an actual reduction in the inflation rate.

The discussion of these three effects is based on the following simple argument: the actual, historical, rate affects the perceived rate which, in turn, influences expected and, thus, future inflation.

The econometric tests reported earlier with re-

spect to the effects of the price controls on the actual inflation rate during the latter part of the 1970s, indicate that the controls did not have any significant, long-run effect on the inflation rate in Sweden. Consequently, it seems reasonable to rule out any appreciable influence according to effect 1 above.

Did the price controls have an independent effect on perceived and expected inflation according to 2 and 3 above? The numerical values which the respondents assigned to perceived and expected inflation are not on a conspicuously high or low level in relation to actual inflationary developments. An expected rate of inflation between eight and eleven percent annually during the period 1978—81, as shown in *Diagram 3*, should be regarded as reasonable and realistic in terms of the rising inflationary trend in Sweden and throughout the world during the 1970s.

Reasonable arguments thus suggest that price control policy in Sweden during the 1970s had no significant effect on inflationary expectations in either direction. Price controls have become a permanent feature in the Swedish economy during the 1970s, without the general public having discerned a reduction in the inflation rate as compared to the development in the 1950s and 1960s. Therefore, price control policy — to the extent that it has attracted the attention of the public at all — appears to have lost a great deal of its credibility as an anti-inflationary instrument. This implies that it is dubious whether price controls had any noticeable effect on inflationary expectations. Instead, such measures were more likely to become submerged in the flow of economic policy information to which the public was exposed during the 1970s.

Effects on Firms Subject to Price Controls

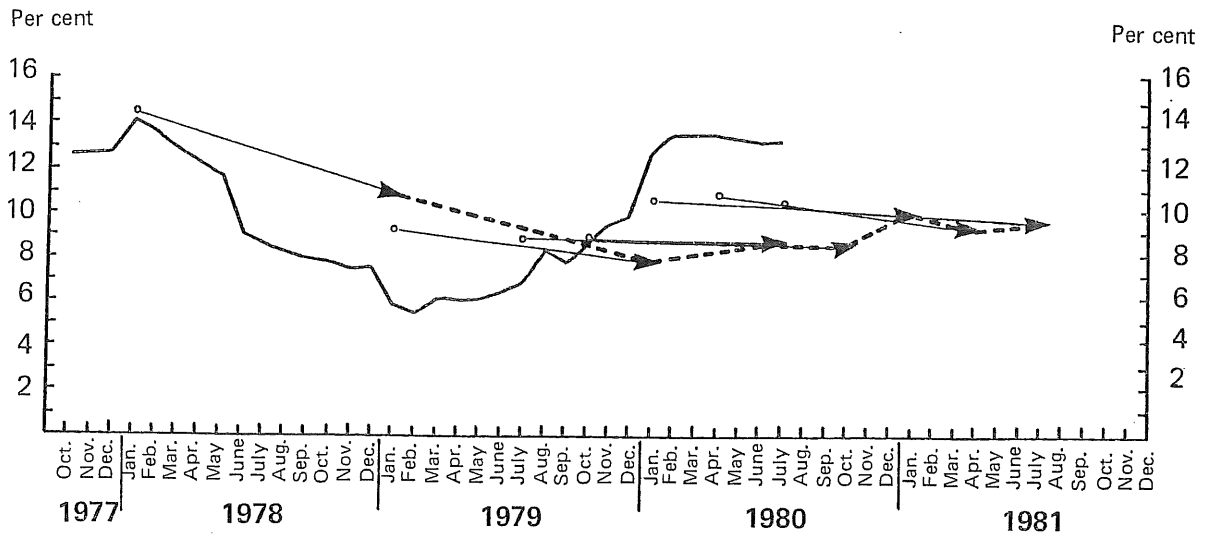
Under the auspices of the Price Control Committee, the Government Consultant Organization (*Statskonsult AB*) studied the effect of a price freeze on firms in the following five industries: door carpentry, porous concrete, fertilizers, electri-

¹²⁾ See SOU 1981:41, Supplement 4, for a more detailed description.

¹³⁾ Additional indirect effects of price controls could be included in a more detailed analysis.

Diagram 3. Actual and expected inflation, 1978—1981

Continuous line denotes actual inflation, the broken line expected inflation; annual percentage change; the projected twelve months covered by inflationary expectations are indicated by an arrow, beginning with the month in which the expectations interview took place. The beginning of the arrow (a small circle) indicates the perceived rate of inflation.



cal household appliances and passenger cars. Selective price controls were imposed on these industries in the mid-1970s, for slightly more than one year. The study is based primarily on interviews. The results show that firms in each of the five industries "acknowledged far-reaching negative effects from the imposition of a price freeze". A decrease in profitability was indicated as the main effect. A negative impact on the firms' propensity to invest was also found; see SOU 1981:42, Supplement 12.

Price controls appear to have had negative effects on profitability and investment in other sectors. Prolonged price controls also increase the risk that an industry will not attract new firms and investments. Indications are that price controls have contributed to such effects in the food-producing industry and building materials sector. The probability that price controls would be imposed

represented a new type of uncertainty — and thus cost — in firms' activities during the 1970s. Firms subject to price controls also incurred other types of costs related to the immediate adjustment to a control measure: considerations as to which products were covered by a specific regulation, which prices should prevail in different contracts, which guidelines were applicable when asking for exemptions, etc. Price controls also led to internal discussions concerning the temporal aspects of firms' pricing policy.

In numerous instances, price controls evolved into a negotiation process between the Price and Cartel Office and firms, where the bargaining power of the parties determined the final outcome. Some firms tried to strengthen their bargaining position by calling in trade union organizations, local government agencies and politicians. In some cases, negotiations continued for a long period of

time and sometimes consisted of a series of bids and counterbids.¹⁴⁾ This development may be summarized as follows. The policy of price controls has altered the economic system in which firms operated and increased their dependence on the policy of the price control authorities.

Price controls also affected competitive conditions. The Price and Cartel Office often negotiated directly with different trade associations in regard to the pricing of their members' products. In negotiations with the Price and Cartel Office, individual firms sometimes enlisted the aid of representatives for various trade interests. Thus, price control policy reinforced incentives for cooperation and coordination in Swedish industrial sectors where price controls were imposed.¹⁵⁾ One example is that firms often decided on a joint strategy in their negotiations with the Price and Cartel Office and the Ministry of Commerce and Industry. The Restrictive Trade Practices Commissioner, whose job is to safeguard competition in the Swedish economy, has criticized the Price and Cartel Office on several occasions and pointed out that extensive price control policy constitutes a threat to competition.

3. The Political Economy of Price Controls¹⁶⁾

Economic theory and empirical investigations suggest that price controls are an inefficient and unsuitable means of lowering the inflation rate. Why is it then, that price controls have been used to such a large extent in Sweden and internationally during the 1970s? What processes prompt governments to impose price controls when such measures apparently do not have any long-run effects on inflation? The answers to these questions should be sought in the incentive structure of the political system.

Political processes create a demand for controls. Public opinion polls taken by the Swedish Institute of Public Opinion Research (*Sifo*) in October 1980 and the spring of 1981 indicated that a majority of the respondents were in favour of a price and wage freeze in order to curb inflation. Gallup polls in the U.S.A. during the 1970s produced similar results; the American public wanted price and wage controls when such measures were not in effect and once implemented, controls should be made more restrictive; see Blinder (1979, p. 110).

Given this demand for regulation, the imposition of price controls is politically rewarding. Controls have a number of attractive features in a political perspective. They can go into effect immediately. The government can create the impression that it is doing something about an unpopular phenomenon, i.e. inflation. Controls convey a concrete and comprehensible message to the public/voters: inflation will be halted, or at least limited by rendering it unlawful.

Price control policy yields immediate political rewards, whereas the political costs are not noticeable in the short run. These costs are postponed and are, in addition, difficult to observe and identify as effects of price controls alone. An economic policy of restraining aggregate demand, aimed at reducing the inflation rate, reverses the time order of political expenditures and revenues. This type of

¹⁴⁾ These aspects are described in Jonung (1980).

¹⁵⁾ One case where a price freeze contributed to a merger has been documented. *Husqvarna AB* suffered a significant decrease in profitability during a price freeze on electrical appliances. Owing to a small export share, the company could not compensate domestic losses on foreign markets. *Electrolux*, a competing firm, occupied a relatively strong position on export markets and took over *Husqvarna* in conjunction with the price freeze. See SOU 1981:42, Supplement 12.

¹⁶⁾ This section is a summary of SOU 1981:41, Supplement 2.

stabilization policy often results in rising unemployment in the short run, followed by a drop in the inflation rate later on. This tends to make price controls relatively attractive, particularly in an economy such as Sweden's, with three-year election periods.¹⁷⁾

According to these arguments, the degree of price control in the Swedish economy could be expected to exhibit an election pattern, where the extent of price controls would be greatest during an election year.¹⁸⁾ *Diagram 2* shows that the degree of price control was higher during election years than during the preceding year for three out of the four elections held during the 1970s. However, the increase in the degree of price control was rather small from the year prior to an election to the election year in 1972—73 and 1975—76. Moreover, the degree of price control rose in the year *after* elections in three out of four instances, i.e. 1971, 1974 and 1977. Thus, the trend in the degree of price control as illustrated in *Diagram 2* lends little support to the concept of a clear election pattern in Swedish price control policy.¹⁹⁾

The selective price control policy pursued in Sweden during the 1970s also illustrates certain political aspects of regulation. *Table 1* lists the goods and services subject to selective measures.²⁰⁾ The table is based on a classification into five categories: 1) food products; 2) household goods; 3) passenger cars and petroleum products; 4) paper, wood products and building materials; and 5) miscellaneous. The most striking feature in *Table 1* is the high frequency of price controls on

food products and building materials. This is to a large extent explained by the predominating importance of food and housing costs in the political debate. These are sizeable items in households' expenditures and are thus assigned large weights in the consumer price index.

The motive for many of the controls described in *Table 1* were presented in press releases from the Ministry of Commerce and Industry when the measures went into effect. These bulletins show that distributional considerations have often predominated. When price freezes on bread, flour, a number of building materials, newsprint, paper towels, table napkins, toilet tissue and diapers were introduced in March 1974, the Minister of Commerce and Industry motivated these measures as a continuation of "our policy to limit households' expenditures for food and housing". When price controls on potatoes went into effect in November 1975, the Minister responsible for the measure stated that recent sharp increases in the price of potatoes meant that "families with children and low-income earners were especially hard hit. The Government has therefore directed its immediate attention to reducing the price of potatoes to a more reasonable level through price controls". A survey of the motives underlying selective price controls indicated that considerations concerning the distribution of income — and not stabilization policy — were decisive factors; see SOU 1981:41, Supplement 2.

The view that price controls have been used to promote political support for the ruling party has been confirmed by the U.S. price and wage policy in the early 1970s. Nixon's memoirs clearly show that although he had formerly been strongly against price and wage controls, the political process forced him to impose controls, despite the fact that he remained ideologically opposed to them. Political motivation for price controls is also illustrated in the economic policy "memoirs" published by two of Nixon's advisers, Herbert Stein (1978) and George Schultz (1977). However, corres-

¹⁷⁾ There is also an appreciable risk that price controls are imposed instead of a restrictive stabilization policy. Experience has shown that price controls easily become a substitute for, rather than a complement to, restrictive economic policy.

¹⁸⁾ This is thus an aspect of the so-called election cycle.

¹⁹⁾ An election pattern with respect to price and wage controls is discernible in several countries; see SOU 1981:42, Supplement 7.

²⁰⁾ Cox (1980) developed a theory for the selection of goods subject to price controls.

Table 1. Goods and services subject to selective price controls under the Price Control Act, 1973—1980; schematic classification into five categories

The dates in parentheses refer to the duration of price controls. The measures include price freezes, price ceilings, maximum price pledges and mandatory prior notification.

Food products (1)	Households goods (2)	Passenger cars, petroleum products (3)	Paper, wood products building materials (4)	Miscellaneous (5)
Chicken (Sept. 6, 1976— Dec. 31, 1980)	Toiletries and cleaning products (June 18, 1975— Mar. 24, 1976)	Gasoline, fuel oil (Oct. 19, 1973—June 30, 1975; Nov. 18, 1978—Sept. 12, 1980)	Building materials, etc. (Mar. 15, 1974— Dec. 21, 1975)	Hides, skins, leather goods (Mar. 3, 1976— Oct. 10, 1978)
Canned and frozen foods (Mar. 3, 1976— Dec. 21, 1976)	Diapers and soft paper products (Mar. 15, 1974—Mar. 24, 1977; Oct. 24, 1978—Jan. 25, 1979)	Passenger cars, spare parts (Aug. 4, 1976— Dec. 21, 1976)	Wood and carpentry products, etc. (Sept. 7, 1973—Dec. 21, 1974; June 16, 1976—)	Agricultural machinery (Sept. 11, 1974—Feb. 2, 1976)
Flour, bread (Mar. 15, 1974—)	Sanitary napkins (July 24, 1974—Dec. 21, 1975; June 16, 1976—Mar. 24, 1977)	Auto batteries (Nov. 18, 1978— Jan. 25, 1979)	Pulp, fine paper, kraft & cardboard (Sept. 7, 1973—Mar. 24, 1977)	Fertilizers (Sept. 11, 1974—Oct. 2, 1975)
Margarine (May 28, 1975— June 24, 1976)	Electrical household appliances (Dec. 21, 1974— Dec. 21, 1975)		Pulp wood (Sept. 7, 1973—Dec. 21, 1975; June 16, 1976—)	Trucking (Sept. 2, 1975—July 13, 1976; Dec. 18, 1977— Dec. 31, 1980)
Potatoes (Nov. 24, 1975— June 24, 1976)			Mineral wool, insulating panes & cellular plastic (Mar. 25, 1977—)	Room rentals (May 19, 1979—Aug. 31, 1979)
Coffee (July 26, 1975— Aug. 4, 1977)			Cement roofing tiles (Dec. 21, 1977— Oct. 10, 1978)	
Subsidized staple foods (cheese, beef, pork, cured meat (Jan. 1, 1973—Oct. 21, 1980); milk (Jan. 1, 1973—)			Bricks (Jan. 27, 1978—May 3, 1978)	
			Plate glass (Aug. 4, 1978—Oct. 10, 1978)	
			Plastic flooring (Oct. 24, 1978— May 18, 1979)	
			Kitchen cupboard & wardrobes (Mar. 28, 1979—May 16, 1980)	
			Plywood (June 28, 1980—Oct. 21, 1980)	

Note: This table is not intended to be comprehensive; in many cases, the price control category was adjusted for certain goods. The duration of price controls in the table covers all categories of measures according to the Price Control Act.

pondingly frank policy confessions are not available for Sweden. But there is no reason to rule out similar mechanisms at work in Sweden during the 1970s.

4. The Future of Price Control Policy

The price control policy of Sweden during the 1970s has had negative effects. Controls have not had any noticeable impact on the long-run inflation rate. Controls became a permanent feature of Swedish economic policy throughout a decade in which inflation increased more rapidly than at any other time in Swedish peacetime history.²¹⁾ Firms have had to operate under changed conditions brought about by controls. Uncertainty in regard to the possibility of price increases and earnings on future investments has increased. Negotiations with the Price and Cartel Office have become an important activity for many firms. Sharp and easily observable price increases have become comparatively more expensive to effectuate since the risk for intervention from the political system grows in proportion to the size of a price increase.

In its main report, the Price Control Committee recommends that the type of price control policy pursued in Sweden during the 1970s should be terminated. This applies to price controls under the Price Control Act and price monitoring by the Price and Cartel Office which has a direct impact on price determination in individual firms. The Com-

mittee advocates a return to the policy which prevailed during the 1950s and 1960s, i.e. "aimed at registering, providing consumer information and promoting competition".²²⁾ However, the fact that price controls are popular with the public, and thus also with the political parties, implies that price controls will be in demand as long as inflation constitutes a serious problem. The political system has a tendency to institute price controls as a consequence of a high inflation rate.

References:

- Bentzel, R. et al., (1979), *Stabiliseringspolitik för 80-talet, Konjunkturrådets rapport 1980—81* (Stabilization policy for the 1980s). Stockholm.
- Blinder, A.S., (1979), *Economic Policy and the Great Stagflation*, Academic Press, New York.
- Cox, C.C., (1980), "The Enforcement of Public Price Controls", *Journal of Political Economy*, pp. 887—916.
- Jonung, L., (1976), "Money and Prices in Sweden 1732—1972", *Scandinavian Journal of Economics*, pp. 40—58.
- Jonung, L., (1980), "Fallet Gullfiber" (The Case of Gullfiber), Mimeograph, Department of Economics, University of Lund.
- Jonung, L., (1981), "Perceived and Expected Inflation in Sweden", *American Economic Review*, December, 1981.
- Schultz, G.P. & Dam, K.W., (1977), "The Life Cycle of Wage and Price Controls", Chap. 4 in G.P. Schultz & K.W. Dam, *Economic Policy Beyond the Headlines*, Norton, New York.
- Stein, H., (1978), "Price-Fixing as seen by a Price-Fixer: Part II", pp. 113—135 in W. Fellner, ed., *Contemporary Economic Problems*, American Enterprise Institute for Public Policy Research, Washington, D.C.
- SOU (Swedish Government Official Reports), 1981:40, 1981:41 and 1981:42; *Priskontroll mot inflation?* (Price Controls against Inflation?), Stockholm.

²¹⁾ This applies at least after the first half of the 1700s; see Jonung (1976).

²²⁾ One member of the Committee wanted to go one step further and abolish the Price and Cartel Office in order to minimize the risk of using price controls. He argued that "as long as the Price and Cartel Office exists — even if the agency is occupied with tasks other than price controls — there is an appreciable risk that some future government will use the Price and Cartel Office to control prices, despite the knowledge that price controls do not reduce inflation". If the authority which can administer price controls — and also serve as a pressure group in favour of price controls — is disbanded, it would be much more difficult to implement price controls in the future; see special comment by Jonung in SOU 1981:40.