The History of Price Controls and Excess Profit Taxes: Part 2 *La Loi du Maximum General* – France 1793

Moving on from the Edict of Diocletian in Part 1, next up in our skim through the failed history of price controls is "*La Loi du Maximum General"* or "The Law of the General Maximum" – France 1793.

A digression is in order here. You may ask, why discuss price controls when its excess profit taxes that are being bruited by politicians? Excess profits taxes versus price controls are a distinction without a difference. By imposing extra taxes on a provider of goods or services you have in effect retroactively set a cap on the prices of those good and services. The net effect to the provider is as if it sold its good and services at the controlled price with the added disincentive of not being able to plan costs or production levels in advance.

The Law of the Maximum: As you will see is a common background to price controls, the Law of the Maximum arose when the government increasingly relied on the printing of money to fund fiscal deficits and to stimulate the economy and then needed a scapegoat when this expedient backfired. In this instance, the National Assembly engaged in uncontrolled issuance of paper money during the French revolution which caused inflation for which the National Assembly was loathe to be held responsible.

The law imposed a maximum price on dozens of essential goods & wages including "*fresh meat, salt meat and bacon, butter, sweet oil, cattle, salt fish, wine, brandy, vinegar, cider, beer, firewood, charcoal, coal, candles, lamp oil, salt, soda, sugar, honey, white paper, hides, iron, cast iron, lead, steel, copper, hemp, linens, woolens, stuffs, canvases, the raw materials used for fabrics, wooden shoes, turnips and rapeseed, soap, potash and tobacco."*

Merchants were required to display a list of their prices. If any exceeded the legislated maximum the merchant could be reported and fined double the value of each overpriced item, proceeds of the fine paid to the informer (imagine the incentive that created).

The Result: The law made the problems worse – a recurring outcome with price control legislation. Food producers lowered their production or even halted completely, while those who continued to produce tended to build their inventories rather than sell at the fixed price which was often below the cost of production. Food shortages occurred throughout the country.

Next Up – Part 3: Nixon 1970 Price Control Act - Executive Order 11615 - Providing for Stabilization of Prices, Rents, Wages, and Salaries - pursuant to the Economic Stabilization Act of 1970.

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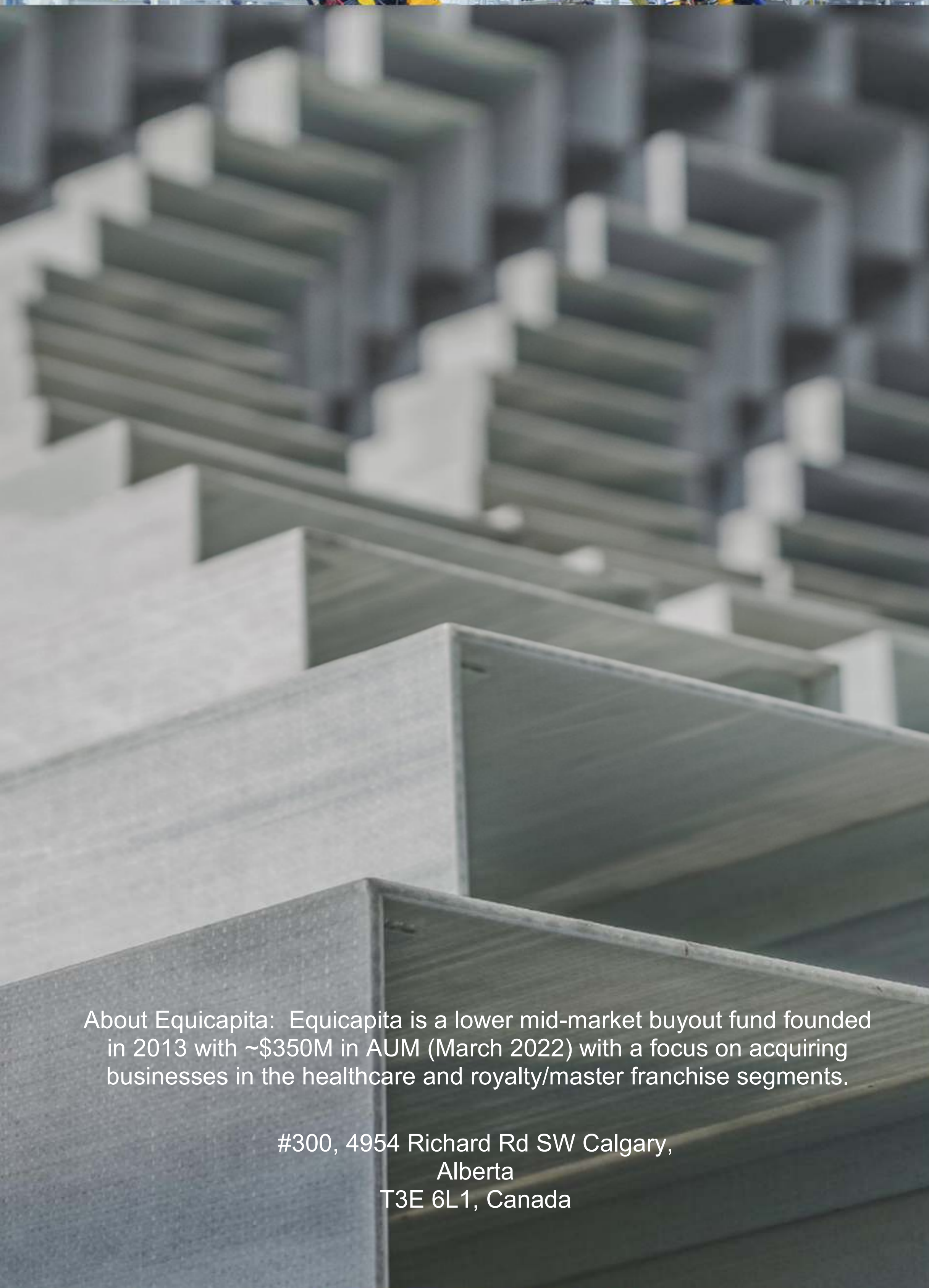

About Equicapita: Equicapita is a lower mid-market buyout fund founded in 2013 with ~$350M in AUM (March 2022) with a focus on acquiring businesses in the healthcare and royalty/master franchise segments.

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