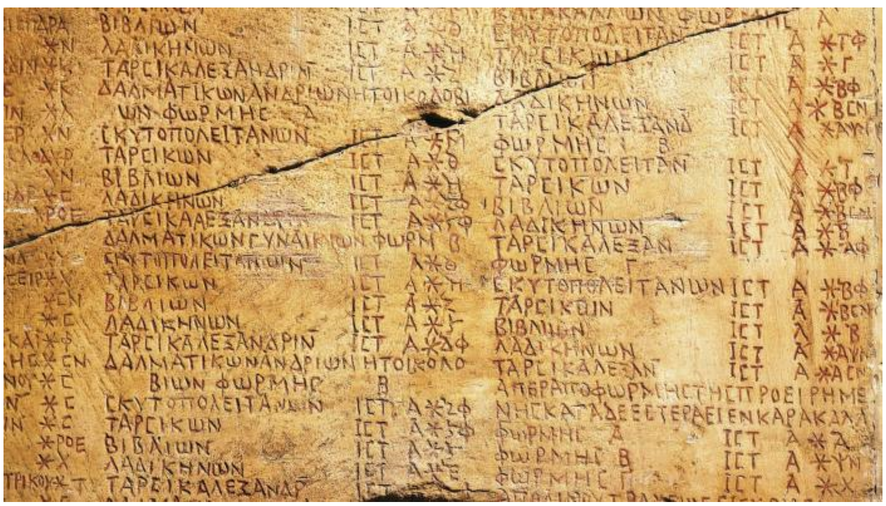
A Short History of Price Controls and Excess Profit Taxes: Part 1 The Edict of Diocletian

Given that stealth price controls in the form of "*excess profit taxes*" have recently become a topic of discussion it might be useful to take a trip through history to review some previous attempts to control money supply driven inflations with price suppression.

Before we start, a quick digression. The accepted view is that modern economies use taxes to discourage the production of goods and services of which they want less – for example carbon, alcohol and tobacco. Surely then if we tax the alleged "*excess*" profits of the providers of critical commodities and services and apply the same logic, we will get less of those critical commodities and services and thereby actually create additional inflationary pressures – food for thought.

Back to price controls. First up, the *Edictum de Pretiis Rerum Venalium* also known as the Edict of Diocletian, issued in 301 AD by Roman Emperor Diocletian.



During the years in the run-up to the edict, the amount of silver in the coins had been relentlessly decreased to provide funding for the Roman state which in turn fuelled inflation. Rather than address the intractable matter of the debasement of the currency in which he was culpable, Diocletian issued the Edict diverting blame to "*profiteers*" and "*excess profits*" and forcibly imposing price controls. Here is Diocletian in his own words sounding every bit like a modern politician who creates a problem then furiously blames everyone but themselves:

"We must check the limitless and furious avarice which with no thought for mankind hastens to its own gain. This avarice, with no thought of the common need, is ravaging the wealth of those in extremes of need. We - the protectors of the human race — have agreed that justice should intervene as arbiter, so that the solution which mankind itself could not supply might, by the remedies of our foresight, be applied to the general betterment of all. In the markets, immoderate prices are so widespread that the uncurbed passion for gain is not lessened by abundant supplies. Men whose aim it always is to profit, to restrain general prosperity, men who individually abounding in great riches which could completely satisfy whole nations, try to capture smaller fortunes and strive after ruinous percentages. Concern for humanity in general persuades us to set a limit to the avarice of such men. Profiteers, covertly attacking the public welfare, are extorting prices from merchandise such that in a single purchase a soldier is deprived of his bonus and salary."

The edict:

- imposed a price ceiling on over one thousand items including on food, clothing and wages
- set the death penalty for people deemed to be profiteers
- forbid merchants to transport their goods elsewhere and charge a higher price

The result: The supply of critical goods and services collapsed, and inflation continued. Diocletian was forced to repeal the edict. Prices finally stabilized in 307 A.D. when the government stopped debasing the currency.

Next Up – Part 2: *La Loi du Maximum General* (The Law of the General Maximum) – France 1793