output, and cost of production just as these in turn will affect price. All four – demand, supply, cost, and price – are interrelated. A change in one will bring changes in the others.

Direct and Indirect Price Interrelationships

Just as the demand, supply, cost, and price of any single commodity are all interrelated, so are the prices of all commodities related to each other. These relationships are both direct and indirect. Copper mines may yield silver as a by-product. This is connexity of production. If the price of copper goes too high, consumers may substitute aluminum for many uses. This is a connexity of substitution. Dacron and cotton are both used in drip-dry shirts; this is a connexity of consumption.

In addition to these relatively direct connections among prices, there is an inescapable interconnexity of all prices. One general factor of production, labor, can be diverted, in the short run or in the long run, directly or indirectly, from one line into any other line. If one commodity goes up in price, and consumers are unwilling or unable to substitute another, they will be forced to consume a little less of something else. All products are in competition for the consumer's dollar; and a change in any one price will affect an indefinite number of other prices.

No single price, therefore, can be considered an isolated object in itself. It is interrelated with all other prices. It is precisely through these interrelationships that society is able to solve the immensely difficult and always changing problem of how to allocate production among thousands of different commodities and services so that each may be supplied as nearly as possible in relation to the comparative urgency of the need or desire for it.

Because the desire and need for, and the supply and cost of, every individual commodity or service are constantly changing, prices and price relationships are constantly changing. They are changing yearly, monthly, weekly, daily, hourly. People who think that prices normally rest at some fixed point, or can be easily held to some "right" level, could profitably spend an hour watching the ticker tape of the stock market, or reading the daily report in the newspapers of what happened yesterday in the foreign exchange market, and in the markets for coffee, cocoa, sugar, wheat, corn, rice, and eggs; cotton, hides, wool, and rubber; copper, silver, lead, and zinc. They will find that none of these prices ever stands still. This is why the constant attempts of governments to lower, raise, or freeze a particular price, or to freeze the interrelationship of wages and prices just where it was on a given date ("holding the line") are bound to be disruptive wherever they are not futile.

Price Supports for Export Items

Let us begin by considering governmental efforts to keep prices up, or to raise them. Governments most frequently try to do this for commodities that constitute a principal item of export from their countries. Thus Japan once did it for silk and the British Empire for natural rubber; Brazil has done it and still periodically does it for coffee; and the United States has done it and still does it for cotton and wheat. The theory is that raising the price of these export commodities can only do good and no harm domestically because it will raise the incomes of domestic producers and do it almost wholly at the expense of the foreign consumers.

All of these schemes follow a typical course. It is soon discovered that the price of the commodity cannot be raised unless the supply is first reduced. This may lead in the beginning to the imposition of acreage restrictions. But the higher price gives an incentive to producers to increase their average yield per acre by planting the supported product only on their most productive acres, and by more intensive employment of fertilizers, irrigation, and labor. When the government discovers that this is happening, it turns to imposing absolute quantitative controls on each producer. This is usually based on each producer's previous production over a series of years. The result of this quota system is to keep out all new competition; to lock all existing producers into their previous relative position, and therefore to keep production costs high by removing the chief mechanisms and incentives for reducing such costs. The necessary readjustments are therefore prevented from taking place.

Meanwhile, however, market forces are still functioning in foreign countries. Foreigners object to paying the higher price. They cut down their purchases of the valorized commodity from the valorizing country, and search for other sources of supply. The higher price gives an incentive to other countries to start producing the valorized commodity. Thus, the British rubber scheme led Dutch producers to increase rubber production in Dutch dependencies. This not only lowered rubber prices, but caused the British to lose permanently their previous monopolistic position. In addition,