

# AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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## RESEARCH REPORTS

### COMING EFFECTS OF CURRENT EVENTS

#### *The Emergency Price Control Act*

In spite of his "doubt as to the wisdom and adequacy of certain sections of the Act," President Roosevelt signed the emergency price control measure that was finally passed by Congress. However, he suggested that he might later request amendments to make it more effective. The major features of the present Act are summarized in the following paragraphs.

Whenever the price administrator, provided for by the Act, finds that the price of a commodity has risen or has threatened to rise unduly, he may establish a maximum price that "in his judgment will be generally fair and equitable." The administrator is advised to give consideration to the prices prevailing between October 1 and October 15, 1941. (The United States Bureau of Labor Statistics' combined index of commodity prices is now about four per cent higher than it was during the period recommended as a base for price maximums.)

The price administrator is also empowered to establish maximum rental rates for housing accommodations within any defense-rental area. A defense area is defined as "any area where defense activities have resulted or threatened to result in an increase in the rents for housing accommodations." In view of the wide distribution of production for defense, the administrator is practically given control over rents in all areas of the country in which there are industrial establishments. April 1, 1941 is recommended as the date to be used as the base for establishing maximum rents. (Average wage earners' rents are now between two and three per cent higher than they were during the base period, but they have advanced much more than this in some of the defense boom areas.)

The price administrator is also given authority to order the sale of commodities "upon such terms and conditions as he determines to be necessary to obtain the maximum necessary production thereof or otherwise to supply the demand therefor." This provision is intended to prevent the hoarding for speculative purposes of materials needed by the Government or by the public.

In order to obtain passage of the measure over objections of the farm bloc, Administration leaders in Congress found it necessary to insert provisions that may vitiate much of the Act. Generally stated, these provide that no maximum price shall be established or maintained for any agricultural commodity below 110

per cent of the parity price for such commodity as adjusted by the Secretary of Agriculture and that no action shall be taken by the administrator with respect to any agricultural commodity without the prior approval of the Secretary of Agriculture.

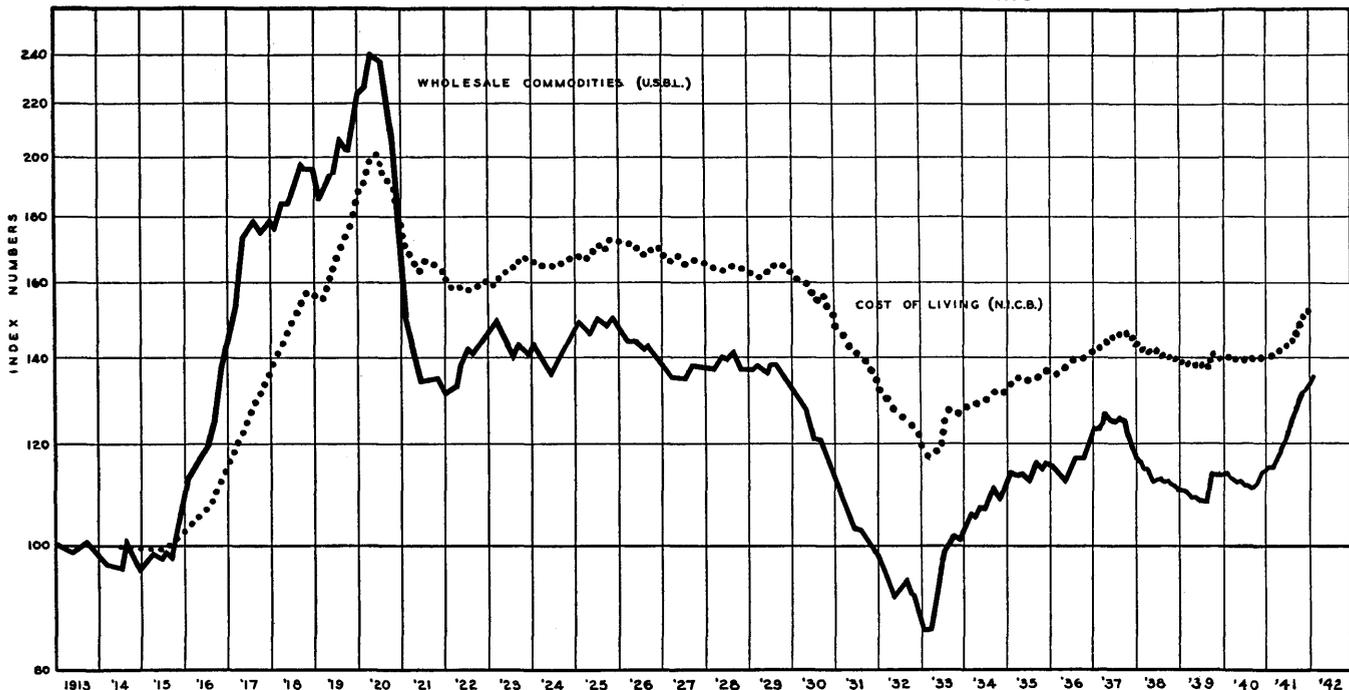
Inasmuch as the prices of agricultural products are the major elements of the wage earners' cost of living, they are the most important factors in determining the wage level and ultimately the general price structure. In the first sections of the Act, it is stated that the purposes of the Act are "to stabilize prices and to prevent speculative, unwarranted, and abnormal increases in prices and rents; to eliminate and prevent profiteering, hoarding, manipulation, speculation, and other disruptive practices resulting from abnormal market conditions or scarcities caused by or contributing to the national emergency; to assure that defense appropriations are not dissipated by excess prices, to protect persons with relatively fixed and limited incomes, consumers, wage earners, investors, and persons dependent on life insurance, annuities and pensions, from undue impairment of their standards of living." It is difficult to see how this can be accomplished by an Act that practically invites continued increases in prices of farm commodities while an attempt is made to stabilize prices of other products.

Although the law is specific in regard to penalties for violations of price regulations established by the price administrator, it is ambiguous in respect to the stabilization of wages. It is stated that "it shall be the policy of those departments and agencies of the Government dealing with wages, within the limits of their authority and jurisdiction, to work toward a stabilization of prices, fair and equitable wages, and cost of production." This informal program cannot be carried out if labor leaders can point to rising living costs as a justification for wage increases.

In providing for the administration and enforcement of the Act, the need for elasticity is acknowledged by granting the right to any "aggrieved" person to appeal to the administrator and to the federal courts. If the experience of price ceilings established by the former Office of Price Administration affords a criterion, the present Act will provide a great deal of business for the Nation's legal talent.

Although the law is somewhat more stringent than Congress was inclined to consider enacting when the Administration first proposed a price control measure, the title of the Act is obviously a misnomer, and by itself it will not attain the objectives set forth in its

WHOLESALE COMMODITY PRICES VS. COST OF LIVING



preamble. As we have pointed out in previous bulletins, governments are almost helpless to control the commodity price level during an inflationary progression. The more stringent systems of price control established during the present war in Europe have been effective only in small part.

The Act just passed by Congress is a less coercive measure than those imposed in various other countries at war. Price ceilings will be established for many commodities and will probably eliminate much of the speculative factor and may postpone price increases. However, price ceilings must be raised when production costs rise.

There seems to be no limit to the complications involved in a system that attempts to establish price controls through government regulation. This is indicated by a recent League of Nations study<sup>1</sup>: "In Japan, price control (established in 1937) has continually wavered between the Government's declared low price policy and the need to pay high prices to secure maximum production, especially of armaments. The Japanese price control, comprising both a general price-stop and the fixing of 100,000 prices of individual commodities, was therefore constantly in the nature of a compromise and, according to a Japanese publication of October 1940, had actually 'very little effect.'"

Experiments in the control of rents in foreign countries during the present war have been more successful than attempts to control general commodity prices. On this subject, the League of Nations found<sup>2</sup>: "The only field where, in the face of real scarcity, a price-stop has actually stopped price increases without the aid of quantitative restrictions on demands would seem to be that of rents. Rents have been officially pegged and, it would seem, actually more or less stabilized in most countries of Europe, in Japan, and in defense areas of Canada."

The probability that the Emergency Price Control Act will not effectively control prices does not necessarily imply that a rise in the cost of living as great as that which occurred during the first World War period is inevitable. The Government now holds large stocks of farm commodities that did not exist in 1917-1918. If the Government wisely and courageously uses its power to sell as well as to buy commodities, such action will be a more valuable stabilizing factor than any system of price ceilings. Perhaps it is significant that a substantial reaction in the wholesale commodity futures and spot markets followed the President's recent statement to the effect that the Commodity Credit Corporation can make sales of agricultural commodities.

### Wholesale Commodity Prices vs. Cost of Living

The accompanying chart shows the movement of average wholesale commodity prices and the cost of living over an extended period of years. The solid line in the chart shows the United States Bureau of Labor Statistics' index of wholesale commodity prices on the basis of the 1913 monthly average = 100. The dotted line represents changes in the cost-of-living index compiled by the National Industrial Conference Board on the basis of July 1914 = 100. (The general price level was about the same during the year and a half period immediately preceding the outbreak of the World War.) The ratio scale was used to facilitate comparison of the trends of the two curves.

In the 1914-1918 World War period, wholesale commodity prices rose more rapidly than did living costs. At the height of the advance that culminated in 1920, the cost of living was approximately double the prewar level, and average wholesale prices had increased 140 per cent. Following the break in wholesale prices in 1920, the cost of living declined. However, living costs were not reduced in proportion to the decrease in wholesale prices; and, since 1920, the cost of living has con-

<sup>1</sup> *World Economic Survey, 1939-41*, League of Nations, page 123.

<sup>2</sup> *Ibid.*, page 120.

stantly remained at a higher level in relation to the prewar period. During the period shown on the chart, the cost-of-living curve has lagged the curve of wholesale commodity prices, and fluctuations have been less extreme. This relative stability of the cost-of-living curve is attributable to the slower movement of prices for items other than foods.

There are five component groups of the cost-of-living index. The combined index is made by multiplying the indexes of the groups by their respective weights, adding the products, and dividing by the sum of the weights. The components, together with the weights of these items, are as follows:

Food	33	Fuel and Light	5
Housing	20	Sundries	30
Clothing	12		

The food item is the most responsive to changes in wholesale prices. There is a lag of a few months before retail clothing prices reflect changes in the wholesale costs of the commodities involved. Nearly a year is required for wholesale commodity price changes to influence the cost of housing. Consequently, rents have not yet reflected the considerable increase in building costs that has occurred since the war started. The cost of sundries and of fuel and light items is relatively stable. Neither of these components declines so much as wholesale commodity prices nor rises so far above the long-term trend during periods of rising prices. In the "sundries" classification are grouped certain items such as physicians' fees, reading material, house furnishings, and candy and tobacco. Inasmuch as nearly one-third of the expenditures entering into living costs is included in this group, its lack of flexibility constitutes a major factor tending to stabilize the combined index in relation to the wholesale commodity average.

The comparison of wholesale commodity prices with the cost of living is especially significant now that the Nation is at war. The effect of the substantial increases in wholesale prices is being reflected in the trend of the living cost index, which had remained relatively stable until last summer. In spite of the recent substantial increase in the cost of living, it is almost inevitable that there will be further increases during 1942 merely as a consequence of the higher prices that have already been reported in the wholesale markets.

The following brief summary shows the per cent increase since the war started in the component items of the cost-of-living index and in a few of the components of the wholesale commodity price index that most closely affect the respective cost-of-living items.

Wholesale Commodity Price Index	Per Cent Increase December 1941 from August 1939	Cost of Living Index	Per Cent Increase December 1941 from August 1939
All Commodities	24.4	Combined Index	11.2
Farm Products	53.8	Food	23.0
Food	34.7	Clothing	11.4
Textile Products	34.5	Housing	4.2
Building Materials	20.2	Fuel and Light	7.5
Fuel and Light	9.2	Sundries	6.1

The food item was the most important influence in the wartime rise in living costs. During the present war period, retail food prices have advanced 23 per cent but have not yet fully reflected the 54 per cent increase in the wholesale prices of farm products and the 35 per

cent increase in wholesale food prices. The advance in retail clothing prices has only been about a third as great as the increase in textile wholesale prices. In the first World War, average rents advanced 65 per cent. The four per cent advance in the cost of housing during the present World War therefore appears to be moderate, but, in the previous instance, a greater part of the rise in rents occurred during the later stage of the general price increase.

## BUSINESS

### Telephones in Use

At the end of January, there were approximately 21,320,000 telephones in service in the United States. This number substantially exceeds the pre-depression record made in 1930, when there were 17,200,000 instruments in use, and, in spite of the population growth during the past twelve years, the number of telephones in service per capita is at a new high.

During January, there was an increase of about 120,000 telephones in service, compared with an increase of 160,000 in January 1941. The telephone business is affected primarily by changes in commercial activity, and the fact that there was a substantial gain in the number of instruments in service, even though it was smaller than the increase during January 1941, may be considered satisfactory. There must have been a considerably greater gain in the telephone services of establishments whose activities are related to defense work in order to offset the probable losses in service for such distribution companies as the automobile sales agencies.

The Institute's index on the basis of 1935-1939 = 100, adjusted for population growth, advanced from 124.3 in December 1941 to 124.9 in January 1942. Last month, it was about seven per cent higher than it was a year ago.

### Commercial Confidence

Although newspaper advertising lineage increased only moderately in December 1941 from the November total, the fact that there was any increase during the first war month may be viewed as favorable. A greater impairment of commercial confidence might have been expected. The most interesting feature of the data is provided by the contrast between the small increase in retail advertising (1.7 per cent during the period shown) and an increase of nine per cent in the Federal Reserve index of department-store sales. The public's fear of prospective shortages of goods apparently enabled the retail stores to market a larger volume of goods in comparison with the sales effort expended.

Newspaper advertising lineage in the dailies of 52 cities during December 1940 and 1941 with the percentage increase of the latter compared with the earlier period is shown in the accompanying summary.

Newspaper Advertising Lineage Classified	December 1940 (Millions of Dollars)	December 1941	Per Cent Increase December 1941 From December 1940
Display	21.9	20.5	6.4*
Automotive	4.1	3.3	19.5*
Financial	1.7	1.7	...
General	13.5	17.0	25.9
Retail	81.5	82.9	1.7
Total	122.7	125.4	2.2

\*Decrease

## THE FUNDAMENTALS

### Supply

The steel-ingot production rate last week declined from 97 to 96½ per cent of theoretical capacity. The slight decrease in operations was attributed to the shortage of scrap metal. The following statement by *The Iron Age* indicates the urgency of the steel-scrap situation: "At least five steel companies in the midwest and one in the east have entered the auto-wrecking business. The wage costs in this plan of scrap salvage, including hauling costs and yard conversion with no profit to the agent acting for the steel company, in some cases brings a net price of \$2 or more above the fixed minimum price ceiling." The same authority prophesies that there will be additional restrictions placed on the manufacture of nondefense products: "Not only the makers of products for ordinary civilian use but the manufacturers of metal goods for essential civilian needs are likely to face a continuance of the blows which accompany war shortages."

	1929	1932	1937	1938	1941	1942
Per Cent of Capacity	86.0	26.5	80.0	31.0	96.0	96.5
	(Latest 1942 weekly data; corresponding week earlier years)					

Production of electric power last week was somewhat greater than output in the preceding week, although a seasonal decrease was expected. The gain, in comparison with output in the corresponding week of 1941, improved from 14.8 to 15.8 per cent.

	1929	1932	1937	1938	1941	1942
Billion Kilowatt-Hours	1.73	1.59	2.20	2.08	2.99	3.47

Cotton-mill production increased substantially last week, and the seasonally adjusted index advanced from 167.1 to 177.3 per cent of estimated normal.

	1929	1932	1937	1938	1941	1942
New York Times Index	*	90.1	139.4	86.7	148.0	177.3
	*Not available until third week of March.					

Lumber production decreased last week and the adjusted index declined from 139.2 to 138.1.

	1929	1932	1937	1938	1941	1942
New York Times Index	137.1	37.1	59.1	56.9	137.3	138.1

### Demand

The decrease in the volume and variety of consumer goods available through retail outlets as a result of the war is gradually but surely reducing the physical volume of store sales. Unit prices are rising, and the dollar volume is being maintained at a higher level. The dollar volume of department-store sales last week was 29 per cent greater than that for the corresponding week of 1941.

### Prices

The sensitive wholesale commodity price indexes were reactionary early last week but recovered in later sessions. The declines in both the futures and spot markets were attributed to authoritative statements from the Administration that sales of commodities held by the Commodity Credit Corporation are contemplated. Moody's Spot Commodity Price Index was 225.3 on January 29 and 226.9 on February 5. The Dow-Jones Index of Commodity Futures closed at 87.71 on January 29 and at 86.90 on February 5.

There was a fractional increase in the cost of living during the final month of 1941. The composite index, prepared by the National Industrial Conference Board,

and data for December 1929, 1932, 1940, and November and December 1941 are shown in the accompanying table.

	Dec. 1929	Dec. 1932	Dec. 1940	Nov. 1941	Dec. 1941
All Items Combined	100.3	74.9	85.9	92.9	93.4
Food	108.0	66.1	78.3	92.2	92.6
Housing	91.7	67.5	87.5	79.6	80.1
Clothing	99.3	63.5	73.0	89.5	89.9
Fuel and Light	94.4	86.3	86.5	90.2	90.3
Sundries	98.9	92.2	98.1	101.9	102.8

## FINANCE

### Silver Legislation Repeal?

Although there appears to be a small enthusiastic minority in Congress in favor of keeping the federal silver legislation in force and a general indifference to the matter by the remainder of Congress, it is at least encouraging to find the Secretary of the Treasury in favor of its repeal. Last week, Mr. Morgenthau said, "As far as I am concerned, I will be glad to see Congress strike all of the silver legislation off the books."

Although the volume of silver purchases and the importance of the silver program have decreased considerably since 1938, the process is an inflationary one. During the past eight years, the Treasury has made annual purchases of newly mined domestic and foreign silver in the following amounts:

Year	Silver Purchases (Millions of Dollars)	Year	Silver Purchases (Millions of Dollars)
1934	156	1938	199
1935	347	1939	161
1936	198	1940	99
1937	163	1941	78

It is apparent that the Treasury has been gradually reducing its purchases of foreign silver since 1938. In suggesting repeal of the silver legislation, Mr. Morgenthau expressed the opinion that such action would not materially affect the world price. He proposed that the Government sell some of its stock of the metal for industrial uses, for which there is now an unusually great demand.

The present would appear to be a favorable time to abandon entirely one of the most fantastic of the monetary experiments undertaken by the Government during its reform-recovery campaign.

## SECURITIES

### Bonds

There was a moderate upward trend in average bond prices last week, which was led by strength in the secondary railroad issues. The Dow-Jones average of 40 bonds was 90.26 on January 29, and 90.52 on February 5.

### Stocks

The stock market advanced moderately last week, but the volume of transactions remained light, as it has since the end of the tax-selling period last December. Extended periods of dullness in the market afford favorable opportunities for investors to reappraise their holdings. Decisions made now will be relatively free from either the enthusiasms or fears that may affect judgments in times of violent market swings.

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