

HIGH PRICES OF CONSUMER GOODS

REPORT

OF THE

JOINT COMMITTEE ON THE ECONOMIC REPORT CONGRESS OF THE UNITED STATES

PURSUANT TO

S. Con. Res. 19

A CONCURRENT RESOLUTION ESTABLISHING
A JOINT COMMITTEE TO INVESTIGATE
HIGH PRICES OF CONSUMER GOODS



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HIGH PRICES OF CONSUMER GOODS

Mr. —, from the Joint Committee on the Economic Report,
submitted the following

R E P O R T

[Pursuant to S. Con. Res. 19]

PART I. RECOMMENDATIONS OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT

[Released by Joint Committee April 16, 1948]

Senate Concurrent Resolution 19 of the Eightieth Congress, commonly called the Baldwin resolution, directed the Joint Committee on the Economic Report—

(1) To make a full and complete study of the present high prices of consumer goods, and (2) to report to the Congress * * * the result of the study and investigation * * * together with such recommendations as to legislation as it may deem desirable.

Pursuant to this resolution, three subcommittees were appointed to hold hearings in the eastern, midcontinent, and western regions of the country. Hearings were held in 26 cities during September and October 1947. The subcommittees heard hundreds of witnesses representing a wide range of activities and interests: Producers of many kinds of farm products; processors, wholesalers, and retailers of food; manufacturers and distributors of consumer goods; labor organizations; civic and consumer groups; professional economists; and research organizations.

The three subcommittees submitted reports to the full committee covering findings of conditions and problems of consumers, distributors, producers, and other groups, generated by high prices of consumer goods. Recommendations for relieving inflationary pressures or checking further price increases were also presented. These findings and recommendations of the subcommittees are included as parts II, III, and IV of this report.

The Joint Committee on the Economic Report, after review and consideration of the reports and recommendations of its subcommittees, as well as other information pertaining to increased prices of consumer goods, submits herewith a series of recommendations to the Congress. Other suggestions and proposals were also seriously con-

sidered and evaluated, but agreement as to the effectiveness of these in respect to the problem of high prices was not reached. The committee believes that application of the recommendations agreed upon would contribute to checking further price rises and aid in establishing greater price stability.

The recommendations are as follows:

1. Savings bonds for income-tax reductions: The western subcommittee recommended that—

personal income-tax reductions take the form of required savings in United States Government bonds, to be held by recipients until such time as Congress shall determine that inflationary dangers have passed.

The whole committee recognizes the merit of this suggestion, if inflationary trends are resumed. Therefore, the committee recommends that such a saving plan be given further study and that a program, including methods of application, be worked out for consideration by appropriate congressional committees.

2. Excise taxes: We recommend the removal of those excise taxes which directly increase the prices of essential cost-of-living items, particularly for low-income groups.

3. Reclamation: We recommend the rapid completion of reclamation and drainage programs now under construction and development, with a view to increasing the food supply in line with current and prospective needs.

4. Export controls: We recommend strict application of export controls for those commodities and products for which domestic prices may be unduly increased by demand from abroad.

5. Public works: Federal, State, and local public works in general should be deferred wherever feasible unless they are productive of food and other commodities in short supply.

6. Credit controls: The problem of credit controls has been reviewed to some extent in previous hearings of the Joint Economic Committee. We recommend that further exploration of this problem should be made as promptly as possible in order that appropriate action may be taken in time to avoid further serious expansion of credit.

7. We recommend further study of the need for compulsory controls pending the outcome of actions taken under the so-called Anti-Inflation Act, Public Law 395, enacted by the Eightieth Congress. By this act the President is authorized to negotiate with industrial managements for the establishment of voluntary cooperative allocation of scarce materials and to report to the Congress cases in which negotiations for the establishment of needed controls have been unsuccessful. Pending the receipt of information as to the status of efforts which may have been initiated to secure voluntary agreements for scarce materials, we do not believe Congress should change the allocation policy embodied in the Anti-Inflation Act.

8. Increased fertilizer production: Every effort should be bent to increase the total production of fertilizer so that the present rate of application, already high, may be further increased.

Most of the added output should be sent to food-deficit countries, because the increased production of food abroad will lessen demands on our own supplies and on shipping facilities and hasten the restoration of a self-supporting economy abroad.

9. Aid to foreign food production: The Anti-inflation Act authorizes the Department of Agriculture to encourage the production of food

in non-European countries. The subcommittee endorses this program and expresses the hope that the Department of Agriculture will efficiently promote its activities in this field.

10. Victory gardens: There should be a revival of emphasis on victory gardens and on the preserving of food grown in them to relieve pressure on market supplies.

11. Conservation of grain: The Department of Agriculture should continue and intensify its efforts to promote the conservation and efficient feeding of grain. The Extension Service should push vigorously its regular program of educating farmers in more efficient production methods.

12. Consumer actions: To mitigate the effect of high prices, the committee feels consumer action and assistance are absolutely necessary, including—

(a) More intelligent consumer shopping, use of substitutes, co-operation in food-saving measures.

(b) Greater funds for Bureau of Human Nutrition and Home Economics to make more consumer information and assistance available and to promote education on nutrition, meal planning, food substitution, etc.

(c) Encouragement of farmers' markets and other marketing methods which reduce the cost of distribution, especially perishable food products.

13. Increased production: In order to promote increase in the production of consumer goods which have been, and continue to be, in short supply relative to demand, the subcommittee urges the following:

(a) Mutual efforts by management and labor to avoid any curtailment of production through labor disputes.

(b) Allocation of scarce raw materials to favor most urgent consumer-goods demands.

(c) Extension of the working week wherever feasible, by collective bargaining agreement between management and workers as to terms and conditions for overtime work. In the absence of such voluntary agreement, no suggestion is made in this recommendation to modify the time-and-one-half overtime provision of the basic 40-hour week.

(d) Removal of monopolistic restrictions on production wherever they exist.

14. The Congress provide adequate means and support to the Bureau of Internal Revenue for thorough enforcement of income-tax-collection programs to minimize fraud or evasion of individual income-tax liabilities.

15. Every effort should be made to encourage thrift and the purchase of Government bonds and insurance, and the increase of savings accounts so that funds will be available when the supply of goods becomes greater and prices stabilized.

16. In connection with any proposals for Government action, the importance of labor and business policies needs strong emphasis. If the private decisions as to wages and prices are not made in the public interest, actions by Government alone will be largely nullified. Therefore, to end the cost-of-living, wage, and cost-of-production spiral, business can and should adopt moderate price and profits policies, and labor adopt reasonable wage and productivity attitudes, thus achieving price reductions wherever possible.

PART II. REPORT OF EASTERN SUBCOMMITTEE TO THE JOINT COMMITTEE ON THE ECONOMIC REPORT

[Released by Joint Committee on November 14, 1947]

Pursuant to Senate Concurrent Resolution 19, introduced by Senator Baldwin, the Eastern Subcommittee of the Joint Committee on the Economic Report undertook to carry out the purposes of that resolution, which were:

(1) To make a full and complete study and investigation of the present high prices of consumer goods, and (2) to report * * * the results of the study and investigation * * * together with such recommendations as to necessary legislation as it may deem desirable.

While the resolution originally required a report to the Congress not later than February 1, 1948, the reconvening of that body by the President on November 17, 1947, makes it expedient to turn in an early report. Your subcommittee therefore has taken this early action.

GENERAL PURPOSES

The idea back of the resolution under which we acted was to investigate the effects and causes of prices by going direct to the people involved rather than by relying on statistics alone. The results of our hearings have justified the wisdom of this approach. We have found that important information is concealed in the averages with which the statistics deal. We have found that average family incomes include wide discrepancies and that the group of our people which is not enjoying an adequate standard of living under present circumstances is a substantial part of the whole. Similarly, it has become clear that the high average consumption per capita of such things as meat conceals both serious waste at one end of the scale and undernourishment at the other.

PROCEDURE

Your subcommittee concentrated its investigation on the important elements of the cost of living. Three of the most important are, of course, food, clothing, and shelter. We left out rent and other elements in the cost of shelter, since other committees of the Congress were concerned with that particular expenditure. For us the primary emphasis was on food, clothing, and miscellaneous items.

In general, the area assigned to us is that lying east of the Alleghenies and including Georgia and Florida. In the selection of cities and towns in which hearings were held we endeavored to get, so far as possible, an adequate representation of the varying conditions throughout the whole area. We went to large cities and small cities. We went to cities with widely different types of industry, agriculture, and trade. We took testimony from the producers of these various industries and trades as well as from consumers.

The following cities were visited between September 15 and October 22, 1947, and hearings held in the order given: Providence, R. I.; Boston, Mass.; Manchester, N. H.; New York City; Naugatuck, Conn.; Hartford, Conn.; Philadelphia, Pa.; Scranton, Pa.; Trenton, N. J.; Richmond, Va.; Greensboro, N. C.; Jacksonville, Fla.; Atlanta, Ga.; and Baltimore, Md. The hearings at Scranton and Trenton

and Naugatuck and New York were held simultaneously, and the subcommittee divided for that purpose.

The plan of the investigation was to hear, first, representative consumers, to get a picture of the conditions relating to the cost of living in the city under investigation. We then proceeded to examine the retailers as to "mark-ups," profit margins, and general conditions, moving back from them through the wholesalers to the producers.

We had the advantage in all cases of the latest available figures prepared by the Bureau of Labor Statistics for the city under investigation. We also had the advantage of a large body of general statistical material applicable to the situation prepared by our staff.

FACTUAL TESTIMONY

No testimony was needed to establish the fact that the cost of living is high and going higher. There was, indeed, in the minds of many the feeling that this part of the testimony would be purely perfunctory and would perhaps serve no other practical purpose than that of allowing witnesses to blow off emotional steam. That did not prove to be the case.

This testimony as to the cost of living, was the really revealing part of our investigation. It indicated that a substantial part of the urban population of the country is finding it difficult or impossible to make ends meet. It revealed that our high general average of production and consumption is unequally distributed. It pointed to the necessity for finding some means of making it possible for the lower-income group to maintain the health and well-being of their families.

There was some difference as to the disparity between the high- and low-income groups in the different cities and communities visited. The situation was more serious in some places than in others. There was, however, no region in which this condition was not found to an extent that made it a matter of real concern.

It early became evident that the key problem for the lower-income group was to be found in the cost of food. Reference was made in a number of hearings to a budget for a family of four prepared by the Heller committee at the University of California. This budget purports to give the proper distribution of expenditures for a satisfactory living. One-third of the budget was allocated for food. As against this we found that many urban families were paying 40 percent of a smaller income, 50 percent, or even 60 percent, of the income for food. And in few cases and in few places was it possible, whatever the family income, to pay for the required food at an expenditure as low in dollars as that called for by the Heller Committee Report.

The success or failure of proper feeding for a family depends to a considerable measure on the purchasing, dietetic, and culinary skill of the mother of the family. But too many conditions were discovered in which no amount of such skill would have availed to give the family proper subsistence.

The food problem, then, is the most difficult one in the family budget. In subdividing this problem we found that meat was the most difficult item with which to deal. In this connection it became clear to us that whereas the Nation as a whole has been consuming

30 pounds per capita per year more than at any other recent period in its history, that had no bearing whatever on the difficulties encountered by the low-income groups. Some have been getting more meat than ever before in their lifetimes. The urban low-income groups appear to us to be getting less than is commonly considered necessary for health and growth, particularly of the children.

The next most serious item in the family food budget is milk. The price for milk has gone up, though not so much proportionately as has meat. There is, however, the very natural tendency on the part of parents to cut down on milk for children only as the last move in an attempt to keep expenditures in balance with income.

So far as concerns the other important items in the budget, especially clothing, we got mixed reports. In general, the price levels have been going up, but not to the same extent as food prices and with not the same evidence of expected future increases. Clothing costs seem to be leveling off and the quality improving, though the testimony to this effect is not by any means unanimous. The same thing may be said of furniture, which is an item of great importance for many young married couples just starting out in family life.

There was considerable testimony from merchants in other lines confirming the importance of the food problem to the customers. The necessity for diverting a larger and larger proportion of urban family income in this direction threatens to cut down the purchases of clothing, furniture, and other items of consumption.

Back of the consumer is the retailer. Back of him is the wholesaler, and back of him, the producer. Retailers were quite ready to testify as to their mark-ups and profits. Those engaged in retailing food testified practically unanimously to much lower profit margins than during the period when OPA administered their prices. They feel themselves caught between the sales resistance of their customers and the high prices charged them by their suppliers. This is particularly true in the critical item of meat. The testimony of wholesalers was, on the whole, to the same effect. Particularly in the case of milk, it appeared to be shown that the profit in general did not run much above a half cent a quart for fluid milk; nor was the profit on all operations, including ice cream, butter, cheese, etc, excessive when viewed from the standpoint of the amount of that profit reckoned on the customer's dollar. Milk production on the farm definitely appeared to be caught in the squeeze between high food and farm labor costs on the one hand and consumer resistance on the other. A distressing phenomenon of the milk situation was the actual destruction at various times and at various places of some surplus supply of milk. This resulted from the lack of the heavy investment required for processing on the one hand and the regulations of State and local milk administration boards on the other.

Another difficult situation appeared in the disparity between what the truck farmer got for a perishable product and what the customer in nearby markets had to pay. This was in part accounted for by a necessarily high mark-up by the retailer in view of the heavy spoilage which occurs in this type of food. There does, however, seem to be an opportunity for better marketing procedure in this case. In some areas there was direct testimony that farmers have been compelled to plow under garden produce because the price would not return the

cost of harvesting and marketing. Some extension of direct farm consumer markets is indicated, though this would be a matter of some difficulty in the great metropolitan centers.

For profit investigations in general we were dependent largely on the financial reports furnished by the large food processors and distributors to the SEC, Department of Commerce, Department of Agriculture, and other governmental bodies. There was a general expectation that we would find the causes for the high cost of living in the greatly increased profits which these companies enjoyed for 1946 over previous years and which were presumably extending into the current year. A careful analysis of these reports was made by our staff for most of the principal firms, with particular reference to food products. These figures would indicate a doubling and tripling of dollar profits between 1945 and 1946. They would indicate very heavy rates in percentages of net worth for practically all the companies involved. It would seem that these heavy increases in profits are in many cases properly subject to criticism, in view of the serious impact of the cost of food on the low-income family.

When we came to consider these profits as percentages on sales, however, we got a measure of the contribution to the consumer welfare which could be made by cutting down on or, in the extreme, eliminating these profits altogether. In general, the meat packers and the chain stores showed the smallest take-out from the consumer's dollar of any of the firms investigated. This ran from 1.2 cents on the dollar in the lowest case to 3.6 cents on the dollar, with other companies spread in between the two. In the most extreme case, that of the Food Fair Stores, an average reduction to the public for its product from \$1 to 96.4 cents would have wiped out completely the heavy profit of 36 cents on a dollar of the company's net worth. Perhaps it would be more fair, however, to look at the conditions before taxation, in which case a reduction from \$1 to 94.1 cents would have eliminated a 59-cent earning on every dollar of net worth. In this connection, however, it should be noted that around \$2,330,000 would have been lost to the Government in taxes, which would have had to be made up from other sources presumably affecting the consumer's disposable income.

For meat packers we had the figures for Armour and Swift, indicating in the first case an increase in net income after taxes from \$9,300,000 in 1945 to \$21,000,000 in 1946. But this was a gain at a charge to the customer of only 1 cent on his dollar, the figure being 0.8 of 1 cent per dollar after taxes in 1945 and 1.8 cents in 1946. For Swift the corresponding increase in income after taxes was less. For the two milk companies represented, Borden and National Dairy, the net income after taxes on sales increased from 2.6 to 3.6 cents in the first case and from 2.2 to 3.4 cents in the second.

Unless these figures are attacked as false or unreliable, there is no indication that any great contribution to the reduction in the cost of living can be made by reducing the profits of food processors and distributors. There may be a certain effect from pyramiding these small profits, but, in general, it was found that in the case of many food products the route from producer to the consumer under modern conditions involves very few steps.

It was said earlier that there is a substantial population group whose family incomes are so low that food prices make it difficult to

provide nourishment for their families and limit their purchases of clothing and other necessities of life. Some general indication as to the composition of this low-wage group was given in the course of the hearings. It includes both organized and unorganized workers. It includes a considerable part of the "white collar" class, both organized and unorganized. Teachers, social workers in general, and the younger clergymen are definitely included. The pressure toward radical economic and social doctrine on these important groups must be strong indeed.

Others who are suffering severely are those whose income is dependent on pensions, whether from Government, private industry, or personal savings. The position of many of these was described as being desperate.

A special group is that of the colored people largely engaged in lower-paid intrastate occupations, such as the service trades. It was brought out in the evidence that in New York City they suffer a special disability resulting in some way from the large segregated area in which most of them are housed. It appeared that there was a long-existing condition of higher prices and poorer quality than for the white people, in the stores which supply the needs of the area. Why business enterprise has not taken advantage of this long-existing condition was not made clear.

Social workers and doctors gave evidence of the serious straits in which these submerged groups find themselves. While human sympathy might be thought to color to some extent the testimony of the social workers, we found the testimony of the medical profession quite impressive. One witness stated that there were many families whose income was not enough to buy the food needed for minimum health standards, and warned that unless food costs are checked there will be an increase in maternal and infant deaths, and morbidity, a mounting tuberculosis rate, and lowered industrial efficiency, all results of a deficient diet.

The helpful support to nutrition given by public agencies is likewise in difficulty. Owing to the increases in the costs of essential foods, the prices of meals have been raised, diminishing the ability of those who need them most to pay for them. Concomitantly in some cases the nutritive contents of the lunches themselves have been diminished.

Hospitals are finding themselves in trouble, even with all the dietetic and purchasing experience at their command. They have not succeeded in maintaining the needed standards of nourishment except at costs that are putting them further and further into the red every quarter. In some areas, notably Hartford, Conn., very able efforts are being put forth to help people in the community in purchasing and preparing the lower-priced foods.

EMOTIONAL CONTENT OF TESTIMONY

Feelings are as important as facts for some aspects of the problem.

There was great indignation expressed as to the increased aggregate profits of food processors and distributors, which was not entirely allayed by the figures presented as to the minor effect these great aggregate profits have in increasing the costs to the consumer, particularly of food.

On the whole, there was some evidence of a willingness among consumer groups to go back to price controls and rationing, though the degree of this willingness varied with the character of the groups which expressed it. The witnesses varied in their background all the way from nominally middle-class housewives to an avowed Communist. The greatest objection to a return to OPA procedure was found among the first group. The desire to go the whole way was strongest in the labor and low-income groups, with all gradations in between.

Most of the CIO representatives testified to a willingness to return to controls and, interestingly enough, included the reimposition of regulation W in their list. This group, at least, has been sold on the unwisdom of expanding credit in a period of growing inflation.

The testimony of this eastern group was likewise practically unanimous in its desire to make a substantial contribution to the needs of Europe. They believed that some way could be found to do this without seriously handicapping our own consumption. Many of those who favored complete reimposition of controls apparently believed this would make possible an effective contribution to filling the needs of the populations of western Europe. The difficulty of meeting these demands without some sacrifice on our part does not appear to be recognized.

GENERAL OBSERVATIONS

As already indicated, it has become clear to us that we are facing a really serious situation. This became clear only from contact with people and could not have been so clear to us from a study of statistical material.

Particularly was it clear, as has already been indicated, that there is a large body of low-wage earners concealed in our high total national income. It is also clear that when there is a sufficient supply of important foods, as, for instance, of meat, the distribution of it is such as to leave a large area of those who receive a disproportionate supply. If this condition continues there is danger that the reduction of the proportion of income available for commodities other than food may have a disruptive effect on our whole economy.

GENERALLY SUGGESTED CAUSES

The volume of food and other material assigned to European relief is believed by many to be a cause of domestic high prices. This is quite evidently true as to the cost of wheat, in view of the fact that about one-third of our crop is to be shipped abroad this year, whereas in previous years not more than 12 percent was usually exported. Out of a bumper wheat crop of over 1,400,000,000 bushels, we are retaining for domestic use this year 1,000,000,000 bushels, compared to the prewar consumption of 750,000,000 bushels.

This supply of wheat is liable further to be drawn upon by an increased demand for food grains, which, in turn, has resulted from bad weather and its effect in cutting down the corn harvest. Food grains and feed grains are not entirely separate, though one is normally eaten by human beings and the other is normally eaten by animals. In

this situation, with the enormous demand for meat, there is the possibility of a substantial diversion of food grains to the feeding of animals.

The high prices of such grains can be an element in the high cost of meat. Thus the short feed-grain crop may affect both the price of food grains and the price of meat and likewise poultry, eggs, and dairy products. The amount of food grains that will be fed is not yet clear.

Government support of the prices of farm commodities has been under attack in our hearings as a primary cause of high food prices. There seems to be some justification for this in the case of certain products such as potatoes, at times eggs, and more recently dried fruits, in which the free market prices have fallen below the support prices. In most of the other cases and with most of the important food products, the free market price has been well above the support price, and it is, therefore, not at all clear in those cases that governmental action under the Steagall amendment has had any effect in raising the price of food.

In fact, in the contrary direction, the support prices have been high enough to bring out the maximum production and have in this way and to this extent increased the supply and thereby kept prices from rising even further than they have.

A serious mistake in part in the nature of the legislation and in part in administration has resulted from the application of the Steagall amendment. We saw the destruction of many tons of last year's potato crop. Countless calories of nourishment were lost. Means must be found to salvage this material should the situation recur.

Eggs also were withdrawn from the market up to July 15 and either powdered or frozen, putting them in condition unacceptable for household use in a succeeding period of egg shortage and high prices. This is an illogical and harmful procedure in time of shortage. The Commodity Credit Corporation should set a price on these eggs which will move them into consumption.

Speculation in the commodity markets has been widely charged with causing high prices. In the cases where spot prices are higher than futures no direct effect could be charged. Your committee felt, however, that there was enough probability here of harmful effect to warrant sending a telegram to the President, mention of which will be made later.

Many witnesses called attention to increased labor costs as a large cause in increased costs of consumer goods. This is evidently a fact. Disagreement centers on the question as to whether labor costs have gone up faster or slower than profits and as to which has been the dominant factor in the inflation. Further analysis of this subject is needed.

The fact remains, however, that labor cost has not been so nearly dominant in connection with grain and meat prices as it has been in the other consumer goods, except as high wages have been a factor in expanding demand from the more highly paid. At the same time the increase in food prices has been the serious element in the cost of living and thus becomes the dominant factor leading to increased wage demands.

The most serious wage effect arises from the recent tendency of the wage increases to be demanded by those already in the higher-wage brackets, leaving the low-income groups further and further behind.

In the distribution of the goods and services produced by the total economy, the high-income groups thus benefit at the expense of those in the lower brackets.

Excessive profits were generally attacked as being a principal cause of increased prices. As already stated, in the important case of food we found enormously increased aggregate profits on the part of the processors and distributors. However, we did not find that those profits were so high with respect to sales that the amount taken out of the consumer's dollar for profit was the major factor in high consumer prices. In saying this we are not indicating that profits in these industries are unimportant. We believe that for their own sake, particularly from the standpoint of public relations, these businesses should show restraint in their take-out.

Food industries showing higher net profit per dollar of sales would include some of the baking and other processing companies. Textiles profits varied widely, but in many cases showed higher rates than the food industry. Differences in capital investment make comparisons difficult. Retailers of all sorts appear to be down close to rock bottom.

We did not go deeply into profit margins of durable consumer goods, important though they are. Food is such an overwhelming element in the family budget, and meat and grain products, including milk and butter, so far overshadow the other elements that we concentrated our testimony and our conclusions largely on those points.

SUGGESTED REMEDIES, SHORT RANGE

In suggesting certain remedies, whether short range or long range, this subcommittee is not attempting to make specific recommendations to the full committee and to the Congress except to this extent: It is listing only the remedies which it feels are worthy of serious consideration and final action, legislative or otherwise. It is expected that from these the committee will select the one, or several, which seem worth reporting to the two Houses of Congress. It will be noted that the full restoration of OPA is not recommended for consideration. We were interested in the testimony of Mr. Chester Bowles at Hartford, which would indicate that the most optimistic estimate for the time it would take to reestablish full rationing and price control would be at least 6 months and probably more.

Voluntary allocation is already under way through Mr. Luckman's organization. The most important instance has been the willingness on the part of most of the distillers to stop production and grain consumption for a period of 60 days. It is possible that further directions may be found in which this procedure can be followed.

Allocation by statute has also been suggested. For grains this would mean not merely the present allocation for export but determination of the amounts that should go for feed, for milling into flour, for processing into breakfast cereals, etc. The powers for doing this would presumably have to be granted by legislation, as the field to be covered would be too extensive to administer successfully on a voluntary basis, and the number of firms would be so many that it would be expected that in some cases policing would be required.

Allocation, whether voluntary or statutory, would seem to be directed toward assuring a satisfactory distribution of a given product, rather than toward decreasing its price to the extent that it diminishes

the flow of grain or meat into any channel, to that extent reducing supply without reducing demand. This, in turn, would raise the inflationary pressure and tend toward still higher prices in the products being contracted. Some direct or indirect means of price control, therefore, seem to be involved in any allocation program. This is the weakness of allocation, as we see it.

Voluntary rationing is likewise being undertaken by Mr. Luckman's committee. This we believe to have important possibilities if sufficient public spirit can be put behind it. In our view, the present program is handicapped by the illogical and inadequate elements which are included. The low-income consumer needs no voluntary rationing. He is already being involuntarily rationed. The higher-income consumer can follow the rules given by the Luckman committee literally and faithfully without making any reduction whatever in his total intake of meat and eggs. Few consumers eat meat every day in the week. Fish and poultry are acceptable substitutes generally eaten.

We urge the consideration of voluntary rationing on a different basis. We would, for instance, urge that individuals or families consuming more than x pounds of meat per week or x eggs per week or x pounds of poultry per week reduce their consumption by some definite percentage.

A drive should be made not only on heavy personal consumption of these meats but also on unconscionable waste to be found in hotels and restaurants. Portions in some of the "better" places are unduly large. It appears to be considered that a hotel or restaurant cannot be really high class unless it wastes food in a world where waste is criminal. Hotel and restaurant keepers should come forward with voluntary programs for doing their part in food saving, reducing demand and thereby making supplies available at lower prices to those who are doing without.

Statutory rationing is a further step which should be considered. Complete rationing and price control would take too long for installation and would be a return to conditions which had already begun to disintegrate with the return of "peace" and which at the time the great mass of our people felt could not be successfully continued for a much longer period.

What may perhaps be done is a return to limited rationing. As has been indicated, the serious element in the inflationary spiral is the cost of living. The serious element in the cost of living is food. The serious elements in the cost of food are meat, poultry, eggs, and dairy products. Of these, it may be worth while to consider the rationing of a limited group—say, meat, butter, and poultry. What would be the effect of so doing? We are concerned with prices and distribution to consumers.

Obviously there would be an effect on distribution. If users of meat in large quantities would use less, those not getting sufficient meat would not be cut down on their present consumption but would have more available for them. But they could not get that meat unless the price were lower. The decrease in consumer demand due to the rationing of those already receiving meat in excess of the rationing, balanced against the available supply, would result in the decrease in price which would tend to move that meat or other product rationed into the lower-income groups.

Voluntary rationing to the extent that it is effective would have the same result and should probably be tried first in a more logical and effective form than that presently in operation. Since it may not work sufficiently quickly or effectively, the Congress might well give consideration to setting up the mechanism for limited rationing of important foodstuffs only. This would lower the price and more surely distribute the supply of the scarce and important food items.

The question may well be raised as to what would be done with the excess of steers and hogs or of poultry coming into the markets if that supply was greater than the total volume rationed. This would, of course, result in a distress lowering of prices to the producer. To allow the bottom to fall out of his market would be an injustice to him and still would not solve the oversupply. This surplus could be taken care of either by a flexible rationing scheme which would increase the ration as oversupply appeared or by the Government taking the surplus off the market, freezing, curing, canning, or otherwise preserving it, and shipping it abroad at a financial loss as a contribution to the feeding of Europe.

As distinguished from the over-all reestablishment of rationing and price control, this limited rationing without price control would nevertheless affect prices and could perhaps be put into operation in a comparatively short time.

It should be clear that rationing without price control is more effective than price control without rationing. The latter increases effective demand without stimulating increased supply and so puts such a heavy upward pressure on prices as to make black markets uncontrollable.

Government purchase and sale has been a procedure which Canada has carried out in the grain control with a considerable degree of success. The Government set itself up as the sole purchaser of the grain crop and set prices for purchase which were expected to bring out heavy production with a reasonable margin of profit. Instead of the free market prices which would scarcity of grain would have allowed, the Canadian Government disposed of its wheat at a small margin above the price paid for it, and by supervision of the mark-ups in processing has assured the consumer a low price for its flour and the foods derived from flour at the same time that it has determined the allocation and price for export.

This process has more recently run into difficulty in that the uncontrolled prices for rye have been more attractive than the controlled prices for wheat, so that there was a general shift on the part of the grain farmers from the more-needed to the less-needed grain, as well as some decrease in the total acreage devoted to grain. This illustrates one of the problems in the way of any governmental control program. Other countries have been less intelligent in administering this policy and have run into more serious problems.

So far as concerns the application of this policy to American grains and meat, the difficulties would seem to be considerable. It would be particularly difficult to police the locally grown feed grains, which would mostly escape from Government purchase and sale. We do have the equivalent of a Government purchase price in our support program, and the Canadian experience should awaken in our minds questions as to whether the consuming public is justified in paying

prices for food products which are far above the support prices, if those support prices themselves are sufficiently high to bring out maximum production. At any rate, there would seem to be enough in this policy of Government purchase and sale, particularly so far as concerns grains, to warrant further study.

Further raising of wages is the expected effect of continuing rise in the cost of living, particularly so far as relates to food. But it needs more study if it is to be considered a solution rather than a temporary palliative. The evidence seems to point to its being only a temporary palliative, and not a very good one at that. In taking place on a broad scale it inures to the benefit of the particular industrial group involved but to the ultimate hardship, so far as it results in price rises, to the other groups who do not share in the increase. In particular, it works out in this way as a hardship to the low-wage groups, the pensioners, and all the others who are left behind in the raise.

It is most unfortunate that there seems to be a tendency for the wage advances to be spearheaded by those already in the upper-wage brackets instead of by the lower-wage group. As a result, the advances gained by the upper-wage group are at the expense of their less fortunate brothers.

Lower prices would be a better way than higher wages for putting into effect a slowing up or decrease in the inflation spiral. Increased wages affect only the group which enjoys them. Lowered prices affect the whole great body of consumers.

Lower profits are the simplest means of attaining lower prices. As previously indicated, there are many important producing and distributing groups whose prices cannot be lowered materially without completely cutting out all profits. Among these groups are many of the leading processors and distributors of food. The high prices of food, in fact, seem to go back quite definitely to the primary markets and the agricultural producers.

In other lines than food, however, there appear to be areas in which profits will not so easily withstand public scrutiny. They are higher in some food industries than in others. They are higher, on the whole, in some textiles and some branches of the clothing industry than in foods. They are higher in some items of consumer durable goods, which we did not investigate in detail, than in the nondurables.

In questioning prices at this time we are going contrary to the spirit of the free enterprise system. The assumption is that in free enterprise profits are earned, in the social sense as well as in the purely business sense, provided there has been no element of monopoly or other restraint in the situation which permits the high prices. It can only be said that at this particular time in the world's history, with the overwhelming importance of inflation both for our present safety and the future safety of the world, we have reached a period in which both wages and profits take on an aspect of public interest which is abnormal and which organized labor and business management must recognize.

Higher taxes on business income have frequently been suggested as one way of stopping the inflation spiral. Attention to profits was mentioned above, and increased taxation is one way to reduce profits. It is doubtful, however, whether the reduction by taxation can have anything more than a secondary and long-range effect on prices, as

compared with voluntary reduction by lowering prices. The effect of such action is direct and immediate.

The effect on prices resulting from higher taxation would seem to be by the long route of increasing Government income and thereby reducing Government debt, with its favorable effect on the money supply and demand. Alternatively or concurrently it would make possible a decrease in the tax rate on personal incomes, which, if applied principally to the low-income groups, would not so much effectuate an improvement of the condition through decreased prices as by increased income and by the ability to purchase that which they had not before been able to purchase. The net effect on prices in that case would in fact be to raise them somewhat rather than to lower them.

In any event, a decrease in prices by decreasing profits must not be carried too far, whether done by taxation or lowering of prices. A good case can be made for the necessity for larger reserves as costs go up. A good case can be made for increased dividends for stockholders as the cost of living advances. Particularly, a strong case can be made for ample funds applied to investment in more efficient equipment so that prices may by this means be reduced. Reference to that phase will be made below.

Lowering of individual taxes is a method of improving the condition of the submerged group which has been so often referred to in this report. To be ideally suited for that purpose it should be done on the basis of an increased allowance for dependents. This gives the relief where relief is most needed. Any tax relief which is evenly distributed between the higher- and the lower-wage-earning groups will have no effect—in fact, may be considered to have a regressive effect—in alleviating the unjust disparity between them.

Higher margins in commodity markets, particularly on the grain markets, were called for in a telegram which the committee sent to the President on September 24, 1947. This telegram read:

The PRESIDENT,
The White House, Washington, D. C.:

It has become clear to the members of the Eastern Subcommittee of the Joint Committee on Prices that grain and commodity speculation is accentuating market fluctuations instead of decreasing them, and that presently it is supporting food prices at unjustifiable levels. We, therefore, urge that your administration use every means within its power to restrain this dangerous activity. In so doing you will have full support. It is incredible that so large operations in the necessities of life should be permitted on such small cash margins. These margins could be greatly increased to the benefit of consumers' food prices, if special provision were made for normal millers' hedging operations. We also urge careful study of the manner and timing of governmental food purchases whether for foreign relief or for the armed forces, in order that their speculative effect may be minimized.

Senator RAYMOND E. BALDWIN.

Representative ROBERT RICH.

Senator FRANCIS J. MYERS.

Representative CLARENCE KILBURN.

Representative EDWARD J. HART.

Senator RALPH E. FLANDERS, *Chairman.*

This message was carefully worded so as not to place the primary responsibility for high prices on the organized markets. Those prices we conceived to be due to supply and demand. We were and are convinced, however, that the incipient entrance into the grain market of inexperienced speculators, and likewise possibly increased operations of the experienced speculators beyond the volume required for normal

hedging, were leading toward an accentuation of the normal ups and downs of the market instead of dampening those fluctuations. We did not wish to see in any food a repetition of the bad results derived from an abnormal volume of trade such as that which occurred in the cotton market a year or two ago.

In sending this telegram we recognized that those who determine the margins and some of the other conditions attending the grain trade have a vested interest in increasing the volume of transactions. This does not mean that many of the arguments they have brought against increasing control may not be valid. It does mean that the special interests which they represent have to be recognized and to be taken into account.

Prosecution of monopolies is being actively undertaken by the Government, particularly in the food-processing field. That can be justified on general grounds, but none of the testimony available to the committee indicates that it can have an immediate effect on the cost of living, particularly so far as food is concerned.

There is one monopoly situation which is organized for the avowed purpose of decreasing supply and raising prices. This is the North Atlantic Fishermen's Union, as operated out of the New England fishing ports. No testimony on this condition was taken by our committee, since the matter was currently in the courts. The report on the court findings has been introduced into the committee record.

The activities of this union are directed toward maintaining the price of fish, and it is effective in so doing. This is a direct attack on the food supply of the rest of the population. If the courts find that the Norris-LaGuardia Act protects the union in these practices, appropriate amendment should be passed by the Congress.

Revision of the minimum wage law should be considered. This may have some effect on the ability of the lower-income groups to raise their standard of living. However, testimony brought before us tended to show that the really low income groups were engaged in intrastate commerce to which the minimum wage law did not apply. Such action, nevertheless, may result in benefit to some small percentage of the group now submerged by inflation.

Credit control is primarily a long-run policy measure, but there is one element of control which we believe should be reimposed as a temporary emergency measure; that is, the revival of regulation W, which disappeared on November 1. There is every reason why in this critical situation the inflationary tendencies should not be accentuated by an expansion of consumer credit. It was most interesting to the subcommittee to find that the CIO spokesmen and others were strong in their demands that consumer credit be brought back under the control of the Federal Reserve System.

LONGER-RANGE POLICIES

Increased production is the fundamental solution to higher prices. If we assume, however, that food is the central problem in the existing inflationary movement, the possibility of lowering prices by production in that particular area is limited. Support prices are currently bringing out somewhere near the maximum of useful production from our soil. Any usable increase in that will depend on long-range programs of raising soil fertility, increasing irrigated areas, and similar undertaking.

Increased production does have its applicability to the less important but still pressing nonfood items in the cost of living. It has an application to the textiles and to all the durable and semidurable consumer goods. The methods of bringing up production are to be found in more steady and more skillful work on the part of the employees, including the elimination of "feather bedding." It is to be found in more skillful management on the part of the heads of businesses and their subordinates. It is to be found in profits reinvested toward new and more efficient equipment. It is also to be found in standardization of products, which, however, in a free economy should stop short of regimentation so that the consumer has a wide choice of purchases for his money.

There is some question as to whether such a scale of living as envisaged by the report of the Heller committee can be accomplished on a 40-hour week if it is assumed to apply to the whole population of the country. This is a subject which needs further investigation. We often refer to the miracles of production in the war, but they were not accomplished on a 40-hour week. We may be facing the necessity of a temporary increase in the workweek if we are to furnish the products required for European relief and reconstruction without lowering our domestic consumption.

Monetary and fiscal policy as a means of arresting and decreasing inflation is being given serious attention by many thoughtful and capable men. The abundance of money, whether pocket money or bank money, is the tangible expression of the demand for goods and services which raises the price which can be demanded for the available supply.

It seems good common sense not to allow that supply to be increased by any other means than as a result of the increased production of goods and services, in which case the increased money supply is not inflationary.

It is important that the Federal, State, and local governments do not increase the nonproducing money supply by the process of further borrowing from the banks. Such funds should be decreased, in fact, by the process of balancing the budget and having a surplus left which can be applied to the reduction of bank indebtedness. Anything which this country can do in that line in this or the next fiscal year will have a beneficial effect on prices, counteracting the inflationary effect that the contrary practice has had on prices over the past 15 years.

We broke the high prices of the early 1920's partly by monetary means involving a raising of the interest rate. Unemployment resulted. Judging by past experience, both here and abroad, action of this sort usually results in unemployment. It would, therefore, be most unwise to apply it except in so moderate and gradual a manner that whatever dislocations in employment are involved can be adjusted without exceeding the limits of what is ordinarily considered to be a reasonable volume of frictional unemployment.

It is this necessity which puts this policy into the classification of long-range rather than short-range cures for inflation.

The application of such monetary policy at this time is further complicated by the fact that the Federal Reserve System stands in a very different relationship to our money supply than it did in the early 1920's. Among other factors is the fact that it has come to

have as its primary responsibility the maintenance at par of the whole range of Federal securities. It feels bound to purchase those securities to the extent that may be necessary to keep the price at par when the market weakens. This policy would have to be revised if Federal Reserve action is to be redirected toward a raising of the interest rate, the tightening of credit, and a consequent decrease in the money supply and prices.

CONCLUSIONS

As stated before, the subcommittee is not making specific recommendations for action. It is leaving that to the decision of the full committee. It is, however, exercising its judgment in picking out certain of the list of procedures already suggested as worthy of the committee's attention. In consequence, it is exercising its judgment in discarding certain other procedures. For serious consideration we recommend the following:

- Voluntary allocation.
- Voluntary rationing.
- Statutory allocation.
- Statutory rationing.
- Extended and improved export controls.
- Voluntary restraint on profits.
- Voluntary restraint on wage and salary demands by those in the higher brackets.
- Raising the minimum wage.
- Avoiding the destruction of food.
- Increasing tax exemption on dependents.
- Retiring governmental bank indebtedness from budgetary surplus.
- Restoring control of consumer credit.

THE OVER-ALL PROBLEM

In connection with the above proposals, the importance of labor and business policies needs strong emphasis. If these private decisions are not made in the public interest, there seems to be nothing that Government alone can do to end inflation by any means that will not result in unemployment and depression.

Possibility of an orderly end to inflation could come from the following procedure:

First. Arrest the mounting cost of living by attention to its principal component, food, and by solving the principal food-price problem, meat and animal products. Review of rent control well in advance of its termination date is likewise indicated.

Second. With the rise in the cost of living arrested, demands for increased wages will lose their main justification, particularly in the case of those labor groups already in the higher-wage brackets.

Third. In view of an end to the cost-of-living, wage, cost-of-production spiral, business can and should adopt moderate price and profit policies, resulting in important price reductions and a definite contribution to moderate and orderly deflation in all lines.

Fourth. The Government, meanwhile, by appropriate fiscal and monetary policies, will arrest and reverse the unrestrained expansion of the money supply which makes continued inflation possible.

This procedure can safely end the inflation. This cannot be done safely by Government action alone. If the Government does its part, and labor and business fail to do theirs, the responsibility for economic disaster will rest squarely on these nongovernmental shoulders.

This report was prepared as a basis of discussion for the full Joint Committee on the Economic Report. It is signed by the entire eastern subcommittee, with the understanding that while approved in general, no member is bound to endorse all its conclusions and proposals.

Senator RALPH E. FLANDERS,	Representative ROBERT F. RICH.
<i>Chairman.</i>	Representative CLARENCE E.
Senator RAYMOND E. BALDWIN.	KILBURN.
Senator FRANCIS J. MYERS.	Representative EDWARD J.
	HART.

PART III. REPORT OF THE WESTERN SUBCOMMITTEE OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT ¹

[Released by Joint Committee on May 14, 1948]

A. RECOMMENDATIONS

RECOMMENDATIONS OF THE WESTERN SUBCOMMITTEE TO THE JOINT COMMITTEE ON THE ECONOMIC REPORT

Pursuant to Senate Concurrent Resolution No. 19, the Western Subcommittee of the Joint Committee on the Economic Report, after review and consideration of testimony presented to it in its hearings, as well as other information pertaining to the increased prices of consumer goods, submits herewith a series of recommendations for consideration by the full committee. Other suggestions and proposals were also seriously considered and evaluated, but agreement as to the effectiveness of these in respect to the problem of high prices was not reached. The subcommittee believes that application of the recommendations agreed upon would contribute greatly to checking further price rises and aid in establishing greater price stability.

The recommendations are as follows:

I. Federal personal income taxes

The large (and continuing) increases in the totals of personal and business incomes and expenditures have exerted and are exerting inflationary pressures against an inadequate supply of goods. Outright tax reductions at this time will increase net personal incomes and prolong the period of price increases. Furthermore, the increase in purchasing power to taxpayers will enable these to purchase goods in the market away from those who are not benefited by tax reductions. This is the only way that a tax reduction will enable taxpayers to increase their consumption. Therefore, it is recommended that if

¹ [Each of the recommendations in part A. of this report has been separately considered and approved by the members of the subcommittee. The subcommittee also reviewed other sections of this report, prepared by its staff, and generally approves its contents. Approval of these sections however, does not necessarily imply that the members of the subcommittee assume responsibility for the many details, or that they may individually endorse any particular statement or conclusion therein.]

tax reductions or refunds are made at this time, these take the form of required savings in United States Government bonds to be held by the recipient for a stated period of 1 or 2 years, or until such time as Congress shall determine that inflationary dangers have passed.

II. Excess-profits taxes

During this period of high demand and accumulated shortages, it is inevitable that many corporations will realize extraordinary profits. Under these conditions an excess profits tax should be restored. Such a tax should permit a base for computing excess profits higher than the wartime level by at least one-third. The excess profits rate should be graduated with a top limit of 50 percent. Such a schedule should not unduly penalize initiative and efficiency, nor adversely affect replacement and expansion of facilities. It should also provide a minimum base of normal profits for protection of new enterprises and those without sufficient operating and income experience upon which to establish a reasonable normal base.

III. Excise taxes

We recommend the removal of those excise taxes which directly increase the prices of essential cost-of-living items, particularly for low-income groups.

IV. Reclamation

We recommend the rapid completion of reclamation and drainage programs now under construction and development with a view to increasing the food supply in line with current and prospective needs, both domestic and foreign.

V. Rent Controls

We recommend the extension of rent controls with adequate provision for hardship cases.

VI. Export controls

We recommend strict application of export controls for those commodities and products for which domestic prices may be unduly increased by demand from abroad, especially demand from those countries which are not included in any foreign-aid plan the Congress may adopt.

VII. Public works

Federal, State, and local public works in general should be deferred wherever feasible unless they are productive of food and other commodities in short supply.

VIII. Credit controls

The problem of credit controls has been reviewed to some extent in previous hearings of the Joint Economic Committee. We recommend that further exploration of this problem should be made as promptly as possible in order that appropriate action may be taken in time to avoid further serious expansion of credit.

IX. Compulsory controls

Particularly in view of the recent fluctuations in the commodity markets, we recommend further study of the need for compulsory controls pending the outcome of actions taken under the so-called Anti-Inflation Act, Public Law 395, enacted by the Eightieth Congress.

X. Increased fertilizer production

Every effort should be bent to increase the total production of fertilizer so that the present rate of application, already high, may be further increased.

Most of the added output should be sent to food-deficit countries, because the increased production of food abroad will lessen demands on our own supplies, and on shipping facilities, and hasten the restoration of a self-supporting economy abroad.

XI. Aid to foreign food production

The Anti-Inflation Act authorizes the Department of Agriculture to encourage the production of food in non-European countries. The subcommittee endorses this program and expresses the hope that the Department of Agriculture will vigorously promote its activities in this field.

XII. Victory gardens

There should be a revival of emphasis on victory gardens and on the preserving of food grown in them to relieve pressure on market supplies.

XIII. Conservation of grain

The Department of Agriculture should continue and intensify its efforts to promote the conservation and efficient feeding of grain. The Extension Service should push vigorously its regular program of educating farmers in more efficient production methods.

XIV. Consumer actions

To mitigate the effect of high prices, the committee feels consumer action and assistance are absolutely necessary, including—

(a) More intelligent consumer shopping, use of substitutes, cooperation in food-saving measures.

(b) Greater funds for Bureau of Human Nutrition and Home Economics to make more consumer information and assistance available and to promote education on nutrition, meal planning, food substitution, etc.

(c) Encouragement of farmers' markets and other marketing methods which reduce the cost of distribution, especially perishable food products.

XV. Increased production

In order to promote increase in the production of consumer goods which have been and continue to be in short supply relative to demand, the subcommittee urges the following:

(a) Mutual efforts by management and labor to avoid any curtailment of production through labor disputes.

(b) Allocation of scarce raw materials to favor most urgent consumer-goods demands.

(c) Extension of working week, wherever feasible, without creating unemployment.

(d) Removal of monopolistic restrictions on production wherever they exist.

B. INTRODUCTION

Senate Concurrent Resolution 19 of the Eightieth Congress, commonly known as the Baldwin resolution, directed the Joint Committee on the Economic Report—

(1) to make a full and complete study of the present high prices of consumer goods, and (2) to report to the Congress * * * the results of the study and investigation * * * together with such recommendations as to legislation as it may deem desirable.

Seven other Members of Congress were associated with the committee in the conduct of the hearings and preparation of its reports.

Pursuant to this resolution hearings were held during September and October by three subcommittees in 26 cities in the eastern-seaboard States, the midcontinent region, and the Western States. The western subcommittee held hearings in six cities: Denver, Salt Lake City, Los Angeles, San Francisco, Portland, and Seattle.

In the conduct of these hearings, the western subcommittee heard well over 200 witnesses representing a wide range of activities and interests: Producers of many kinds of farm products; processors, wholesalers, and retailers of food; manufacturers and distributors of consumer goods; restaurant operators; cooperative and farm groups; fishery operators; labor organizations; many civic and consumer groups; professional economists; and research organizations.

Included in the 17 volumes of transcript and exhibits from such a diverse array of witnesses (practically all of whom presented prepared statements plus oral testimony in response to committee interrogation) are to be found the concerns and fears, complaints and accusations, justifications, and defenses, suggestions, plans, and programs of a broad cross section of producers, distributors, workers, and consumers. All of the testimony thus heard has been carefully reviewed and studied by the committee staff and others.

The subcommittee received many real contributions of information and opinion concerning the causes and effects of high prices. Considerable testimony reflected concern, alarm, and even bitterness because of the effects of increasing prices, particularly on the part of witnesses representing some labor groups, consumers, and various moderate- or low-income groups, including teachers, white-collar workers, veterans, and others. Accusations were made of profiteering on the part of farmers, manufacturers, wholesalers, or retailers, or all of them; of Government ineptitude in regard to price or wage controls or other actions, and of restrictive practices of industry and labor.¹

Conversely, agricultural producers and food processors, manufacturers and distributors, labor and consumer groups generally disavowed any significant responsibility for the higher prices received or paid. Witness after witness, with statistical and other evidence, presented (at least to their own and many times the committee's satisfaction) their justification for current prices. Increased raw materials or goods costs, higher wages and salaries paid, and other operating expenses usually were shown to account for the advancing prices which individually a businessman or producer could not stem.²

¹ Summaries and analyses of testimony given by labor and consumer witnesses are presented in separate sections of this report.

² Summary of wholesale and retail trade testimony is presented elsewhere.

Aside from indications that most business and producing groups have been and are faring well financially (based on any reasonable standard of income or profits), there were not developed in the hearings any major disclosures of causes or abuses bringing about the rising prices of consumer goods—no curtailing of production or withholding of goods from the market or large-scale profiteering. Demands for goods and services continued unabated and volume of sales high, in spite of rising prices. Under these conditions of higher costs and continued pressures of demand against available supplies, most producer and distributor witnesses did not anticipate much, if any, decline in prices. On the contrary, some foresaw further increases, based on their own daily business experiences.

In short, testimony and the study of high consumer prices inevitably lead into the larger problem of general inflation. Practically all the witnesses expressed grave concern over the continued rise of prices, either as affecting their own individual or group economic status, or as a threat to lasting employment and economic activity. And these concerns are reflected in many suggestions and proposals of actions that should be taken to halt the upward spiral. These proposals were invariably directed at the "other fellow" or in favor of one's own group interest or occupation. Included among the recommendations were—

1. Roll-back and fixing prices at OPA levels in June 1946 or other period.
2. Rationing and price fixing at current levels.
3. Wage increases (or decreases).
4. Income-tax decreases (or increases).
5. Greater production.
6. Higher labor productivity.
7. Longer workweek.
8. Less spending and more saving.
9. Excess-profits taxes.
10. Credit controls.
11. Export controls and less exports.
12. Prohibition of commodity speculation.
13. Enforcement of antitrust laws and many others.

The disturbing impacts of rising prices, as well as the varied solutions offered, are indicative of the complex nature of the problem. If we are to understand the nature of the price situation, we must look for its causes and how these have operated to bring about the disturbing end results. It is the purpose in the following analysis to set forth the inflationary factors which were generated during the war and post-war period and from these to suggest what steps might be taken to check the advancing spiral. Following this analysis is one devoted to the food-price situation, the area in which the burden of prices is most keenly felt. Next discussed are wholesale and retail trade, then the attitudes and positions taken by labor and consumer groups in regard to the price problem.

The inflationary spiral—How far has it progressed?

In any discussion of high or low prices, reference must be made to some other price level. Prices are high or low only in comparison with other prices, either those of some other period of time, or of some other part of the world, or of different commodities. Retail food prices

in the United States average over twice their prewar levels. Even at these levels, they have risen much less than in most other countries involved in the war. In comparison with prewar levels, house rents are relatively much lower than food or clothing.

For consumer goods as a whole, the generally accepted measurement of changes in prices is the consumers' price index prepared by the Bureau of Labor Statistics. In spite of criticisms that the index does not fully reflect new standards in a changing world, new commodities, or problems of newly established families for which disproportionate expenditures for home furnishing are necessary, and other situations, it, nevertheless, does reflect in broad general averages the degree of price changes. Most of the consumer and labor witnesses used this index to demonstrate the effects of rising prices on their living habits and standards.

As measured by this index, consumer prices as a whole had increased by December 1947, about 67 percent over the average of the years 1935-39. The changes in the index and its major components are shown in table I.

TABLE I.—*Consumers' price indexes for large cities, by major groups, for June 1946, June 1947, and December 1947, and percentage changes*

Group	Indexes (1935-39=100)			Percent change	
	June 1946	June 1947	December 1947	June 1946 to December 1947	June 1947 to December 1947
All items.....	133.3	157.1	167.0	+25.3	+6.3
Food.....	145.6	190.5	206.9	+42.1	+8.6
Clothing.....	157.2	185.7	191.2	+21.6	+3.0
Rent.....	108.5	109.2	115.4	+6.4	+5.7
Fuel, electricity, and ice.....	110.5	117.7	127.8	+15.7	+8.6
Housefurnishings.....	156.1	182.6	191.4	+22.6	+4.8
Miscellaneous.....	127.9	139.1	144.4	+12.9	+3.8

Source: U. S. Bureau of Labor Statistics.

It will be noted that part of the total increase had occurred prior to June 1946, after which price controls were removed. Some of the increase had occurred before controls were instituted and the remainder after, reflecting the inflationary pressures which were developing during the war. These are discussed later. It is the increases since June 1946 that create uneasiness and require careful study and appropriate action. Food, clothing, and home furnishings account for the greatest advances.

In order to more clearly show the increases in the several components of the consumers' price index, the index numbers are given in dollar terms in table II.

Of a total expenditure of \$100 in 1935-39 period for the quantities of goods and services in the proportions represented in the index, \$35.40 was the cost of food items, \$11 for clothing, etc. In June 1946 the total cost was \$133.50, and in December 1947 it was \$167. Of the total increase (\$67) from 1935-39 average to December 1947, food accounts for \$37.67, or 56 percent; and from June 1946 to December 1947, food accounted for 65 percent of the increase. This clearly demonstrates why food increases are most complained about in price

discussions, particularly among lowest income groups in which food expenditures constitute the major budget item.

TABLE II.—Comparative costs of a fixed list of goods and services—Average 1935-39, June 1946 and December 1947

Group	Cost of a fixed list of goods and services			Increase from—			
	1935-39 average	June 1946	December 1947	1935-39 to December 1947		June 1946 to December 1947	
				Amount	Percent of total	Amount	Percent of total
All items.....	\$100.00	\$133.30	\$167.00	\$67.00	100	\$33.70	100
Food.....	35.40	51.35	73.07	37.67	56	21.62	65
Clothing.....	11.00	17.23	21.03	10.03	15	3.80	11
Rent.....	18.80	20.32	21.70	2.90	4	1.38	4
Fuel, electricity, and ice.....	6.70	7.37	8.56	1.86	3	1.19	3
House furnishings.....	4.40	6.84	8.42	4.02	6	1.58	5
Miscellaneous.....	23.70	30.19	34.22	10.52	16	4.03	12

Source: U. S. Bureau of Labor Statistics.

The other important measure of price increases in the economy is the wholesale commodity price index. For all commodities wholesale prices have increased 117.5 percent from August 1939 to December 1947. Farm products and foods are far ahead in the increase, having risen 222 percent and 165 percent, respectively, during the period, compared with 81 percent for "all commodities other than farm products and foods." It will be noted that wholesale prices (one stage nearer the producer) have risen in percentage terms more than retail prices.

TABLE III.—Wholesale price index numbers for all commodities by groups with percentage changes, August 1939, June 1946, June 1947, and December 1947

[1926=100]

Group	Indexes				Percent increases		
	August 1939	June 1946	June 1947	December 1947	August 1939 to December 1947	June 1946 to December 1947	June 1947 to December 1947
All commodities.....	75.0	112.9	147.6	163.1	117.5	44.5	10.5
Farm products.....	61.0	140.1	177.9	196.7	222.5	40.4	10.6
Food.....	67.2	112.9	161.8	178.4	165.5	58.0	10.3
Hides and leather products.....	92.7	122.4	173.2	203.1	119.1	65.9	17.3
Textile products.....	67.8	109.2	138.9	147.6	117.7	35.2	6.3
Fuel and lighting materials.....	72.6	87.8	103.9	124.3	71.2	41.6	19.6
Metals and metal products.....	93.2	112.2	142.6	152.1	63.2	35.6	6.7
Building materials.....	89.6	129.9	174.4	191.0	113.2	47.0	9.5
Chemicals and allied products.....	74.2	96.4	120.2	135.0	81.9	40.0	12.3
Housefurnishing goods.....	85.6	110.4	129.2	134.8	57.5	22.1	4.3
Miscellaneous.....	73.3	98.5	112.7	121.5	65.8	23.4	7.8
All commodities other than farm products and food.....	80.1	105.6	131.4	145.3	81.4	37.6	10.6

Source: U. S. Bureau of Labor Statistics.

The foregoing tables measure the extent to which inflationary forces have pushed prices up to the month of December 1947. Further advances were made until late in January. Since then sharp price declines have occurred in grains and meats in the wholesale markets with somewhat smaller decreases in consumer prices.

The price increases through 1947 are neither unique in their origin nor extraordinary in their size. In the wake of every major war, inflation has been a common phenomenon. After World War I, retail prices in June 1920 reached a point 108 percent above July 1914 and wholesale prices rose to 148 percent above. These compare with increases of 69 percent in consumer prices and 117 percent in wholesale prices between August 1939 and December 1947. In comparison with some other countries after both World War I and World War II our present inflation is small indeed. German marks after the First World War, and Hungarian pengös and Chinese dollars after the second, have fallen to worthless levels. Even the French franc, depreciated from 5.19 per dollar prior to World War I to about 40 to \$1 prior to the recent war, is now 214 to \$1 at the official rate and over 300 on the free market.

This is not to minimize our present inflation in any way. But it is a reminder that strong inflationary movements develop firm roots during wars and the immediate postwar readjustment periods and also that they feed themselves to higher and higher levels unless the basic causal pressures are rechanneled or removed. In what follows, the nature of inflation and the basic factors contributing to it are set forth and discussed.

C. THE CURRENT INFLATION: ITS SOURCES AND ITS CONSEQUENCES

The basic causes of the inflation of 1940-47 are familiar to most serious readers. They are essentially the same conditions which have generated all great inflations of history—war, with its characteristic accompaniments: from the beginning a fiscal deficit financed by the creation of money, and thereafter, when the slack in the productive capacity of the country had been taken up in war activity, a slow diminution of the supply of civilian goods, especially durable goods. The fiscal deficit expenditures generated a great increase in money incomes, while the decline of production for civilian use forced a decline in consumption and private investment. Consequently, except as money incomes were decreased by taxes and sterilized by abnormal savings, prices had to rise. After the war, with the relaxation of controls, saving fell off and taxes at the same time were reduced, while the money supply continued to advance in spite of the balancing of the Federal budget. Neither the increase of money supply and income, nor the decrease of civilian goods, was as great in the American economy as in that in most of the belligerents, and correspondingly the inflation here has been less severe than in most parts of the world.

Everyone agrees that during the postwar period the increase in the supply of goods and services available for sale did not keep pace with the volume of purchasing power which holders were able and eager to spend. Governor Eccles of the Board of Governors of the Federal Reserve System summarized the situation as follows:

"Inflation is the condition which exists when effective demands (in dollars) exceed the over-all supply of goods and services. We are witnessing effective demand today when individuals and businesses, together with State and local governments, as well as the Federal Government, generally have money which they

are trying to spend, bidding for an insufficient supply of goods and services. This effective purchasing power is composed of past savings, current income, and future credit. The savings were largely accumulated during the war years in the form of currency, bank deposits and Government securities.

"At the end of 1946 (in the midst of the rapidly rising prices) individuals and businesses held about \$223,000,000,000 of liquid savings, or more than three times the prewar total. Similarly, national income is at an all-time high level. It is running at a rate of 200 billions a year, or about $2\frac{1}{2}$ times the total for 1940, the highest year prior to the war. It is due to a record high agricultural income, high wages of organized labor and other workers, but not all of them, and unprecedented business profits. This is augmented by a readily available supply of excessively easy credit for consumer goods of all kinds for housing, for short- and long-term business loans, for State and municipal expenditures, and for foreign credits and grants."³

Likewise, in the symposium "Ten Economists on the Inflation," it is stated that:

"All our contributors are in substantial agreement that excessive demand, not deficit supply, is the core of the problem."⁴

One of the contributors, Sumner H. Slichter, concludes that in the light of all the facts the present price level (early February 1948) is surprisingly low.

By way of preliminary statement, to be amplified and clarified below, we may summarize the immediate causes of any general price rise under the heads of (a) adequate incomes, (b) willingness to spend, and (c) a supply of money and credit adequate to finance the increase. The three are closely interrelated, since expenditures generate incomes; income changes suggest expenditure changes; abundant money generates willingness to spend, and pressure of rising prices leads to expansion of the supply of money. We shall first indicate briefly the extent of the changes in money supply and in income and expenditures for the whole period and then examine in somewhat more detail what went on in three subperiods—the war period to the middle of 1945; the readjustment period of 1945–46; and the renewed period of inflation which occurred in 1947.

Growth of the money supply

An increase in the quantity of money does not inevitably cause an expansion, either of production, of prices, or of both. But, as is well brought out in the January 1948 Report of the President, an ample supply of funds is necessary to make it possible for effective demand to expand. We shall indicate below what these demand factors were in successive periods. First, however, it is necessary to trace the process of expansion of the money supply during the war period.

Table I and the accompanying chart I show the growth by years of the quantity of currency including coin and demand bank deposits (the two items which are generally considered to constitute the supply of money). Table II and chart II show the growth of time deposits, savings bonds, and marketable Government bonds. These are liquid assets, the possession of which tends to release money for more active use and enables the holder to bring about a prompt expansion of the money supply if it is necessary to enable him to convert them immediately into money.

³ Statement of Marriner Eccles, Chairman of the Board of Governors of the Federal Reserve System before the Joint Committee on the Economic Report, November 25, 1947.

⁴ Review of Economic Statistics, February 1948. Contributors include Seymour E. Harris, Sumner H. Slichter, Frederick C. Mills, Joseph S. Davis, G. Haberler, K. E. Boulding, Fritz Machlup, M. Kalecki, Abba P. Lerner, Richard B. Hellebower.

CHART I

DEPOSITS AND CURRENCY
ALL BANKS IN THE UNITED STATES

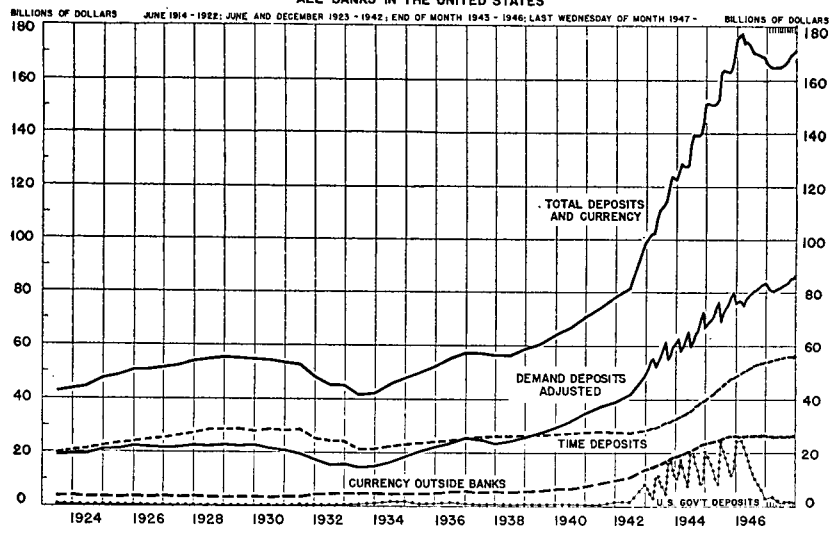


CHART II

LIQUID ASSET OWNERSHIP BY INDIVIDUALS AND BUSINESSES

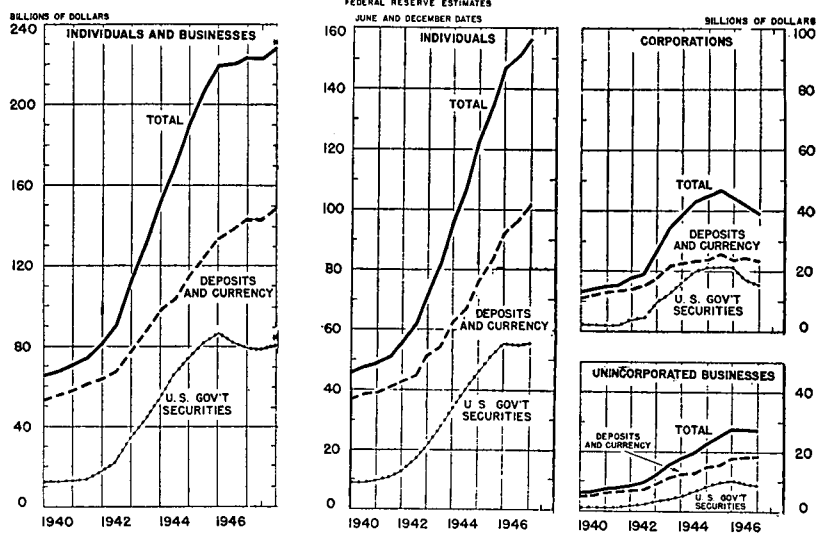


TABLE I.—*Growth of the money supply, 1941-47*

[In billions of dollars]							
End of year	Demand deposits (adjusted)	Currency outside banks	Demand deposits plus currency outside banks	End of year	Demand deposits (adjusted)	Currency outside banks	Demand deposits plus currency outside banks
1939.....	29.8	6.4	36.2	1944.....	67.0	23.5	90.4
1940.....	34.9	7.3	42.3	1945.....	75.9	26.5	102.3
1941.....	39.0	9.6	48.6	1946.....	83.3	26.7	110.0
1942.....	48.9	13.9	62.9	1947.....	86.9	26.6	113.5
1943.....	60.8	18.8	79.6				

Source: Federal Reserve Bulletin and Treasury Bulletin.

TABLE II.—*Private holdings of certain liquid assets*

[In billions of dollars]							
End of fiscal year	Time deposits	United States savings bonds	United States marketable bonds ¹	End of fiscal year	Time deposits	United States savings bonds	United States marketable bonds ¹
1939.....	26.8		10.6	1944.....	35.7	34.6	45.2
1940.....	27.5	2.9	10.8	1945.....	44.3	45.6	59.6
1941.....	27.9	4.3	10.3	1946.....	51.8	49.0	63.1
1942.....	27.3	10.2	15.6	1947.....	55.5	51.4	59.3
1943.....	30.3	21.3	27.4				

¹ Excludes those held by U. S. Government agencies and by banks. There is a small error, because it is impracticable to separate nonmarketable from marketable issues in estimating bank holdings. These are deducted because of virtual duplication with privately owned bank deposits.

Source: Federal Reserve Bulletin and Treasury Bulletin.

Growth of personal incomes and consumer demand, 1939-47

The distribution of income according to its source, as well as growth of these components, for the period from the beginning of the inflation through 1947, are shown in table III.

TABLE III.—*Personal and disposable income and corporate profits, 1939-47*

[In billions of dollars]						
Source of income	1939	1940	1944	1946	1947	Percentage increase, 1939-47
Wage and salary receipts ¹	45.6	49.5	116.2	110.8	123	170
Farm operators' income.....	4.5	4.9	12.4	15.2	18.3	307
Noncorporate business and professional income.....	6.8	7.7	15.3	19.7	22.5	231
Dividends.....	3.8	4.0	4.7	5.6	6.6	74
Transfer payments ²	3.0	3.1	3.6	11.3	11.8	293
Rental income ³	3.5	3.6	6.7	6.9	7.3	109
Personal interest income.....	5.4	5.4	6.0	7.7	7.9	46
Total personal income.....	72.6	78.3	164.9	177.2	197.2	175
Less: Personal taxes.....	2.4	2.6	18.9	18.8	21.7	804
Equals disposable income.....	70.2	75.7	146.0	158.4	175.6	154
Corporate profits before taxes.....	6.5	9.3	23.8	21.1	28	331
Corporate taxes.....	1.5	2.9	13.9	8.6	11.1	640
Corporate profits after taxes.....	5.0	6.4	9.9	12.5	16.9	238
Corporate inventory valuation adjustment.....	1.0	- .7	- .4	- 4.7	- 4.9	

¹ Total employer disbursements and other labor income less employee contributions for social insurance.

² Social security benefits, direct relief, veterans mustering-out pay, veterans readjustment allowances, veterans leave bonds, etc.

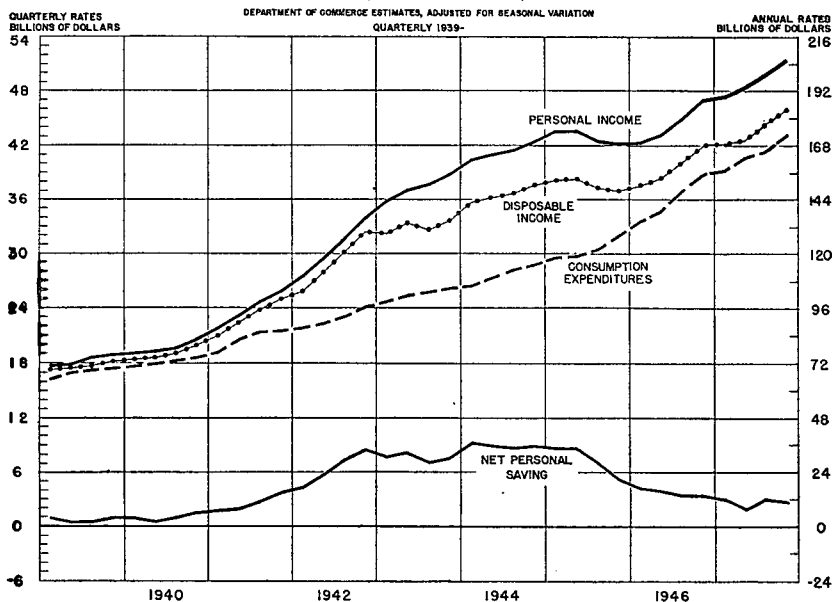
³ Includes rental of commercial property as well as dwellings; imputed rentals of owner-occupied dwellings; royalties on patents, copyrights and natural resources.

Source: Economic Report of the President, January 1948.

By 1944, gross personal income received from all sources was 2.1 times as great as that of 1940, which was the highest prewar level after 1929. In spite of a sharp increase in personal taxes, the net spendable income had nearly doubled in 4 years. In the postwar years, incomes reached still higher levels. The rates of increase, however, for the different components were by no means uniform. Farm-operator increases were by far the greatest while incomes received from invested funds (dividends, rents, and interest) lagged considerably behind.

These dollar incomes expanded much more rapidly than the supply of goods and services for which they could be spent. Some measure

CHART III
PERSONAL INCOME, CONSUMPTION, AND SAVING



of changes is indicated in table IV and chart III. In order to remove the threat of skyrocketing prices resulting from the expansion of incomes during the war, price controls were instituted for nearly all major consumer goods and services, and rationing for many of them. Lesser curbs were applied to wages and these were removed about 9 months before removal of price controls. The net effect of the large aggregate income expansion and restraints upon prices was a tremendous volume of savings, funds set aside in cash to be added to future demands for goods and services, or invested in Government securities which are almost the equivalent of cash.

Inventories of consumers' goods were cut during the war to the lowest working levels in history. Many items virtually disappeared from the market. Although no measure exists of the physical quantities of goods and services, except for foods, the volume consumed during the war years, particularly 1943-45, was probably less than in

1940. The excess of disposable income over the available supply of goods and services is roughly measured by the resultant personal savings. Spendable income during the 4 years exceeded consumption expenditures (for a smaller volume of goods at higher prices), by 120 billion. (See chart III.) These are in large part "forced" savings and are reflected in the growth of individual and corporate liquid assets, which increased from 80 billion dollars in December 1940 to 260 billion in December 1947.

TABLE IV.—*Disposition of personal income, 1939-47*

Year	In billions of dollars					Index numbers (1940=100)	
	Personal income	Personal taxes and nontax payments	Disposable personal income	Personal savings	Personal consumption expenditures	Disposable income	Personal consumption expenditures
1939.....	72.6	2.4	70.2	2.7	67.5	93	94
1940.....	78.3	2.6	75.7	3.7	72.1	100	100
1941.....	95.3	3.3	92.0	9.8	82.3	121	114
1942.....	122.2	6.0	116.2	25.4	90.8	153	126
1943.....	149.4	17.8	131.6	30.0	101.6	174	138
1944.....	164.9	18.9	146.0	35.6	110.4	193	153
1945.....	171.6	20.9	150.7	29.0	121.7	209	170
1946.....	177.2	18.8	158.4	14.8	143.7	239	200
1947.....	197.2	21.7	175.6	11.1	164.5	232	223

Source: Economic Report of the President, January 1948.

The growth of spendable incomes produced two lasting effects: First, there was an accumulation of liquid assets which now hang over the market for personal consumption goods at a time when the level of production is not adequate to meet deferred demands; second, higher incomes have been incorporated into a higher cost structure. The great demand for labor during the war and postwar periods has resulted in large increases in wage rates. The changes for all wage earners in manufacturing industries are shown in the following table:

Percentage increase in estimated straight-time hourly earnings

<i>Period</i>	<i>Percent</i>
Prestabilization period from January 1941 to October 1942.....	21.5
Stabilization period from October 1942 to July 1945.....	15.6
Postwar period from August 1945 to September 1947.....	30.0
Total from January 1941 to September 1947.....	82.7

Source: Department of Labor.

Over a somewhat longer span, average hourly earnings increased from 66 cents in 1940 to \$1.27 in November 1947, or 92 percent.

With total labor costs from production of raw materials to the finished product representing the largest item among costs, and labor income constituting a major fraction of demand for consumption goods, these increases have put prices on an entirely different level, and made a return to the prewar level improbable. The rates of increase of per capita spendable income and consumer prices since 1940 compare as follows:

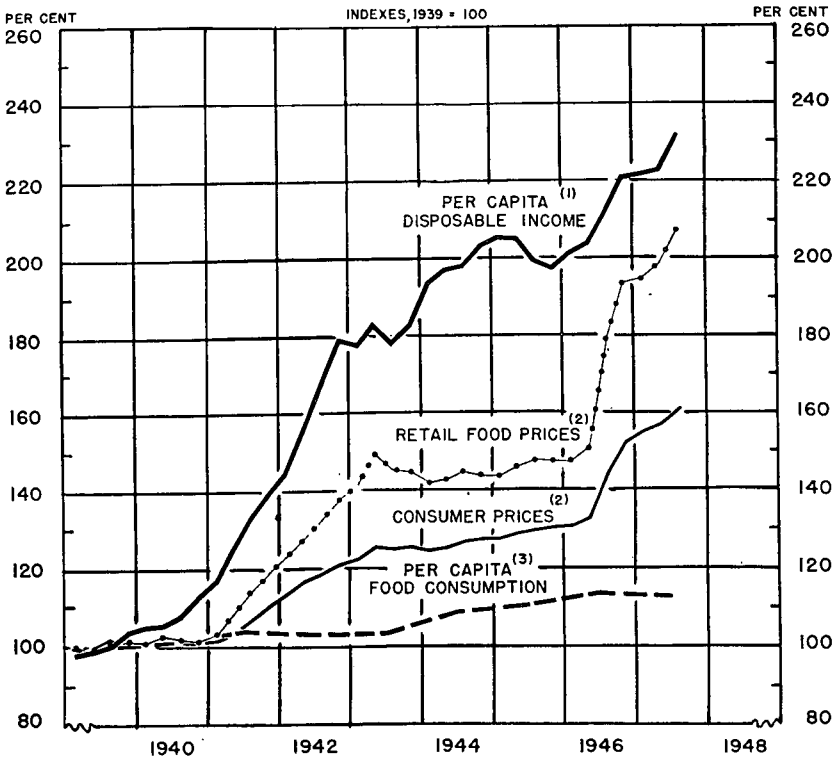
TABLE V.—Changes in per capita income and consumer prices 1940-47

Year	Per capita income	Percentage increase of—	
		Per capita income over 1940	Consumer price index over 1940
1940	\$574		
1941	691	20	0.5
1942	863	50	16.3
1943	964	68	23.4
1944	1,057	84	25.3
1945	1,080	88	28.2
1946	1,122	95	39.1
1947	1,219	112	58.2

Whatever may be said as to the appropriate level of prices, it is quite obvious that the pressure of total incomes was generated in advance of price increases. This fact is graphically illustrated in chart IV.

CHART IV

PER CAPITA DISPOSABLE INCOME AND FOOD CONSUMPTION COMPARED WITH CONSUMER PRICES



Changes in "real" income

An understanding of the changes in the standard of living achieved during and since the war must rest on comparisons between dollars

received as income, a price index of goods and services, and the quantities of goods and services consumed. The change may be illustrated by the increases in individual incomes in manufacturing industries and increases in prices of consumer goods. The total number of workers comprising this group was about 15.5 million in 1947, or about 36 percent of all employees in nonagricultural establishments. Their average gross weekly earnings and net spendable earnings are shown in table VI. This table shows that net spendable earnings reached a wartime peak in 1944, receded somewhat in 1945 and 1946 because of reductions in overtime payments, and advanced steadily through 1947. These increases are compared with increases in consumer prices, and an estimate of "real" earnings is derived by dividing the net spendable weekly earnings by the corresponding index number of consumer prices.

TABLE VI.—Changes in net spendable weekly earnings of manufacturing workers and consumer prices since 1939, by years

Date	Gross weekly earnings (dollars)	Net spendable weekly earnings ¹		Percentage increase in consumers' price index over 1939	Calculated "real" net weekly earnings (dollars)	Percentage increase in "real" net weekly earnings over 1939
		Dollars	Percentage increase over 1939			
1939.....	23.86	23.62	.....	.....	23.62	.....
1940.....	25.20	24.95	5.6	0.8	24.75	4.9
1941.....	29.58	29.28	24.0	5.8	27.68	18.0
1942.....	36.65	36.28	53.0	17.2	31.25	32.3
1943.....	43.14	41.39	75.2	24.3	34.71	47.1
1944.....	40.08	44.06	86.5	26.3	36.41	53.8
1945.....	44.39	42.74	80.9	29.2	33.59	42.2
1946.....	43.74	43.13	82.6	40.1	31.22	32.1
June.....	43.31	42.78	81.1	34.1	31.89	35.2
1947—January.....	47.10	45.88	94.2	54.2	29.76	26.1
February.....	47.29	46.04	94.9	54.1	29.81	26.2
March.....	47.69	46.37	96.3	57.2	29.44	25.5
April.....	47.50	46.20	95.6	57.1	29.41	25.4
May.....	48.44	46.98	98.9	56.9	29.94	27.0
June.....	49.33	47.71	102.0	58.0	30.19	27.5
July.....	48.98	47.42	100.8	59.4	29.75	26.1
August.....	49.17	47.58	101.4	61.3	29.62	26.0
September.....	50.43	48.61	105.8	64.8	29.50	25.8
October.....	50.98	49.06	107.7	64.8	29.71	26.1
November.....	51.02	49.10	107.9	66.0	29.58	25.9

¹ Net spendable weekly earnings are obtained by deducting from gross weekly earnings social security and income-tax liabilities of a married worker supporting an adult and 2 children.

Source: Bureau of Labor Statistics.

A critical review of these data is necessary if unwarranted conclusions are to be avoided. It will be noted that the average calculated "real" earnings of all employees had reached \$36.41 per week in 1944, or 53.8 percent over 1939. Such an increase in goods and services could not and did not take place. Actually, the total volume of consumer goods and services per worker was less in the latter year than in the former. Even by June 1946, the output of consumer goods and services could not have been sufficient to allow a 35-percent increase in average consumption. The discrepancy is explained in part by a very high rate of savings which was involuntary in the sense that no more goods could have been bought for consumption by the community as a whole, even if individuals had all elected to spend all their incomes; in part also by the inadequacy of the consumer index to measure certain changes in purchasing power, such as those reflected

in black markets, in recurrent shortages, and in the effects of rationing. The increases in consumer prices from June 1946 to date reflect the inadequacy of goods to balance supply and demand at the levels of prices and of incomes which prevailed at that time.

Farm income.—Equally striking is the increase in farm income from 15.2 billion dollars in 1946 to a rate just below 18 billion dollars for the first three quarters of 1947.

In the year 1933 the net farm income amounted to 2.3 billion dollars, and in 1941 it was 6.5 billion dollars. For the years 1942–47 inclusive, aggregate net farm income was about 79 billion dollars. Without in any way expressing a judgment on the equity of the farmers' gains, it cannot be denied that a large portion of this sum has been added to the purchasing power of the Nation; it entered into the market for consumer and capital goods and thereby helped to create the inflationary situation in which we find ourselves. Table VII contains the data on farm income, gross and net, for each year since 1940.

TABLE VII.—*Farm income 1940–47*

(In millions)

Year	Gross income (excluding Government pay)	Government payments ¹	Net income (before Federal income taxes)
1940.....	\$10,244	\$670	\$4,541
1941.....	13,308	514	6,474
1942.....	17,879	610	9,209
1943.....	22,363	590	12,187
1944.....	23,383	715	12,399
1945.....	24,663	686	12,536
1946.....	28,133	713	14,889
1947.....	34,242	302	17,911

¹ Federal payments under conservation and other programs.

Source: Bureau of Agricultural Economics.

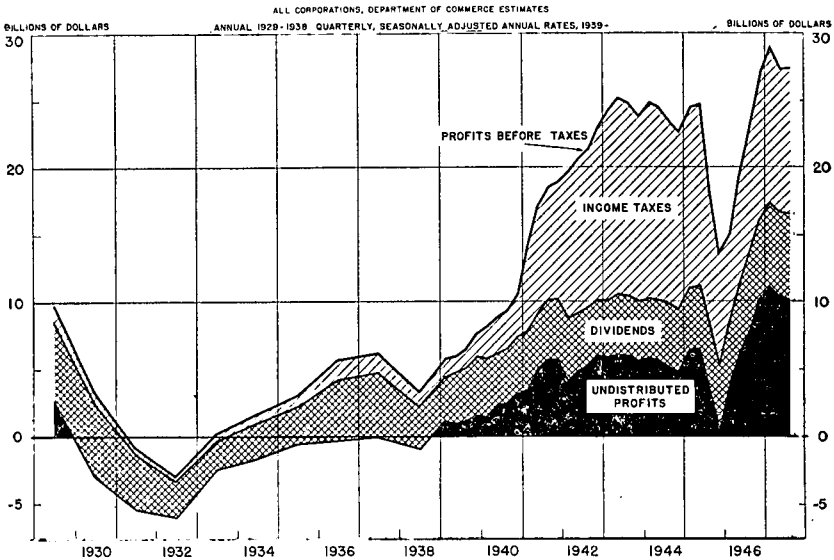
Although farmers probably spend money less freely than any other large group in the Nation, the net income available to the farmer has found its way into further circulation in various ways. Debts have been paid off; new equipment has been purchased; more land has been acquired; the soil and the dwellings and barns have been improved.

Profits.—The information about current corporate and individual business income is much less complete than that about wages and farm income. Samples which have been compiled indicate that in 1947 business income was comparatively stable through the year and was considerably above the level of any previous year. According to the economic report of the President corporate profits before taxes were \$28,000,000,000 in 1947. This compares with \$21,000,000,000 in 1946; and with \$24,500,000 in 1943, the highest previous year. For 1929 the figure was \$9,800,000. After taxes, the current estimate is \$16,900,000, which compares with \$12,500,000 in 1946 and \$8,400,000 in 1929. No data are yet available for comparing the year's profits with either net worth or sales, but estimates have been made for the first half of the year. For that period for manufacturing corporations the ratio of profits to stockholders' equity was estimated at about 26.6 percent before taxes; after taxes 16.2 percent. (See chart V.) As compared with volumes of sales, profits of manufacturing corporations are esti-

mated at 11.7 percent before taxes and 7.1 percent after taxes. For all corporations other than finance or real-estate companies, the ratio of profits to sales was considerably lower than for manufacturing corporations—9 percent before, and 5.5 percent after, taxes.

In interpreting these data several qualifications are necessary. First, in the years when prices rise, profits are always artificially inflated by inventory appreciation. It is estimated that of the 1947 profits of corporations before taxes, \$5,700,000,000 is accounted for by mark-up in price of that part of inventory which does not represent an increase in physical volume. Goods which are bought up before a price advance and sold after the advance yield an abnormal profit, but all this profit is immediately absorbed in the increased cost of carrying inven-

CHART V
CORPORATE PROFITS, TAXES, AND DIVIDENDS



tories and is not available for any other purpose. The taxes which are levied on this part of profits have to be provided from some other source.

The main reason for the high level of profits, however, apart from the fact that profits, along with other kinds of income, are swollen in dollar amount by inflation, is the fuller use of capacity. The volume of business in most lines has been very high in relation to capacity and it is generally true that added business above a certain point yields much bigger profits than the yield on output as a whole. Primarily for this reason, profits are the most variable component of national income. They rise most in good times and they fall most in bad times, and the changes from one year to the next are very abrupt. From 1939 to 1946 or 1947, profits rose nearly twice as much in percentage terms, as did wages and salaries; but if we measure from 1941 to 1946 we find that total profits rose 50 percent while total wages went up 130 percent. From 1929 to 1930 corporate profits declined 70 percent

while wages and salaries declined 8 percent. In the worst years of the depression wages and salaries were about 60 percent of the peak figures recorded in the 1920's, but there were three of those years in which corporate losses exceeded corporate profits. Even from 1937 to 1938 corporate income declined by nearly 50 percent while wages and salaries declined about 6 percent.

It is a striking fact that corporate profits, both in absolute terms and as a percentage of national income are always highest in years of full employment, and lowest in years of high unemployment. It is not strange that this should be so, since the employer's purpose in taking on additional men is to increase his profits. When profit margins are high, additional labor is keenly sought. Since changes in productivity are nearly always slow, sudden large increases in production are nearly always the result of increases in demand which, in turn, are nearly always associated with inflation. If profits are high enough so that a "marginal" employer can make a profit on a "marginal" employee, it is always because demand is at a high level and any corporation which can make money in average or bad times, is bound to make abnormally high profits at such times.

It follows that high profits are the result of high prices rather than the other way round. Except in cases where prices are fixed by governmental authority, or by monopolists whose price policies are governed by consideration of public relations or labor relations, the changes in the price level depend on changes in public expenditures—not changes in expenditures on changes in the price level.

Since profit is what is left after all costs are taken care of, and since it is a comparatively small fraction of total expenditures, it is natural that it should jump around more violently than the other components. For instance, if the profits in a particular case are 20 percent of selling price, a 20-percent rise in price without any change in costs would double the profits and a 20-percent decrease would wipe them out. Likewise if wages are 70 percent and profits 20 percent, a 10-percent increase in wages, with price and other costs unchanged, will cause a 33-percent change in profits. Thus, the short-run significance of the profit level is primarily in its effect on the volume of employment.

The long-run significance, however, arises from the fact that profits are the chief source of funds to expand corporate plant and to finance technological research; and capital expansion and technological research are the two chief sources of increasing productivity and the rising standards of living. Progress is motivated by the quest of future profits and made possible by the investment of past profits.

In spite of the very high level of dollar profits, the amount available for corporate expansion has not been as high in proportion to national income as in previous periods of good business. This is because an unusual proportion of undivided profits has been needed to take care of the higher cost of inventories and the excess cost of replacing capital goods over amounts set aside for depreciation. Commitments for new plants and equipment have been heavy, but the funds needed for expansion have been obtained in large part by borrowing and by liquidating bonds that were accumulated during the war boom.

Origins of the inflation: the war period

Government expenditures for waging war and related governmental expenditures in the postwar period were the basic cause of the inflation,

at least up to 1947. In 1939 peacetime military expenditures were 1.3 billion dollars. Thereafter national defense expenditures increased steadily and in 1941 they were 13.8 billion. War expenditures reached a peak of 88.6 billion in 1944. For the whole period 1941-47, the total spent for war was 352 billion, and as soon as this fell off private investment and private spending for consumption increased. These expenditures generated simultaneous increases in the incomes going to individuals as wages and salaries, farm income, profits and dividends, interest, and other payments.

The pressures were, of course, greatest during the period of active warfare. For the 4 years 1942-45 the country devoted about two-fifths of its productive resources, directly or indirectly, to waging war. For these 4 years the gross national product, as conventionally estimated, totaled 738 billion dollars, of which 306 billion was production for the Federal Government, mostly for war purposes. Consumer goods and services for the same period totaled 378 billion dollars, of which only about 27 billion was for durable goods. This meant that in the process of production, individuals and corporations received some 300 billion dollars more as income than they could spend for civilian goods at the existing price level.

There are only two ways by which a government can appropriate so large a proportion of current product; namely, taxation and voluntary or compulsory saving. Both these methods, of course, were used. Taxes for 1942-45 amounted to 168 billion dollars, and business and personal savings to 134 billion dollars, of which only 20 billion went into private capital formation.

However, the difference between these two methods is not as great as it may seem. When the Treasury gave us a tax receipt we called it taxation; when it gave us a bond, we called it savings. Theoretically the bond represented a claim on the future product of industry, while the tax receipt represented a closed transaction. But the value of the bond is only that of an individual claim against the rest of the community. It is really valid only on condition that the great majority of people do not attempt to take advantage of it. An individual can finance an increase in his consumption by selling or cashing in his bonds, to the extent that someone else makes savings with which to buy his bond or its equivalent, or to the extent he can bid away from others an increased share of the stock of consumption goods; in other words, by causing a price inflation.

The same thing is true of the savings that were made in the form of hoards of currency or of bank balances. The formation of these savings was an indirect method of financing the Government deficit. The Federal Reserve banks bought bonds and issued notes which were accumulated by the public. In effect, the Federal Reserve banks became agents for the currency-holding public, transferring their savings to the Army for investment in war goods and services. And when the public accumulated its savings in the form of commercial bank deposits, the commercial banks did the same thing as the Federal Reserve banks did when currency was the medium of savings. The public took its savings as creditor of the banks and the banks bought a corresponding amount of Government bonds. So long as the public was content to hold an increased amount of money as "savings" the Government had the use of a corresponding share of national wealth. But we may anticipate the postwar story to the extent of saying that

when they began, after the war, to use it as current money rather than an investment instrument the buying power of the money immediately began to shrink. The more dollars were put into active circulation out of wartime accumulations, the less each dollar could buy because the spending of these wartime savings did not put any more goods into the market. The dollars that were disbursed in each year to produce goods and services were enough to buy those goods and services; the dollars spent out of savings simply diluted the value of the dollar; in other words, raised prices without stimulating an increase in supply.

The transition period, 1945-46

Just before and just after the close of the war there was a widespread impression that the price problem of the transition period would have to do with deflation, rather than inflation. There were numerous predictions that there would be serious unemployment, falling prices, and shrinking profits.⁵ Consequently a number of policies were initiated, stimulated, or tolerated by the Government which were intended to maintain a high enough level of money income, and consequently had adverse effects on economic stability when the problem turned out to be one of controlling inflation. Such policies included the prompt repeal of the excess-profits tax, reduction of personal income tax, slackening of efforts to sell savings bonds, and the tacit or explicit endorsement of demands for increases in wages. These early demands were not based on the cost of living, but on the assumed desirability of maintaining income at wartime levels, against the downward pressure resulting from curtailment of employment in war industries, and from the general cessation of overtime work. At the same time the revival of production for civilian use was hampered by a widespread series of strikes, particularly in heavy-goods industries.

Price controls were continued until the summer of 1946, but rationing was almost entirely discontinued by the end of 1945. The difficulties of enforcing price controls became much more serious than they were during the war.

In spite of these factors favoring inflation, the price level, at least the price level recognized in official statistics, showed only a moderate upward trend from the middle of 1945 to the middle of 1946. Income dropped sharply for a very short period in the fall of 1945, but recovered with extraordinary rapidity as industries, other than those handicapped by prolonged work stoppages, swung over rapidly into an expanding program of production for civilian use. The transition was facilitated, but the inflationary difficulties made worse, by the fact that retail sales held up far better than had been anticipated, even in the areas in which production for war had been most highly concentrated and cut-backs had been most severe.

Between the end of June and the end of October, wartime price controls were almost entirely liquidated through a series of legislative and administrative actions which are well remembered, and which it is unnecessary to recount here. Our interest is in the price readjustment which followed immediately on the abandonment of control.

In the summer of 1946, when most of the price controls were about to be removed, the public, including both individuals and business corporations, but excluding banks and insurance companies, held cash

⁵ The most widely quoted estimate envisaged 8,000,000 unemployed in March 1946.

amounting to 26.5 billion dollars, demand deposits amounting to 80 billion dollars, time deposits amounting to 52 billion dollars, bonds redeemable on demand, 50 billion dollars, and marketable government bonds which as a matter of policy were salable at par to Federal Reserve Banks, amounting to 47 billion dollars. This meant a total of 255 billion dollars, or more than four times the amount of liquid assets held by the public before the war. Payments to individuals, after allowance for income taxes, were running at double the prewar level, while consumer prices, as ordinarily measured, were only 24 percent above the level of 1939-40. Part of the difference is accounted for by an increase in the rate of output of consumer goods and services, amounting to perhaps 50 percent. Part is due to understatement of the rise in prices in the consumer price index amounting to at least 5 percent. The rest of the discrepancy is accounted for by the much higher rate of savings which prevailed during and just after the war. These savings were voluntary only in form, they were forced in part by the fact that consumers could not find the goods they wanted in the market, and partly by price control, which limited the total amount that could legally be spent for the limited supply of goods and services.⁶ By 1945-46 the price structure had thus been pushed out of line with the income structure. With the removal of price controls, accompanied by a leveling off of the rate of increase of production of civilian goods, a deferred response of prices to demand occurred in the fall of 1946. Between the middle and the end of 1946 food prices rose roughly 28 percent and clothing 12 percent, while fuel, electricity and ice rose less than 5 percent, house furnishings 15 percent and miscellaneous goods about 7 percent.

The mass of the people, however, did not interpret the rise in the cost of living as a normal readjustment of prices to the change in the income level which had already taken place. On the contrary, the general reaction was that incomes ought to be adjusted to the change in the cost of living. And so a vicious spiral was generated. The rise in the cost of living caused a rise in business profits and in farm income, and was made the basis of successful demands for wage increases. All these adjustments in turn created new maladjustments, not by checking productive activity, as they might have in depression times, but by putting the level of incomes, and consequently of mass purchasing power, again above the equilibrium relationship to the prevailing price level, and so giving another boost to demand and to prices.

Inflation without fiscal deficit, 1947

To say that there was a strong inflationary trend in 1947 is the same thing as saying that the total demand for goods and services was greater than the amount of goods and services available at current prices to satisfy these demands. This, however, is only a very partial explanation of the price rise in 1947. An adequate explanation of the discrepancy between demand and supply must deal with the conditions which made both demand and supply what they were.

⁶ To a considerable extent the increase in what is called production of goods and services, especially during the war, is due to increased spending for things that do not require much added effort of production. For example, theaters were typically much more nearly full in 1944-46 than in 1939; likewise railway trains and hotels operated much more nearly at capacity. This means that in statistical terms the production of services of railway companies, hotels, theatrical companies, had greatly expanded, but this kind of increase of production put a comparatively small added load on productive facilities. Money flowed over into these uses to a considerable extent because production of things that do require added input of materials and labor, like food, automobiles, housing space, did not expand, and their prices had not risen so as to afford an outlet for the income that people were prepared to spend.

On the side of supply little need be said because with a few exceptions supply conditions were better than they were in the immediately preceding years, hence could not account for the further rise in prices. For some durable goods, such as automobiles and housing, the rate of production was below that of the best prewar years, but there is no important commodity except corn, for which it was below the level of 1945 or 1946. Except for automobiles and perhaps housing, the shortages which are often held responsible for the price rise are not shortages in terms of past standards of production and consumption; they are market shortages which appear because demand has increased faster than supply, and prices have not risen enough to maintain a balance. Certain commodities, like steel, are in short supply compared with other commodities, and these shortages in turn have held back the production of other commodities. These are, in general, cases in which price has been held down as a matter of policy below the supply-and-demand level. But practically all consumption goods, most basic materials, and most types of producers' equipment have been moving into domestic use and into export in quantities that by all prewar standards are very large.

The principal sources of demand are exports, business investment, residential and commercial construction, governmental activities, and consumer spending. All of these are at very high levels by prewar standards, and all except governmental activities were at a higher level in 1947 than in any preceding year. The sum total of these combined factors was so great that inevitably prices had to rise or else the supply could not be allocated merely on the basis of ability and willingness of buyers to pay the current price. In a few cases prices were held below the supply-demand level. Then the goods were allocated by Government authority, as in the case of tin; or by producers, as in the case of steel; or by dealers, as in the cases of automobiles and farm machinery. In most cases, however, price simply went up to where the supply at the new price level was equal to demand, and those who could not or would not pay the new price dropped out of the market.

Two factors are essential to an understanding of the demand situation in 1947; one is the supply of funds to make these demands effective, and the other is the level of incomes by which the available funds were channeled through to the market.

Supply of funds.—The changes in the supply of funds were discussed in general terms in section A and the relevant statistical data are shown there. While the existence of a supply of funds does not guarantee that there will be a market big enough to keep those funds moving at a normal rate of turn-over, an abundant supply of funds is a necessary condition of the development of an inflation. The relation between the credit supply and inflationary pressure is so well discussed in the Economic Report of the President of January 1948, that we can do no better than to quote from it. After pointing out that we had inflationary pressure because of the combination of a high rate of business investment, a high rate of residential and commercial construction, large exports, and a high level of consumer demand, the report (p. 41) goes on to show that these factors could not have become fully operative without funds to make them effective and lists several ways in which the current flow of income derived from production was supplemented in 1947 by new money, namely:

(1) The liquidation of dollar balances and sales of gold by foreign countries and spending by foreign countries of loans and grants provided by the United States; (2) the spending of liquid funds accumulated by business firms during the war; (3) the liquidation of private savings; (4) the increase of bank credit to finance inventory accumulation, capital expansion, and construction; (5) the increase of consumer credit; and (6) the cashing of veterans' terminal-leave bonds * * *.

In a later passage the report (p. 49) develops the significance of the credit factor as follows:

When demand from other sources is already pressing against the price structure, the injection of large amounts of bank-created funds to support business, real estate, and consumer expenditures necessarily contributes to further inflation. The impact of this additional supply of money is felt first, of course, in those markets in which the borrowers are direct participants. But as the funds are used by the borrowers to purchase the goods and services they want, they become part of an enlarged general income stream. As other temporary sources of demand decline, the expansion of bank credit could potentially keep the inflationary trend rising and interfere with the gradual transition to a stable situation.

In the last half of the year supply conditions also became "bullish." The upward movement of prices was encouraged by the prospect of a food shortage following the very bad harvests in Europe and the partial failure of the corn crop in this country. Heavy buying of wheat by the Government for export, at a time when the large stocks of wheat would normally have been drawn on to replace corn for feeding purposes, gave an upward boost to prices of cereals and meat. These factors could not have been so effective, however, without the abundant supply of funds. They probably would not have been effective if the community had not already been in a free spending state of mind, stimulated by the continued high level of employment, business profits, and farm income, and the known presence of extensive backlogs of demand in most of the fields where the durability of goods permits the accumulation of a deficit of supply over a series of years.

The level of incomes.—The other important factor generating a new burst of inflation in 1947 was the high level of current income. Total personal incomes in 1946 were 177 billion dollars; they rose in every quarter of 1947, reaching an annual rate of 205 billion dollars in the last quarter. Income actually at the disposition of consumers; that is, personal income minus taxes and similar payments, increased by the last quarter of 1947 to a figure 16 percent higher than that of 1946. The increase included all forms of income except pensions, retirement allowances, and similar fixed items. The increase in interest payments and in rental income to individuals was, however, very small. Wages and salaries rose from a level of 117 billion dollars in 1946 to 128.1 billion dollars in 1947. Profits of unincorporated business and professional income rose from a little under 20 billion dollars in 1946 to a rate of 23.5 billion dollars in 1947. Dividends ran at a rate of 6.2 billion dollars to 6.5 billion dollars for the first three quarters of the year. This compares with 5.6 billion dollars in 1946 and 5.8 billion dollars in 1929, but is, of course, much higher than the amount disbursed in the 30's.

Credit policy

The expansion of money supply caused by the Government deficit was accentuated and rendered more difficult of control by a policy which was established very early in the war of protecting the prices of Government securities, both long-term and short-term. Through-

out the period of war finance, Federal Reserve banks stood ready to purchase Government securities in the open market without limit at par. In the case of the long-term bonds, when the market quotations rose somewhat above par, the support level was moved up. This policy made it possible during the war for commercial banks to sell Government securities to the Reserve System whenever they found it profitable to expand their reserves, which can support a sixfold larger structure of member-bank credit. To the extent that the commercial banks did this, the money supply was increased at the discretion of the banks, sometimes to purchase long-term, higher-yield Government bonds and sometimes to expand customers' loans. Moreover, because of this policy of support, the long-term bonds have been practically as good bank assets as short-term bonds; in some ways, even better. They offer the higher yield, and the possibility of appreciation which goes with a long-term investment while at the same time the holders are protected by the Federal Reserve support from the risk of capital losses in the event of an upward movement of interest rates or a general liquidation of the bonds.

Until the middle of 1947, the problem with reference to long-term bonds was not to support the market but restrain its tendency to creep higher and higher, thus creating a more and more serious support problem for the future. Monetization of the debt took the form of the sale of short-term securities to the Reserve banks to finance the purchase of long-term securities. The Reserve banks countered this trend by selling long-term securities until their ammunition available for this sort of defense effort was nearly exhausted.

In the summer of 1947, however, in spite of the fact that the Treasury was no longer putting new issues into the market in significant volume, the problem of controlling the long-term market changed rather suddenly to that of protecting the long-term bond market against downward pressure. Industry had come into the market for bank loans on an enlarged scale, because the continued strength of consumer demand had encouraged expansion of investment. But industry's supply of liquid funds had been reduced by the high level of corporate taxes and by the gradual liquidation of bonds which had been accumulated during the wartime era of restraint on private investment. This expanded demand for loans naturally led the commercial banks to begin liquidating their long-term bonds which, as was indicated above, under the program of support were practically demand securities.

Thus there arose in the middle of 1947 a direct conflict between the Federal Reserve System policy of discouraging inflation and its policy of protecting holders of long-term bonds against capital losses. This conflict had long been foreseen, but had been deferred because of the highly liquid condition in which industry came out of the war, because the repeal of the excess-profits tax at the end of 1945 had postponed the exhaustion of liquid resources, and because the combination of a possible price rise and protection against a decline had kept the bond market very strong.

Support prices were lowered late in 1947, though not quite to par. Heavy selling was absorbed by the Federal Reserve banks—about \$2,000,000,000 in the 7 weeks ending December 24. But in contrast to earlier periods, the Federal Reserve System was able to sell short-term securities almost as fast as it bought long-terms.

This change is significant for two reasons: First, to the extent that the long-term securities have been replaced by short-term in banking and insurance portfolios, the support of the bond market has not contributed directly to the inflation. This gives a totally different banking situation from that which prevailed when bonds were being liquidated to expand loans to business or consumers.

Second, it is clear that the selling pressure did not come from banks preparing to invest the proceeds in loans or other securities at a higher yield; most of the money apparently went, at least for the time being, into lower-yield investments. Consequently it is safe to assume that much of it was semispeculative, based on the assumption that support prices would soon be lowered or removed. There is no longer complete confidence that long-term bonds can be liquidated at any time without capital loss, no matter what has been paid for them. Holders (banks, insurance companies, and others) sought to avoid capital losses by selling ahead of the lowering of support; many of them probably expected to buy back at a lower figure. Of course this was not the only motive; some must have shifted from long-terms to short-terms so as to be ready to expand their loans later in the year if the demand for business loans should expand.

D. PRODUCTION AND SUPPLY OF GOODS

Output in 1947 reflected the full conversion from war production. As is pointed out in the President's Economic Report, the physical output of goods of all kinds was about 7 percent above 1946, and 76 percent above the 1935-39 average. These marked increases are for over-all production, including producers' goods, machinery, equipment, and supplies; construction, including industrial, commercial, and housing; mining; agriculture; and the whole range of consumers' goods output.

As the year ended the physical volume of production of goods and services was close to current capacity and unemployment was at a minimum. Production and employment were little above levels prevailing at the beginning of the year. Total output of factories and mines, at 187 percent of the 1935-39 average, was 10 percent up from the 1946 average of 170, and there was nearly this much increase in construction activity. The index of farm production for human use was 129 in 1947, a slight drop from 133 in 1946.

For manufacturing and mining, the levels of output and employment for 1940, 1946, and 1947 are compared, and increases in pay rolls are also shown.

TABLE I.—*Selected indexes of industrial production 1940, 1946, and 1947*
[1939=100]

	1940	1946	1947
Industrial production ¹	114	157	173
Manufactures.....	115	164	180
Durable manufactures.....	127	176	202
Iron and steel.....	129	132	171
Machinery.....	131	233	268
Transportation and equipment.....	141	225	224
Nonferrous metals.....	119	137	163
Lumber and products.....	109	124	135
Stone, clay, and glass.....	106	168	181
Non-durable manufactures.....	105	153	160
Textiles.....	102	145	146
Leather and products.....	93	117	113
Food.....	106	138	144
Liquors.....	103	195	201
Tobacco products.....	103	147	152
Paper and products.....	108	127	139
Printing and publishing.....	105	120	137
Petroleum and coal products.....	105	157	175
Chemicals.....	110	227	240
Rubber products.....	109	199	200
Minerals.....	110	126	141
Fuels.....	109	135	148
Metals.....	119	78	104

¹ Federal Reserve Board index 1935-39 average=100 converted to 1939=100.

TABLE II.—*Selected indexes of employment and pay rolls, 1940, 1946, and 1947*
[1939=100]

	1940	1946	1947
Nonagricultural employment.....	105.8	134.4	140.4
Factory (manufacturing) employment.....	107.5	142.0	154.0
Mining employment.....	108.4	98.9	104.6
Construction employment.....	112.5	129.8	150.4
Factory (manufacturing) pay roll.....	114.5	266.4	¹ 321.4
Mining pay roll ²	113.2	209.1	255.0
Contract construction pay roll ²	110.5	273.0	369.0

¹ Average for 11 months, January–November 1947.

² Computed on the basis of estimates on wage and salary totals by Commerce Department. 1947 data are preliminary and tentative.

Much has been said of the failure of production to achieve expected results in matching consumer demands and thus keep prices from rising. Many consumer and labor witnesses criticized the National Association of Manufacturers and others for forecasting increases of production that would check rising prices if controls were removed. It is obvious that production has responded to demand pressures even faster than many believed possible in the reconversion period. On the other hand, it has not been possible to produce beyond the physical limits of plant capacity, raw materials, and manpower.

It should be remembered, however, that much of our increased industrial production has been in the form of capital goods—houses, plants, equipment, public works, commercial building, public institutions, working inventories of materials and consumer goods, etc. This activity has given a tremendous boost to current income of raw material producers, processors, fabricators, builders, and all the other participants in such a program. It has meant large additions to wage and salary payments which are available for the purchase of food, manufactured consumer goods and services, the supply of which, though generally running at all-time peaks, appears inadequate. Furthermore, this activity in capital goods production has a profound effect on the supply of raw materials, components, and services for the production of high-demand consumer goods.

In this connection it should be noted that a great deal of the postwar expansion and rehabilitation program in industry has not been completed. According to a survey by McGraw-Hill Co. relating to capital expenditures, only 64 percent of manufacturing industry's postwar expansion programs were complete at the end of 1947 and, according to present plans, only 85 percent will be completed by the end of 1948. It is evident, therefore, that the full flow of consumer goods has not been nearly achieved from the new expansion, so that these industrial programs, desirable as they are for the longer-range economic development, have probably had a considerable inflationary effect on the cost of living.

The President's Economic Report refers to the changes in relationships of the major components of the economy. It states:

At the present time, an unusually large proportion of the market demand for goods and services results from business investments, net exports, and Government outlays. These have attained a level relatively higher than consumer expenditures, compared with the prewar period. In terms of 1947 prices, annual expenditures for producers' durable equipment have increased by 170 percent, while annual consumers' expenditures have increased by only 48 percent above the prewar level. We cannot regard the relationship between capital formation and consumption either in 1939 or 1947 as a model for the future. Domestic capital formation in 1939 was not sufficient. On the other hand, we are now in the stage where improvement and modernization of our national productive plant has a high priority claim on our resources.

Expansion in capital expenditures and volume of home building are indicated in tables III and IV.

TABLE III.—*Business expenditures for new plant and equipment*

[Millions of dollars]

	1939	1947	Percentage increase
Manufacturing.....	1,930	7,210	278
Mining.....	380	670	76
Transportation.....	560	1,790	220
Electric and gas utilities.....	480	1,820	280
Commercial and miscellaneous.....	1,850	4,190	126
Total.....	5,200	15,680	201

Source: Economic Report of the President.

TABLE IV.—*Number of new urban and rural nonfarm dwelling units started, 1939-47*

Year	Number	Year	Number	Year	Number
1939.....	515,000	1942.....	497,000	1945.....	247,000
1940.....	603,000	1943.....	350,000	1946.....	776,000
1941.....	715,000	1944.....	169,000	1947.....	859,000

Source: U. S. Bureau of Labor Statistics.

Total gross private investment in the United States (including new construction, producers' durable equipment, and inventory increase) amounted to 27.8 billions in 1947. On a comparable dollar basis, expenditures of this type amounted to 14.4 billions in 1939, or about half of 1947.

These great increases in capital expenditures at a time when the supply of consumers' goods is not adequate to meet demands has brought forth recommendations that changes be made in the relative emphasis on these two activities. The President has urged that public works, as well as private capital expenditures, be deferred

wherever possible. In a statement before the Senate Foreign Relations Committee, Mr. Bernard Baruch recommended in part:

1. Put off all less essential works, including Federal, State and municipal projects, giving priority to increasing production. * * *
2. Set up a capital issues committee * * * to review all capital issues, public and private, with a view to deferring less essential projects. * * *
3. Set up a committee to scrutinize all Federal works and expenditures to determine which are postponable.

The purpose of these recommendations is to release both manpower and materials for the manufacture of consumer goods at as rapid a rate as possible. Of course, much of the capital investment is to create capacity for additional output for the future. The choice is one between trying to supply current and accumulated demand as early as possible and thus check present inflationary pressures and that of building for the longer-run economic expansion. The attempt to do both at once and in the space of three years or less after a 4-year all-out war effort has resulted in total demands on the economy that it has not been able to supply.

Turning from the matter of aggregate output of the whole productive machine, and expenditures for capital goods, it is important to note what has happened in the area of consumer goods—those purchased by the ultimate buyer for consumption or use. Most important element in the average budget is food. Production of all foods during the years 1945-46-47 has been about one-third greater than the average for 1935-39. Consumption per capita, on the other hand, for these years has averaged about one-sixth greater than prewar, which increase makes provision for increased population and exports. This is a gain probably without equal during any comparable period in our history.

For other important items of consumer goods, consolidated figures or indexes of production or purchases are not available. However, for selected items, data for production or sales are available and throw considerable light on the supply and consumption of consumers' goods. These are shown in table V.

TABLE V.—*Domestic factory sales of consumer durable goods*
(In thousands of units)

Item	1940	Total, 1942-45	1946	1947	Total, 1942-47	Six times 1940 sales	Excess of six times 1940 rate over 1942-47 total
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
1. Refrigerators	2, 600	1 800	2, 100	3, 400	6, 300	15, 600	9, 300
2. Washing machines (electric and gas).....	1, 550	1 750	2, 120	4, 190	7, 060	9, 300	2, 240
3. Electric ranges	450	1 300	576	1, 200	2, 076	2, 700	624
4. Vacuum cleaners (floor type).....	1, 340	1 840	2, 290	3, 700	6, 830	8, 040	1, 210
5. Radios	11, 531	14, 600	14, 031	17, 000	35, 631	69, 186	33, 555
6. Oil burners	303	1 235	455	750	1, 440	1, 818	378
7. Domestic cookstoves and ranges (nonelec- tric).....	² 4, 269	³ 6, 167	2, 811	3, 500	13, 647	25, 614	6, 967
8. Domestic heating stoves.....	² 4, 278	³ 10, 072	4, 197	6, 150	20, 419	25, 668	5, 249
9. Passenger cars	3, 717	293	2, 149	3, 558	6, 000	22, 304	16, 304

¹ Estimated, assuming negligible sales in 1943 and 1944.

² Fiscal year 1940-41, not strictly comparable with subsequent series.

³ Estimate based on census and in part on War Production Board data.

Sources: Items 1-6, Electrical Merchandising, January 1948; items 7-8, U. S. Census Bureau and War Production Board; item 9, U. S. Bureau of Foreign and Domestic Commerce.

Column (D) shows the greatly expanded production of some consumer durable goods in 1947 as compared with 1940, the greatest prewar production year. The principal exception is passenger automobiles, the output of which has been kept down by shortages in various components and materials, notably steel. It should be noted, also, that only in the case of one item listed—radios—has production reasonably caught up with current demand.

Column (E) shows actual sales (approximately production) for the 6 years 1942-47. It will be noted that 1947 figures range from approximately one-half to considerably more than one-half of that for 1942-47—in other words, 1947 was about equal to or exceeded the 5 years 1942-46. Column (F), in contrast to column (E), indicates what total production would have been for 1942-47 had the level of 1940 been maintained for these years, and column (G) the cumulative loss of production on that assumed basis.

The "deficiency" is not shown as a market analysis of the present backlog of demand but rather the volume of production which may have been lost. To assume a 1940 level during those years does not make any allowance for increase in population and number of families. On the other hand, large numbers of each of the items listed have been kept serviceable through careful use, repair, and maintenance over a longer period, thus reducing the actual deficiency below that indicated.

Possibilities of increased production.—To what extent can production of consumer goods be increased? Labor witnesses have often charged that production has been restricted to maintain or increase prices and profits. On the other hand, many proposals have been advanced by industry that the working week be lengthened during the period of short supplies. Mr. William Green, American Federation of Labor, appearing before the Senate Banking and Currency Committee, advocated an increase to 45 hours in working time, with recognized overtime rates, to produce more goods. Concerning the possibility of increased production, there exists considerable difference of opinion. Many students of the problem believe that, under free market conditions, further attempts to increase output run into excessively high production costs for the added increments, because of competition for scarce raw materials and overtime labor rates. The Federal Reserve Bulletin of January 1948 states:

As the year 1947 ended, production in physical terms was close to the practical limit and not capable of showing much growth in the near future.

It is difficult to generalize as to possibilities of increased production of all commodities. Steel plants, for example, are running at approximately full capacity. According to the Krug report (p. 57):

planned new capacity includes increases of 2.5 million tons of ingot-making capacity, nearly 3 million tons of coke oven facilities, and 3 million tons of blast-furnace capacities. These appear to be gross, not net, increases and may be offset in whole or in part by the dismantlement of obsolete facilities. The addition of such integrated capacity will take approximately 2 years to get into operation.

Since steel has been and continues to be in scarce supply (as is evidenced by many so-called gray-market operations) the production of many consumer goods has been retarded. The scramble for raw materials in 1947 is highlighted in the January 12, 1948, issue of *Time* as follows:

It [production] was done with some of the feverish zeal of the war, and in spite of some of the same shortages of materials. Steel was flown by plane to factories to keep production lines rolling; expeditors hunted down parts and materials tucked away in obscure corners or prowled in gray markets for steel and lumber.

In order to facilitate the increase in production of consumer goods and thus aid in stabilization of commodity prices, Congress enacted Public Law 395, Eightieth Congress. This act permits voluntary agreements by persons engaged in industry, business, and agriculture, subject to approval of the President.

(2) providing for priority allocation and inventory control of scarce commodities which basically affect the cost of living or industrial production—

and further provides:

Sec. 6. (a) Whenever the President shall determine that there is or threatens to be a critical shortage of any raw material, commodity, or product which jeopardizes the health or safety of the people of the United States or its national security or welfare and that there is no prospect that such critical shortage may soon be remedied by an increase in the available supply without additional governmental action and that the situation cannot be solved by voluntary agreement under the provisions of this act, he may prepare proposed measures for conserving such raw material, commodity, or product which he shall submit to the Congress in the following form:

(1) A statement of the circumstances which, in the President's judgment, require the proposed conservation measures.

(2) A detailed procedure for the administration of the proposed measures including the additional budget and additional personnel required for their enforcement.

(3) The proposed degree of curtailment in current and prospective use of each such raw material, commodity, or product by each processor and/or user thereof, including the specific formulas proposed for such curtailment with respect to each class or classes of processors or users and the criteria used in the establishment of such formulas.

(4) A complete record of the factual evidence upon which his recommendations are based, including all information provided by any agency of the Federal Government which may have been made available to him in the course of his consideration of the matter.

(b) Within 15 days after the submission of such proposed conservation measures the Joint Committee on the Economic Report shall conduct public hearings thereon and shall make such recommendations to the Congress for legislative action as in its judgment the recommendations of the President and any additional information disclosed at the public hearings may require.

In substance these provisions permit the restoration of allocation and priority controls carried over, with many modifications, from the war into the postwar period and finally abandoned. The act recognizes the possibility of improvement in the distribution of raw materials in relation to the production of consumer goods and in turn upon consumer prices. If adequate use is made of the provisions, it should relieve some of the competitive pressures for scarce materials arising from demands for less essential, nonproductive, or deferrable uses and channel larger amounts for more urgent consumer needs.

To date, however, only one recommendation has been made for restricting and allocating a scarce commodity, namely, grains for the manufacture of distillery products.

In its summary of the essential elements in a program to curb inflation, the Committee for Economic Development lists first—

what is generally agreed to be the most important and desirable step—the expansion of production. Efforts of management, labor, and government [should be directed] to increase productivity. Maladjustments in the flow of materials, industrial disputes, and distortions in the wage and price structure have reduced the efficiency of production since VJ-day in many industries, notably manufac-

turing. There is now an opportunity to increase productivity per man-management-machine hour at a rate far beyond normal rate of growth. High productivity, which cuts unit costs and increases supplies in relation to demand, can make a major contribution to moderating the inflation.⁷

While great production improvements have occurred since the quoted report was written, further progress along the lines indicated is needed to arrest the inflationary trend. Only in this way can the gap between dollar purchasing power and goods be closed and a resultant higher average real income per capita be realized.

D. FOOD AND THE COST OF LIVING

There is no need to stress the point that food is an important item in the cost of living and the most important component of consumer expenditure. It will, however, be useful in this section of the report to point out the place of food in the cost of living.

This importance is indicated in the Department of Labor's Retail Price Index for moderate income families in large cities. In the base period, 1935-39, food accounted for 35.4 percent of the total weight of this index. By September 15, 1946, this percentage had climbed to 42.2, at which figure it still remained in May 1947. For the latest date available, December 1947, it was 43.9 percent. These figures indicate not only the importance of food in the cost of living but the fact that food prices have risen faster than prices of other consumer goods.

Another way of indicating the importance of food in the family budget is the amount of money spent for food by consumers. Since 1929, the earliest date for which adequate figures are available, approximately 24 percent of the total expendable income of the people of the United States has been spent annually for the purchase of food as shown in table IV, below. In 1947 we spent a record proportion of our disposable income for food, or 28 percent.

Families in the low-income groups, in particular, spend a major fraction of their income for food. The Consumers Expenditure Study of 1935-36 revealed that in those years families in the below \$780 annual income class were spending 50 percent of their income for food. Table I, below, shows that for families at every income level except the very highest, food expenditures amounted to a very significant proportion of their total income. Another consumption survey undertaken in 1941 substantiated the findings of the earlier analysis, showing again that families in the income class below \$1,000 spent 50 percent of their income on food.

TABLE I.—Percentage of income spent by American consumers for food, 1935-36

Income group	Percentage of income for food
0 to \$780.....	50.2
\$780 to \$1,450.....	37.5
\$1,450 to \$2,000.....	31.1
\$2,000 to \$3,000.....	26.3
\$3,000 to \$5,000.....	21.2
\$5,000 to \$15,000.....	13.4
\$15,000 and over.....	6.2

¹ Consumer expenditures in the United States, from table 4-A, appendix A.

⁷ Fiscal Policy to Fight Inflation, CED, September 1946.

Present food price situation

Food prices in recent months have reached extremely high levels in comparison with past experience. The November 1947 index figure of retail prices was 203 on a 1935-39 base and by December had risen to 207, a great increase for 1 month. Food prices have risen more than those of any other important component of the cost of living. From the middle of 1943 to the middle of 1946 the retail food index advanced only from 141 to 146. Since the virtual lifting of price controls in July 1946, however, it has risen spectacularly. Within the general retail food price index, especially notable has been the rise in meats, which stood at 227 in December; eggs, which stood at 229, and butter at 260. The accompanying table shows in more detail the course of food prices in recent years.

TABLE II.—*Food price indexes*
[1935-39=100]

Year and month	Retail, all foods ¹	Wholesale food ¹	Received by farmers ²
1940.....	96.6	90	93
1941.....	105.5	105	112
1942.....	123.9	126	142
1943.....	138.0	135	172
1944.....	136.1	133	173
1945.....	139.1	134	180
1946.....	159.6	165	205
June.....	145.6	143	185
August.....	171.2	188	216
October.....	180.0	200	239
November.....	187.7	209	244
1947—June.....	190.5	205	238
August.....	196.5	218	248
October.....	201.6	225	267
November.....	202.7	225	264
December.....	206.9	226	271

¹ Bureau of Labor Statistics.

² Bureau of Agricultural Economics.

The effect of the rise of food prices on the cost of living is indicated by the fact that this rise has been responsible for the major part of the change in the BLS index between 1935-39 and the present. As the table below shows, of the total increase of \$67 in the cost of a fixed list of goods and services that cost \$100 in 1935-39, \$37.67 or 56 percent of the increase was due to the rise in food costs. Of the total increase between June 1946 and December 1947, food prices were responsible for 65 percent.

TABLE III.—*Comparative costs of a fixed list of goods and services—average 1935-39, June 1946, and December 1947*

Group	Cost of a fixed list of goods and services			Increase from—			
				1935-39 to December 1947		June 1946 to December 1947	
	1935-39 average	June 1946	December 1947	Amount	Percent of total	Amount	Percent of total
All items.....	\$100.00	\$133.30	\$167.00	\$67.00	100	\$33.70	100
Food.....	35.40	51.35	73.07	37.67	56	21.62	65
Clothing.....	11.00	17.23	21.03	10.03	15	3.80	11
Rent.....	18.80	20.32	21.70	2.90	4	1.38	4
Fuel, electricity, and ice.....	6.70	7.37	8.56	1.86	3	1.19	3
House furnishings.....	4.40	6.84	8.42	4.02	6	1.58	5
Miscellaneous.....	23.70	30.19	34.22	10.52	16	4.03	12

Source: U. S. Bureau of Labor Statistics.

Great as has been the rise in retail food prices from the prewar level, the rise in wholesale prices has been even greater. The index of wholesale food prices (1935-39=100) was 226 in December as compared with 207 for the retail food index, and the index of prices received by farmers was 271. The more rapid rise of farm and wholesale prices than retail prices indicates that on a percentage basis the distribution industries take a smaller part of the consumer's food dollar than was the case before the war.

Reasons for the rise in food prices

Consumer incomes and consumption.—National income has risen far above prewar levels, and this is the basic reason why prices of all commodities, including food, are so much higher than they were 7 or 8 years ago. In 1935-39 per capita disposable income was \$513, while in 1947 the corresponding figure was \$1,219, or nearly two and one-half times the level of 1935-39. In terms of "real" dollars (dollar of the purchasing power of the first half of 1947) the 1935-39 average was \$797 while the 1947 figure was \$1,190.⁸ The average disposable income of all spending units (families and single individuals) was approximately \$3,800 in 1947.

While the general increase in income is the basic cause of the rise in food prices, certain special features of this increase which bear particularly on food prices should be examined in more detail.

It is often stated that as income increases, people devote a smaller and smaller proportion to the purchase of food. It is true that studies which compare the consumption of individuals of different income classes at the same time do bear this out. However, when the consumption patterns of the American people in the aggregate during the last 20 years are examined, there appears to be almost a direct proportional relationship between changes in total disposable income and in expenditure for food. Nevertheless, in the last 2 years of very high incomes, there has been an actual increase in the proportion of disposable income going to food. This would probably have taken place earlier if not for price control. The table below gives these figures for the years since 1929.

TABLE IV.—Percentage of disposable income expended for food ¹

Year	Percent	Year	Percent	Year	Percent
1929.....	23.8	1936.....	22.6	1943.....	22.6
1930.....	24.6	1937.....	23.3	1944.....	21.7
1931.....	20.7	1938.....	25.7	1945.....	23.9
1932.....	23.9	1939.....	23.9	1946.....	27.1
1933.....	24.0	1940.....	23.6	1947.....	28.1
1934.....	23.7	1941.....	22.2		
1935.....	23.2	1942.....	21.7		

¹ Survey of Current Business, January 1948, p. 14.

The upward trend of the percentage of disposable income going for food has been attributed to the fact that rents have risen only 10 or 15 percent above prewar levels, and the money that would otherwise have been spent on this item has been released for food and other uses. Likewise, the prices of certain other components of the cost of living, such as fuel, electricity, and ice have risen compara-

⁸ President's 1948 Economic Report, p. 17.

tively little, so that here, too, money has been released for other purposes. Prices of many other things have been kept below their normal relationship to the general price level. As Professor Slichter points out in the *New York Times Magazine* of January 25, 1948 (p. 13):

For example, the present high prices of agricultural products are in large measure a result of the fact that the prices of industrial products, such as automobiles, have been too low to equate supply and demand.

Moreover, a number of items on which consumers ordinarily spend large parts of their income are still not as available as before the war. The most important examples of these are many household durable goods and automobiles. Money that in ordinary times might be used for a new car or other consumer durable goods has been available for expenditures on food.

What is especially interesting, however, about the pattern of food expenditure is that the proportion of disposable income spent on food was greater in 1947 than in 1946, although aggregate rents were higher in the latter year and consumers' goods were in much more ample supply. The various reasons cited above for the extraordinarily high food consumption do not appear to offer a full explanation. It may be, as is noted in the *Survey of Current Business* (January 1948, p. 15), that there has been a "distinct upward shift in consumer preference for food."

The fact that so much of our current high income is being spent for food is both a cause and a result of the high level of food prices.

Not only has there been an increase in national income since 1939 but there have been significant changes in its distribution. There has been a tremendous increase in the proportion and number of families in the middle-income and higher-income classes in comparison with any prewar experience. Table V, below, presents figures showing the income distribution for 1941 and 1946. Between these 2 years the percentage of spending units in the topmost bracket doubled, while the number almost tripled. At the same time the percentage in the lowest group was halved. Most important was the growth of the middle groups of \$2,000 to \$5,000 incomes from 30 percent in 1941 to 50 percent in 1946. In spite of the rise in prices between 1941 and 1946, this indicates a very material movement of families from the low real-income groups to what might be called the minimum-comfort and higher-level income groups.

More detailed examination of income-distribution figures than can be devoted to this subject in this section of the report indicates that since 1940 an increase in total income has been accompanied by an upward shift in the percentage of income receivers in the higher brackets. It seems reasonable to believe, therefore, that this trend continued into 1947 when total net national income was higher than in 1946.

The movement of so many families into the middle- and high-income brackets has meant that there are now many more people competing for meats and other expensive foods than was the case before the war. While meat supplies are much higher than they were then, the fact that there are so many more customers for meat has pushed prices up.

TABLE V.—*Income distribution of spending units*¹ in 1941 and 1946

Annual money income before taxes	1941		1946	
	Percent	Number (in millions)	Percent	Number (in millions)
Under \$1,000.....	35	13.3	17	7.6
\$1,000 to \$1,999.....	30	12.0	23	10.9
\$2,000 to \$2,999.....	20	8.3	25	11.7
\$3,000 to \$4,999.....	10	4.1	25	11.7
\$5,000 and over.....	5	1.6	10	4.4
All income groups.....	100	39.3	100	46.3

¹ A spending unit includes those members (1 or more) of a family who pool their income to meet their major expenses. Independent sons and daughters and other relatives residing with the family but keeping their finances separate are classed as separate spending units.

Source: For 1941, Bureau of Human Nutrition and Home Economics, U. S. Department of Agriculture and Bureau of Labor Statistics; for 1946, Board of Governors of the Federal Reserve System.

What is the significance of this movement of families into middle- and high-income brackets? Everyone will acknowledge that as peoples' incomes increase they will demand more expensive and more highly processed foods, so that there will be an increase in the total expenditure for food. We have already pointed out that the increase in national income is accompanied by a proportionate increase in total food expenditure. What is not so often realized, however, is that families high in the income scale eat in actual poundage more than those in the lower brackets. To take the most extreme case, in 1941, per capita consumption among urban families amounted to 988 pounds for families with income under \$500 and 2,089 pounds for families with incomes over \$5,000.⁹ Of course, as table VI shows, the differences between families in the middle-income brackets are by no means so great but, nevertheless, they are substantial. Therefore, one of the effects of the upward shift in income levels of the last few years has been a demand for greater quantities of food as well as more highly processed and more luxurious foods. Apparently, higher-income families eat about as much of the cheap staples, such as potatoes and bread, as do lower-income families, while they eat a great deal more of the expensive foods such as milk and meat.

TABLE VI.—*Per capita consumption of food among nonfarm families by income groups, 1941*

[In pounds, retail weight]

Food groups	Under \$500	\$500- \$999	\$1,000- \$1,499	\$1,500- \$1,999	\$2,000- \$2,999	\$3,000- \$4,999	\$5,000 and over
Milk or its equivalent.....	180.2	299.3	366.6	381.0	408.9	435.2	510.2
Potatoes and sweetpotatoes.....	85.9	117.9	117.1	118.6	117.7	113.5	124.2
Dry beans and peas, and nuts.....	14.1	15.0	13.9	12.4	11.4	10.7	13.7
Tomatoes and citrus fruits.....	25.6	55.8	77.5	96.7	116.7	141.3	193.0
Leafy green and yellow vegetables.....	39.0	56.5	67.1	77.6	86.1	95.1	117.4
Other vegetables and fruits.....	98.5	148.8	189.3	225.6	255.7	301.8	426.7
Eggs.....	22.1	32.0	35.3	37.6	39.4	40.2	45.8
Meat, poultry, and fish.....	73.8	114.2	135.5	152.9	170.0	192.7	265.4
Flour and cereals (baked goods equivalent).....	280.6	197.0	179.2	174.4	174.9	169.3	197.8
Butter and other fats.....	66.5	59.8	59.1	60.2	61.3	63.1	73.4
Sugar and other sweets.....	93.7	90.3	95.8	94.4	96.7	97.3	121.2
Total.....	980.0	1,186.6	1,336.4	1,431.4	1,538.8	1,660.3	2,088.8

Source: Bureau of Agricultural Economics, U. S. Department of Agriculture, High-Level Food Consumption in the United States (December 1945), by Willard W. Cochrane. Miscellaneous Publication No. 581.

⁹ See table VI.

Because a greater proportion of the increased income than before the war now goes to food consumption, and because consumers now enjoying higher real and money incomes consume more food per capita than they did, it is easy to understand why prices have risen so far.

While demand has increased, so has supply, though nowhere nearly in proportion. Total food production in 1947 was 40 percent greater than the average for the 1935-39 period, but because of exports and the increase of population this means that per capita food consumption increased only about 17 percent. This customary statement about the increase in production since the prewar period is somewhat illusory, however, because the 1935-39 base includes one drought year, 1936, as well as the years 1935 and 1937 in which the effect of the droughts of 1934 and 1936 were still being felt. In terms of more normal prewar years, like 1939 or 1940, the increase in food production in 1947 has been nearer 25 percent than 40 percent.

TABLE VII.—*Volume of agricultural production for sale and for farm home consumption and civilian per capita food consumption, 1943-46, and preliminary estimates for 1947, with percentage comparisons*¹

[Index numbers, 1935-39=100]

Item	1943	1944	1945	1946	1947 ²	1947 as a percentage of 1946
Food grains.....	116	148	155	164	199	121
Truck crops.....	124	137	142	156	141	90
Fruits and nuts.....	108	123	112	133	129	97
Vegetables, excluding truck crops.....	125	106	110	126	103	82
Sugar crops.....	81	81	94	103	114	111
Total food crops.....	116	129	130	144	148	103
Meat animals.....	150	155	147	145	145	100
Poultry.....	152	153	163	153	147	96
Dairy products.....	113	115	119	119	120	101
Total food livestock.....	138	141	141	138	137	99
Food production.....	133	138	138	139	140	101
Civilian per capita food consumption.....	107	112	114	118	117	99

¹ Source: Bureau of Agricultural Economics, Department of Agriculture.

² Estimates for 1947 are based on the actual and intended plantings, preliminary crop indications as of Sept. 1, and estimated marketings and home consumption of livestock and livestock products.

If the customary figures somewhat overstate the increase over normal, it is also probably true that the Bureau of Agricultural Economics index does not reflect all the elements of consumption. The 17- to 18-percent increase since prewar undoubtedly understates the rise in food consumption in all its aspects, neglecting to some extent the higher degree of processing and preparation now customary. There are, however, no good measures of these other elements of consumption.

Production.—There has been no substantial increase in United States food production since 1943, while total personal incomes have continued to rise steadily since that time. In such a situation food prices were bound to go up rapidly when freed from control.

Food production appears to have reached a sort of plateau because we are apparently cultivating all the land properly capable of cultiva-

tion, if not more. Cropland harvested in 1947 was 348,355,000 acres, as compared to 344,931,000 in 1946 and 321,242,000 acres in 1939. For 1948, the acreage goal is 356,000,000 acres. Particularly to be noted is the large wheat goal of 75,000,000 acres. It is quite possible that in a dry year much of the land now planted to wheat would be subject to serious erosion.¹⁰ The Secretary of Agriculture, in his latest annual report, and in other places, has pointed out that the acreage in crops has now passed the point "considered desirable for proper land use and soil conservation," and that "the 1948 production goals assumed a continued heavy drain on soil resources."¹¹ We have, therefore, reached a sort of ceiling on food supplies which might be reduced by bad weather, while on the demand side we have a continually increasing income at home and a sustained demand from abroad.

Of course, by increasing the application of fertilizer, we can push up yields, and we can extend our cultivable acreage through reclamation and drainage operations, which are discussed in more detail in a later section of this report.

Exports.—The basic cause of high food prices is high purchasing power. This is amply demonstrated by the fact that before the war, with supplies available for per capita domestic consumption about one-seventh below 1947 levels, prices were less than one-half of what they are now. Nevertheless, exports are large enough to exercise considerable influence on food prices, though often too much importance is attached to their price influence as compared with that of increased domestic demand.

Food exports in 1947 accounted for about 9 percent of total food disappearance. The only important foods where exports bulked large in relation to supply were food fats, cheese, dry milk, condensed milk, and wheat. About 25 percent of our wheat supply was exported, and, of course, insofar as this reduced the availability of feed, it affected—and will affect—the price of feed grains, meats, and dairy products.

But even the effect of this enormous export of wheat should be considered in relation to the total feed-grain supply. We used normal amounts of wheat for food and seed in 1947, and the exported amounts were in the nature of a surplus above these domestic needs. Further, the whole amount of wheat exported in 1947 was the equivalent of 8 percent of the total feed grains consumed in the year ending October 1, 1947, but only about 4 percent of the total nutrients fed to livestock, including hay, forage, concentrates, etc.

In considering food exports, the rather large shipments of grain and fats to Latin American and other non-European destinations should be noted (table VIII). However, it should be remembered that we receive important foods from these countries in exchange for those we ship. Thus if we reduced shipments of lard and rice to Cuba, our sugar imports might be reduced. However, exports of wheat to Latin America have increased about 700 percent over prewar, and some savings in this quantity may be possible in the interest of increasing domestic supplies or shipments to war-devastated areas.

¹⁰ Testimony of Secretary Anderson, U. S. Department of Agriculture, Senate Appropriations Committee, November 24, 1947.

¹¹ Report of the Secretary of Agriculture, 1947, U. S. Government Printing Office, Washington, 1948, p. 21.

TABLE VIII.—*Food exports from the United States, by destination, fiscal year 1946-47*¹

[Millions of pounds]

Destination	Total	Wheat and wheat flour (grain equivalent) ²	Other grains (grain equivalent) ³	Fats and oils (product weight) ⁴	Meats (dressed weight equivalent)	Dairy products (product weight) ⁵	Other foods ⁶
Total exports.....	42,997	23,784	10,479	479	519	1,124	6,612
United States military civilian feeding, total.....	8,266	4,813	2,360	10	24	62	997
Austria.....	340	246	59	5	5	5	25
Germany.....	3,814	2,143	961	3	19	51	637
Other European areas.....	260	258	.....	.....	1	1	.....
Pacific area.....	3,852	2,166	1,340	2	4	5	335
Europe, total.....	21,762	12,533	4,820	296	428	721	2,964
France and French North Africa ⁷	1,839	744	607	106	27	90	265
United Kingdom.....	3,809	1,842	294	40	93	428	1,112
U. S. S. R.....	128	0	0	4	100	13	11
Austria.....	777	462	229	15	21	2	48
Germany ⁸	3,242	2,303	934	0	0	5	0
Italy.....	3,280	1,872	1,057	38	50	33	230
Poland.....	831	468	171	26	53	52	61
Greece.....	1,031	648	218	2	18	41	104
Czechoslovakia.....	387	252	55	12	32	1	35
Other Europe.....	6,438	3,942	1,255	53	34	56	1,098
Far East, total.....	4,549	2,598	1,401	3	25	171	351
India.....	2,241	1,284	874	.....	.....	21	62
Other ⁹	2,308	1,314	527	3	25	150	289
Latin-American Republics.....	4,592	2,814	995	131	20	104	528
Other.....	3,828	1,026	903	39	22	66	1,772

¹ Excludes shipments to United States territories.² Excludes negligible quantities of other wheat products, and wheat milled in bond.³ Includes rice, corn and corn products, barley and malt, oats, oatmeal, rye, rye flour, and grain sorghums. See table 11 for commodity details.⁴ Includes butter, lard, margarine, shortening, and other edible oils.⁵ Includes cheese, condensed and evaporated milk, dried whole milk, and nonfat dry milk solids. See table 12 for commodity details.⁶ Includes potatoes and sweetpotatoes, dry beans and peas, sugar etc. See table 13 for commodity details.⁷ Algeria, Tunisia, and French Morocco.⁸ United Kingdom shipments to the United Kingdom-United States zone of foods purchased in the United States.⁹ China, Philippines, and Netherlands East Indies.

Processors' and distributors' margins.—Farm prices and wholesale prices have risen farther than have retail prices, and wholesale prices have risen farther than have retail prices, which means a narrowing of processors' and distributors' margins in percentage terms. Thus the Department of Agriculture estimated in September 1947 that the farmer got 55 percent of the retail value of the average annual family purchases of domestically produced food, as compared with only 40 percent in 1939. It should be noted, however, that the farmer's share of the consumer's dollar has not significantly increased since 1943, when it averaged 52 percent.

TABLE IX.—*Percentage of retail food dollar received by farmers*

Year and month	Percent	Year and month	Percent
1935-39 (average).....	40	1945.....	54
1940.....	40	1946.....	53
1941.....	44	1947—July.....	52
1942.....	48	August.....	53
1943.....	52	September.....	55
1944.....	53	December.....	54

Source: Bureau of Agricultural Economics.

The narrowing of the distribution margin percentagewise, in comparison with prewar, has been true of all important groups of food. For instance, in 1935-39 marketing charges on meat took up 47 percent of the consumer's dollar, whereas in December 1947 they amounted only to 29 percent. In dairy products the corresponding figures are 50 percent and 37 percent, and in fresh fruits and vegetables 65 percent and 56 percent, respectively.

While the percentage of the consumer's food dollar going for distribution and processing costs is smaller than it was before the war, the absolute amount expended on processing and distribution is substantial. The Department of Agriculture estimates that of the average annual family expenditures of \$684 for food (December 1947, annual rate) \$311 goes for processing and distribution.

It is also often asserted that the profits of processing and/or marketing companies are responsible for the high prices of food. While the profits of food processing companies have increased tremendously, the share of the consumer's dollar going to profits has in many important cases decreased. A compilation of profit figures for 29 large food processors made for this committee by the Department of Commerce shows that their net income before taxes in proportion to sales in 1946 was greater than in 1940. A similar compilation for 8 retail food distributing companies also shows an increase in net income before taxes as a percentage of sales between 1940 and 1946. But the total net income is so small a fraction of total sales that retail profit cannot be considered a major element in retail prices.

TABLE X.—*Net income before taxes*

Group	As percentage of—			
	Sales		Net worth	
	1940	1946	1940	1946
29 food-processing companies' average.....	4.3	5.4	11.6	24.6
8 chain food retailers' average.....	2.0	2.9	12.9	29.7

Source: Department of Commerce.

Since sales have increased enormously, both dollarwise and in physical volume, the moderately larger percentage profit on sales to that before the war, has meant that for both the food processors and food distributing companies there has been more than a doubling in the rate of profit as related to net worth.

The outlook

The striking fact about food supply prospects in 1948, as compared to 1947, is that the poor corn crop of 1947 will mean that livestock production in 1948 will be smaller than in the year just past, because the output of livestock in 1948 will have to come, especially in the first part of the year, from the corn that was harvested in 1947. The Department of Agriculture estimates, for instance, that as compared with the per capita consumption of 156 pounds of meat in 1947, the amount available in 1948 will be only 143-146 pounds,¹² and that in

¹² Testimony of Assistant Secretary Brannan, before subcommittee of the Senate Banking and Currency Committee, January 29, 1948. In his testimony before the same subcommittee, on January 31, 1948, Mr. R. J. Eggert of the American Meat Institute presented estimates in very close agreement with those of the USDA. He estimated that for 1948, per capita consumption would be 144 pounds, and in the July-September quarter, it would be 132 pounds.

certain seasons of the year the supply may fall to an annual rate of 130 pounds. The Department also estimates that the production of milk, eggs, and poultry, will be somewhat below 1947 figures. Not only is some reduction expected in the output of these expensive high-protein foods but the current wheat prospect is that the 1948 crop will be considerably below the record 1947 crop of 1,350,000,000 bushels.

TABLE XI.—*Apparent civilian consumption of selected food commodities on a per capita basis, calendar years, 1935-39 average, 1946, 1947, and projections for 1948 with percentage comparisons*

Commodity	1935-39 average	1946	1947 preliminary	Projections for 1948	1948 as a percentage of	
					1946	1947
	Index: 1935-39=100					
Index of per capita food consumption	100	118	117	113-114	96	97
	Pounds					
Meats (wholesale dressed weight).....	125.6	152.8	156	146	96	94
Eggs.....	37.3	46.8	47.5	47	100	99
Poultry (dressed weight).....	20.5	29.8	27.8	27	91	97
Total milk products (whole milk equivalent).....	801	809	811	802	99	99
Cheese.....	5.5	6.9	7.2	7.3	106	101
Condensed and evaporated milk.....	16.7	18.8	19.8	20	106	101
Fluid milk and cream.....	340	425	403	394	93	98
Butter, farm and factory (actual weight).....	16.7	10.2	11.5	11.8	116	103
Fats and oils, excluding butter (fat content).....	31.3	31.3	30.5	31	99	102
Fruits:.....						
Fresh.....	138.5	140.7	145.7	144	102	99
Processed.....	25.4	46.4	44.6	45	97	101
Vegetables:.....						
Fresh.....	235	273	255	255	93	100
Canned.....	31.1	46.5	46.6	44	95	94
Potatoes.....	131	122	125	123	101	98
Sugar (refined).....	96.5	74.8	94.9	100	134	105
Wheat products (grain equivalent).....	220	207.2	211	211	102	100
Corn products (grain equivalent).....	60.4	65.3	70.3	62	95	88
Rice, milled.....	5.6	4.1	4.9	5	122	102

Source: Bureau of Agricultural Economics, National Food Situation, October-December 1947.

The expectation of smaller meat supplies for the first 9 months of 1948 is based on the fact that although the 1947 spring and fall pig crops were about equal to those of 1946, a greater percentage than usual of the hogs expected to be marketed in the 1947-48 season were slaughtered before January 1, 1948. Also, because of the corn shortage, hogs will be lighter, being expected to average 245 pounds against 255 in 1947. Further, the 1948 spring pig crop is estimated to be 10 percent smaller than the 1947 spring pig crop. This means fewer hogs coming to market in the winter of 1948-49 than did this winter. The United States Department of Agriculture now expects that 9.8 billion pounds of pork will be produced under Federal inspection in 1948, as compared to 10.5 billion in 1947.

As far as cattle are concerned, high feeding costs will help keep the supply of feeder cattle coming to market in the first three quarters of 1948 smaller than that in the corresponding period of 1947. More important in the beef supply picture is the fact that the liquidation of cattle will slow up in 1948. Of the total reduction of nearly 10,000,000

in cattle numbers since January 1, 1945, 6,200,000 were beef cattle, and two-thirds of this reduction took place in 1947. Our total beef cattle herd is now down to 38,500,000. It is not likely that cattlemen will continue to reduce their herds at this rate. As animals, especially breeding stock, are retained to build up herds, the number going to market is correspondingly reduced. The United States Department of Agriculture expects 21 million head of cattle and calves to be slaughtered in 1948 under Federal inspection, against 23.4 million in 1947.

TABLE XII.—*Number of cattle on farms, Jan. 1*

(Millions)

Year	Total	Beef cattle and calves	Year	Total	Beef cattle and calves
1934.....	74.4	36.4	1946.....	82.4	43.3
1938.....	65.2	30.5	1947.....	81.0	42.6
1944.....	85.3	44.1	1948.....	76.0	38.5
1945.....	85.6	44.7			

¹ Estimated.

Source: Bureau of Agricultural Economics.

There will be less lamb in 1948 than 1947, so that all categories of meats will be in reduced supply this year.

Though food supplies in 1948 will be down somewhat from 1947,¹³ there will be plenty of food in the United States, especially as compared with the prewar period. Per capita there will be 13 to 14 percent more than in 1935-39, though 3 or 4 percent less than in 1947. There will be an adequate supply of vitamins and calories for everyone. The supply of meat and its substitutes, however, for which consumers obviously have a very strong preference, will be smaller in 1947, though above the prewar years.

From the standpoint of price, comparison of supply with prewar, do not have very much relevance under present demand conditions when we have nearly 60,000,000 people employed, and a net national income of over \$200,000,000,000 a year. A supply smaller than that of 1947 will be, under present demand conditions, inadequate to meet the demands of consumers unless prices rise. It will be all the more inadequate if national income is higher in 1948 than it was in 1947. On the basis of present prospects for 1948 supplies, and assuming that employment is maintained at present levels, prices of food in 1948 probably will continue at their high levels. On the other hand, if the weather in 1948 should turn out to be below normal, food prices will rise further.

F. PRICES AND COSTS IN WHOLESALE AND RETAIL TRADES

The product of American agriculture and manufacturing industries is made available to consumers through the services of a vast system of distribution which embraces country shippers, transportation agencies, warehouse and storage agencies, terminal markets, many types of commission agents, brokers, jobbers, and wholesalers, and a multitude of retail trades. The system includes over 175,000 wholesale firms and approximately 1,750,000 retail firms, many of which operate

¹³ U. S. Department of Agriculture, National Food Situation, No. 42, October-December 1947, p. 1.

more than 1 outlet. Together, these wholesale and retail firms provide employment for more than 10,000,000 persons.

The volume of wholesale trade increased from approximately \$55,000,000,000 in 1939 to almost \$130,000,000,000 in 1946, and during the first 10 months of 1947 was at an annual rate of over \$150,000,000,000. The volume of retail trade increased from approximately \$42,000,000,000 in 1939 to approximately \$100,000,000,000 in 1946, and during the first 11 months of 1947 was at an annual rate of about \$117,000,000,000.

Approximately 40 representatives of various types of retail and wholesale trades and intermediary distributors appeared before the western subcommittee of the Joint Committee on the Economic Report during the period October 6-25, 1947. Trades represented included many types of retail food outlets, wholesale grocers and food packers and shippers, department stores, and clothing, home furnishings, furniture, and drug stores. The testimony of these witnesses, together with other information relating to the distributive trades is summarized and analyzed on the following pages.

Retailers' attitude toward inflation

Retailers who testified before the committee generally regard a period of inflation as detrimental to their operations, and strongly prefer price stability. The representative of a Seattle department store stated this point of view as follows:

The retailer does not like the recent trend of rapidly increasing prices. He has the same interests in a high-level economy as have labor, manufacturers, and the Government of the United States, but he probably runs a financial risk as great as, if not greater, than any other segment of our business economy, since he is the last link in the chain of distribution to the ultimate consumer, and is the first to feel the public's reaction to merchandise in which he has already invested his capital. Continued replacement of his stock at increasing prices can soon exhaust his working capital. Price decreases or shifts in public preferences could force a loss in inventory from which he might never recover.¹⁴

The difficulties which are encountered by retailers during a period of rising prices were outlined by the representative of a department store in San Francisco:

In addition to the obvious hardships to members of the community, these advancing prices in themselves result in serious problems for retail stores like ours. For example:

(a) Increased inventory hazards are created.

(b) More working capital is required to finance both inventory and accounts receivable.

(c) Our customers are compelled to purchase fewer items, and have less money available for merchandise which will make possible for them higher standards of living.

(d) Customers' merchandise returns, a heavy item of expense, tend to increase.

(e) Retailers find it harder to sell merchandise at higher prices, than at lower prices.

(f) It is in the retail store that our customers feel the impact of the increased prices, and hence our customer good will (most valuable to any store) may be jeopardized, thus causing distinct and lasting injury to our business.

A reduction in the prices to us on the merchandise we purchase for resale will give us the opportunity of offering such merchandise to our customers at lower prices at the retail level. A movement in this direction would greatly benefit our customers, our community, and our stores, and is very much to be desired.¹⁵

¹⁴ Transcript, vol. 16, p. 736, William S. Street, president, Frederick & Nelson, Seattle.

¹⁵ Same, vol. 11, pp. 2659, 2660, E. C. Lipman, president, Emporium Capwell Co., San Francisco.

The merchant is in a position to feel the full weight of the public's concern with high prices, and to be charged with much of the responsibility for their existence. This fact and the retailers' desire to see the upward spiral of prices halted were summarized by a representative of the Retail Dry Goods Merchants of Salt Lake City in the following words:

We realize that as retailers we stand in a most vulnerable position when prices get out of hand. We are the last step in the complex process of getting the products of mine and field and factory into the hands of those who will use or consume them. Upon us inevitably falls the onus of high prices when the customer finds her budget overspent.

Although we manufacture nothing and consequently have little or no control over the cost of merchandise until it reaches our receiving dock, yet we pass on to the final purchaser all the combined costs of production, processing, and transportation.

If she feels that the price is too high, it is we who have overcharged her. We have much to lose and nothing to gain when the price level drives even one customer out of our store. So we would be very happy to see the spiral of rising prices stopped.¹⁰

Variation in price increases

The advance in commodity prices during the war and postwar periods, and especially since the termination of OPA price ceilings, has taken place in every segment of our economy, and at every level in the channels of distribution. However, the percentage increase has varied greatly at different levels and with respect to different commodities. During the period from June 1939 to June 1946 (the last full month before the first removal of price ceilings) the prices received by farmers for all products advanced 140 percent. This compared with increases of 67 percent in wholesale food prices (primary markets); 56 percent in retail food prices; 49 percent in over-all primary markets (prices paid by wholesalers); 51 percent in the prices at retail stores, and 35 percent in the cost of living. Percentage increases for December 1947 over June 1939 and June 1946, for each of these price categories is shown in table I.

TABLE I.—Percentage price increases for various product categories and levels June 1939, June 1946, and December 1947

	June 1946 over June 1939	December 1947 ¹ over June 1946	December 1947 ¹ over June 1939
Prices received by Farmers ² (all commodities).....	140	38	231
Wholesale food prices ² (primary markets).....	67	58	164
Retail food prices ² (consumer price index).....	56	42	120
Primary market prices ² (all commodities).....	49	45	116
Prices at retail stores ⁴ (all commodities).....	51	27	92
Cost of living ³ (consumer price index).....	35	25	70

¹ Prices for December 1947 based on preliminary estimates.

² Department of Agriculture.

³ Department of Labor.

⁴ Department of Commerce.

This disparity in the movement of prices at various levels is more pronounced in the case of food prices than other commodities, and is especially significant for the following reasons: (1) Food is the most important factor in the consumer expenditures of the whole

¹⁰ Same, vol. 6, p. 1334, Harold H. Bennett, Zion's Cooperative Mercantile Institute, Salt Lake City.

population, (2) food prices have risen more than other components in the cost of living, and (3) increases in the cost of food stimulate demands for wage increases, which in turn result in increases in the cost of production and selling price for other commodities.

The fact that wholesale food prices rose more relatively than retail food prices means that the spread between the cost of goods purchased by the food retailer and his selling price as a percentage of each dollar of sales has been reduced. More detailed analysis of this spread is presented later in this report.

This variation in price changes at these respective levels is in line with past experience. When significant fluctuations occur in food prices, up or down, the percentage change is generally greatest at the farm level, smaller at wholesale and still smaller at retail. A similar relationship exists with respect to price changes for almost all consumer commodities at the producer, wholesale and retail levels.

That the distributors' share in each consumer dollar spent for food has declined since the prewar period is confirmed by studies of the Bureau of Agricultural Economics which show that the farmer's share of the consumer's food dollar has advanced steadily since 1940 while the combined share of manufacturers, transportation agencies and distributors has declined proportionally. Thus, during the period from 1935 to 1940 the farmer's share averaged 40 percent, with processing, transportation and marketing charges accounting for the other 60 percent. By 1946 the farmer's share had reached 53 percent, and by October 1947 had increased to 55 percent. The share of the other recipients had correspondingly declined from 60 to 45 percent during the period.

Retailers' pricing methods

The method of pricing which is employed by almost all wholesalers and retailers has become well established over a period of many years. This method involves the use of an initial mark-up (usually expressed as a percentage of the selling price), which is added to the cost of the merchandise. The initial mark-up usually varies widely for different commodities handled by the same merchant, and competition limits its extent.

When goods have been sold the actual spread between the cost of goods sold (cost of purchases adjusted for changes in inventory) and net sales (gross sales less returns and allowances) constitutes the actual realized gross margin which is usually expressed as a percentage of net sales for purposes of analysis. The realized gross margin for a number of products and for the over-all operation is, of course, usually less than the initial mark-up, because of mark-downs, discounts, inventory losses, etc. The objective of every merchant is to obtain an over-all realized gross margin which exceeds total operating expenses, resulting in an adequate margin of net profit on total sales.

Obviously, when a constant percentage mark-up is employed, increases in the price of merchandise purchased result in increases in the dollar gross margin per unit of sales. Such increases may or may not be necessitated by corresponding increases in operating and investment expenses. However, it has long been recognized in the merchandising field that narrow margins with larger sales volume may yield larger dollar net profits than wider margins with lesser volume. In the following pages is given an analysis of distributors' percentage gross margins, dollar gross margins, percentage net profits

on sales, dollar net profits, and net profit on net worth, and the effect of each upon the level of prevailing prices.

Gross margins

During the hearings of this committee no evidence was given to show that the over-all realized gross-margin percentages for wholesalers or retailers have been substantially increased, either during the operation of price control or since the removal of price ceilings. On the contrary, all the testimony presented to the committee supported the contention that over-all gross margin percentages in general have been maintained at historical levels, and in fact have been reduced in many cases, especially since the removal of OPA price ceilings. The recent trend of gross margins in the distributive trades may be illustrated by the operating experience of department stores.

Department and specialty stores' operating results are annually reported by the controllers' congress of the National Retail Dry Goods Association, upon the basis of a survey of its membership. Operating results for the first 9 months of 1947 as reported by 166 department and specialty stores throughout the United States with sales over a million dollars each, showed an over-all realized gross margin of 36.4 percent compared with 38.1 percent for the corresponding period in 1946, and 36.7 percent for the full prewar year of 1939.

Department-store gross margins reported by the Bureau of Business research, Harvard University, show that the 1946 gross margin for 399 reporting firms was the lowest during the previous 12 years as indicated in table II.

TABLE II.—*Department stores' operating ratios, 1935-46*

[Percent of net sales]

Year	Number of reports	Gross margin	Total expense	Net profit on sales ¹
		<i>Percent</i>		
1935.....	459	35.9	34.9	1.0
1936.....	394	36.5	33.9	2.6
1937.....	458	36.4	35.0	1.4
1938.....	430	36.4	36.4	0
1939.....	428	36.9	35.4	1.5
1940.....	429	36.95	34.75	2.2
1941.....	407	38.2	33.4	4.8
1942.....	368	38.7	31.2	7.5
1943.....	366	38.4	28.7	9.7
1944.....	372	37.9	27.4	10.5
1945.....	398	37.6	27.85	9.75
1946.....	399	35.9	28.1	7.8

¹ Not including nonoperating income and prior to Federal taxes on income. See table VIII.

Source: Operating Results of Department and Specialty Stores in 1946, Malcolm P. McNair, Bulletin No. 126, Bureau of Business Research, Harvard University, Graduate School of Business Administration.

Individual department-store operators who were witnesses before the committee testified that their experiences were in line with these trends. The representative of a large Denver department store, referring to the Harvard study which revealed that the gross margin ratio for about 400 department stores in 1946 was the lowest figure in 12 years, said:

Figures for our own store show also the lowest gross margin in 10 years.¹⁷

¹⁷ Same, vol. 3, pp. 701-2, Paul B. Cornwall, Denver Dry Goods Co., Denver.

The representative of the retail dry goods merchants of Salt Lake City referred to an analysis by the Industrial Relations Council of Utah which showed that gross margins in all departments of the combined seven stores reporting decreased from 36.1 percent of sales in the spring of 1946 to 33.1 percent in the spring of 1947.

He added:

In most classifications, gross margins as a percent of net sales in our own stores were lower this spring (1947) than in the prewar spring of 1939, and for the store as a whole, our gross margin percentage was lower this spring than in any spring since we started keeping monthly records of gross margin 18 years ago.¹⁸

Testimony from representatives of other trades also indicated a constant or declining percentage of gross margin. For example, the representative of a large home furnishings store in Los Angeles stated:

Gross profit percentages have dropped substantially, reflecting this lower applied mark-up and a large increase in mark-downs. Our gross profit percent to sales for the 9 months ended September 30, 1947, is 4 percent less than in 1946 for the same period, and almost 5.33 percent less than during 1944-45. Mark-downs are three times greater this year than last year.¹⁹

The representative of an independent drug store in Salt Lake City stated:

In our particular instance our margin has actually decreased 2.9 percent between 1939 and 1946.²⁰

The representative of a large food chain stated that:

In Safeway Denver stores the total operating margin—gross profit—in August 1947 was down 49 percent from the operating margin during the third quarter of 1945 when OPA was in full operation.²¹

The maintenance of historical gross margin percentages, or their reduction, during a period of increasing operating expenses was made possible largely by increases in sales volume. This was recognized by the representative of a Denver department store who referred to the downward trend in retailers' margins as follows:

This trend is continuing because of the fact, as already stated, that retailers are experiencing the highest volume of sales in history, although it is recognized on all sides that sooner or later volume will decline.²²

Although percentage gross margins have been reduced or held at historical levels since the prewar period throughout the distributive trades in general, total dollar gross margins have been increased substantially. This has resulted from two factors (1) higher unit dollar margins resulting from the application of more or less constant percentage mark-ups to merchandise obtained at higher prices, and (2) an increase in the physical volume of goods handled.

Operating expenses

Distributors' gross margins, expressed either in percentages of net sales, or in numbers of dollars cannot be considered by themselves in determining whether distributors' operations have been unduly profitable. Obviously, changes in gross margin must be considered in relation to changes in operating expenses before the effect on net profit can be determined.

¹⁸ Same, vol. 6, p. 1341, Harold H. Bennett, Zion's Cooperative Mercantile Institution, Salt Lake City.

¹⁹ Same, vol. 9, p. 2120, Neil Petree, president, Barker Bros., Los Angeles.

²⁰ Same, vol. 6, p. 1507. Ernest F. Anstee, manager of an independent drug store, Salt Lake City.

²¹ Same, vol. 1, p. 22, Tom Henritze, manager, Denver Distribution Division, Safeway Stores, Inc., Denver.

²² Same, vol. 3, p. 669, Edward C. Yourell, president, Daniels & Fisher Stores Co., Denver.

Operating expenses of distributors include pay roll, occupancy costs, maintenance and repairs, advertising, cost of supplies, professional services, business taxes, delivery expense, bad debt losses, and miscellaneous expenses.

During the war years bad debt losses and delivery expenses as a percentage of net sales declined substantially as a result of wartime restrictions. All other expenses, however, increased substantially in dollar amount, although declining somewhat as a percentage of net sales. Since operating expenses are a form of prices, there is a tendency for them to increase during the same periods when other prices are increasing. Increases in physical volume also result in increases in operating expenses, inasmuch as more labor and equipment are required to handle the larger volume. In general this has been the experience of the distributive trades during the entire period of rising prices.

The expansion in the physical volume of wholesale and retail trade, which is one of the factors responsible for the increase in distributors' total operating expenses, is easily demonstrated. During the period from 1939 to 1947, while the total dollar volume of wholesale trade was increasing by 172 percent, the general level of primary market prices increased by less than 100 percent. During the same period while the total dollar volume of retail trade was increasing by over 178 percent, the general level of retail prices increased by only about 84 percent. It is evident that a considerable amount of the increase in dollar sales represented physical volume rather than higher prices. The expansion of trade is also indicated by the fact that the number of wholesale firms increased from 139,800 in June 1939 to 176,300 in June 1947, while the number of retail firms increased from 1,537,100 to 1,747,600 during the same period. Similarly, the number of persons engaged in the wholesale and retail trades increased from 8,277,000 in 1939 to 10,433,000 in 1946.

The effect of increasing operating costs on the retailers' pricing practices was explained by the president of a Salt Lake City department store as follows:

It may be argued that in a period of rapid rise in price level the retailer would not need to operate on as great a percentage of mark-up since he will make more in dollars on each transaction than he would have made at the lower price level. Our experience indicated, however, that whenever general price levels rise, retailers' costs rise with them. Consequently, a normal (percentage) mark-up is just as essential in a rising market as in a stable one.²³

The nature and extent of increases in retail operating costs was described and illustrated by the executive head of a department store in Chico, Calif. in the following words:

Our pay roll has increased over 100 percent since 1940. Today our average salesgirl receives \$34.91 per week. In 1940 she received \$18.00. Our local newspaper rate has increased from 35 cents per column-inch to 45 cents today. That is a rise of 28.5 percent. Our radio rate has increased 80 percent.

With much higher inventory figures (due in the main to the increase in prices) insurance costs have risen proportionately. New values on property replacement have also had their effect. The costs of maintaining our plant have risen greatly. Technical labor receives a much higher wage than formerly. In addition maintenance costs are greater because of inability to acquire new parts or equipment during the war years. Our rent cost has increased 100 percent since 1940. Like everything else the cost of paper, twine, stationery, etc., has risen greatly. Trans-

²³ Same, vol. 6, p. 1355, Harold H. Bennett, Zion's Cooperative Mercantile Institution, Salt Lake City.

portation rates have been steadily rising. Just in the last few days there has been announcement of a further rise in transportation rates. This is an important item to anyone on the west coast. There are also such items as taxes, depreciation, and the like, all of which have increased in cost.²⁴

Similar increases in operating costs have occurred in every phase of distribution. For example, increases in the cost of packing celery were described by a representative of the Utah celery cooperative as follows:

Costs of the packing and processing of this product for market have greatly increased, as in 1944 crate material cost an average of 24 cents per crate versus 1947 approximately 34 cents, or better than a 40 percent increase. Nails, paper, labels, and all supplies used in the packing of celery have increased accordingly. In the actual operation of our business in 1944 we showed an operating margin on the packing, supplying of all materials, general overhead, and sales costs, of 90 cents per crate. Although we have not completed figures for this season we have tentatively established \$1.25 for performing the same services and do not feel that this will be any more than enough to cover costs, as in 1946 our actual costs were \$1.27 per crate.²⁵

The most substantial increase in operating expenses for the distributive trades has occurred in the cost of labor, which in the case of some distributors runs as high as 80 percent of total operating costs. This point was emphasized by the representative of an independent drug store in Salt Lake City, who stated:

I think it would be best to point out that while our sales were 2.8 times greater in 1946 as 1939, our salaries increased 3.6 times.²⁶

The increase in labor costs for grocery stores was illustrated by the Secretary of the California Retail Grocers and Merchants Association, based upon a survey conducted by the State department of agriculture:

In the Los Angeles area the average scale for 48 hours in 1941 was \$26.25, or 55 cents per hour. The present wage scale of \$55 for 40 hours, and \$71.50 for 48 hours, shows an increase of 170 percent, based upon a 48-hour week. Labor represents approximately 75 percent of the cost of doing business in the retail grocery store.²⁷

The over-all effect of wage increases on the operating costs of the distributive trades is shown by the increase in the average annual earnings per full-time employee. In wholesale trade the average annual earnings per full-time employee increased from \$1,773 in 1939 to \$3,082 in 1946. In retail trade the corresponding increase was from \$1,224 to \$2,172. These figures indicate that from 1939 to 1946 the total wage bill for the distributive trades increased by over \$11,000,000,000.

Table III indicates that during the period from 1939 to 1946 the total number of employees (full-time equivalents) in the wholesale and retail trades increased by 34 percent, average annual earnings per full-time equivalent employee increased by 75 percent, and the total wage bill increased by over 135 percent.

²⁴ Same, vol. 1, p. 2666-2667, William L. Oser, M. Oser & Co., Chico, Calif.

²⁵ Same, vol. 4, p. 1030, John W. Gerber, Utah Celery Cooperative, American Fork, Utah.

²⁶ Same, vol. 6, p. 1510, Ernest F. Anstee, Salt Lake City.

²⁷ Same, vol. 11, pp. 2614-2615, W. D. Hadelor, secretary, California Retail Grocers and Merchants Association, San Francisco.

TABLE III.—Number of full-time equivalent employees, average annual earnings per full-time equivalent employee, and total labor costs, wholesale and retail trades combined 1939 and 1946

Year	Wholesale and retail trades combined		
	Number of full-time equivalent employees	Average annual earnings	Total labor costs
1939.....	6,129,000	\$1,365	\$8,366,000,000
1946.....	8,227,000	2,392	19,679,000,000
Amount increase.....	2,098,000	1,027	11,313,000,000
Percent increase.....	34.2	75.2	135.2

Source: Department of Commerce, National Income Supplement to the Survey of Current Business, July 1947. Tables 24-26, pp. 36-38.

Since the withdrawal of OPA price ceilings, labor costs in the distributive trades have continued to increase, not only in dollar amounts, but in some cases as a percentage of total sales. For example, the combined operating statements of 10 Denver furniture retailers for the first 6 months of 1946 and 1947 show that total pay roll increased 21 percent in dollar amounts during this period compared with an increase of 13.6 percent in sales and 21 percent in cost of merchandise, and that as a result labor costs increased from 14.3 to 15.2 percent of net sales. (See table VI.)

Percentage net profit on net sales

Net profit in the wholesale and retail trades is customarily computed on the basis of the percentage of net profit to net sales. Net profit thus stated represents the percentage of each dollar of sales which is retained by the distributor after payment for the cost of merchandise sold, and all operating expenses incurred in its sale. This is a valid measure of the amount of each consumer dollar which goes into the distributor's profit, but it does not indicate profitability in relation to the distributor's capital investment.

TABLE IV.—Net income as a percentage of net sales and net worth, 8 food distributors

	Before taxes		After taxes	
	Percent of sales	Percent of net worth	Percent of sales	Percent of net worth
Total:				
1940.....	2.0	12.9	1.5	9.5
1945.....	2.2	19.2	.9	8.0
1946.....	2.9	29.7	1.7	17.5
American Stores Co.:				
1940.....	1.0	4.3	.8	3.4
1945.....	2.8	20.0	.8	6.1
1946.....	4.5	39.6	2.6	23.3
First half 1947.....	2.6		1.6	
Bohack (HC) Co.: ¹				
1940.....	.2	.7	.2	.6
1945.....	4.0	29.1	1.2	8.7
1946.....	4.5	33.8	2.8	20.9
First half 1947.....	3.4		2.1	
Colonial Stores, Inc.:				
1940.....	2.1	18.7	1.4	12.0
1945.....	2.0	24.5	.7	8.3
1946.....	2.4	34.5	1.2	17.6
First half 1947.....	2.8		1.6	

¹ Includes Bohack Realty Co. in 1940.

TABLE IV.—*Net income as a percentage of net sales and net worth, 8 food distributors—Continued*

	Before taxes		After taxes	
	Percent of sales	Percent of net worth	Percent of sales	Percent of net worth
Food Fair Stores, Inc.:²				
1940.....	3.2	18.6	2.3	13.1
1945.....	2.4	22.0	1.6	14.2
1946.....	5.9	59.0	3.6	36.0
First half 1947.....			2.4	
Great A & P Tea Co.:				
1940.....	2.3	15.7	1.6	11.3
1945.....	2.0	17.3	.9	7.4
1946.....	2.6	26.9	1.6	16.2
Kroger Co.:				
1940.....	2.2	12.3	1.8	9.9
1945.....	3.4	29.5	1.2	10.6
1946.....	3.1	30.2	1.7	16.2
First half 1947.....			2.0	
National Tea Co.:				
1940.....	.6	3.1	.6	3.0
1945.....	1.8	13.7	.9	6.4
1946.....	3.0	29.0	1.9	17.8
First half 1947.....	2.6		1.6	
Safeway Stores:³				
1940.....	1.7	12.4	1.2	9.0
1945.....	1.3	14.2	.8	8.1
1946.....	2.3	26.5	1.3	15.9
First half 1947.....			1.0	

² Name in 1940 was Union Premier Food Stores, Inc.

³ Includes Canadian subsidiaries.

Source: Percentage returns are based on figures reported in Moody's Industrials.

These increases in net profit before taxes per dollar of distributors' sales during the war years were largely offset for incorporated businesses by increases in Federal taxes on income, including excess profits taxes. In fact, in some trades, net profit after Federal taxes on income as a percentage of net sales was lower in 1945 than in the prewar period. The effect of increased Federal taxes on income during the war is illustrated in the table V.

TABLE V.—*Net income, department stores and variety chains, 1939, 1944, 1945, and 1946*

[Percent of net sales]

	1939	1944	1945	1946
General average for department stores:				
Number of reports.....	428	372	398	399
Net profit on sales.....	1.5	10.5	9.75	7.8
Net other income.....	2.5	1.8	1.75	1.8
Net gain before Federal income taxes ¹	4.0	12.3	11.5	9.6
Net Federal taxes on income.....	.65	8.7	7.9	3.7
Net gain after Federal income taxes.....	3.35	3.6	3.6	5.9
15 identical variety chains:				
Net profit on sales.....	4.6	10.8	10.1	10.4
Net other income.....	2.2	1.5	1.5	1.4
Net gain before Federal income taxes ¹	6.8	12.3	11.6	11.8
Net Federal taxes on income.....	1.3	8.7	8.0	4.6
Net gain after Federal income taxes.....	5.5	3.6	3.6	7.2

¹ Including excess profits taxes in 1944 and 1945.

Source: Harvard Bureau of Business Research.

It appears that although net profits before taxes per dollar of sales increased in many trades during the war period, the increases for incorporated businesses were absorbed or more than absorbed by higher Federal taxes on income, including excess profits taxes. Consequently the share of each consumer's dollar which was retained by the distributor in the form of net profit after taxes during this period remained about the same as in the prewar period or was even reduced.

The year 1946 was apparently one of the most profitable ever experienced by retailers in many trades, resulting in part from: (1) abnormal inventory profits realized during the period of rapidly rising prices from July to December of that year; (2) continued rapid expansion in total dollar sales volume; and (3) the removal of the excess profits tax. However, this trend did not extend into 1947. On this point the representative of a Denver department store testified before the committee as follows:

1946 was an abnormal year, as far as department store profits are concerned, a year not planned by retailers, and certainly not a year that is being duplicated this year or will be duplicated in the near future. I believe that retail profits are declining to prewar levels, and I hope that they will remain as good.²⁸

During the hearings of this committee no evidence was submitted to show that net profits before taxes as a percentage of the sales dollar were higher during the current year (1947) than those obtained prior to the removal of price ceilings. On the contrary the evidence submitted demonstrated that in general net profits per dollar of net sales during the past year have at most been maintained at wartime levels, and in many cases have been reduced to prewar levels.

The trend of net profits before Federal income taxes as a percentage of net sales since the removal of OPA price ceilings may be illustrated by the experience of department and specialty stores as reported by the National Retail Dry Goods Association. During the first 9 months of 1947 the percentage of net profit on net sales for 166 department and specialty stores amounted to only 5.7 percent compared with 9.9 percent during the corresponding months of 1946 and 11.4 for 1944. Data on net profit before taxes as a percentage of net sales during the first half of 1947 are available for four of the large food distributing companies listed in table VII. It will be noted that in three of these four instances the net profit both before and after taxes as a percentage of net sales was substantially lower in the first half of 1947 than the full year 1946, and that it increased only slightly in the fourth case.

The representative of a wholesale food distributor referred to the reduction in distributors' profits since the removal of price ceilings in the following words:

Under OPA price control all wholesalers and retailers had to do in order to realize a fair margin of profit on their operations was to follow the schedule of mark-ups prescribed for them under OPA regulations. Today the situation is entirely different, and it is my belief that net returns to both wholesalers and retailers are much lower today than they were under price control.²⁹

It likewise appears obvious that compared with other components of the consumer's dollar, the distributors' net profit is of minor importance. This factor alone has added very little to the general increase in the current price level, since the distributor's net profit con-

²⁸ Same, vol. 3, p. 707, Paul B. Cornwall, Denver Dry Goods Co., Denver, Colo.

²⁹ Same, vol. 13, pp. 3131-3132, Mr. H. E. Carr, United Grocers Wholesale Food Co., Portland, Oreg.

stitutes a relatively small percentage of any single dollar of sales. For example, the cost of feeding a family of three people, according to the United States Bureau of Agricultural Economics Market Basket, based on prices prevailing as of July 1947 in Denver Safeway Stores, amounted to \$638.68. The total net profit reported by that company for such sales at that time amounted to \$5.68, or less than 1 percent of sales.³⁰ It is obvious that in this instance the complete elimination of the retailer's net profit would have resulted in a negligible reduction in prices. Of course, the net profit margin has been somewhat higher in many trades, but over-all it constitutes a relatively small proportion of each consumer's dollar expenditure, especially after provision for taxes.

Net profit on net worth

The profitability of investment of capital in business enterprise is generally measured by the relationship of net profit to net worth. The net profit return on net worth before taxes in the distributive trades has increased enormously during recent years, and the net profit return on net worth after taxes has increased substantially. These increases have not in general resulted from an increase in the percentage of profit in each dollar of sale, but from the substantial increase both in prices and in the physical volume of goods sold. This has been especially true of unincorporated businesses, not subject to Federal taxes on corporate income, although a large share of such profit has been absorbed in personal income taxes. Distributors' net profit throughout the war and postwar periods has continued to represent a small part of each consumer dollar, and to contribute little to price increases, but the total amount of dollar profits has continued to increase as sales volume has expanded. The result has been an increasing rate of return on the net worth invested in the distributive trades. Net profit on net worth for selected years, both before and after taxes, for a number of food distributors is shown in table IV.

In this connection it should be stated that except for inventory assets which turn over relatively rapidly and thus reflect current values, capital assets are generally carried in the financial records of business concerns upon a basis of original cost less depreciation. Under generally accepted accounting practice increases in the market value or replacement cost of such assets, which are substantial during a period of rapid price increases, are not recorded on the books of account. The current profit return on net worth based on original cost is much higher than it would be if figured on the current market or replacement costs of such assets. For example, a 20-percent net profit return based on the "book value" of assets acquired before the war represents only a 10-percent net profit return on the current value of such assets if their market value or replacement has doubled.

In evaluating the level of profit return on net worth invested in the distributive trades it should also be borne in mind that this generally represents an entrepreneurial return rather than a pure interest return on an investment of dollars. Merchants, especially small merchants, are subject to speculative and competitive risks which greatly exceed the normal risks of investment. The rate of mortality in retailing has always been extremely high. Consequently,

³⁰ Same, vol. 1, p. 24, Tom Henritze, manager, Denver Distribution Division, Safeway Stores, Inc., Denver, Colo.

the return must be adequate to stimulate and justify investment in this field.

To insure continuing success in the distributive trades adequate provision must be made for maintenance and replacement of capital assets. Reserves must also be established to provide for improvements, modernization and expansion of facilities. This point was emphasized during the hearings by the representative of a Denver furniture company in discussing the 7 percent return on net worth after taxes reported by 10 furniture stores in that city, as follows:

Assuming these stores obtain a 7 percent return, not more than 3 to 4 percent can be realized by their stockholders if these firms are to survive, as the balance must be retained in their businesses to provide for (a) needed repairs and modernization of facilities, which could not be accomplished during the war period, (b) reserves for business expansion, and (c) reserves to cover periods of declining business activity and earnings.³¹

The responsibility of expansion to provide additional employment possibilities was suggested by an independent grocer in El Monte, Calif., who upon being asked by the committee if retailers as a body could safely reduce prices to the consumer without running into the danger of "going broke," replied:

We could reduce our price 1.09 percent per dollar volume and break even. That is the net profit after taxes. I think we have a greater responsibility than that. I think that, for instance, in our store * * * we have people that are impatient and ambitious and want a better job. The only way we can give them a better job is opening a new market. * * * We have two pieces of property we are paying on right now, and we want to open other markets there. The high cost of building right now, is going to cost us, we figure, about a half a million dollars per market, just for the building. At our present rate of accruing capital it is going to be a couple of years before we can do that.³²

An even more important disposition of profits, however, lies in the building up of necessary reserves to absorb future losses. The character of the speculative risk in the field of distribution may be illustrated by the situation which prevails today with respect to inventories. As a result of the increase in the cost of merchandise it has been necessary for most merchants to nearly double their dollar inventory investment in order to maintain in stock the physical volume of goods which was customary in prewar years. A large share of the increase in dollar profits of distributors during the war and postwar periods has been used to finance inventories. Whether or not such profits will ever be actually realized and withdrawn from the business will depend largely upon the course of future price changes. In the event of a "break" in prices with resulting widespread and heavy inventory write-downs much of this profit will be wiped out and will have represented only bookkeeping transactions, rather than an actual return on capital investment. It is quite possible that "profits" invested in inventory replacements at higher prices are in reality only one of the increased costs of doing business during a period of upswing in the price level.

Finally, the purchasing power of current profit returns has declined by the same amount as dollars derived from any other source. Income from this source must be larger than prewar in order to maintain the same purchasing power for the recipient.

³¹ Same, vol. 3, pp. 743, 744. Robert S. Kohn. American Furniture Co., Denver, Colo.

³² Same, vol. 8, pp. 1869-1870, Mr. Ray Crawford, El Monte, Calif.

The effect of changes in percentage gross margins, dollar gross margins, net profit on sales, and net profit on net worth upon prevailing prices since the removal of price ceilings can be illustrated by an analysis of the actual operating results of a number of typical retail firms. Preparatory to the hearings of this committee 10 Denver furniture retailers, including the largest volume stores in the city, submitted their operating figures for the first 6 months of 1946 and the first 6 months of 1947 to a certified public accountant for analysis. The operating results of these 10 retailers when consolidated into one report indicated the following results:

1. Total dollar sales had increased 13.6 percent.
2. Total cost of merchandise had increased 21 percent.
3. Percentage gross margin had declined from 40 to 36 percent of sales.
4. Dollar gross margin had increased 2.5 percent.
5. Dollar operating expenses had increased 14 percent, but as a percent of net sales had remained constant.
6. Net merchandizing profit as a percentage of net sales had declined from 14 to 10 percent of net sales, and in dollar amounts had declined 19 percent.
7. Net profit after taxes had declined from 9.1 to 6.8 percent of net sales and in dollar amount had declined 14.1 percent.
8. Net profit after taxes represented a return of 7 percent on net worth.

The consolidated operating statement of the 10 furniture stores is shown in table VI.

TABLE VI.—*Operating results of 10 Denver furniture stores for the 6 months ended June 30, 1946, and June 30, 1947*

	Amounts (in thousands)		Percentages of net sales		Percent of dollar increase or decrease 1947 over 1946
	1946	1947	1946	1947	
Net sales	3,323	3,776	100.0	100.0	13.6
Net cost of merchandise sold	1,996	2,416	60.0	64.0	21.0
Gross margin	1,327	1,360	40.0	36.0	2.5
Pay roll (including bonuses and commissions)	474	575	14.3	15.2	21.3
All other expense (including depreciation)	389	409	11.7	10.8	5.1
Total expense	863	984	26.0	26.0	14.0
Net merchandizing profit	464	376	14.0	10.0	(19.0)
Other income, net	38	55	1.1	1.4	44.7
Net profit before income taxes	502	431	15.1	11.4	(14.1)
Provision for income taxes ¹	201	172	6.0	4.6	(14.4)
Net profit after taxes	301	259	9.1	6.8	(14.0)

¹ Computed at 40 percent of net profit before income taxes.

SUMMARY

From the testimony presented to the committee, as well as other information available to the committee, the following conclusions appear warranted:

1. During the period from 1939 through 1947 retail prices increased less than wholesale prices, which in turn increased much less than farm prices, both on a percentage basis.

2. During the same period dollar sales volume at the wholesale and retail levels increased considerably more than prices, demonstrating an increase in the physical volume of goods distributed.

3. Throughout the period of price control and subsequent to the removal of price ceilings distributors' gross margins expressed as a percent of the selling price did not increase in general, and in many instances were reduced.

4. During the entire period from 1939 to 1947 distributor's dollar gross margins increased substantially as a result of the application of approximately the same percentage mark-ups to merchandise purchased at rising prices, and as a result of selling a much larger volume of goods.

5. Much of the increase in distributors' dollar margins has been absorbed in increasing operating expenses, especially labor costs.

6. Distributors' net profits before taxes expressed as a percentage of the selling price in general appear to have increased during the war. Most of this increase for incorporated businesses apparently was absorbed by higher Federal taxes on income and excess-profits tax.

7. Distributors' net profits before taxes expressed as a percentage of sales appear to have declined during 1947 when compared with the war period.

8. During the war and postwar periods distributors' total dollar net profits both before and after taxes appear to have been substantially increased, resulting from a higher percentage of net profits on sales during the war period and increased dollar sales volume through the entire period.

9. Much of the increase in total dollar net profits after taxes has been absorbed in the replacement of inventory at higher prices, and the resulting required increase in inventory investment. The net profit return on net worth invested in the distributive trades increased substantially throughout the war and postwar periods, when computed on the basis of the original cost of assets less depreciation. However, the market value or replacement costs of this net worth is currently much greater than shown by "book values," and the actual net profit return on net worth at current values has increased much less than the return reported in financial statements.

10. Even after allowance for the current value of net worth invested in the distributive trades the profit return on this investment has been relatively high throughout the war and postwar periods, especially in the case of unincorporated businesses. Nevertheless the amount of such profit after taxes, is relatively small compared with the total increase in prices.

G. POSSIBILITIES OF AN ACCELERATED RECLAMATION PROGRAM FOR PROSPECTIVE FOOD REQUIREMENTS

In view of the advance in prices of food, all possibilities of increasing food production have been, and are, of major concern. We are now cultivating more land acreage than ever in history. Furthermore, favorable weather has generally kept production at very high levels during the past 7 years. It is not likely that much greater

production can be achieved on existing farm acreage. In fact, the Secretary of Agriculture has stated that present land utilization has progressed beyond what is safe or desirable for long-term agricultural policy. If drought seasons occur it is possible that considerable portions of new areas brought into production in recent years may revert to "dust-bowl" conditions.

If our food requirements as developed under conditions of full employment and high incomes are to be met, it may be necessary to accelerate land-reclamation programs to assure continued adequate supplies of food. With this possibility in mind, as well as the current pressures of demand on existing agricultural output, the committee has reviewed the matter of expansion of food resources, on the basis of plans supplied to the committee by the Bureau of Reclamation.

As part of his testimony before the Western Subcommittee of the Joint Committee on the Economic Report, Mr. Michael W. Straus, Commissioner of Reclamation, submitted for the record of the hearings on December 8, a statement indicating how the reclamation program could be speeded up to make food available for European relief. This program extended through 1952 and called for providing water to 5.6 million acres of land and for additional crop production during the 5 years of 28.2 million tons. The funds required were estimated at \$1,367,000,000.

This program has been revised and the assumptions on which it was based have been modified. As a result, the figures have been considerably reduced. This section is a summary of the revised program. The program includes all Bureau projects that are now under construction or which can be placed under construction in a comparatively short time and which can produce food during the 5-year period, 1948-52.

Attention is directed first to the present productive activities on Bureau projects. In 1946, for the first time in the 45-year history of the Bureau of Reclamation, the value of crops produced on lands served by reclamation works exceeded half a billion dollars. Reports to the Bureau indicated that these crops were produced on 4,396,581 acres in cultivation. There was a considerable variation in the acreage return because of wide diversity of crops, varying stages of land development, and different growing seasons. As is shown in table I, reclamation areas in 1946 produced over 15,000,000 tons of crops valued at \$521,000,000. After allowance for potential conversion of feed and forage into meat products, the food tonnage accounted for by these areas would have exceeded 6,000,000 tons.

The most important contribution of reclamation areas to food production in 1946 consisted of vegetables and truck crops valued in excess of \$150,000,000. White potatoes and beans accounted for somewhat over half this total. In physical quantity, vegetables and truck crops amounted to nearly 4,000,000 tons, or somewhat less than two-thirds of the total food contributed by reclamation areas in 1946. Next in importance were fruits and nuts, valued at \$77,000,000 and weighing approximately 1,000,000 tons. Third in importance as food was sugar-beet production, with a finished sugar equivalent of 545,000 tons. Edible cereals—rye and wheat—amounted to 384,000 tons. Conversion of cereal feeds, hay, and cottonseed into meat would have yielded an estimated meat production of 347,000 tons.

In addition to the 4.4 million acres receiving water from Bureau works there are under irrigation about 16.6 million acreage receiving water from works financed by private sources.

The capacity of existing hydroelectric installations on Bureau projects at the end of 1947 was 2,238,400 kilowatts. In all Bureau regions, electric power capacity was being utilized to a high degree, in the production of minerals and manufactured products, in supplying power to irrigation projects and other farming uses, and in meeting commercial and domestic demands.

TABLE I.—*Summary of crop production on all Federal reclamation areas, 1946*

	Acreage	Crops		Food (tonnage)
		Tonnage	Values	
	<i>Thousands</i>	<i>Thousands</i>	<i>Millions</i>	<i>Thousands</i>
Cereals—edible.....	330	384	\$21.7	334
Cereals—feed.....	648	656	35.4	1 61
Hay and forage.....	2,950	5,649	110.1	1 273
Vegetables.....	690	3,973	152.4	3,873
Fruits and nuts.....	147	945	77.2	945
Sugar beets.....	235	3,634	41.4	2 545
Seed.....	243	109	23.9	-----
Cotton lint.....	177	60	39.8	-----
Cotton seed.....	-----	90	7.3	1 13
Other.....	37	31	11.5	-----
Total.....	3 4,397	15,531	520.7	6,094

¹ Equivalent in tons of meat.

² Equivalent in tons of sugar

³ Total is net area in cultivation, including soil improvement and after elimination of duplication.

Source: Bureau of Reclamation.

Additional lands to be irrigated

In the original information supplied the committee on November 28, the Bureau of Reclamation indicated that the projects suggested for an accelerated program could supply water to 5.6 million acres of land, including new and supplemental water supply lands, within the next 4½ years. While the acreages to be brought in and the annual crops to be produced under that program might be feasible under the stated assumptions as to removal of restrictions on construction and settlement of new reclamation areas, the earlier program has been reduced to conform with possibilities of achievement during the next 5 years as to construction and settlement.

Consequently, the acreage suggested under the accelerated program has been reduced from the 5.6 million acres submitted by the Bureau to 4.0 million acres (see table II). Of the latter total, 1.3 million acres will be land to be brought under irrigation for the first time, and 2.7 million acres will be lands to which supplemental water supplies will be furnished. The total cost of the accelerated program is estimated at \$941,000,000 instead of \$1,367,000,000 estimated for the larger program.

The revised program is based upon 47 projects, 13 of which are units of the Missouri Basin project. Nine of these projects account for 85 percent of the costs and 81 percent of the acreage involved. These nine projects in order of decreasing costs are Columbia Basin (Washington), Central Valley (California), Missouri Basin (Montana, Wyoming, North Dakota, South Dakota, Kansas, and Nebraska).

Colorado-Big Thompson (Colorado), Valley Gravity (Texas), Kings River (California), Kern River (California), Middle Rio Grande (New Mexico), and Anderson Ranch (Idaho).

The additional lands to be furnished water during the remainder of fiscal 1948 amount to somewhat less than 300,000 acres. The new acreages to be made available increase to a peak of 1,797,000 acres during the fiscal year 1951. As is indicated in the following section, the time required to complete construction, to settle the land, and to bring the land into production means that the additional contribution to food and other farm products to be made by the accelerated program will reach a peak near the end of the 5-year period.

TABLE II.—*Accelerated program for production of food and other farm products, additional funds required, and acreage available*

Fiscal year	Available acreage			Additional funds required
	New	Supplemental	Total	
	<i>Thousands</i>	<i>Thousands</i>	<i>Thousands</i>	<i>Millions</i>
1948.....	143	150	293	\$46.8
1949.....	196	216	412	244.0
1950.....	213	481	694	269.9
1951.....	298	1,499	1,797	229.6
1952.....	476	333	809	150.5
Total.....	1,326	2,679	4,005	940.8

Source: Based on project plans of the Bureau of Reclamation.

Production of additional food

The suggested program would add to output a total of somewhat more than 14.5 million tons in the 5 years, 1948-52, inclusive. After elimination of certain nonfood items, and conversion of feeds and sugar beets to food equivalents, the estimated increase of food production for the 5-year period would amount to 6.3 million tons. Approximately three-fourths of the expected production, both crops and food, will be from the nine major projects previously listed.

The major food contribution during this period would be the production of 4.3 million tons of vegetables and truck crops. Second in importance would be the production of about 900,000 tons of edible cereals. Fruits and nuts are estimated at 435,000 tons, and the feeds likely to be produced would be equivalent in food to nearly 400,000 tons of meat. From the production of sugar beets an estimated yield of sugar of almost 240,000 tons has been estimated.

On an irrigated area it is generally possible to produce a wide variety of products and under a program emphasizing production of specific crops, such as edible grains, the reclamation areas could undoubtedly greatly increase the production of edible grains above the estimates shown in table III.

In addition to the foods to be contributed by the accelerated program, there would be an output of seeds, including flaxseed, of 134,000 tons during the 5-year period. Likewise, the increase in production of cotton fiber is estimated at 48,000 tons and of other farm products at 13,000 tons.

TABLE III.—Additional production of crops and food

[Thousands of tons]

CROPS

Crop year	Cereals (edible)	Vegetables	Fruits and nuts	Feeds, (cereals, forage, and cotton seed)	Sugar beets	Seeds	Cotton (lint)	Other	Total
1948.....	36.7	157.2	8.8	258.9	37.2	5.0	1.6	0.3	505.7
1949.....	87.2	375.2	21.5	617.8	90.8	11.9	3.8	.8	1,209.0
1950.....	148.6	679.2	49.7	1,116.0	210.0	21.2	7.2	1.8	2,233.7
1951.....	256.1	1,327.9	137.5	2,172.7	581.6	40.4	15.4	4.9	4,536.5
1952.....	373.8	1,805.8	157.0	2,961.7	664.2	56.6	20.0	5.6	6,043.7
Total.....	902.4	4,345.3	374.5	7,127.1	1,583.8	134.1	48.0	13.4	14,528.6

FOOD¹

1948.....	36.7	157.2	8.8	14.5	5.6	-----	-----	-----	222.8
1949.....	87.2	375.2	21.5	34.6	13.6	-----	-----	-----	532.1
1950.....	148.6	679.2	49.7	62.1	31.5	-----	-----	-----	971.1
1951.....	256.1	1,327.9	137.5	119.6	87.3	-----	-----	-----	1,928.4
1952.....	373.8	1,805.8	157.0	163.9	99.7	-----	-----	-----	2,600.2
Total.....	902.4	4,345.3	374.5	394.7	237.7	-----	-----	-----	6,254.6

¹ Feeds and sugar beets converted to food equivalents in form of meat and raw sugar, respectively.

Source: Based on 1946 production records of existing projects and on project plans of the Bureau of Reclamation.

Power and industrial water

In addition to the food and other farm products which can be made available from the accelerated reclamation program during the next 5 years, an important contribution to increased industrial production can be made by the existing and additional power capacity to be brought in during the same period. The present installed capacity of 2.2 million kilowatts would, under the regularly scheduled program, be raised to a total of 5.1 million kilowatts by June 30, 1953.

Some of the additional power capacity to be completed in the next 5½ years is indispensable to the operation of the irrigation projects and to the processing and manufacturing plants to handle the agricultural products of the reclamation areas.

Additional assistance to industrial activity will be provided in some areas, notably in California, by the provision of an adequate, dependable industrial water supply.

Hydroelectric power (in kilowatts) of the Bureau of Reclamation¹.

Existing capacity.....	2,238,400
Estimated installations:	
Remainder of fiscal 1948.....	406,000
Fiscal 1949.....	250,000
Fiscal 1950.....	518,100
Fiscal 1951.....	739,500
Fiscal 1952.....	499,500
Fiscal 1953.....	427,000
Total.....	5,078,500

¹ This tabulation includes all installations in power plants constructed and operated by the Bureau of Reclamation projects and installations constructed by the Corps of Engineers from which power is marketed by the Bureau of Reclamation—existing, under construction, and authorized—which are likely to be completed before June 30, 1953.

Source: Based on project plans of the Bureau of Reclamation.

Long-run benefits

In addition to the major effects to be obtained from reclamation-project development in feed and fiber production, power production, and industrial water supply, there are other benefits of both tangible and intangible nature that are of long-run importance.

Whenever reclamation projects are constructed they result in the opening of new settlement opportunities upon which veterans, distressed farmers, and others may establish homes and earn their livelihood. This activity in turn leads to the expansion of existing communities or to the growth of new communities, either on the project areas or adjacent to them. The growth of such new producing and market areas stimulates established industry and trade in nearby areas and often causes new industries and businesses to grow to serve the new population or to process and distribute its agricultural products. In this way many parts of our Western States have been developed. The economic development of vast tracts of the West, because of their arid or semiarid condition, must depend upon a reclamation program to assure an adequate supply of water. Thus, any acceleration of the reclamation program will contribute to the development of the West and thereby reduce existing population pressures and add to national wealth and economic stability.

The reclamation program is reimbursable through the well-known repayment features of reclamation laws. In addition to such direct repayment, any improvement of established areas or development of new areas repays the Government indirectly because of the broadening of the base for taxation. This is true not only in the project areas but also throughout the Nation wherever the project indirectly contributes to the enlargement of the national income. The extended benefits from power, industrialization, trade, service activities, and transportation associated with the project add to the national income.

Flood control, recreation, fish and wildlife conservation, soil conservation, and contributions to national health, welfare, and defense are likewise important. Many of these benefits are difficult to measure in monetary terms.

Requirements of program for critical materials

On February 12, 1946, the Acting Chairman of the Interdepartmental Committee on Construction in a letter to the Director of the Office of War Mobilization and Reconversion said it was the unanimous judgment of the committee that conservation and development construction, including reclamation projects, makes only an insignificant demand upon the types of materials useful in housing construction. The committee had particular reference to lumber, brick, structural tile, and clay and cast-iron pipe. The committee's estimate for lumber was that conservation and development construction in 1946 would require 0.58 percent of total lumber production. Under the proposed accelerated program it is probable that some increase over the estimated 1946 lumber use could be expected, but the requirement would still be a very small proportion of total production of these items.

With regard to reinforcing steel it is not possible to make an accurate estimate, but total requirements under the accelerated program are likely to be of the magnitude of 300,000 tons spread over the years 1948 to 1952. This would approximate 4 percent of total

reinforcing steel production for the period, if production remains at the present level.

The proposed food program accelerates irrigation rather than power aspects of the over-all reclamation program. However, the regular power-development program will require considerable electrical apparatus, particularly after 1949, although this equipment would be very slight in relation to total production.

Construction equipment needed for this program would be primarily large earth-moving equipment, not readily adaptable to other uses. As projects are completed and land is brought under irrigation, small farm equipment would, of course, be needed by the settlers to get the land into production.

All reclamation works involve the use of gates, valves, and other control devices, and would necessarily conflict to some extent with other essential uses of this class of equipment. The relation between Reclamation's use of these items and over-all production is not known, but is probably a small proportion.

Funds required

The additional funds required to complete works in order to furnish water to the 4,000,000 acres of land are estimated at \$941,000,000. Of this amount, it is estimated that about \$47,000,000 would be required during the remainder of fiscal 1948, and \$244,000,000 for fiscal 1949, \$270,000,000 for fiscal 1950, \$230,000,000 for fiscal 1951, and \$150,000,000 for fiscal 1952. These estimates do not include all the funds needed for the regularly scheduled power-development program referred to above, and in addition there is a need for funds to carry on the orderly development of the other projects which are scheduled to come into production after 1952.

The funds indicated as required for the accelerated program are based on 1947 cost estimates and assume a normal construction schedule. Although no attempt has been made to reestimate costs in the light of an accelerated rate of construction, it is estimated by the Bureau that use of speed-up methods of construction would lead to an increase not to exceed 25 percent in the normal expected costs.

The additional funds needed for the accomplishment of an accelerated plan for food production would be subject to the usual repayment arrangements applying to reclamation investments. The reimbursable allocations would be repaid to the Federal Government by the water users and for power and other revenues.

Drainage

In addition to increased food production that can be obtained by extending irrigation within the next few years, there are important opportunities of obtaining more crops in a comparatively short time by reclaiming land through drainage. In many areas of the country, where rainfall is ample for successful crop production, there exist many thousands of acres of fertile land that could be brought into production or where present production could be greatly increased in a short time by drainage projects. Such lands now have high water tables of varying degrees harmful to crop production. At the request of the Congress, the Bureau of Reclamation has assembled some information on these possibilities.

The States of Texas, Arkansas, Louisiana, Mississippi, and Florida are typical examples of States where tremendous possibilities exist for reclaiming water-logged lands and making them available for the production of food. The States of Texas and Louisiana are estimated to have roughly 7,000,000 acres each of excessively wet lands which can economically be reclaimed by drainage. The States of Arkansas and Mississippi probably have in excess of 5,000,000 acres each, and the State of Florida is estimated to have nearly 20,000,000 acres of such lands. Practically all the States of the Nation have some lands that could be reclaimed by drainage, but the warm, humid belt extending eastward from Texas, with its fertile soils, appears to have the most attractive possibilities. In a number of areas, drainage could be combined with irrigation to provide ideal conditions for the production of crops, notably vegetables and rice.

Information is not available on which detailed estimates of drainage costs could be prepared at this time. One preliminary estimate for a single project indicates a cost of \$33 per acre for drainage, with a resulting increase in crop production of half a ton per acre per year. According to the Bureau's estimates, certain projects could be established involving many thousands of acres which would be ready for crop production in 2 or 3 years, would be economically feasible, and would easily return all of the investment of the Federal Government in a reasonable period of years. This activity would require legislation by the Congress to enable the Bureau of Reclamation to make surveys and to prepare plans for such projects in order to authorize their construction upon a finding of feasibility.

SUMMARY

The program suggested in this report would provide water to 4 million acres, of which 1.3 million acres is new water supply and 2.7 acres is supplemental water supply, and would result in an estimated crop production of 14.5 million tons. The Government funds required are estimated at \$940,000,000. The revised program would produce additional crops rising annually from 0.5 million tons in 1948 to 6 million tons in 1952. The increase in terms of food for the same period is from one-quarter million tons to 2.6 million tons. The greatest contribution to additional food from these potential irrigation developments is the production of vegetables which would amount to 4.3 million tons for the 5-year period. For edible cereals the volume is somewhat less than a million tons. The volume of meat which could be produced from feed crops and the volume of fruits and nuts are each estimated at about 0.4 million tons. These possible increases in food production all apply to the irrigation of arid and semi-arid lands and do not include important possibilities of obtaining crops from drainage of wet lands.

H. SUMMARY OF TESTIMONY OF REPRESENTATIVES OF CONSUMERS' AND OTHER CITIZENS' ORGANIZATIONS ³³

Perhaps more than any other group of witnesses, the representatives of consumers' and other citizens' associations gave the subcommittee an insight into the "grass-roots" feeling and thinking of citizens of

³³ Except where otherwise indicated, all references are to the stenographic transcript of the hearings before the Western Subcommittee of the Joint Committee on the Economic Report, Prices of Consumers' Goods, October 1947, paged consecutively in 17 volumes, 4,013 pages.

the Western States on the evidences and effects of the high cost of living, the responsibility for current high prices, and the possible ways in which the problems of high prices might be met. These witnesses were not in general identified with well-defined economic groups, such as labor unions, meat packers and other food producers, retailers and other distributors, or farmers. Although their testimony was frequently lacking in penetrating economic analysis, such as was supplied by a number of economists who testified, it gave the committee an insight into the psychological reaction of the citizens of the West to the problems of high prices, and their ways of trying to deal with the situation. Many different interests were represented. Many statements of personal and group financial problems arising out of the high prices of consumer goods gave the reality of human experience to the often more colorless cost-of-living index figures, important as the latter indisputably are in establishing factual information on a broad base.

Representing a wide range of family incomes, excluding only the uppermost brackets, and not being tied to the interests of any one economic producer, distributor, or labor group, the consumers' and citizens' group witnesses offered an especially wide variety of reasons for the high prices, the places where they put responsibility for the excessive cost of living, and the remedies they would propose. There was general disapproval of the dropping of OPA controls, but far less agreement on the desirability of reimposing any, or all, of them. The groups most frequently blamed for high prices were monopolies and trusts. The recommendations most frequently made included reimposition of price controls (sometimes with roll-backs to June 1946 levels, sometimes without), reimposition of rationing, curbing speculative activity on the grain exchanges, and reimposition of a corporate excess-profits tax. These recommendations are much the same as those made most frequently by organized labor witnesses.

Consumer groups and other citizens' associations were represented by nearly 60 witnesses testifying before the Western Subcommittee of the Joint Committee on the Economic Report in October 1947. Among the groups represented were organized consumers and shoppers, veterans, teachers, pensioners, and many others. The great majority of these witnesses were women, many of whom were recognized leaders in their respective communities. A complete list of the organizations represented, with an indication of the number of witnesses testifying in behalf of each is given in exhibit I this chapter.

Evidence concerning high prices

The consumer witnesses were armed with detailed information on the high prices of consumers' goods and the resulting lowering of standards of living. While many utilized published data of the Bureau of Labor Statistics, the Dun & Bradstreet index of wholesale food prices, and the Heller committee, a large majority drew on personal experiences of members of the organizations or groups they represented. Newspaper advertisements for groceries, basic clothing items, and shoes were often cited to compare prices before price control was lifted and in the fall of 1947. Questionnaires circulated among special groups, such as student veterans or women shoppers, were also frequently used. While the latter usually lacked the accuracy of statistics prepared by agencies with highly trained technicians, they gave a human element to the testimony which the more scien-

tifically accurate figures could never supply. Mrs. Eugene Soots, speaking for the married veteran students living in Pioneer Village, at the University of Denver, presented graphic statistics on the plight of student veterans with respect to housing, food, debts, lack of medical care and entertainment, etc. Over 52 percent of married student couples have debts, she pointed out, and of these over half have debts over \$450.³⁴

The veteran's complaint was stated as follows by Robert J. Block, American Veterans Committee:

Millions of veterans, instead of having the pleasant, modernistic homes, new cars, and heavily laden tables depicted by those slick ads during the war, are living doubled up or in substandard housing and are wondering each month whether or not they are going to be able to meet the rising costs of food and other necessities.³⁵

The plight of persons dependent on the State welfare program of Utah was accentuated by this threefold development: (1) Their rentals had been increased; (2) the cost of food had increased by at least 30 percent; (3) the monthly allowance had been reduced from a maximum of \$50 to a maximum of \$45 each by the Utah State Legislature.³⁶

There was repeated testimony on the effect of high prices on consumption of various types of food. Again and again witnesses pointed out that increased prices had forced them to cut down on consumption of meat, butter, eggs, milk, and other foods. Clothing was being replaced with much less frequency, and was reported to be of inferior quality. Dental and medical care was being seriously neglected. In the words of a San Francisco shopper:

Day after day we have been faced with skyrocketing prices of all basic commodities. For us the last straw was the recent one-half cent raise granted the milk companies for each quart of milk. * * * We are those who are supposed to be enjoying the American standard of living. But what is this standard now? Our wages no longer cover our needs in feeding, clothing, and housing ourselves; and proper medical and dental care have become luxuries. Dare we expect too much when we say that we, as human beings, have the right to live in dignity and decency? ³⁷

The concern about adequate housing was apparent wherever the committee held hearings. There was widespread demand for the maintenance of rent controls. The high cost of new housing had forced up the general cost of living for many families who were unable to find rental quarters at existing ceilings.

One witness showed how the increased prices also raised the cost of government, citing the increase in cost of operating State institutions in Utah.³⁸ Similarly it was pointed out that the cost of such National Government programs as exporting relief food shipments had become more expensive with the increase in food prices.

Responsibility for high prices

Before suggesting remedies for the inflationary trend in the cost of living, most witnesses attempted to place the responsibility in one or more places, and in a large number of cases specifically to exclude certain groups from having to bear any of the blame. Spokesmen for

³⁴ Mrs. Soots, p. 525.

³⁵ Robert J. Block, p. 3900.

³⁶ M. G. Stringham, p. 1258.

³⁷ Mrs. Lili Osborne, pp. 2588, 2589.

³⁸ Mrs. T. E. Muthall, p. 1271.

the Progressive Citizens of America in both Los Angeles and Seattle argued specifically that certain groups were not responsible. Bert Witt, PCA representative in Los Angeles, specifically absolved from blame labor, consumers, foreign relief, and high Government taxes.³⁹ The groups excluded by Mrs. Helen McCannon, PCA representative in Seattle, from responsibility for high prices were small-business men, laborers, white-collar workers, veterans, and pensioners.⁴⁰

Other witnesses, however, specifically contradicted these PCA witnesses. Labor, which was naturally considered as innocent of responsibility for high prices by spokesmen for organized labor, did not receive such a completely clean bill of health at the hands of all consumers. George S. Ballif, representing the Committee of Utah Consumer Groups, considered the "rising wage rates to compensate for higher living costs" to be one of several major causes of our present inflation.⁴¹ Mrs. E. C. Lorentzen of the Salt Lake City Council of Women, considered a primary cause of high prices to be the high degree of employment in America at good wages.⁴² In a survey of student veterans at the University of Denver one student, according to Mrs. Soots, made the sweeping statement:

The unions should be blamed for not cooperating with management, and management should be blamed for not cooperating with the consumer.⁴³

Mrs. Lorentzen also blamed other factors, which PCA representatives had acquitted, namely, the shipment of tremendous quantities of food to Europe and the Government's allowing veterans to receive cash for their bonds on September 1, which had increased their purchasing power and permitted them to buy luxury articles.⁴²

These opinions, however, are distinctly in the minority. Two major causes were given by the great majority of witnesses, one political, the other economic. First to be blamed was the decision to remove the OPA controls. Then the blame was placed on monopoly and other big-business interests which, it was claimed, were making exorbitant profits following the removal of price control. Most witnesses blamed Congressmen primarily for the abolition of price controls; Mrs. McCannon (PCA, Seattle) blamed both ends of Pennsylvania Avenue, saying:

We know that both Congress and the vacillating policy of the Truman administration have played their part in wrecking controls.⁴⁴

Professor Sorensen, speaking for the Denver chapter of the American Association of University Professors, said that lifting of price controls was probably one of the greatest mistakes the Government made in recent history.⁴⁵ Ballif of Utah censured Congress for the repeal of the excess-profits tax, which, he claimed, "had only added fat to the fire of inflation." Continuing his argument he said:

In the face of the greatest earnings by corporations and the greatest public debt in history, the floodgates of profit were thrown open, and more money was restored to those groups and individuals already receiving a preponderant share of the national income.⁴⁶

³⁹ Witt, p. 2023.

⁴⁰ McCannon, pp. 3967-3972.

⁴¹ Ballif, p. 1288.

⁴² Lorentzen, p. 1496.

⁴³ Mrs. Soots, p. 535.

⁴⁴ McCannon, p. 3975.

⁴⁵ Sorensen, p. 364.

⁴⁶ Ballif, p. 1221.

He gave the following list of major causes of our present inflation: Removal by Congress of price and rationing controls; world-wide scarcities; the operation of monopolies and speculators to drive prices upward; the tax policies of the United States Government; rising wage rate to compensate for high living costs; and the swollen profits of corporations.⁴¹

Undoubtedly the blame for high prices was heaped highest upon the profits of industry, on monopoly, and on big business in general. Witt (PCA, Los Angeles) analyzed the twofold cause of high prices as follows: First, monopoly-controlled industry has risked economic disaster for the Nation for the sake of immediate profit taking; second, monopoly-controlled industry sold a bill of goods to Congress and the administration last year in securing the premature lifting of price controls and, in some lines, rationing.⁴⁷ In this connection the campaign of the National Association of Manufacturers to get price control removed was denounced repeatedly. Speculators and the various persons connected with distribution of commodities—brokers, wholesalers, commission merchants, etc.—were all considered responsible for high prices along with the original big-business manufacturer.

The agricultural price-support policy, particularly in connection with the Steagall amendment, came in for some criticism from Gilbert Sussman of the Americans for Democratic Action. The twofold imbalance created by the Steagall amendment program, according to this witness, was the distortion of normal production due to special war needs with resulting surpluses of certain commodities (such as potatoes) and deficiencies in others, and also the maintenance of artificial price levels for each of the so-called Steagall commodities. Consumer prices remain abnormally high because of the absence of free markets. Furthermore, from the long-range point of view, price support virtually disrupts the soil-conservation program of the Department of Agriculture. The artificial price levels also have a detrimental stimulating effect on inflation, keep high-priced commodities from competing normally with nonsupported commodities, and offer temptations to speculators who are assured price minimums and marketing outlets.⁴⁸ This witness urged that the Steagall amendment programs should be terminated or at least modified so as to restore balanced production and to put an end to artificial price levels.⁴⁹

Probably the distinguishing characteristic of this testimony was the lively expressions of opinion on the role of consumer in the fight against inflation. On the one hand, there was the belief that consumer action could and should be used effectively to combat inflation. As Mrs. Milliken, housewife of Glendale, Calif., expressed it:

Not enough importance has been given to the responsibility of the consumer in helping make high prices, and the opportunity of the consumer in bringing them down.

Mrs. Virginia Wells, speaking for the Utah State Home Economic Association, called for consumer resistance to high prices and a—
determined individual effort to get the most for our money and to reduce purchases, particularly of meat, and refuse to pay speculative prices.⁵⁰

⁴¹ Ballif, p. 1288.

⁴⁷ Witt, p. 2031.

⁴⁸ Sussman, pp. 3438-3441.

⁴⁹ Sussman, pp. 3440, 3447.

⁵⁰ Wells, p. 1503.

On the other hand, there was widespread distrust of the efficacy of, or justification for, voluntary consumer restriction. Mrs. Maude Anderson, of the San Francisco Council of Women Shoppers, reported the general reaction of a conference of 53 San Francisco citizens' organizations as follows:

Why should the American people eat less when apples are not being picked, milk is being ditched as surplus, and gamblers are playing with the grain market in Chicago? ⁵¹

Many others urged that the "eat less" campaign should be abandoned. Meatless and eggless days were considered to be meaningless to a large extent, since such a large percentage of families could afford meat only 3, 4, or 5 days a week as it was. According to Thomas G. Moore (PCA, Portland):

the answer to high food prices is not voluntary reduction of eating. We feel that soaring costs are the result of controlled scarcity and are not due to any actual food shortages. Families whose real buying power is way below the required health of anyone cannot be told to eat less unless we wish them to seriously affect their dietary standards. ⁵²

Baliff of Salt Lake City contended that consumer resistance, while capable of helping to cure inflation, can bring a toll of disastrous consequences—business uncertainties, lowered production and sales, unemployment, reduced standards of living, and, later, inevitable depression. Consumer resistance has another practical draw-back. To live, people must eat. Formerly, people could substitute other and cheaper foods for meat as the chief source of the protein necessary for a well-balanced diet. But now substitutes are nearly as expensive as the basic proteins. ⁵³

Recommendations

Price control and rationing.—The renewal of price control, either with prices frozen at current levels, rolled back to June 1946 levels, or otherwise adjusted, was discussed by a great majority of the consumer witnesses. There was fundamental disagreement as to whether or not the controls which had been abandoned should be reimposed. In favor of their reimposition were spokesmen for such groups as the Progressive Citizens of America, Americans for Democratic Action, and the American Veterans Committee. Consumer spokesmen in the middle or upper income brackets often opposed the restoration of price control. Some witnesses felt that the Government should not only refuse to restore price control, but also abandon such other measures affecting prices and price levels as agricultural subsidy programs. Miss Elizabeth Ducey, of the Affiliated Milk Committee Consumers, Portland, Oreg., argued that milk prices in Oregon were maintained at unreasonably high levels by the action of the State milk control division which, she inferred, represented the producers more than the people. She did not advocate Federal price control for the consumers. ⁵⁴

The following quotations suggest the strong convictions of many witnesses favoring return of price control. Poulson, of the Veteran Home Buyers, Los Angeles, stated:

The absolute, fundamental necessity is the imposition of government controls rigidly enforced, like the OPA, whereby manufacturers will be allowed only a

⁵¹ Anderson, p. 2552.

⁵² Moore, p. 3424.

⁵³ Baliff, pp. 1210-1217.

⁵⁴ Ducey, p. 3124.

reasonable rate of profit, and will be forced to produce to their full capacity if they wish to maximize their profits rather than artificially curtail production as they are doing now.⁵⁵

This, of course, goes over into the whole field of profit as well as price control. Witt, of Los Angeles, stated:

The Progressive Citizens of America believes that the only real solution to high prices is establishment of a price control and stabilization program, including a substantial roll-back in present levels.⁵⁶

Mrs. R. M. Spencer, of the Denver League of Women Shoppers, after pointing out that the current inflation of prices is a grave hardship inflicted by a selfish few upon the American people and is laying the ground work for an eventual depression, contended that prices must be rolled back at least to where profits are no greater than during wartime. She continued by recommending that at first only such controls be introduced as permit quick action and minimum administration:

Immediate if limited results are of paramount importance. Controls can be extended later, but an immediate brake on prices is needed now.⁵⁷

In identically worded statements, two spokesmen for the American Veterans Committee, Ralph Spencer of Salt Lake City, and Genevieve Hellwith of San Francisco, took the over-all position:

The American Veterans Committee proposes the restoration of the Second War Powers Act which would give to the Administration the power to limit production of nonessentials and to distribute scarce materials such as steel and grain in such a way as to ease the inflationary pressure.⁵⁸

While many witnesses wanted prices rolled back to June 1946 levels, others contended this was impractical. Richard Huber of the Americans for Democratic Action stated:

The first thing, if possible, would be to put a freeze on. I don't think anybody in his right mind thinks that you can roll back prices very far. I think the important thing is to stop right where we are and try to stabilize.

He also saw the need for a wage freeze, but felt that one could not ask the laborer to accept this without a guaranty that he wouldn't be subjected to an increase in the cost of living.⁵⁹

There were also, of course, others who considered reimposition of price control either undesirable or impossible. Mrs. Lorentzen of the Salt Lake City Council of Women, stated:

The group of consumers I represent are definitely not in favor of the restoration of price control.⁶⁰

Similarly Mrs. Milliken, housewife, testifying in San Francisco, indicated she was not interested in having price control and rationing back with us.⁶¹ Others considered it politically impossible to get passage of price control.

Informal questionnaires which some groups had sent out also showed this division of opinion. A questionnaire sent out by the YWCA in Oakland showed 148 for and 39 against reestablishing price controls; 91 for and 69 against reestablishment of wage controls; and 62 for and 118 against reestablishment of rationing. Some

⁵⁵ Poulson, p. 2071.

⁵⁶ Witt, p. 2032.

⁵⁷ Spencer, pp. 505, 507, and 508.

⁵⁸ Spencer, p. 1250, and Hellwith, p. 2867.

⁵⁹ Huber, pp. 3980, 3981.

⁶⁰ Lorentzen, p. 1498.

⁶¹ Milliken, p. 2254.

qualified affirmative answers on price and wage control by such comment as "if black market can be kept under control."⁶²

Consumer-credit controls.—Despite disagreement on the resumption of price control, there was little if any question as to the desirability of maintaining those controls still in existence, particularly rent control, and of restoring consumer-credit controls. Charles Larowe of the King County [Washington] Young Democrats specifically recommended that Congress should restore the controls over installment buying and should give authority to the Board of Governors of the Federal Reserve System to raise reserve requirements of banks, as requested by that board.⁶³ A similar opinion on curtailment of installment buying was expressed by Mrs. Lorentzen of the Salt Lake City Council of Women.

Antitrust activity.—Considering the large number of witnesses who considered the exorbitant profits and the power of big business responsible for current high prices, few specific suggestions for curtailing these profits and this power were forthcoming. For example, George Ballif of the Committee of Utah Consumer Groups, stated:

We have the natural scarcities—those caused by exports, high purchasing power, and drought—which cannot wholly be controlled. But artificial scarcities, those caused by monopoly withholding its products from the market to cause scarcities and high prices, can and must be controlled.⁶⁴

However, he recommended strengthening antitrust legislation, specifically favoring passage of the Kefauver and O'Mahoney bills. In addition he contended that where present operators of production facilities of such commodities as steel refuse to expand to meet current and obvious future needs of an expanding economy, new facilities should be set up by government and cooperative action.⁶⁵

Another more comprehensive recommendation with respect to monopoly was that put forward by the Progressive Citizens of America in San Francisco as follows:

We call for a public investigation and a complete airing of monopoly practices in the United States—and of monopoly prices. We urge amendment and strengthening of our antitrust laws which have failed to halt the tremendous growth of American monopoly over a period of many years. We urge a program of aid to small business in America including creation of a Federal credit agency to lend money to small business at low rates and a special Department of Commerce program of expert research, engineering, and market service for small business.⁶⁶

Speculation on the various commodity exchanges, especially grain, should be curtailed or stopped altogether, according to several witnesses. Speculative activity was considered quite akin to the monopoly practices of big business. Thomas Moore (PCA, Oregon), stated:

We * * * still feel as a matter of expediency that board of trade speculative action should have been suspended during this highly dangerous inflationary period.⁶⁷

And Ballif, of Salt Lake City, similarly claimed:

Millions of dollars daily are added to the cost of living by men who do nothing to increase the yield of food and hinder rather than assist processes of marketing

⁶² Mrs. A. C. Zimmerman, p. 2751.

⁶³ Larowe, p. 3917.

⁶⁴ Ballif, p. 1224.

⁶⁵ Ballif, pp. 1288, 1289.

⁶⁶ McCarthy, p. 2778.

⁶⁷ Moore, pp. 3422-3423.

and distribution. It goes almost without saying that a government in the service of the people should stop at once this wasteful gambling in commodities.⁶⁸

Few witnesses seemed to recognize any value to be served by the commodity exchanges in the marketing process.

Taxation.—Probably the commonest proposal to curtail large profits was the reimposition of the excess-profits tax. Another tax measure proposed was the retention of Federal income taxes. However, a number of witnesses contended that the lowest income groups should have a higher personal tax exemption. A representative of the Progressive Citizens of America, Anthony McCarthy, also urged the elimination of sales taxes and excise taxes which hit the low-income groups.⁶⁶ On the other hand, Richard Huber, of Americans for Democratic Action, contended that additional taxes should be imposed on liquor, cigarettes, tobacco, night clubs, and other luxury items. He was, however, definitely opposed to a general sales tax.^{68a}

Consumer action.—Among the consumer witnesses there was considerable evidence of thought as to what the consumer himself might do to bring prices down. Some witnesses minimized the effectiveness of any consumer action, organized or unorganized. Others were convinced that intelligent purchasing on the part of consumers, participation in the various food-saving plans, and organization of consumer cooperatives and other marketing agencies which would cut down on the cost of distribution would have tangible results. Mrs. Wells, of the Utah State Home Economics Association, was especially positive as to the importance of intelligent consumer purchasing. As was mentioned above, she stressed the importance of determined individual effort to get the most for our money. She advocated that greater funds be made available to the Bureau of Human Nutrition and Home Economics of the United States Department of Agriculture, to make more consumer information and assistance available.⁶⁹ She stressed the importance of more education on nutrition, meal planning, food substitution, etc.

Miss Ava Milan, the dean of the home economics department of Oregon State College, summarized her recommendations as follows:

Means of education should be devised and set up speedily to help families to understand the emergency, the issues, and the way they can do something to improve or remove conditions that threaten their present living standards and their future security. We are convinced that families can do a great deal to curb inflation through careful buying, reducing waste, and the cautious use of credit. And that they will be moved to greater effort along this line if they can be assured that the Government is setting them a good example in thrift.⁷⁰

In San Francisco, the operation of a farmers' market created considerable interest on the part of the committee; its operation was discussed by a number of witnesses. The use of farmers' markets was suggested as one way in which consumers and producers together could be an effective force in keeping prices down.

Wage and income adjustments.—The hearings of the subcommittee afforded an opportunity for various groups to present their case for the need for an upward adjustment in income or wages. Various veterans' representatives asked for an increase in their allotments, particularly while in school. Harper W. Poulson, chairman of the Asso-

⁶⁶ McCarthy, p. 2778.

⁶⁸ Ballif, p. 1222.

^{68a} Huber, p. 3985.

⁶⁹ Wells, p. 1506.

⁷⁰ Milan, pp. 3290-3291.

ciation of Veteran Home Buyers of Los Angeles, expressed the veteran's needs most vividly as follows:

The answer to the veteran's dilemma is self-evident. Knock down the cost of living to where it belongs and you will have canceled out most of the discrepancy between the veteran's needs and his income. Actually, in many cases where a veteran's cost of living has doubled rather than rising a mere 58 percent, this is an overstatement, but it is certainly the most pertinent solution. Certainly a program of public low-rental housing to do the job private industry has completely failed to do will help. Certainly there must be an upping of the allowances if the GI bill of rights is to attain any real meaning and prove of any genuine benefit to most veterans. Will "less buying" do the trick? Gentlemen, the veterans I know could not buy less than they are unless they lived in tents, ate rice, stopped having babies, and probably stopped breathing.⁷¹

C. H. Fisher, of the Washington [State] Pension Union, said:

For a practical measure, we need more money to carry out the program [to provide more adequate old-age relief].⁷²

He recommended the appropriation of Federal funds for this purpose. Professor Sorensen referred to the need for increased teachers' salaries, especially if the cost of living were not reduced or stabilized.⁷³ Although with less frequency than did the labor-union spokesmen, some of the consumer witnesses also called for higher minimum wages and more extensive social security benefits.

Miscellaneous.—There were, of course, many other recommendations, varying in scope from such broad generalities as increased production and maintenance of full employment to such specific items as the discontinuation of State regulation of milk and the establishment of a fair employment practices act. Some will be referred to here. A more complete list is given in exhibit II at the end of this report. While there appeared to be general support for our foreign aid program and in favor of international cooperation, some witnesses considered a curtailment of exports of food and other items to Europe essential. There was considerable support for tariff reductions to improve world trade conditions, specific reference being made to reducing tariffs on wool and butter. Rigid export controls were advocated by others.

One witness stressed the need for the Government to cut down on its own expenses.⁷⁴ As was noted above, Sussman (Americans for Democratic Action, Portland) argued that the Steagall amendment agricultural price support programs should be terminated. Similarly Mrs. Lorentzen (Salt Lake City) recommended "that the Government abolish subsidies and let the pendulum of supply and demand adjust itself."⁷⁴ There were, on the other hand, witnesses with the exactly opposite suggestion—to have subsidies restored and the agricultural parity program extended.

⁷¹ Poulson, p. 2070.

⁷² Fisher, p. 4003.

⁷³ Sorensen, p. 357.

⁷⁴ Mrs. Lorentzen, p. 1498.

EXHIBIT I.—*Consumer and citizens' organizations represented by witnesses*

	<i>Number of witnesses</i>
I. Consumer and women shopper associations (2 in Denver, 2 in Salt Lake City, 1 in Los Angeles, 10 in San Francisco, 1 in Portland, and 1 in Seattle)-----	17
II. Young Women's Christian Association (1 in Salt Lake City, 5 in Los Angeles [including 3 called to give personal case histories], and 1 in San Francisco)-----	7
III. Other women's organizations (Congress of American Women, Seattle; League of Women Voters, Portland; National Council of Jewish Women, San Francisco; Salt Lake City Council of Women, Salt Lake City; Utah State Home Economics Association, Salt Lake City; Women's Auxiliary of Building Service Unions, Seattle)-----	6
IV. Veterans' organizations and representatives (American Veterans Committee (1 each in Salt Lake City, San Francisco, Portland, and Seattle); student veterans' representative, Denver; veteran home buyers, Los Angeles)-----	6
V. Progressive Citizens Association (2 in Los Angeles, 1 each in San Francisco, Portland, and Seattle)-----	5
VI. Americans for Democratic Action (Portland and Seattle)-----	2
VII. Democratic Party organizations, (Oregon Democratic Women, Portland; King County Young Democrats, Seattle)-----	2
VIII. National Association for the Advancement of Colored People (Salt Lake City and Los Angeles)-----	2
IX. Teacher and school representatives (excluding witnesses testifying as professional economists) (American Association of University Professors, Denver; Oregon State College; University of Oregon)---	3
X. Old-age and pensioner representatives (Townsend national-recovery plan, San Francisco; Washington Pension Union, Seattle; Utah State Old-Age Pension and Assistance Organization, Salt Lake City)-----	3
XI. Health and welfare organizations (Los Angeles County Tuberculosis and Health Association; San Francisco Child Care Council, San Francisco)-----	2
XII. Other citizens' groups (American Jewish Congress, north California division, San Francisco; California Legislative Conference, San Francisco; Unitarian Church Forum, Salt Lake City)-----	3
Total-----	58

EXHIBIT II.—*Summary list of recommendations made by representatives of consumers and citizens' associations testifying before the western subcommittee of the Joint Committee on the Economic Report, October 1947*

Price control and rationing:

Restoration of price control.

Restoration of price control freezing prices at present levels.

Restoration of price control with roll-backs to June 1946 levels.

Resumption of rationing of essential commodities.

Cooperation in voluntary conservation program but opposition to return of rationing.

Other Government controls:

Extension of rent control.

Extension of import-export controls.

Resumption of credit controls.

Return of the Second War Powers Act.

Wage control.

Raise reserve requirements of banks.

Antitrust:

- Strengthening antitrust legislation.
- Passage of Kefauver and O'Mahoney bills.
- Investigation of monopolistic practices and prices.
- Criminal proceedings against monopolies and trusts conspiring to fix prices.
- Establishment of competitive facilities by Government and cooperative action where present operators of facilities (especially steel) refuse to expand to meet current and obvious future needs.
- More ready access to capital for small business.
- Department of Commerce program of research for small business.

Speculation:

- Suspension of all speculation on commodity exchanges.
- Raising margin requirements for speculators.
- Prosecution of speculators who gamble in food prices.

Taxation:

- Reimposition of the excess-profits tax.
- Maintenance of present income-tax levels.
- Increase in personal-tax exemption for lowest-income groups.
- Elimination of sales taxes and excise taxes which hit the low-income group.
- Additional excise taxes on such luxury items as liquor, cigarettes, night clubs.

Consumer action:

- More intelligent consumer action in methods of shopping, use of substitutes, less waste, etc.
- Encouragement of farmers' markets and other marketing agencies which cut down the cost of distribution.
- Greater funds for the Bureau of Human Nutrition and Home Economics to make more consumer information and assistance available.
- Education on nutrition, meal planning, food substitution, etc.
- Cooperation in food-savings drives.

Wage and income adjustments:

- Higher veterans' benefits.
- Federal funds for more adequate old-age relief.
- Increased teachers' salaries.
- Higher minimum wages.
- More extensive social security benefits.
- Increase in scale and duration of unemployment insurance.

Foreign relations:

- Backing up the Government's foreign-aid program.
- Curtailement of food and other shipments to Europe.
- Strict export controls.
- Lower tariffs, especially on wool and butter.

Agricultural policy:

- Termination of agricultural price-support programs.
- Abolishment of subsidies.
- Restoration of subsidies.
- Expansion of parity farm legislation.
- Release of "huge stores" of Government wheat and cotton.

Other governmental action:

- Greater governmental economy.
- Enactment of fair-employment-practices legislation.
- Extension of regional development programs like the TVA.
- Public low rental housing.

Miscellaneous:

- Increased production (with special reference to steel and wheat).
- International cooperation.

I. SUMMARY OF TESTIMONY OF REPRESENTATIVES OF LABOR ORGANIZATIONS ⁷⁶

Representatives of labor organizations were heard by the members of western subcommittee of the Joint Committee on the Economic Report in each of the six western cities in which hearings were held. Altogether 28 representatives of labor organizations were heard; one or more others presented written statements to the committee. Exhibit I (p. 14) lists the labor organizations represented before the committee.

As is shown in this list, representatives of the State organizations of both the American Federation of Labor and the Council of Industrial Organizations in each of the five Western States—Colorado, Utah, California, Oregon, and Washington—were heard. The leading Los Angeles councils of both federations presented testimony. The National Federation of Post Office Clerks was represented in Salt Lake City, Los Angeles, Portland, and Seattle, as was the International Association of Machinists in Salt Lake City, Portland, and Seattle. Many smaller unions were represented by the National Labor Bureau in Los Angeles and Seattle. Altogether the testimony presented by these labor organization representatives filled about 560 pages of the stenographic transcript of the hearings (excluding additional statements put into the record), or approximately 14 percent of the entire stenographic transcript. This does not include the testimony of consumer group representatives or of citizens' organizations, which often expressed views similar to those of labor-union spokesmen. Thus, it is evident that the major segment of organized labor was able to get its views concerning the high prices of consumer goods presented to the committee in ample scope.

Nature of the testimony

Most of the testimony presented by labor-organization representatives can be readily grouped into three segments: (1) Data showing the increased cost of living, higher prices, higher profits, and a slower increase in wage rates and workers' income since June 1946; (2) testimony fixing the responsibility for the increased prices and correspondingly lowered real income of workers, most commonly on monopoly and excessive profits of big business; and (3) recommendations as to what steps should be taken to alleviate these conditions. The first segment is by far the most voluminous. No union failed to present some data showing the rapid increase in prices of basic commodities, particularly food staples, and the resulting hardship on workmen and their families. There was less unanimity in placing the responsibility for the high prices, although there was almost universal agreement that wages of organized labor and labor unions were not responsible. Recommendations took on a wide scope. In many cases the labor spokesmen presented no specific recommendations.

Statistical data.—Statistics presented to the committee were of many different sorts, including both local and national data. These included increases in consumer prices, both actual prices and index numbers, principally from June or July 1946 to June to October 1947; increases in wages, take-home pay, and annual income during the

⁷⁶ Except where otherwise indicated, all references are to the stenographic transcript of hearings before the western subcommittee of the Joint Committee on the Economic Report, *Prices of Consumers' Goods*, October 1947, pagged consecutively in 17 volumes, 4,013 pages.

same time, which were always smaller on a percentage basis; profits of corporations; concentration of ownership and control of industry; price increases of manufactured goods believed to be necessary to offset wage increases compared with actual price increases.

The principal sources of data were, first of all, the Bureau of Labor Statistics indexes, and then for comparison the Heller committee budget. The latter is a standard budget for a family of four, including all items of family expenditure as priced in representative San Francisco stores. It is prepared by a research committee of the economics department of the University of California. As it includes income and pay-roll taxes, which are excluded from the Bureau of Labor Statistics Cost of Living Index, the Heller budget tends to show a greater increase than do the BLS figures. The Federal Reserve Board study, Survey of Consumer Finances (Federal Reserve Bulletin, June-August 1947), was frequently cited. The Nathan report on the extent to which various industries could increase wages without increasing prices was cited by a number of the CIO representatives. Corporate-profit statistics were quoted from numerous sources, including the National City Bank Letter.

The Bureau of Labor Statistics index was criticized on three counts: (1) The fact that it was often out of date by the time it appeared; (2) its failure to include taxes; and (3) more generally, its alleged underestimate of rent factors, especially in a situation where many persons are unable to rent and are forced to buy houses at high prices.⁷⁶

The relatively poorer position of organized workers in 1947 than in 1946 was stated in a variety of ways. The following may be considered representative:

Fifty-one million wage and salary workers are supporting about four-fifths of the American population with 10 percent higher income, while paying living costs that have advanced 30 to 40 percent.⁷⁷

While most of the consumer goods price data were on a basis comparing the middle of 1946 with the middle of 1947, there were numerous statements that workers were worse off than in 1939, before the war. Ozanne (AFL, Colorado) said:

We are getting a far smaller share of the national income now than we did in 1939 or in 1945 or in 1946.⁷⁸

and Gust Anderson (AFL, Portland):

The average laborer and wage earner has fallen behind the cost of living and is in an actual much worse position today than in the year 1939.⁷⁹

Noe Perelman, speaking for the post office clerks, showed comparisons, derived from the United States News, on basic food prices in 1939 and in 1947 and incomes required in 1947 to have equal buying power of certain incomes in 1939; he claimed that postal employees would require substantial pay increases to achieve a 1939 purchasing power level.⁸⁰

The statistics were also accompanied, as a rule, by warnings and forebodings as to what would happen if the inflationary price rises were not brought to a halt, either through reimposition of some

⁷⁶ See Ozanne, p. 586; Burford, p. 1784; and Eden, p. 2806.

⁷⁷ Rosati, p. 538.

⁷⁸ Ozanne, p. 511.

⁷⁹ Anderson, p. 3503.

⁸⁰ Perelman, pp. 2227-2228.

controls or by other means. Far-reaching consequences, such as the "collapse of the entire economy," were forecast. Our "democratic way of life" was considered jeopardized. In fact, more than one witness suggested that Government controls were essential to the restoration of a free competitive economy. Among the more specific reasons given by Ozanne (AFL, Colorado) for the need for controlling prices were the outlook for increased labor-management conflicts, the cessation of industrial expansion, and the increased disparity of income between rich and poor if prices continued to climb.⁸¹ Rosati (CIO, Denver) added that aid required by Europe would be made increasingly expensive with climbing prices.⁸²

Responsibility for high prices

That union activities or wage rates were responsible for the current level of prices was denied with emphasis by virtually every labor spokesman. The statement was made repeatedly that increased prices have consistently preceded demands for high wages, and that wages generally lag behind increases in living costs. Mr. Temple (International Machinists, Utah) said:

The upward wage adjustments always lag from 6 to 10 months behind upward price adjustments.⁸³

It was pointed out that prices have increased most in the case of farm products in which labor is unorganized and of less cost significance than in much of manufacturing. Figures were submitted to show that prices were not higher in cities where labor is highly organized than in others where a smaller percentage is organized.

It was also frequently reiterated that food exports were not responsible, or were responsible only to a very limited extent, for high food prices. An exception was Latter (AFL, Utah) who considered exports as a major factor in high prices.

The great majority of labor spokesmen placed the blame for high prices on high profits and monopoly control. Such phrases as "profiteers in industry and commerce," "exorbitant industry profits," "high profits of corporations," "monopoly profiteering," and "monopolistic controls" abound in the testimony. A number of witnesses refer specifically to increased margins of producers, processors, and various distributors as primarily responsible. Anderson (AFL, Portland) stated:

Much of the high cost of food in particular is brought about by increased profits of the processor, the middleman, and of the final retail agency.⁸⁴

Burford (CIO, Los Angeles) said:

just about everybody is taking it in the neck with the exception of a small group of corporations and large finance houses that own the basic industry of this country.⁸⁵

Eden, of San Francisco (also CIO), similarly contends that price increases are possible because—

these industries are monopoly industries, they arbitrarily fix their prices and charge whatever they see fit to charge.⁸⁶

⁸¹ Ozanne, pp. 503, 595.

⁸² Rosati, p. 542.

⁸³ Temple, p. 1390.

⁸⁴ Anderson, p. 3499.

⁸⁵ Burford, p. 1821.

⁸⁶ Eden, p. 2800.

Again, Montgomery (CIO, Seattle) stated that—

the responsibility for the situation we find ourselves in * * * lies in the monopolistic controls which create the artificial shortages and hold prices high by refusing to place the things on the market that the people need.⁸⁷

In contrast to this chorus of objection to monopolies was the testimony of one witness, Foster (CIO, Portland). He pointed out that—

lumber and food are less monopolized than some other industries, yet they are the worst inflated since the war. So we think the logical conclusion is that prices were forced up by laws of supply and demand.⁸⁸

It was frequently alleged that the abandonment of price controls in 1946 was a serious error. Members of Congress were criticized for their part in the termination of the price-control program; even more frequent was the censure of business interests for its part in the fight against price controls. The National Association of Manufacturers was criticized for having predicted that abandonment of price controls would result in increased production and in more reasonable prices. Many labor witnesses claimed that business interests were intentionally thwarting any expansion of production in the fear of over-expansion. Steel was cited most often as an industry in point. The most commonly expressed explanation for this situation was the undue concentration of industry in a few hands. DeLacy (International Machinists, Seattle) testified:

The reason there is a lot of production and [in spite of high production] the prices are up is that this handful of people own the economy and shake the American people down for everything they have.⁸⁹

Recommendations

There was great diversity in the recommendations submitted by witnesses, in contrast to their general agreement in their statistical evidence, in acquitting labor of responsibility for high prices, and in pinning responsibility on monopoly profits. Among the most common of the recommendations were price control, rationing of limited essential commodities, an excess-profits tax, stricter enforcement of antitrust legislation, and regulation of speculation on commodity, especially grain, exchanges. They ranged from such general recommendations as increased production (in which failures to increase production were generally held to be due to management's refusal to expand capacity or to other elements of production rather than to labor) and wider education in the nature of price mark-ups, profits and wages after taxes, and effects of speculation in stocks or commodities,⁹⁰ to specific objection to a California law requiring bars to be equipped with kitchens and food. This was said to result in tremendous waste of food, \$12,000,000 worth in 1946.⁹¹ A list of these recommendations, classified by subject, is given in exhibit II, this chapter.

Price control and rationing.—Price control and rationing were the subjects on which recommendations were most common. However, there was a considerable divergence as to how far controls which had

⁸⁷ Montgomery, p. 4006.

⁸⁸ Foster, p. 3341.

⁸⁹ DeLacy, p. 3871.

⁹⁰ Temple, p. 1398.

⁹¹ Johnston (National Labor Bureau), p. 2152.

been abandoned should be reimposed. This was one case in which the testimony of the AFL and CIO witnesses was almost uniformly divergent, the AFL witnesses favoring reimposition of controls only as a last resort and if kept to a minimum, while the CIO representatives wanted immediate return to general price control and rationing, and frequently called for a roll-back in prices to June 1946 levels.

No faith in the efficacy of voluntary rationing or buyers' strikes was expressed by any witness. Gilbert (AFL, Los Angeles) said:

Voluntary action on the part of the producers and distributors of key goods and commodities is not enough to bring about the orderly reduction in price levels which is indispensable to continued maximum employment.⁹²

There was no dissent from the recommendation that controls still in effect should be maintained. This referred principally to rent control, which some witnesses wanted strengthened and others extended to establish ceiling prices on the sale of houses. There was also the recommendation to continue the credit controls then in effect. While most CIO representatives wanted prices rolled back to June 1946 levels, at least one, Morris (CIO, Utah) was content to have them frozen at current levels. Morris also submitted a proposal for profit control as distinguished from price control, which would limit profits "to a fair return on investment."⁹³

Most witnesses felt that rationing should be kept at a minimum. Morris thought it should be imposed "only where absolutely necessary"⁹⁴ and "limited to the necessities of the situation."⁹⁴ Gilbert (AFL, Los Angeles) would limit rationing to scarce food items "to the extent necessary to assure their equitable distribution."⁹⁵

Johnston (National Labor Bureau, Los Angeles) submitted an elaborate plan for controlling prices on an area-by-area basis,⁹⁶ and Potts (Federation of Post Office Clerks) favored—

immediate enactment of legislation to establish price controls on all commodities, and any other legislation calculated to result in stabilization of the American dollar.⁹⁷

Antimonopoly.—Several witnesses appealed for a more vigorous enforcement of the antitrust laws; a number suggesting that appropriations for the Antitrust Division of the Department of Justice should be increased. Burford (CIO, Los Angeles) considered it particularly important to prosecute the "real monopolies" in steel, oil, rubber, and meat packing.⁹⁸ Among the detrimental practices which the witnesses suggested that the United States Government should try to attack were the control and absorption of small firms by large firms, the price-fixing policies of certain companies, the practice of some monopolistic industries of curtailing production and distribution and refusing to increase capacity, and various kinds of collusive activity.

Besides curtailing the abuses of monopolistic big business, the Government should, according to some of the AFL witnesses, positively encourage small business. The most common device proposed to achieve this end is providing of risk capital to new businesses by means of Reconstruction Finance Corporation, or comparable long-term, loans.⁹⁹

⁹² Gilbert, p. 2183.

⁹³ Morris, p. 1136.

⁹⁴ Morris, p. 1137a.

⁹⁵ Gilbert, p. 2187.

⁹⁶ Johnston, p. 2155.

⁹⁷ Prepared statement submitted with testimony.

⁹⁸ Burford, p. 1819.

⁹⁹ See, for example, Gilbert, p. 2187, and Ozanne, pp. 608, 654.

Speculation.—There was general agreement that grain speculation should be strictly controlled. Ozanne (AFL, Colorado) held that margin requirements in the grain market should be raised to 100 percent to curb speculation.¹ Latter (AFL, Utah) proposed a 50-percent margin in all commodity futures.² There was some demand for the Government to put an end to all speculation on commodity exchanges. Mrs. Johnson (AFL auxiliary) suggested that the Government should release its stores of wheat and cotton, and that firms should place their excessive inventories on the market for the benefit of consumers.³

Housing.—Second only to the problem of the high price of food—certainly the No. 1 concern of all witnesses analyzing the cost of living—is that of housing. Numerous suggestions as to the stimulation of housing construction were proposed. As a start, Ozanne (AFL, Colorado) favored passage of the Taft-Ellender-Wagner housing bill.⁴ Eden (CIO, California) favored a Federal housing program that would bring about construction of 1,750,000 houses annually for the next 10 years.⁵ A long-range low-cost housing program appeared to be a generally accepted objective.

Taxation.—No expression of popular sentiment would be complete in a congressional hearing without a consideration of taxes and tax relief. A twofold tax proposal was commonly made by the labor witnesses. On the one hand, the great majority recommended the reimposition of excess-profits taxes. Some specifically stated, and others implied, that they should go back to wartime levels. There was also a common plea for lower or “more equitable” personal income taxes on the lower incomes. This, it should be noted, was not as generally asked for as was the reimposition of excess-profits taxes. Here again it appears that the AFL witnesses tended more to stress the reimposition of wartime excess-profits taxes, and the CIO the granting of tax relief to low-income brackets. Eden (CIO, California) lumped all together in wanting—

imposition of taxes on speculative, undistributed and excess profits and an increase in personal income-tax exemptions.⁶

Ozanne (AFL, Colorado) wanted tax relief limited to those groups which have not shared in the tremendous increase in national income.⁶ One lone voice spoke up for repeal of the discriminatory taxes on margarine.

Wage increases.—Wage increases were proposed by some of the labor leaders. The CIO position, as taken by Burford (CIO, Los Angeles) and Eden (CIO, San Francisco) was that another round of wage increases would be necessary (and would be possible without price increases) unless Congress took immediate and successful action in restoring price control and rationing. The inference was that Congress would not take sufficient anti-inflationary action, and that the CIO was therefore justified in calling for another round of wage increases. Certain special groups pleaded for wage increases. Either specifically or implicitly most of the witnesses of the National Federation of Post Office Clerks appealed for higher salaries for postal

¹ Ozanne, p. 655.

² Latter, p. 1135.

³ Johnson, p. 1245.

⁴ Ozanne, p. 639.

⁵ Eden, p. 2819.

⁶ Ozanne, p. 618.

employees. Harold Orr, president of the Los Angeles Federation of Teachers, pleaded for higher teachers' salaries as well as for Federal aid to education.⁷

Other benefits for labor were recommended, although in less detail than might perhaps have been expected. At least two witnesses, Foster (CIO, Oregon) and Ozanne (AFL, Colorado), called for repeal of the Taft-Hartley Act.⁸ Gilbert (AFL, Los Angeles) asked for an increase of minimum wages under the Fair Labor Standards Act of 75 cents an hour, and the extension of social-security legislation, both as to the scale of payments and coverage of workers.⁹ Fisher (CIO, Washington) also favored revision and extension of Federal social security.¹⁰

Exports.—Most of the witnesses did not want the relief shipments overseas curtailed. Only one, Latter (AFL, Utah), specifically wanted to limit exports of wheat to no more than 20 percent of the 1947 wheat crop.¹¹ He also contended that there should be export controls on all goods in short supply or higher than average in price.¹¹ Jordan (International Association of Machinists, Denver) in his submitted statement also favored regulating food exports.

Freight rates.—One recommendation which was more regional in character than most mentioned thus far, was mentioned by at least three California witnesses. This was the control or removal of discriminatory freight rates which operated, according to their statements, against the interests of the West, and its consumers. They protested particularly the transportation charges on commodities priced on a basing-point formula in which cost is computed from some eastern point, such as Detroit or Pittsburgh, although actual production or assemblage may have occurred in California. They cited the case of a charge of \$182 for distribution and delivery of a Ford car in San Francisco, the car being probably assembled in Richmond, right across the bay.¹²

Miscellaneous.—Two brief recommendations which are not readily classifiable in any of the categories considered thus far are that of Latter (AFL, Utah), favoring the limitation of raw materials for alcohol manufacture to sources in ample supply, instead of scarce grains,¹³ and Gilbert's (AFL, Los Angeles) proposal for the promotion of credit unions and cooperatives.¹⁴

Ellery Foster (CIO, Portland) made an unusual recommendation for the reorganization of the entire corporate structure. In his prepared statement he said:

American corporations are engaged in wholesale robbery, extortion, and enslavement of the individual American consumer, worker, farmer, and small-business man. Instead of operating to protect the rights of the individual, our Government is being operated to protect and advance the interests of corporations which exploit the people. * * * Corporations are so powerful that they cannot safely be permitted the same profit motive which impels the individual; it is too easy for them to exploit the public in pursuing that motive.¹⁵

⁷ Orr, p. 1770.

⁸ Foster, p. 3352; Ozanne, p. 639.

⁹ Gilbert, p. 2199.

¹⁰ Fisher, p. 3815.

¹¹ Latter, p. 1185.

¹² Eden, p. 2812.

¹³ Latter, p. 1186.

¹⁴ Gilbert, pp. 2187-2188.

¹⁵ Foster, p. 3347.

Foster argued that corporations are collective enterprises which should be owned and controlled by the people who buy the goods and services which that enterprise produces.

If each corporation was owned by its customers—

he argues—

corporations would no longer contribute to inflation by boosting their prices to take advantage of scarcity.¹⁶

Conclusion

The labor representatives, like industry, trade, farm, and consumer witnesses, appeared as spokesmen for a particular interest group, and presented data, arguments, and recommendations which were most sympathetic to the persons and interests they represent. For example, data comparing the decrease in real wages from June 1946 to the summer of 1947 utilized a time period that showed labor's case to particularly good advantage. Other periods could be selected to show a comparison less favorable to labor's case. Monopoly and high profits undoubtedly involve certain inequalities and injustices, but little clarification was effected by tying monopoly and the high concentration of industry to the current price rises, since these occurred to a major extent in the most competitive fields, such as food production and processing, textiles, and lumber.

Certain aspects of the inflationary price problem received little or no attention. For example, the effect of the increased amount of money in circulation and possibility of monetary and banking reforms was hardly touched. There was little discussion of the relationship of productivity of labor to wages. Although the possible desirability of longer working hours was broached a number of times—the labor spokesmen generally opposing lengthening the workweek—no data were presented showing how many hours of work per person per week is most productive in various industries. Few data were presented on the distribution of the consumer dollar between wages, material, farm income, taxes, and individual and corporate profits.

EXHIBIT I.—Labor organizations represented by witnesses before the Western Subcommittee of the Joint Committee on the Economic Report, October 1947.

I. American Federation of Labor:

California State Federation of Labor, John F. Shelley, president.

Colorado State Federation of Labor, Robert Ozanne, director of education and research.

Utah State Federation of Labor, Fulmer H. Latter, president.

Washington State Federation of Labor, Albert Kennedy, legislative representative.

Los Angeles Central Labor Council, Robert W. Gilbert, attorney.

Portland Central Labor Council, Gust Anderson, secretary-treasurer.

Los Angeles Federation of Teachers, Local 430, Harold L. Orr, president.

American Federation of Labor Auxiliaries, Mrs. L. R. Johnson, Salt Lake City, Utah.

National Federation of Post Office Clerks:

Utah State representative, Ivan J. Mathis.

Local 28, Seattle, Wash., Frank Erb.

Local 64, Los Angeles, John Mackay, president, and Noe Perelman, legislative chairman.

Portland, Oreg., John H. Potts, representative.

¹⁶ Foster, p. 3348.

II. Congress of Industrial Organizations:

- California CIO Council, Paul Pinsky, research director, and Philip Eden, research department of the California CIO Council.
- Colorado State Industrial Union Council, Eugene Rosati, secretary-treasurer.
- Utah State Industrial Union Council, Willard Y. Morris, legal counsel.
- Washington State Industrial Union Council, A. A. Fisher, secretary-treasurer, and Vivian Stocker, member of Office and Professional Workers Union No. 35, representing social service groups in Seattle.
- Los Angeles CIO Council, James Burford, director of political action committee, "a subcommittee of the Los Angeles CIO Council." Called by Mr. Burford as additional witnesses were Mrs. Ethel Renfro, wife of a UAW member; Wilbur Ross, steel worker; and Mildred Hurt, Los Angeles County General Hospital.
- International Woodworkers of America and Oregon State Industrial Union Council, Ellery Foster, research director of the International Woodworkers.
- Food, Tobacco, and Allied Workers, Seattle, Robert H. Kinney and Jack Montgomery.

III. International Association of Machinists:

- Regional grand lodge representative, Denver, Colo., W. B. Jordan, who presented written statement but did not appear as a witness.
- Grand lodge representative, Salt Lake City, Utah, Tom H. Temple.
- Machinists' Union Local 79, Seattle, Hugh DeLacy.
- Portland, Oreg., Charles F. West.

IV. National Labor Bureau (representing miscellaneous unions, including both AFL and CIO unions):

- Daniel Johnston, director of National Labor Bureau for Los Angeles.
- Clifford D. O'Brien, northwest director of National Labor Bureau.

EXHIBIT II.—*Summary list of recommendations made by labor representatives testifying before the western subcommittee of the Joint Committee on the Economic Report, October 1947*

Price control and rationing:

- Maintenance of rent control.
- Maintenance of credit controls.
- Reimposition of limited price controls and rationing, restricted to minimum essentials.
- Rolling back of prices to June 1946 levels.
- Freezing prices at present levels.
- Establishment of a system of area price-adjustment boards under an office of commodity price adjustment.

Antimonopoly:

- More vigorous enforcement of antitrust laws.
- Larger appropriations for the Antitrust Division of the Department of Justice.
- Prosecution of "monopolies" in steel, oil, rubber, meat packing.
- Control over absorption of small firms by large firms.
- Control over price-fixing policies of large firms.
- Control over curtailing of production and distribution by certain monopolistic industries.
- Prevention of collusive activity.

Speculation:

- Control over food, especially grain, speculation.
- Increasing margin requirements in grain market to 100 percent; in commodity markets generally to 50 percent.
- Ending all speculation on commodity exchanges.
- Release of Government stores of wheat and cotton.
- Excessive corporate inventories to be placed on the market to benefit consumers.

Housing:

- Long-range, low-cost housing program.
- Federal housing program that would bring about construction of 1,750,000 houses annually for the next 10 years.
- Passage of the Taft-Ellender-Wagner housing bill.

Taxation:

- Reimposition of excess-profits taxes.
- Increase in personal income tax exemptions.
- Tax relief for those groups which have not shared in the increases in national income.
- Repeal of discriminatory taxes on margarine.

Wage increases:

- General round of wage increases, especially if Congress fails to restore price control and rationing.
- Wage increases to post-office workers.
- Wage increases for teachers, and Federal aid to education.

Other labor benefits:

- Repeal of the Taft-Hartley Act.
- Increase minimum wage level under Fair Labor Standards Act to 75 cents an hour.
- Extend social-security legislation, both as to scale of payments and coverage of workers.

Shipments abroad:

- Continuation of relief shipments abroad.
- Limitation of wheat exports to 20 percent of 1947 wheat crop.
- Export controls on all goods in short supply or higher than average price.

Freight rates:

- Ending of freight-rate discrimination against the West.
- Ending of basing point system which thwarts western development and increases prices to western consumers.

Miscellaneous:

- Increase in production.
- Making risk capital more readily available to small and new business, through Reconstruction Finance Corporation or other comparable loans.
- Promotion of credit unions and cooperatives.
- Widespread education on profits, wages after taxes, effects of speculation, etc.
- Limiting alcohol manufacturers to sources in ample supply, instead of scarce grains.
- Amendment of California law requiring bars to be equipped with kitchens and food.

PART IV. REPORT OF MIDCONTINENT SUBCOMMITTEE¹ TO THE JOINT COMMITTEE ON THE ECONOMIC REPORT

SUMMARY AND CONCLUSIONS

Scope of hearings

During the congressional recess from September 23 to October 17, your subcommittee held 15 days of hearings in four major centers and two smaller communities in the midcontinent area. The hearings were aimed at determining the extent of price maladjustments, the effect of these maladjustments on various economic groups, and positive remedial proposals to safeguard the stability and healthy functioning of the economy. The subcommittee heard a large number of scheduled witnesses, who testified as individual experts or as representatives of various groups. In addition, every person who asked that he be heard was given an opportunity to present his views. Witnesses came from all walks of life. Among the groups prominently represented were consumers, labor, welfare agencies and organizations, veterans, farmers, and businessmen, including manufacturers, wholesale and retail distributors, food processors. In all, the subcommittee heard 257 witnesses. The date and place of hearings and the number and type of witnesses are shown below.

¹ Mr. Huber participated in only 2 hearings with this subcommittee and then transferred to Western Subcommittee for all its hearings. He joined with latter subcommittee in its conclusions and recommendations and therefore did not participate in the Midcontinent Subcommittee report.

Place and dates of hearings and number and type of witnesses

City	Date of hearings	Total number of witnesses	Number of various type witnesses					
			Con-sumer	Labor	Farm	Vet-eran	Busi-ness	Other
Cleveland, Ohio.....	{ Sept. 23 Sept. 24 Sept. 25 Sept. 26 }	73	35	13	1	1	19	4
Chicago, Ill.....	{ Oct. 1 Oct. 2 Oct. 3 }	58	25	13	-----	4	16	-----
Minneapolis, Minn.....	{ Oct. 7 Oct. 8 Oct. 9 }	49	21	7	4	5	12	-----
Ottawa, Kans.....	{ Oct. 13 Oct. 14 }	14	7	1	2	2	2	-----
Columbia, Mo.....	{ Oct. 15 Oct. 16 Oct. 17 }	21	15	-----	-----	1	4	1
Kansas City, Mo.....	{ Oct. 15 Oct. 16 Oct. 17 }	42	12	12	2	2	14	-----

Magnitude and effects of price increases

The 257 witnesses were practically unanimous in their testimony that recent price rises, particularly in consumer items, were creating a grave national problem. In general, witnesses described the magnitude and effects of inflation in qualitative, often highly personal, terms. They envisioned a serious decline in the standard of living, and an unbalanced movement of the economy into a period of falling prices and recession.

Spokesmen from consumer and labor groups emphasized the acute pressures upon their people of the rising costs of consumer items. They pointed out that in the case of food not only had the price rises been steep—and this applied even to normally low-cost staples—but that since food purchases could not be deferred, the impact of the price rises was felt immediately and painfully. Witnesses asserted that families in the low- and fixed-income brackets were already suffering malnutrition as a result of food-price increases. The sharp price rise in other commodities, particularly clothing, also had an adverse effect upon purchasing power and standard of living of the average consumer; but here the consumer had greater flexibility in the timing and quality of his purchases, which gave him some recourse from price advances. There was little discussion of rents by the consumer and labor witnesses. Their testimony reflected the fact that this consumer item had remained relatively stable and that they anticipated a continuation of rent control with no substantial increases. A few witnesses who talked about rents at greater length were anxious that there be no rise in this major element of the cost of living. Since rents constitute one of the largest segments of a family budget, and shelter is an item which cannot be postponed, they voiced the fear that a rent increase would make acute the plight of tenants, whose standard of living had already been pushed down by rising food, clothing, and other prices.

General consensus of opinion among consumer and labor witnesses was that in the small-income groups, price increases were inflicting real hardship; in the moderate-income groups, they were lowering standards, creating insecurity by exhausting current resources and depleting savings.

Deep and genuine concern over price rises was expressed also by the business groups, although their testimony may not have struck the same personal note as that of the preceding group. Some businessmen told the subcommittee that prices were getting out of balance. They were fearful that an acceleration of the inflationary spiral would hurl us into economic chaos. A few businessmen said that the price adjustments which had been made to date were healthy and were a necessary feature of the supply and demand relationships of a free enterprise economy.

Uneasiness as to their own individual economic futures was evidenced by retail merchants, including food distributors and department-store executives. These businessmen were apprehensive lest they be caught in the middle of excessive price adjustments upward followed by abrupt downward adjustments. Some witnesses said that in order to avoid possible devaluation of large inventories, they were purchasing on a much shorter term basis than their normal prewar pattern, thereby contributing to instability and the price collapse from which they sought to protect themselves. Witnesses anticipating still further rises in prices believed that eventual readjustments would involve us in a major business recession.

Extent of price increases

The accompanying table gives a picture of the nature and extent of price changes since the beginning of the war and particularly of the marked inflationary trend which has occurred since the spring of 1946.

Percentage increases in consumer and wholesale prices during specified precontrol, control, and postcontrol periods. August 1939 to August 1947

	Total period, August 1939 to August 1947	34-month precontrol period, August 1939 to May 1942	49-month control period, May 1942 to June 1946	14-month postcontrol period, June 1946 to August 1947
Percentage increase during each period				
Consumer prices:				
All items.....	62.6	17.6	14.9	20.3
Foods.....	110.2	30.1	19.7	35.0
Clothing.....	85.3	25.8	24.6	18.3
Rent.....	6.6	5.4	-1.3	2.5
Fuel, electricity, and ice.....	27.0	7.6	5.3	12.0
House furnishings.....	83.1	21.5	27.7	18.0
Miscellaneous.....	39.2	10.5	15.3	9.3
Wholesale prices:				
All commodities.....	104.8	31.7	14.3	36.0
Farm products.....	197.9	71.1	34.2	29.7
Foods.....	156.4	47.2	14.2	52.6
Other.....	69.8	19.5	10.3	28.8

Reasons for price increases

All witnesses agreed that since the end of the war this Nation has been faced with a demand in excess of available supplies. Some witnesses maintained that the price adjustments were healthy and part of an over-all adjustment from a regulated and controlled wartime economy to an economy in which demand and supply freely react upon each other. But a far larger number of witnesses believed that various economic groups have tried to take advantage of other economic

groups and to secure higher prices, profits, or wages for their own benefit and to the detriment of the national economy.

Representatives of consumer and labor groups felt that excessive profit taking in a period of decontrol was the most important factor. On the other hand, a number of the witnesses, particularly from business groups, stated that an important factor in the present price rise was the high postwar wage level and the continual pressure for higher wages. Some businessmen stated that inadequate production efforts were contributing to inflation. A few witnesses, as has already been mentioned, felt that the recent price trends were a part of a necessary postwar readjustment of the economy, taking into account new levels of major cost factors, including the cost of the contributions of all sectors of the economy—labor, business, agriculture, raw material producers, etc. Such witnesses believed that the situation was substantially under control and that any maladjustments were entirely temporary and would right themselves.

Your subcommittee believes that no constructive purpose is served by mutual recrimination, with each major group in the economy seeking to find the reasons for current inflation in the behavior of other groups. The sterility of this type of approach, in which business as a whole or labor as a whole is blamed is apparent if we get down to specific cases. For example, the greatest difficulties have been caused by increases in prices of farm products and foods. If farm-income levels are examined in relation to other sectors of the economy, however, we find that per capita income on the farm is still substantially below that of national per capita income.

COMMENTS ON CHANGES IN CONSUMER PRICES

All items

In the 14 months (June 1946 to August 1947) after price control, consumer prices rose 20 percent, or more than they did during the 49-month price-control period, May 1942 to June 1946, or the preceding 34-month period of rising prices from August 1939 to May 1942. The average price increase per month during the postcontrol period has been five times as great as during price control. The rate of increase has been two and one-half times the average rate of the pre-control period.

Foods

The largest consumer-price increases since June 1946 have been in food. The increase of 35 percent is about twice as great as the increase in either clothing or house furnishings. It is about three times as great as the increase in fuel, electricity, and ice costs, and four times as great as the increase in cost of miscellaneous items. The percentage increase in food prices is 14 times as great as the percentage increase in rents since June 1946.

Clothing and house furnishings

The prices of clothing and house furnishings have both increased almost 20 percent in 14 months since price control, but have not increased as much as they did during the 49-month price control and

34-month precontrol periods. The average increase per month in the postcontrol period has been greater than the previous periods.

Average price increase per month in postcontrol period

	Compared with—	
	Price-control period	Precontrol period
All items.....	5 times.....	2½ times.
Food.....	6 times.....	3 times.
Clothing.....	2½ times.....	1½ times.
House furnishings.....	2 times.....	2 times.

Per capita net income of persons on farms and persons not on farms

Year	Persons living on farms	Persons not living on farms	Year	Persons living on farms	Persons not living on farms
1935-39 average.....	\$243	\$603	1944.....	\$688	\$1,290
1940.....	258	597	1945.....	702	1,279
1941.....	350	826	1946.....	779	1,288
1942.....	505	1,027	1947 (estimated).....	900	1,440
1943.....	676	1,223			

Source: Department of Agriculture.

Under these circumstances, it has little merit or sense to suggest that the farmer has taken undue advantage of other sections of the community. Farm income has traditionally lagged behind that of the rest of the country. Farm prices have been sensitive to the supply-demand relationship and rarely since 1921 has the farmer enjoyed a relatively secure economic position. If the economic condition of the farm group as a whole has improved, there are few who would ascribe a profiteering motive to the farmer. It is generally recognized that the farmer has for long been economically disadvantaged, and there is little resentment against him if he now profits from those supply-demand relations which for a quarter of a century have kept him at the bottom of the ladder.

The subcommittee had no opportunity to study the distribution of income as among individual farm groups by type of commodity and size of enterprise. It is possible that the increase in farm prices has inured largely to the benefit of a relatively small number of farmers. The subcommittee wishes to note this fact, however: That in the course of the hearings a number of representatives of farm groups testified that they had derived very little benefit from the recent agricultural price increases.

There has been some tendency to attribute food-price increases to the activities of food processors and distributors. Data showing the break-down of the consumer-food dollars as between farm and marketing charges are shown below.

Farmer's share of the consumer dollar

[Based on Department of Agriculture figures for the annual food purchases of a family of 3 average consumers at 1935-39 level]

Year or month	Retail value	Farm value	Marketing margin	Farmer's share	Marketing charges
				<i>Percent</i>	<i>Percent</i>
1935-39 average.....	\$340	\$137	\$203	40	60
1940.....	317	128	189	40	60
1941.....	347	154	193	44	56
1942.....	407	196	211	48	52
1943.....	458	236	222	52	48
1944.....	451	237	214	53	47
1945.....	459	247	212	54	46
1946.....	529	282	247	53	47
May 1946.....	474	250	224	53	47
July 1947.....	639	333	306	52	48

The conclusion that there has been profiteering at the processing and distribution levels would only be justified if one had expected the percentage mark-up for marketing charges to decline as prices went up, as happened during the wartime period of price control. Actually the percentage mark-up has remained almost stationary and marketing income has increased in direct proportion with farm income.

Any examination of the agricultural and food price picture would be incomplete if it did not recognize the important part played by exports in maintaining high prices. While the proportion of total farm products exported appears on the surface to be comparatively small, it is substantially higher than in any previous years. Moreover, it represents a very large proportion of the total production of grains, particularly wheat. Indeed, it is recognized that the wheat supply and demand situation is such that if foreign shipments were not being made the bottom would literally drop out of wheat prices. Low wheat prices would have immediate effect on the prices of other grains and would soon result in lower dairy and poultry and meat prices. In other words, the foreign shipments of wheat alone are a major factor bringing about present high food prices in all grain, dairy, and meat products. It is, of course, true also that lower prices in the related grain, dairy, and meat commodities would have had their repercussion in all other agriculture fields within a year, through shift of acreage and productive effort.

The accompanying table shows the size of current wheat exports.

Wheat exports and imports, 1929-47

[Production figures for crop year; export figures are for marketing years beginning July of the year]

Yearly average or year	Production	Exports	Exports as percentage of production
	<i>Bushels</i>	<i>Bushels</i>	<i>Percent</i>
1929-33.....	792,000,000	87,000,000	11
1934-38.....	676,000,000	30,000,000	4
1939-43.....	862,000,000	10,000,000	1
1944.....	1,072,000,000	107,000,000	10
1945.....	1,108,000,000	385,000,000	35
1946.....	1,156,000,000	399,000,000	34
1947 (estimated).....	1,407,000,000	550,000,000	36

Without questioning the need or propriety of current large United States food shipments to Europe and other areas, it is clear that these shipments represent the difference between low and high domestic prices. It is equally clear that under present inflationary conditions no foreign economic program involving large shipments abroad should be accepted without a careful examination of the necessity of such shipments. In their program of foreign economic aid, Americans are motivated by humanitarian considerations. On the other hand, there are situations whose scrutiny may reveal poor planning, extravagance, or waste, to the extent that this characterizes our foreign economic program it has unnecessary and grave repercussions in terms of rising domestic consumer prices and economic instability.

In addition to a large foreign economic program this country maintains a huge Military Establishment, costing over \$10,000,000,000 a year. The existence of such a military establishment along with the foreign economic program creates further inflationary pressures on the domestic economy. Both the consumption of certain raw materials such as steel and the use of manpower in connection with the United States Military Establishments tend to restrict civilian production and thus limit supply in relation to demand.

A number of witnesses mentioned Government purchase methods as contributing to inflationary food prices. Some witnesses claimed that the huge Government purchases were made in an unbusiness-like, reckless fashion without careful timing and without knowledge or interest in their effect on market prices, but they did not furnish substantiating data. Such charges gloss over the real inflationary influence of the size and character of Government purchases for export. The increase in size of margin requirements on the grain market has had virtually no effect on prices because these depend on supply and demand. In fact, the raising of margin requirements has tended to concentrate the same amount of trading among a smaller number of traders.

There was considerable testimony that the Government's price-support program was an important factor in maintaining the present high food-price level. Witnesses pointed out how Department of Agriculture purchases had not only maintained prices already high but raised certain food prices, notably eggs and potatoes. Normally price reductions are accomplished through the gradual influence of the price reductions of one commodity on the prices of others. Thus the current commitment of the Commodity Credit Corporation to maintain the price of poultry will tend to maintain the price of meat and even grain.

ANTI-INFLATIONARY PROPOSALS

There were great differences of opinion among the various witnesses as to the need for remedy as well as to methods which could effectively halt inflationary trends. The majority of the consumer and labor representatives urged the restoration of price level and rationing as the only method which, so far as they could see, would effectively prevent further inflation or even reverse the rise in prices which has already taken place, particularly in the last year. In contrast, the return to price control and rationing was strongly opposed by a num-

ber of the business witnesses, who felt that it was not only undesirable but could not long be effective; that it was a method of economic operation hostile to our tradition and that at some point or other if we wished to continue our free enterprise economy we would necessarily go through a period of readjustment to a free market. A good many witnesses felt that the matter was extremely complex and could see no effective remedy. They expressed an open mind and a willingness to go along with Congress if some intermediate course could be found. A number of witnesses emphasized that no purely domestic economic program could be effective, without taking into account the large foreign shipments. Indeed, some witnesses felt that domestic economic difficulties were an inevitable consequence of large-scale foreign shipments and that the people must make a choice between a stable domestic economy and an extensive foreign-aid program which would mean an unstable domestic economy.

Your subcommittee does not feel that it would be sound under present conditions for the Government to undertake a return to price control and the majority of its members are opposed to reestablishment of rationing. There will undoubtedly always be transitional difficulties in moving from a controlled to a free economy. To a very considerable extent we feel these difficulties have been weathered during the past year. To return again to a regulated economy would require a new period of transition of 3 or 6 months, during which the regulated economy would be taking hold. This period would be one of considerable confusion. Moreover, an economy of regulated prices would inevitably involve regulated wages. We have not seen a disposition on the part of the labor groups who have been most emphatic in requesting price control to accept the burden of wage controls, which are an indispensable feature of price control and rationing.

We believe that the economy is basically sound but is laboring under the burden of very high exports of certain of its staple commodities, outstandingly wheat and steel. The first is a keystone to the price structure of all foods; the other a keystone to the price structure of durable goods. It is, of course, recognized that with the failure of certain European crops and with our own bumper domestic wheat crop the United States of America can and should make a contribution in the form of food to Europe. On the other hand, if Congress gives a blank check to large-scale exports of food and many other staples which are in short supply, or which affect the structure of the entire economy, we will be encouraging wasteful methods and constantly stoking inflationary fires.

One of the most serious economic dangers that we foresee is that the United States may be forced to serve as the principal source for meeting the food deficit of western Europe for a considerable period of years. This would mean that the United States take the place of the eastern areas which normally met these deficits to a much greater extent than we did and which received in return from the western European countries certain consumer goods for which they had a real demand. If we undertake such a long-term responsibility there are two dangerous possibilities: First, that these exports will continue to exert a long-term inflationary effect on the whole economy and will particularly affect the standards of living of our fixed-income groups

and wage earners whose food costs are a very large part of the total family budget; second, that in the event of poor weather or a dust-bowl situation we will not only be subjected to extreme inflationary forces and regulation far greater than we have suffered hitherto, but will find that we have created a condition of dependency on the part of western Europe which we will not be able to meet.

To a lesser extent the same considerations apply to the production of steel raw materials and products. Recognizing the fundamentally healthy condition of our own economy, it behooves us to proceed carefully in making foreign economic commitments, and to acknowledge openly that extraordinary shipments of food and fuels during the present short-term emergency will maintain an inflationary situation which will disappear as soon as we return to a healthy economic situation at home and abroad.

Even with respect to food shipments we must recognize that western European requirements may be overstated. Reliable reports from these nations, including their own pronouncements, point out that in many sections farmers are hoarding grain or using it wastefully. This virtual sabotage of food production by European producers is usually explained as resulting from European inflation, economic instability, and the absence of consumer goods in European markets.

CONCLUSIONS

Your subcommittee's findings may be summarized briefly as follows:

1. Price increases since the middle of 1946 have been substantial, particularly with respect to food and agricultural products.

2. Fixed-income groups have been most adversely affected and are lowering their standard of living.

3. Most businessmen and representatives of labor organizations and consumer groups fear that any further inflation must be followed by recession and economic chaos.

4. Attempts to blame any one economic group, such as agriculture, business, or labor, are neither valid nor fruitful.

5. Charges that grain future trading is responsible for present high prices are not substantiated by the testimony presented to us.

6. The current and recent unprecedented volume of exports resulting from the world food shortage has inevitably caused high prices in agriculture and has a general inflationary effect.

7. Despite an inevitable inflationary pressure we cannot and should not refuse requests from abroad based on humanitarian appeals. We should keep inflationary pressures in bounds by limiting this program to genuine requirements.

8. The majority of the subcommittee does not recommend a return to either price controls, rationing or wage, controls. A minority feel that it might be well to put into effect stand-by measures to be invoked in the event that scarcity becomes so great as to justify it.

9. Government programs supporting the prices of individual agricultural commodities, whether eggs, poultry, potatoes, or any other commodity, tend to prevent a general reduction of food prices. Such a general reduction would result only from transmitting generally the effect of more marked reductions in the prices of particular com-

modities at various times. It makes no sense for the Government to support the present inflated price level, although the subcommittee is agreed that the Government should have a program to maintain a floor under agricultural prices. Purchasing methods should be controlled carefully to minimize the disturbance resulting from the large operations of the Government.

Senator James P. Kem concurred generally with the subcommittee's report and conclusions and summed up his own viewpoint as follows:

(1) No more debasement of the currency; (2) no more abortive attempts to reach prosperity through scarcity; (3) no more deficit financing; (4) no more reckless spending of the public money; (5) no more nonsense that higher wages do not increase the general price level; (6) increased production of useful goods; (7) a realistic foreign-relief program based upon thoughtful consideration of the effects upon our own economy.

PART V. SENATE CONCURRENT RESOLUTION 19, EIGHTIETH CONGRESS, FIRST SESSION

CONCURRENT RESOLUTION

Resolved by the Senate (the House of Representatives concurring), That the Joint Committee on the Economic Report is hereby authorized and directed through two or more subcommittees of the said committee, each to be composed of three Members of the Senate (not more than two of whom shall be members of the same political party) and three Members of the House of Representatives (not more than two of whom shall be members of the same political party). Members of said subcommittees may be selected from the membership of said Joint Committee on the Economic Report or from Members of the Senate and of the House of Representatives not members of said Committee on the Economic Report. Vacancies in the membership of the subcommittees shall not affect the powers of the remaining members to exercise the functions of the subcommittee and shall be filled in the same manner as in the case of the original selection.

SEC. 2. It shall be the duty of the joint committee through the said subcommittees (1) to make a full and complete study and investigation of the present high prices of consumer goods and (2) to report to the Congress not later than February 1, 1948, the results of the study and investigation of its subcommittees together with such recommendations as to necessary legislation as it may deem desirable.

SEC. 3. (a) The subcommittees herein established are authorized to sit and act at such places and times during the sessions, recesses, and adjourned periods of the Eightieth Congress, to require by subpoena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, to procure such printing and binding, and to make such expenditures as it deems advisable. The cost of stenographic services to report such hearings shall not be in excess of 25 cents per hundred words.

(b) The Joint Committee on the Economic Report is empowered to appoint and fix the compensation of such experts, consultants, and clerical and stenographic assistants as it deems necessary and advisable, but the compensation so fixed shall not exceed the compensation prescribed under the Classification Act of 1923, as amended, for comparable duties.

(c) The expenses of the subcommittees, which shall not exceed \$25,000, shall be paid from the contingent fund of the Senate. Upon vouchers signed by the chairman of the Joint Committee on the Economic Report, disbursements to pay such expenses shall be made by the Secretary of the Senate out of the contingent fund of the Senate.

