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THE COST OF LIVING

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON CONSUMER ECONOMICS

OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

NINETY-THIRD CONGRESS

FIRST SESSION

MARCH 21; APRIL 4; MAY 8, 22, AND 23, 1973

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THE COST OF LIVING

WEDNESDAY, MARCH 21, 1973

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON CONSUMER ECONOMICS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 1202, Dirksen Senate Office Building, Hon. Hubert H. Humphrey (chairman of the subcommittee) presiding.

Present: Senators Humphrey, Proxmire, and Javits; and Representative Brown.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; William A. Cox, Courtenay M. Slater, Lucy A. Falcone, Jerry J. Jasinowski, and L. Douglas Lee, professional staff members; Michael J. Runde, administrative assistant; George D. Krumbhaar, Jr., minority counsel; Walter B. Laessig, minority counsel; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. We will open the meeting of the Subcommittee on Consumer Economics of the Joint Economic Committee.

As chairman of the subcommittee, I wish to welcome Mr. Stein and Mr. Dunlop, and thank them for their cooperation, their willingness to appear here and testify.

I have a brief opening statement which will give some indication of the scope of our inquiry and its purpose.

Today we begin congressional hearings on a subject of vital concern to every citizen—the sharp rise in the cost of living. That rise has been underscored in the morning's headlines and further underscored by the new data that is coming to us about the rise of the cost of living.

There is no more important economic problem facing consumers than the persistently high prices they must pay for basic essentials: food, fuel, gasoline, medical services, household services, rent, consumer credit, and many other items.

This hearing is the beginning of a long-term investigation of the many economic factors that determine what it costs to live in America. We will examine what prices are increasing most rapidly, what factors caused these increases and the relationship between producers, wholesalers and retailers.

We will also examine what the Federal Government is doing to promote economic stability and consumer interests.

To open our hearings, as I have indicated, we have asked the chairman of the Council of Economic Advisers, Herb Stein, and the Director of the Cost of Living Council, John Dunlop, to give their assessment of what has happened to inflation in the last 2 months.

I might add that the scope of the inflationary force is much more than the 2 months, but it is these 2 months, better than 2 months now, since so-called phase III.

The public and the Congress have been treated to rosy forecasts, occasionally some lectures on the need to be patient, while prices continue to escalate.

This hearing is designed to give the public an explanation of what is happening in the economy and what measures the administration intends to take to deal with inflationary forces. There is deep concern over the adequacy of phase III.

Does phase III really offer an effective anti-inflation program?

Is phase III equitable in its application? Does it meet the needs of the average wage earner, the moderate-income person on salary, the owner of a small business, and the elderly and other groups in our society?

The facts we have available do not provide a rosy picture.

The Consumer Price Index shot up 0.5 percent in January, which is an annual rate increase of 6 percent. This reflected price increases for fuel oil, gasoline, home repairs, and new cars, et cetera.

Most importantly, it reflected another large increase in food prices. What this means to consumers can best be seen by looking at what they must pay for particular items in the supermarket. The morning's paper has some documentation on this, prices of certain select commodities a year ago and prices on those same commodities, for example, in grades of meat this month, a year later.

Since the wage-price freeze, the average U.S. price of hamburger has increased from 69 cents to 70 cents a pound; milk has increased from 59 cents to 74 cents a half gallon; and eggs have increased from 51 cents to 74 cents per dozen. Obviously, these prices are general and they vary in respective communities.

And the increase in wholesale prices has been even more upsetting, up 1.6 percent in December, up 1.1 percent in January, and up again 1.6 percent in February. This means that wholesale prices are increasing at about 17 percent a year. Food continues to be a major factor in these price increases, although the February increase of 1 percent in industrial commodities was the largest monthly increase in 22 years.

It is also appropriate to raise some questions about this administration's willingness and competence to protect consumers from ever-rising prices. Some administration policy decisions appear to reflect little or no foresight and planning.

And, again, the morning press documents a number of decisions or actions that were taken, plus certain uncontrollable matters such as weather, crop failures, which have obviously had their impact upon the price structure of food.

Why, for example, did the Agriculture Department not anticipate food shortages and provide a plan to insure that farmers and consumers both face reasonable prices?

And I do not understand the administration's handling of the development of phase III, which was done abruptly, without careful consultation and without a clear plan for phase III.

Apparently, there are many in the Nation who share my concern, for the recent Harris survey shows that in just the last 2 months there has been a 30-percent increase in the number of people who feel that we face a resurgence of inflation. I hope you gentlemen will be able to inspire some confidence and provide some answers about what we can do to prevent such a renewed round of inflation.

Might I say, most respectfully, I know this is not an easy task and I know there are many complicating and complicated circumstances. But this morning we welcome the testimony and we shall try to pursue this course of inquiry, to gain a better knowledge or better understanding of the forces that are at work, that bring pressure to bear upon the price structure.

With that, Mr. Stein, we welcome your presentation, followed by Mr. Dunlop.

STATEMENT OF HON. HERBERT STEIN, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. Stein. Thank you, Mr. Chairman.

I welcome this opportunity to appear before you and explain the background and present status of the problem of inflation, as we see it.

I note that you have placed a good deal of emphasis on what has happened in the last 2 months. We think this is, of course, a critical matter, but I understood your invitation to solicit from us information on the background of this problem over a longer period. And I think it is important that we look at it over a longer period because the problem did not begin on January 1 or January 11.

I would also like to emphasize that concentration on phase III as the only policy element in this particular picture is mistaken, in my view.

But, anyway, I think it is very useful that we should place on the record the best information we have about what is going on. I hope, as I am sure you do, that the presentation of this information will contribute to improved understanding of the problem of inflation in the country and in the Congress, and to dealing with it in a calm and constructive way.

I am submitting with this statement two other documents. One is a review, by the CEA, of inflation from the early 1960's through the end of 1972. The other is a report, "Food Prices," issued yesterday by the Cost of Living Council Committee on Food.[1]

At this point I will only summarize what seem to me the main lessons of these papers.

I should indicate certain division of labor between Mr. Dunlop and me. I will talk mainly about the statistical record of inflation, and Mr. Dunlop will talk about the policy. Although I will say one thing in that connection, since Mr. Dunlop wasn't here most of that period.

You have referred to the rather abrupt decision to move to phase III in what you call the inadequate or lack of careful consultation.

I should say that the decision was not an abrupt one. The subject of whether to move from phase II to something else, and when, and

[1] See submissions, beginning on p. 14 and p. 34.

in what form, was under very serious consideration in the administration from about July or August of last year. And we did, after a great deal of internal study, consult very widely and intensively with all walks of life, all sectors of the economy, and many parts of the Government during December. We talked to several hundred people at great length. So it was by no means a precipitous step or one that was not well thought through.

Let me now return to the history of the inflation, which is very relevant for looking at what is happening today, because today's news can only be understood in some kind of historical context.

First, the inflation of the 1960's and 1970's has followed a classic pattern in general. The rate of inflation has responded to excess demand conditions. In the early 1960's, when there was abundant slack in the economy, the rate of inflation was low. Beginning approximately in 1965, the economy moved up rapidly into the zone of potential output. As this happened, the inflation accelerated, with some lag. Around the end of 1968 the excess demand began to be removed. The rate of inflation then declined, with a lag, and remains in recent months far below its peak despite the vigorus expansion of the economy. The length of the lags has been a surprise during this experience, but the general direction of changes has not.

Second, the behavior of wages during the rise and fall of the inflation can also be explained by well-known forces. It is especially interesting that in the early stages of the accelerated inflation nonunion wages rose more rapidly than union wages. The influence of the effort of workers to catch up with the cost of living, and with wage increases earned by others, is also clear in the record.

Third, farm prices and food prices have followed a course independent of the rest of the price level and their behavior has significantly influenced the total price indexes in which they are included. Rises of farm and food prices are much more likely to be reversed in the short run than rises of other prices. In the past 10 years there have been three waves of rising farm and food prices—1965–66, 1969–70, and 1972 and on through the early part of 1973. The first two of these waves of increase were followed by substantial slowdowns.

Fourth, the imposition of controls, beginning with the freeze in August 1971, contributed to a process of reducing inflation which was already underway. These figures are by now quite familiar. In 1969, the rate of inflation as measured by the Consumer Price Index was about 6 percent, and in the first 7 or 8 months of 1971, before the freeze, it had fallen to about 3.8 percent. The process did not begin with the controls and was not entirely dependent on them.

Fifth, one of the main contributions of the control system was to reduce the danger that a few extremely large wage settlements would become a pattern to which all other increases would conform. However, averting this danger did not require setting a rigid uniform standard for all wage increases. In fact, during phase II there was a substantial variation in the size of the wage increases given in different settlements, but very large increases were avoided and the average was brought into consistency with the anti-inflation goal.

Sixth, the reduction of the rate of inflation during the past year and a half has been accompanied by a much faster increase of workers' real incomes, per hour or per week. Profits have also risen during this period, as is usual during an economic expansion, but they remain low relative to the value of corporate output.

Seventh, in evaluating the immediate situation, it is essential to distinguish between the behavior of food prices and the behavior of other prices. Food prices have been rising very rapidly, but that is a temporary situation, partly because the Government has been dealing with it vigorously. Price and wage increases in the nonfarm sector over the course of the last several months have been consistent with moderation in the inflation rate.

Eighth, the big recent rise of food prices has been the result of the combination of rapidly rising consumers' incomes and a lag of farm output mostly due to adverse growing conditions. It is important to recognize that the behavior of food prices is not associated with the shift from phase II to phase III, because the conditions governing the food industry were essentially unchanged between phase II and phase III.

Ninth, the Government has been attacking the food price problem by a number of strong moves designed to increase food supplies. Limitations on the acreage available for crop production and cattle grazing have been relaxed. Government-owned stocks are being sold. Imports are being increased. As a result of these measures, plus the natural response of farmers to high prices, a big increase in the supply of feed grains and then of meat and poultry products is now in prospect.

Tenth, as a result of the greatly enlarged supplies that will be forthcoming, we expect to see farm prices of foods declining in the second half of this year and retail prices leveling out. Food price increases that have already occurred mean that the index for February to be released today, and for March, to be released next month, and for April, to be released in May, will all show increases. Nevertheless, despite this bad news that will be reported in the statistics in the next 2 months, the daily news observable in the grocery stores should be improving.

Eleventh, except for the sharp increases reported in February, nonfood prices have been rising only moderately. In the 6 months from July 1972 to January 1973, wholesale industrial prices rose by only 1.4 percent. Then in 1 month, February, they rose by 1 percent. We believe that this was not the start of a new pattern and is unlikely to be repeated.

Nevertheless, the Cost of Living Council is studying all outstanding cases of price increases, with a view to tightening controls where that might be effective. A big part of the February industrial price increase was in petroleum products, which have since been placed under mandatory controls.

Twelfth, wage increases in the last few months, including the 2 months of phase III, show no sign of breaking out of the pattern which has made possible the success achieved so far in the struggle against inflation. We believe the conditions for continued good wage behavior are present, including strong recent increases in real wages, a cooperative attitude of leaders of labor and management, and a general understanding of the requirements of a noninflationary economy.

In expressing confidence about the future of prices we do not underestimate either how critical or how difficult is the task before us. We have achieved a reduction of the U.S. rate of inflation to a rate which is lower than in any other major industrial nation. We intend not only to continue this performance but to improve on it. And we intend to do this while the economy is steadily expanding and unemployment is dropping.

Flexible and adaptable use of the controls system will be needed to achieve this. So will management of those government policies which affect supplies. But the key will be to prevent the development of an inflationary boom, such as set off the whole process in 1965. That is why the administration makes restraint of Federal spending the centerpiece of economic policy in 1973.

Thank you.

Chairman HUMPHREY. Mr. Dunlop, and then after the presentation of the two statements, we will then have our questioning. Mr. Dunlop, please proceed.

STATEMENT OF HON. JOHN T. DUNLOP, DIRECTOR, COST OF LIVING COUNCIL

Mr. DUNLOP. Mr. Chairman, I appreciate the invitation to come today and I will excerpt the prepared statement which has been previously submitted to this subcommittee, not reading all of it.

The stabilization controls of phase II operated during a period in which there was considerable slack in the economy and price performance was heavily influenced by cost pressures and by slow growth in output and productivity. The phase II controls were designed with these conditions in mind, wtih permissible price adjustments linked through mechanical rules with cost increases.

After a period of strong economic expansion during 1972, patterns of price adjustment consistent with efficiency and resource allocation became more complex than permissible under relatively simple mechanical pricing rules. In addition, the base period from which adjustments started after the freeze became increasingly inappropriate with the passage of time. Consequently, some firms in some industry sectors were able to gain approval for price increases in excess of those obtainable in the market. For other firms in other industry sectors, on the other hand, allowable price increases that could be approved under the regulations were less than sufficient to allocate available supplies to essential uses and often resulted in cost and profit squeezes.

The regulations of phase II were not designed to deal with situations in which demand increased substantially and price adjustments were necessary to call forth increases in supply or to allocate supplies. Thus, in some industries such as lumber, food, hides, and fertilizer, application of the rules were counterproductive to obtaining supply increases.

In other instances, firms that were efficient and aggressive in reducing costs were constrained by base period profit margins from working toward still greater efficiency. Price increases were prohibited for large firms in some industries, such as baking, coffee, and fertilizer, and smaller firms in these industries were sometimes severely squeezed as a result or blamed their competitive circumstances on price controls. The formal procedure for review and approval of specified price increases for large firms may also have reduced pricing uncertainty which helps normally to restrain prices in competitive markets.

On the wage side, the procedures for review and formal approval required for pay adjustments were beginning to erode seriously the collective bargaining process. The general pay standard too often became a target which labor organizations had to exceed in negotiations to demonstrate their effectiveness. Too often negotiations started at that figure and did not consider sufficiently the competitive conditions, productivity and special problems of the particular sector. Too often negotiators were avoiding hard choices and their responsibilities in collective bargaining by leaving decisions to the stabilization authorities.

For both pay and price adjustments, administrative burdens and delays associated with review and formal approval procedures increasingly became an irritant to both business and labor which threatened to diminish the voluntary cooperation and compliance which had been pervasive and essential to the success of the entire stabilization effort. It was necessary to develop different stabilization tools to deal effectively with the change in economic conditions in 1973.

Wage and price controls had from the outset been regarded as temporary. They would be kept in force only so long as they continued to play a supplementary and helpful role in achieving a continued reduction in the rate of inflation while the economy resumed a more rapid rate of economic growth. Since there was increasing evidence that significant modifications in the controls would be needed in order to assure that they would not impede the growth of output, productivity and employment, and since the eventual goal was to place more reliance on competition in the marketplace instead of increasingly detailed and complex controls, modifications in the program consistent with these requirements and goals were necessary.

I would like to pick up in my prepared statement, Mr. Chairman, where I have a brief paragraph or two dealing with the food prices situation.

The most serious problem in the economic and market environment in the early months of phase III is the food price situation. A combination of strong and rapidly increasing demands not only within the United States but throughout the world, and smaller than normal increases in available supplies, resulted in food price increases in excess of those for other commodities during 1972 and extremely rapid increases in food prices at the beginning of 1973. These conditions, of course, would have resulted in significant increases in food prices had phase II continued. Rapid increases in food prices are a matter of serious concern whatever the pattern of stabilization controls.

We should not, however, let our current great concern with rapid food price increases obscure the fact that price performance in the great bulk of the economy has been moderate and prospects are for continued moderate price performance in the great bulk of the economy. Food price behavior has always been more variable over the short term than price performance in the rest of the economy. Just as food prices are expected to increase more rapidly than other prices during the first half of 1973, food price performance is expected to level off during the last half of the year.

The Government has taken a number of very significant policy actions to increase agricultural supply and attack the problem of rising food prices at its roots.

And I, of course, refer then at this point to the statement issued by the Cost of Living Council yesterday,[1] and I will draw your attention particularly and incorporate by reference those measures that have been taken that are outlined in that statement.

The strong actions taken to encourage increased food supplies should lead to much slower increases in food prices in the second half of 1973 and beyond. It is, consequently, important to recognize the food price problem as a short-term problem rather than an increase in overall inflation prospects, so that large wage and price increases are not built into the cost structure of the economy which would lead to more rapid inflation over the long term than can realistically be achieved.

I should perhaps comment in passing that above the producer's level, we have, of course, maintained mandatory price controls, at the processing and retail levels. We have also maintained wage controls, as you are aware, in the food processing and distribution areas.

Nonetheless, no one should minimize the seriousness of food price increases to date and those in prospect in the months immediately ahead. The Cost of Living Council has not only taken the steps outlined, that I referred to, but it also continues to review every possible action that could increase food supply or that could help to restrain rising food prices. We do spend some time each day on this vital problem.

Now, let me turn to some general comments about phase III, responsive to your questions, at the opening of your statement, Mr. Chairman.

DEVELOPMENTS UNDER PHASE III

I do not share the view that the present program for the administration of wage and price controls under the Stabilization Act is weak or that it is time to reimpose formal mandatory control throughout the economy, including primary agricultural products. We do confront some serious problems, particularly in the food area as has been noted, but food price problems are not the result in any way of phase III decisions.

Let us first examine the wage side.

The industrial relations climate in 1973 is clearly better than it has been in many years. Top leaders of labor and management are working together in our advisory committee, and parties in a number of industries are seeking new ways to approach the settlement of contracts. The strike is recognized to be a less satisfactory means to induce agreements because of the consequences of inventory buildup and the encouragement to foreign competition. The statement issued by the Labor Management Advisory Committee provides that these leaders of labor and management will "use their good offices to create a climate favorable to the settlement of collective bargaining negotiations in 1973 within the framework of stabilization policies."

Probably the two most important collective bargaining agreements for the year in terms of the potential for widespread impact on the economy, in terms of possible strife or cost impact, are railroads and the over-the-road trucking agreements. At this very early date in the year—more than 3 months ahead of schedule—very substantial progress has been made toward the resolution of these disputes.

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[1] See statement beginning on p. 34.

The announced railroad settlement does not appear on its face to be unreasonably inconsistent with the wage stabilization program and it will be reviewed by the Cost of Living Council when the agreement has been ratified. The railroad settlement is truly an outstanding industrial relations achievement, particularly in an industry that has been plagued by strife in recent years that has too often required special legislative intervention.

Negotiations have yet to begin in the over-the-road trucking industry, but the Chicago sanitation which has upset the last two negotiations appears to have been approached in a constructive way.

The Cost of Living Council has monitored carefully the various collective bargaining agreements that have been settled since January 11, 1973. We have several agreements under particular scrutiny, and should the review show that they are unreasonably inconsistent with the standards provided in the regulations, we shall require that the economic adjustments not be placed into effect and be modified. It is my conclusion that there is no evidence that the level of wage settlements in collective bargaining has thus far moved to a new level.

While labor markets generally are likely to tighten somewhat through the year as the level of unemployment declines further, there is little evidence yet of critical shortages such as existed in the period 1966–68.

We all know that the rapidly rising food prices are particularly disruptive to reasonable wage settlements, and labor leaders remind us daily of this relationship. But the Consumer Price Index, rather than food prices alone, is the more appropriate and customary measure of prices relevant for wage setting.

Now, to a few remarks from the price side.

There are large segments of the economy, particularly in manufacturing, where prices in phase II were below ceiling levels permitted by the regulations. The markets simply would not support higher prices. As demand increases, we should expect a number of these sectors to show some edging up of prices to levels permitted by our regulations. Sometimes these increases are reflected in reduced discounts and sometimes by higher posted prices.

But I do not believe our price problems are serious in this area; there is no great difficulty in the short term in regulating what are commonly termed "administered prices." Rather, our major difficulties have been in two highly competitive areas: In the food markets, and in raw materials which are also sensitive to international markets. Lumber is included in this second group.

In this sector, as in the food sector, policies to effect supply are the most effective way to curb price increases in the face of unusually strong demand. The stockpile actions recently reported are designed to use still another tool to increase supply in the market of raw materials and thereby to constrain prices.

In some metropolitan areas, rent increases in recent months have been a matter of concern. The Cost of Living Council has assembled information on rent increases, particularly in areas where there were indications of tight rental markets. All of the available evidence indicates that these increases do not reflect a problem of national proportations, but rather particular areas and regions. Industry representatives have indicated their interest in cooperating to assure voluntary restraint in rents in areas where pressures have occurred. Restraint can be achieved in this way without deleterious effects on the housing stock and on new housing construction.

While prices of health care services have increased less rapidly under the stabilization program than previously, costs of health care have been a matter of continuing concern. This sector has consequently been retained under mandatory controls to restrain cost increases and to provide a means of coordinating other Federal Government policies and actions to achieve lower cost delivery of health care services.

An advisory committee on health is being established to enlist the participation of those involved in the industry, and a Cost of Living Council Committee on Health has been established to coordinate Federal policies. In the meantime, the mandatory regulations of phase II continue to be in effect.

Some general observations, Mr. Chairman, at the end.

First, the policies announced January 11, 1973, have the merit of flexibility in that it is possible to exempt areas from controls as soon as it is safe to do so, or to go back into mandatory controls if sectors show persistent inflationary tendencies that direct controls will help to constrain.

Second, the program has the further merit of trying to avoid the problems which income policies heretofore in the United States and abroad have not been able to avoid—the tendency for a significant jump in wages and prices when controls are eliminated all at one time. At the end of previous stabilization efforts, prices and wages have often risen to levels they would likely have achieved had there been no controls. Phase III has been designed as a transition so that this movement to a period of no controls can be made without a large jump.

Third, the program has the merit of concentrating the governmental energies upon a limited number of problem sectors rather than trying to administer controls over all sectors. In these sectors it is possible both to undertake measures to deal with short-term problems and also to consider longer run and fundamental features which may make the sector less inflation prone in the future.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Dunlop follows:]

Prepared Statement of Hon. John T. Dunlop

Introduction

The stabilization controls of Phase II operated during a period in which there was considerable slack in the economy and price performance was heavily influenced by cost pressures and by slow growth in output and productivity. The Phase II controls were designed with these conditions in mind, with permissible price adjustments linked through mechanical rules with cost increases.

After a period of strong economic expansion during 1972, patterns of price adjustment consistent with efficiency and resource allocation—directing available supply to its most productive uses and signaling the need for increased output and investment—became more complex than permissible under relatively simple mechanical pricing rules. In addition, the base period from which adjustments started after the freeze became increasingly inappropirate with the passage of time. Consequently, some firms in some industry sectors were able to gain approval for price increases in excess of those obtainable in the market. For other firms in other industry sectors, on the other hand, allowable price increases that could be approved under the regulations were less than sufficient to allocate available supplies to essential uses and often resulted in cost and profit squeezes.

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On the wage side, the procedure for review and formal approval required for pay adjustments were beginning to erode seriously the collective bargaining process. The general pay standard too often became a target which labor organizations had to exceed in negotiations to demonstrate their effectiveness. Too often negotiations started at that figure and did not consider sufficiently the competitive conditions, productivity and special problems of the particular sector. Too often negotiators were avoiding hard choices and their responsibilities in collective bargaining by leaving decisions to the stabilization authorities.

For both pay and price adjustments, administrative burdens and delays associated with review and formal approval procedures increasingly became an irritant to both business and labor which threatened to diminish the voluntary cooperation and compliance which had been pervasive and essential to the success of the entire stabilization effort. It was necessary to develop different stabilization tools to deal effectively with the change in economic conditions in 1973.

Wage and price controls had from the outset been regarded as temporary. They would be kept in force only so long as they continued to play a supplementary and helpful role in achieving a continued reduction in the rate of inflation while the economy resumed a more rapid rate of economic growth. Since there was incerasing evidence that significant modifications in the controls would be needed in order to assure that they would not impede the growth of output, productivity and employment, and since the eventual goal was to place more reliance on competition in the marketplace instead of increasingly detailed and complex controls, modifications in the program consistent with these requirements and goals were necessary.

THE APPROACH OF PHASE III

Phase III was, consequently, designed to provide a transition from more comprehensive and mandatory controls to more reliance on the marketplace and collective bargaining and less reliance on formal review and approval procedures. The essentials of the problem were to design modifications which would transfer much of the burden of decision-making on individual prices and wages from a government bureaucracy to decision makers in the private sector. At the same time, it was necessary to assure that the progress achieved in reducing inflation under the stabilization program would be sustained, and not be undermined by a widespread and abrupt surge of wages and prices as either firms or workers attempted to restore wages or prices to levels that might have been realized in the absence of controls. The transition to less reliance on a system of wage and price controls is always a difficult undertaking involving the gradual release of whatever pressures for price and wage adjustments might have been built up by the controls without damaging confidence in government resolve to continue progress in reducing inflation.

The stabilization controls of Phase III operate, of course, within the context of fiscal and monetary policies consistent with continued growth in output and employment and less inflation than we have experienced in recent years. These basic demand management policies are fundamental to the success of our stabilization efforts over the long term. No system of controls has proved effective for long without fiscal restraint and overall demand conditions consistent with stabilization goals.

The design of Phase III to accomplish this transition involved keeping a comprehensive blanket of controls over the economy. The control system had both mandatory and self-administering elements. For certain sectors of the economy—

construction, food and health—in which there were continuing structural or other features contributing to inflation, mandatory standards essentially similar to those that applied during Phase III were retained. In the other sectors of the economy, mandatory reporting and recordkeeping requirements for the largest economic units were retained, but self-administered standards were applied to wage and price adjustments in these sectors. In addition, the Cost of Living Council with the assistance of the Internal Revenue Services as the field organization of the program, is systematically monitoring wage and price trends in individual pay and price situations to assess whether they are unreasonably inconsistent with the standards or the goals of the Economic Stabilization Program. Mandatory controls can also be reasserted over an individual sector of the economy, and action under this authority was taken in the case of the petroleum industry after public hearings were held and the relevant data and information was carefully analyzed.

The Phase III stabilization controls are less mechanical than those of Phase II. This design reduces the administrative burden of controls for both the government and the private sector for the great bulk of the economy in which pay and price adustments have been consistent with the standards and goals of the program. It also enables the efforts of the stabilization authorities to be concentrated on those situations in those sectors of the economy in which problems of inflation are occurring, and in which either the stabilization controls or other government policies can be brought to bear to reduce inflationary pressures.

Phase III was also designed in a manner that would elicit the cooperation and support of the major participants in the society and the economy. The support of the business community and the support of organized labor and other workers are essential to the success of any wage-price stabilization program. The participation in and support for a stabilization effort if necessary to avoid disruption of productive processes and to maintain a healthy industrial relations climate.

FOOD PRICES

The most serious problem in the economic and market environment in the early months of Phase III is the food price situation. A combination of strong and rapidly increasing demands not only within the United States but throughout the world, and smaller than normal increases in available supplies, resulted in food price increases in excess of those for other commodities during 1972 and extremely rapid increases in food prices at the beginning of 1973. These conditions, of course, would have resulted in signicant increases in food prices had Phase II continued. Rapid increases in food prices are a matter of serious concern whatever the pattern of stabilization controls.

We should not, however, let our current great concern with rapid food price increases obscure the fact that price performance in the great bulk of the economy has been moderate and prospects are for continued moderate price performance in the great bulk of the economy. Food price behavior has always been more variable over the short term than price performance in the rest of the economy. Just as food prices are expected to increase more rapidly than other prices during the first half of 1973, food price performance is expected to level off during the last half of the year.

The government has taken a number of very signicant policy actions to increase agricultural supply and attack the problem of rising food prices at its roots. These policy actions are summarized along with prospects for the remainder of 1973 in the attached report on food prices prepared by the Cost of Living Council Committee on Food. The strong actions taken to eccourage increased food supplies should lead to much slower increases in food prices in the second half of 1973 and beyond. It is, consequently, important to recognize the food price problem as a short term problem rather than an increase in overall inflation prospects, so that large wage and price increases are not built into the cost structure of the economy which would lead to more rapid inflation over the long term than can realistically be achieved.

Nonetheless, no one should minimize the seriousness of food price increases to date and those in prospect in the months immediately ahead. The Cost of Living Council has not only taken the steps outlined in the attached report, but it also continues to review every possible action that could increase food supply or that could help to restrain rising food prices.

DEVELOPMENTS UNDER PHASE III

I do not share the view that the present program for the administration of wage and price controls under the Stabilization Act is weak or that it is time to reimpose formal mandatory control throughout the economy, including primary agricultural products. We do confront some serious problems, particularly in the food area as has been noted, but food price problems are not the result in any way of Phase III decisions.

Let us first examine the wage side.

The industrial relations climate in 1973 is clearly better than it has been in many years. Top leaders of labor and management are working together in our Advisory Committee, and parties in a number of industries are seeking new ways to approach the settlement of contracts. The strike is recognized to be a less satisfactory means to induce agreements because of the consequences of inventory buildup and the encouragement to foreign competition. The statement issued by the Advisory Committee provides that these leaders of labor and management will "use their good offices to create a climate favorable to the settlement of collective bargaining negotiations in 1973 within the framework of stabilization policies."

Probably the two most important collective bargaining agreements for the year in terms of the potential for widespread impact on the economy, in terms of possible strife or cost impact, are railroads and the over-the-road trucking agreements. At this very early date in the year—more than three months ahead of schedule—very substantial progress has been made toward the resolution of these disputes. The announced railroad settlement does not appear on its face to be unreasonably inconsistent with the wage stabilization program and it will be reviewed by the Cost of Living Council when the agreement has been ratified. The railroad settlement is truly an outstanding industrial relations achievement, particularly in an industry that has been plagued by strife in recent years that has too often required special legislative intervention.

Negotiataions have yet to begin in the over-the-road trucking industry, but the Chicago situation which has upset the last two negotiations appears to have been approached in a constructive way.

The Council has monitored carefully the various collective bargaining agreements that have been settled since January 11, 1973. We have several agreements under particular scrutiny, and should the review show that they are unreasonably inconsistent with the standards provided in the regulations, we shall require that the economic adjustments not be placed into effect and be modified. There is no evidence that the level of wage settlements in collective bargaining has thus far moved to a new level.

While labor markets generally are likely to tighten somewhat through the year as the level of unemployment declines further, there is little evidence yet of critical shortages such as existed in the period 1966–68.

We all know that the rapidly rising food prices are particularly disruptive to reasonable wage settlements, and labor leaders remind us daily of this relationship. But the Consumer Price Index, rather than food prices alone, is the more appropriate and customary measure of prices relevant for wage setting.

Now to turn to the price side.

There are large segments of the economy, particularly in manufacturing, where prices in Phase II were below ceiling levels permitted by the regulations. The markets simply would not support higher prices. As demand increases, we should expect a number of these sectors to show some edging up of prices to levels permitted by our regulations. Sometimes these increases are reflected in reduced discounts and sometimes by higher posted prices.

But I do not believe our price problems are serious in this area; there is no great difficulty in the short term in regulating what are commonly termed "administered prices." Rather, our major difficulties have been in two highly competitive areas: the food markets, and in raw materials which are also sensitive to international markets. Lumber is included in this second group. In this sector, as in the food sector, policies to affect supply are the most effective way to curb price inreases in the face of unusally strong demand. The stockpile actions recently reported are designed to use still another tool to increase supply in the market of raw materials and thereby to constrain prices.

In some metropolitan areas, rent increases in recent months have been a matter of concern. The Cost of Living Council has assembled information on rent increases, particularly in areas where there were indications of tight rental markets. All of the available evidence indicates that these increases do not reflect a problem of national proportions. Industry representatives have indicated their interest in cooperating to assure voluntary restraint in rents in areas where pressures have occurred. Restraint can be achieved in this way without deleterious effects on the housing stock and on new housing construction.

While prices of health care services have increased less rapidly under the stabilization program, costs of health care have been a matter of continuing concern. This sector has consequently been retained under mandatory controls to restrain cost increases and to provide a means of coordinating other Federal government policies and actions to achieve lower cost delivery of health care services. An advisory committee on health is being established to enlist the participation of those involved in the industry, and a Cost of Living Council Committee on Health has been established to coordinate Federal policies. In the meantime, the mandatory regulations of Phase II continue to be in effect.

(1) The policies announced January 11, 1973 have the merit of flexibility in that it is possible to exempt areas from controls as soon as it is safe to do so, or to go back into mandatory controls if sectors show persistent inflationary tendencies that direct controls will help to constrain.

(2) The program has the further merit of trying to avoid the problems which income policies heretofore in the United States and abroad have not been able to avoid—the tendency for a significant jump in wages and prices when controls are eliminated all at one time. At the end of previous stabilization efforts, prices and wages have often risen to levels they would likely have achieved had there been no controls. Phase III has been designed as a transition so that this movement to a period of no controls can be made without a large jump.

(3) The program has the merit of concentrating the governmental energies upon a limited number of problem sectors rather than trying to administer controls over all sectors. In these sectors it is possible both to undertake measures to deal with short term problems and also to consider longer run and fundamental features which may make the sector less inflation prone in the future.

Chairman HUMPHREY. Thank you very much, Mr. Dunlop.

I will have placed in the record as a part of the testimony of our witness, if there is no objection, the additional material, the backup material that has been presented by Mr. Stein, to which you have alluded in your testimony.

[The documents referred to follow:]

THE COURSE OF PRICES, 1960–1972 *

THE EARLY 1960'S

The period from 1961 to 1965 was the longest period of comparative price stability in the post-World War II era. It followed a period in the late 1950's when concern over inflation had become a major public issue; indeed at that time it was commonly thought that the high rates of inflation of the late 1950's might become a permanent fact of life. Yet as measured by the GNP deflator the average annual rate of price increase from 1960 to 1965 was only 1.4 percent—almost 50 percent less than the postwar average of 2.7 percent. For nonfinancial corporations the 1960–1965 average rise was 0.6 percent.

The exemplary record of overall price behavior showed up in the better known consumer and wholesale price indexes as well. The Consumer Price Index (CPI) rose at an average annual rate of only 1.3 percent from 1960 to 1965 while the Wholesale Price Index (WPI) rose by only 0.4 percent per annum. For industrial commodities the rise was only 0.2 percent per year (Table 1).

*A report prepared by the Council of Economic Advisers (Mar. 20, 1973).

TABLE 1.—CHANGES IN SELECTED PRICE INDEXES, 1960–72

[Percent change per year]

Period	GNP deflator			Consumer Price Index				Wholesale Price Index			
	Total	Private	Private nonfarm business	All items	Food	Nonfood commodities	Services	All commodities	Farm products	Processed foods and feeds	Industrial commodities
1960 to 1961	1.3	0.9	0.9	1.0	1.3	0.3	2.0	−0.4	−0.9	1.7	−0.5
1961 to 1962	1.1	1.0	.9	1.1	.9	.7	1.9	.3	1.8	1.0	0
1962 to 1963	1.3	1.0	1.0	1.2	1.4	.7	2.0	−.3	−2.0	.7	−.1
1963 to 1964	1.6	1.2	1.1	1.3	1.3	.8	1.9	.2	−1.5	−.2	.5
1964 to 1965	1.8	1.7	1.4	1.7	2.2	.6	2.2	2.0	4.3	3.5	1.3
1960 to 1965	1.4	1.2	1.1	1.3	1.4	.7	2.0	.4	.3	1.3	.2
1965 to 1966	2.8	2.5	2.0	2.9	5.0	1.4	3.9	3.3	7.3	6.0	2.2
1966 to 1967	3.2	2.9	3.2	2.9	.9	2.6	4.4	.2	−5.6	−1.2	1.5
1967 to 1968	4.0	3.6	3.4	4.2	3.6	3.7	5.2	2.5	2.5	2.2	2.5
1968 to 1969	4.8	4.5	4.3	5.4	5.1	4.2	6.9	3.9	6.4	5.0	3.4
1969 to 1970	5.5	4.8	4.8	5.9	5.5	4.1	8.1	3.7	1.7	4.4	3.8
1965 to 1970	4.1	3.7	3.5	4.2	4.0	3.2	5.7	2.7	2.4	3.2	2.7
1970 to 1971	4.7	4.3	4.3	4.3	3.0	3.8	5.6	3.2	1.7	2.1	3.6
1971 to 1972	3.0	2.6	1.9	3.3	4.3	2.2	3.8	4.6	10.7	5.7	3.4

Sources: Department of Commerce, and Department of Labor, Bureau of Labor Statistics.

Economic conditions were highly favorable for price stability in the early 1960's. There was considerable slack in the economy. At the beginning of 1961 the unemployment rate as close to 7 percent while manufacturing plants were operating at 74 percent of capacity. Although the expansion during the early 1960's was a vigorous one by the standards of postwar experience it was noteworthy for its balanced character. It did not proceed so rapidly as to create a rise in demand that would prove to be unsustainable and that would also have undesirable effects in creating bottlenecks. Progress in closing the gap between actual and potential output can be seen in the reduction of the unemployment rate, which averaged 6.7 percent in 1961 and 4.5 percent in 1965.

The first half of the 1960's were also marked by moderate rates of increase in wages. Hourly compensation of persons in the private nonfarm sector increased at an annual rate of 3.8 percent from 1960 to 1965. Because the economy started from a point considerably below its potential and moved up at a rapid pace, there was a substantial rise in output per manhour. Productivity increased at an annual rate of 3.4 percent between 1960 and 1965, as compared to an annual growth rate of 2.6 percent during the preceding portion of the postwar era. As a consequence, unit labor costs, which are an important indicator of pressures on prices because they represent so large a portion of total costs, increased at an annual rate of only 0.4 percent for the period as a whole (Table 2).

TABLE 2.—CHANGES IN OUTPUT PER MAN-HOUR AND RELATED DATA, PRIVATE ECONOMY, 1948–72

[Percent change from preceding period]

Year or quarter	Output [1]		Man-hours [2]		Output per man-hour		Compensation per man-hour [3]		Unit labor costs		Implicit price deflator [4]	
	Total private	Private non-farm	Total private	Private non-farm	Total private	Private non-farm	Total private	Private non-farm	Total private	Private non-farm	Total private	Private non-farm
1948	4.8	4.4	0.4	1.3	4.5	3.0	9.0	9.0	4.3	5.8	6.7	6.8
1949	−.3	−.1	−3.4	−3.9	3.2	4.0	1.5	2.9	−1.6	−1.0	−1.0	.8
1950	10.2	10.6	2.0	4.0	8.1	6.3	6.8	5.5	−1.2	−.8	1.0	1.1
1951	6.3	7.0	3.2	4.9	3.0	2.0	9.6	8.7	6.4	6.6	7.3	6.5
1952	2.5	2.5	.5	1.5	1.9	.9	6.1	5.5	4.1	4.5	1.9	2.6
1953	5.1	5.1	.8	2.1	4.2	2.9	6.3	5.6	2.0	2.6	.7	1.8
1954	−1.3	−1.5	−3.7	−3.8	2.4	2.3	3.1	3.2	.6	.9	1.2	1.7
1955	8.5	8.8	3.9	4.2	4.4	4.4	2.6	3.5	−1.7	−.9	.9	1.3
1956	1.9	2.0	1.7	2.6	.2	−.6	6.4	5.8	6.2	6.4	3.2	3.4
1957	1.4	1.6	−1.5	−.6	2.9	2.2	6.5	5.7	3.5	3.4	3.6	3.7
1958	−1.3	−1.5	−4.2	−3.9	3.1	2.5	4.2	3.8	1.1	1.3	2.1	1.7
1959	7.0	7.3	3.3	3.7	3.6	3.4	4.6	4.3	1.0	.9	1.4	1.8
1960	2.4	2.4	.8	1.1	1.6	1.2	3.9	4.1	2.2	2.8	1.4	1.4
1961	1.9	1.9	−1.5	−1.0	3.5	3.0	3.8	3.2	.3	.2	.9	.9
1962	6.8	7.1	2.0	2.5	4.7	4.6	4.4	4.0	−.3	−.5	.9	.9
1963	4.2	4.3	.6	1.2	3.6	3.1	4.0	3.6	.4	.5	1.0	1.2
1964	5.7	6.1	1.8	2.3	3.9	3.7	5.0	4.7	1.1	1.0	1.2	1.3
1965	6.6	6.6	3.1	3.6	3.4	2.9	4.1	3.7	.7	.8	1.7	1.4
1966	6.4	7.0	2.4	3.3	4.0	3.5	6.9	6.1	2.8	2.5	2.5	2.2
1967	2.3	2.2	.3	.5	2.1	1.6	5.8	5.7	3.7	4.0	2.9	3.3
1968	4.8	5.1	1.8	2.1	2.9	2.9	7.6	7.3	4.6	4.3	3.6	3.5
1969	2.8	2.8	2.3	2.9	.4	−.1	7.6	7.0	7.1	7.2	4.5	4.5
1970	−.5	−.7	−1.5	−1.3	1.0	.6	7.6	7.2	6.5	6.6	4.8	5.0
1971	3.0	3.0	−.6	−.6	3.6	3.6	7.1	7.1	3.4	3.4	4.3	4.3
1972	6.9	7.5	2.6	2.7	4.2	4.7	6.2	6.4	2.0	1.7	2.6	2.1

See footnotes at end of table.

TABLE 2.—CHANGES IN OUTPUT PER MAN-HOUR AND RELATED DATA, PRIVATE ECONOMY, 1948–72—Continued

[Percent change from preceding period]

Year or quarter	Output [1]		Man-hours [2]		Output per man-hour		Compensation per man-hour [3]		Unit labor costs		Implicit price deflator [4]	
	Total private	Private non-farm	Total private	Private non-farm	Total private	Private non-farm	Total private	Private non-farm	Total private	Private non-farm	Total private	Private non-farm
	Seasonally adjusted annual rates											
1970:												
I	−2.6	−3.0	−1.3	−1.2	−1.3	−1.8	6.9	6.5	8.3	8.4	5.2	5.2
II	1.7	1.1	−2.5	−3.4	4.3	4.7	5.9	7.2	1.6	2.4	3.8	4.9
III	2.3	2.9	−4.3	−3.8	6.9	6.9	9.4	9.0	2.4	2.0	3.8	3.7
IV	−5.1	−5.7	−3.3	−2.7	−1.9	−3.1	5.4	4.6	7.4	8.0	6.3	7.2
1971:												
I	8.7	8.6	1.2	1.1	7.5	7.4	9.2	9.1	1.7	1.5	4.7	4.5
II	3.7	4.1	1.5	.9	2.2	3.2	6.2	7.5	3.9	4.2	4.3	4.0
III	2.5	2.4	−.6	−.2	3.2	2.5	5.8	5.2	2.6	2.5	2.8	2.7
IV	7.2	8.1	3.4	3.3	3.7	4.7	4.7	4.9	1.0	.3	1.0	.1
1972:												
I	7.0	8.1	3.1	2.8	3.9	5.2	8.7	9.1	4.6	3.8	4.2	3.7
II	10.2	10.6	3.8	5.2	6.2	5.1	5.6	4.6	−.6	−.5	1.7	1.5
III	6.5	7.5	2.3	.9	4.1	6.6	4.4	6.1	.3	−.4	2.2	1.4
IV	8.4	7.9	3.5	4.1	4.7	3.6	7.9	7.4	3.0	3.8	2.8	2.3

[1] Output refers to gross national product in 1958 dollars.
[2] Hours of all persons in private industry engaged in production, including man-hours of proprietors and unpaid family workers. Man-hours estimates based primarily on establishment data.
[3] Wages and salaries of employees plus employers' contribution for social insurance and private benefits plans. Also includes an estimate of wages, salaries, and supplemental payments for the self-employed.
[4] Current dollar gross product divided by constant dollar product.

Note: Data relate to all persons. Percent changes are based on original data and therefore may differ slightly from percent changes based on indexes in table C–32.

Source: Department of Labor, Bureau of Labor Statistics.

Changes in hourly compensation reflect, besides changes in wage rates, changes in the industrial or occupational composition of employment as well as changes in overtime hours. Unfortunately, little information exists concerning the behavior of basic wage or compensation rates. What is available, however, suggests that wage rates increased at a pace that was moderate by any yardstick. For example, a special BLS index of overage hourly earnings—that standardizes hourly earnings for changes in the inter-industry (but not the inter-occupational) mix of employment and eliminates the effects of changes in manufacturing overtime hours—rose at a 3.2 percent annual during the period. One reason for the discrepancy between the growth of hourly compensation and hourly earnings is that the former includes and the latter excludes wage supplements or "fringe benefits" which increased about 60 percent faster than did wages and salaries alone.

Negotiated wage settlements were also small. The median first year wage adjustment ranged from 2.8 to 3.8 percent over the period (Table 3). The broader "effective wage adjustment"—which combines first year increases, cost of living increases and deferred increases that take effect during a year together with contracts providing for no increase—is a good summary measure of the global impact of newly signed and older union contracts on the overall wage level. In the 5 years 1961–1965, annual effective wage adjustments ranged from 2.7 to 3.4 percent. Changes in salary rates were also moderate. White collar salaries, as measured by the annual Labor Department survey of professional, technical, administrative and clerical pay, showed year-to-year increases of 3 percent during that portion of the early 1960's for which data are available. Of course, this broad occupational category represents one of the most lightly unionized groups within the economy, especially since the survey excludes white collar workers at all levels of government.

TABLE 3.—SELECTED MEASURES OF WAGE CHANGE, PRIVATE NONFARM SECTOR

[Percent change per year]

Period	Hourly compensation of employees	Gross average hourly earnings	Average hourly earnings index [1]	Negotiated wage adjustments [2]: Median of contracts negotiated in the year: 1st year: All industries	1st year: Manufacturing	1st year: Nonmanufacturing	Life of contract: All industries	Life of contract: Manufacturing	Life of contract: Nonmanufacturing	Average wage adjustment effective in the year: All industries	Manufacturing	Nonmanufacturing
1960 to 1961	3.2	2.4	3.1	2.8	2.4	3.6	NA	NA	NA	2.7	2.7	2.6
1961 to 1962	3.9	3.7	3.3	2.9	2.4	4.0	NA	NA	NA	2.8	2.6	3.5
1962 to 1963	3.5	2.7	2.9	3.0	2.5	3.4	NA	NA	NA	2.9	2.7	3.2
1963 to 1964	4.7	3.5	3.1	3.2	2.0	3.6	NA	NA	NA	2.7	2.0	3.5
1964 to 1965	3.6	3.8	3.7	3.8	4.0	3.7	NA	NA	NA	3.4	3.4	3.4
1960 to 1965	3.8	3.2	3.2	3.1	2.7	3.7	NA	NA	NA	2.9	2.7	3.2
1965 to 1966	5.8	4.5	4.0	4.8	4.2	5.0	3.9	3.8	3.9	3.6	3.3	3.8
1966 to 1967	5.6	4.7	4.6	5.6	6.4	5.0	5.0	5.1	5.0	4.4	4.0	4.8
1967 to 1968	7.5	6.3	6.6	7.2	6.9	7.5	5.2	4.9	5.9	5.5	5.2	6.0
1968 to 1969	6.7	6.7	6.6	8.0	7.0	10.0	6.8	5.8	8.5	5.1	5.0	5.2
1969 to 1970	7.2	5.9	6.7	10.0	7.5	14.2	8.1	5.8	12.1	7.3	6.0	8.3
1965 to 1970	6.6	5.6	5.7	7.1	6.4	8.3	5.8	5.1	7.1	5.2	4.7	5.6
1970 to 1971	7.1	6.5	7.0	12.2	10.0	12.8	8.0	7.4	8.4	8.0	6.3	10.7
1971 to 1972 [1]	6.4	6.4	6.2	6.3	6.2	6.3	6.0	5.6	6.4	[3] 5.0	[3] 3.8	[3] 5.7

[1] Adjusted for overtime (in manufacturing only) and for interindustry employment shifts.
[2] Contracts covering 1,000 or more workers.
[3] First 9 months of 1972.

NA—Not available.

Source: Department of Labor, Bureau of Labor Statistics.

Few would disgaree that the absence of excessive demand pressures and the relatively high date of unemployment throughout much of the period were vital factors behind the slow rise in wages during the early 1960's. However, it is also worth keeping in mind that a voluntary incomes policy was operative over much of this period. The econometric evidence as to whether the guideposts exerted an independent effect on wages and prices separable from, say, the general absence of excess demand, is mixed.

For nonfinancial corporations the small rise in prices that did occur in the early 1960's was largely a reflection of higher profits per unit of output. With unit costs rising very little, unit profits rose steadily in the first half of the 1960's and in 1965 were higher than in any other postwar years except for 1948, 1950 and 1951.

THE INFLATION OF 1965–1969

A continuation of the price stability of the early 1960's would have required that the rate of increase in demand slow down as the economy approached its potential. Similarly, if the rise in labor costs were to remain moderate the rate of wage increases would have had to diminish since above average rises in productivity could not be expected to continue. In fact, both aggregate expenditures and wage rates accelerated their increases.

The step-up of the war in Vietnam in mid-1965 found little margin of unused resources to satisfy the new demands being placed on the economy. The overall unemployment rate in June and July was 4½ percent and the rate for married men only 2.3 percent. It was under these circumstances that fiscal policy took a pronounced shift toward stimulus, mainly because of the rise in defense spending but also because new government programs instituted earlier were moving into a more expansive phase.

Although the 1965–1969 inflation is usually thought to have begun at mid-1965, that date does not constitute a dividing line in the price statistics. The GNP deflator rose less in the second half of 1965 than in the first. There was a distinct acceleration in the rise of wholesale prices but that had begun in the spring of 1965. There was some acceleration in the rise in the consumer price index from 1964 to 1965—1.7 percent as compared with about 1¼ percent in the three preceding years. But this was due entirely to food and services; nonfood commodities rose at the same rate as earlier. The most prominent price change was the rapid rise of farm prices, which began at the end of 1964, was most severe in the spring of 1965 and continued through mid-1966. This was due principally to supply restrictions. Government programs limited output of major crops; production of pork dropped sharply and beef production rose only slightly in response to low prices in 1963 and 1964; and output of several crops declined because of poor weather.

It was not until early 1966 that the strong upsurge in demand, coming at a time when the unemployment rate had fallen below 4 percent brought sharp increases in costs and prices. Earlier rises in the prices of crude and intermediate materials at wholesale began to be translated into larger increases of finished goods prices. Higher food prices exacerbated the pressures coming from higher demand. In the first quarter of 1966 the GNP deflator rose at an annual rate of 3.1 percent—the largest rise in 8 years—and in the second quarter the inflation rate rose to 4.0 percent, which proved to be a peak for the early stage of the Vietnam buildup.

THE 1966–1967 LULL

After the spring of 1966 the rise in aggregate demand began to taper off for a number of reasons. The initial burst of defense demand associated with the military buildup subsided. The effects of monetary policy, which had begun to move toward restraint early in the year, started to be felt. The investment tax credit was repealed in the summer as a means of cooling off business demand for capital goods, which had risen rapidly. There also seems to have been an independent decline in automobile demand in the spring. After the first quarter of 1966 there was a pronounced retardation in the rate of growth of real output and in the first quarter of 1967 output slipped very slightly. Although the excess of actual over potential output was significantly reduced, the excess did not disappear. Total employment stopped growing around the end of 1966 but so did the civilian labor force, so that there was little response in the unemployment rate.

The slowdown in demand, output and employment was accompanied by a retardation in the rate of inflation. From the 4 percent rate reached in the second quarter of 1966 the rise in the GNP deflator gradually subsided to a rate of 2.3 percent one year later. The price slowdown over this period had two components. One was a response to the slowdown in the economy while the other was an autonomous decline in farm and food prices.

Independent forces on the supply side were responsible for a sharp decline in food prices. The point is worth emphasizing today because it indicates how dramatically farm and food prices can respond to an improving supply situation. By mid-1966, production of pork was turning around and output of beef, poultry, and eggs was picking up rapidly in lagged response to the high prices of 1965 and early 1966. Moreover, acreges planted for feed and food grains were allowed to increase in 1967. As a result, the expansion in farm output in 1967 was the largest recorded for the decade. The 4.2 percent decline in farm product and processed food prices accounts wholly for the slight decline in the wholesale price index from the third quarter of 1966 to the second quarter of 1967. The food component of the CPI fell about 1 percent from August 1966 to April 1967 and the farm component of the GNP deflator fell over 10 percent between the quarters containing those months.

In the nonfarm sector industrial prices at wholesale rose less than half as much in the year from the third quarter of 1966 to the third quarter of 1967 as they had in the preceding year. Also, there was a slight slowdown in the rise in nonfood commodities in the CPI. This favorable price behavior in the nonfarm sector is important because it demonstrates the possibility of a prompt price reaction to a moderate slowdown in the real economy, if, as in this case, the inflation has been of relatively short duration.

RESURGENCE OF DEMAND INFLATION

Because the economy continued to operate above its potential in 1967 the revival in demand during that year brought a quick response in prices. The inflation rate as measured by the GNP deflator rose markedly in the second half of 1967, and during 1968 the rise averaged more than 4 percent, which was more than ½ of a percentage point greater than the increase during 1967. Also, farm prices—responding to a slower expansion in production and to rapid increases in consumer demand—began a vigorous rise that continued through the end of 1969.

Policies against inflation were slow to be enacted in 1967 and 1968 and for part of 1968 monetary and fiscal policy were working at cross purposes. The budget for fiscal 1969 called for a considerable slowdown in the rise in Federal expenditures. However, the Johnson Administration proposal for a temporary 10 percent surtax on personal and corporate income did not become law until the middle of calendar 1968. The surtax was expected to have a fairly quick impact on demand and production. Concern that the economy might slow down too abruptly led the monetary authorities to pursue a more stimulative monetary policy in the second half of 1968. The rise in demand and real output did in fact slow down during this period but the economy was still operating above its potential, pressures on costs were heavy, and the inflation rate showed some acceleration from the first to the second half of the year.

Labor demand, 1966–1969

Labor markets were extremely tight in the second half of the 1960's almost without interruption. The unemployment rate dropped from 5 percent in early 1965 to below 3½ percent in late 1968. The strong demand for labor showed up in other ways. The index of help wanted advertising of the National Industrial Conference Board soared by more than 37 percent between 1965 and 1968–1969. The quit rate of production workers in manufacturing, which appears to be strongly influenced by worker assessments of the availability of alternative job opportunities nearly doubled between 1964 and 1969.

Not only did the overall unemployment rate fall sharply during the period, but there were important decreases in component unemployment rates, particularly for adult males. The jobless rate for males in the 25–54 age bracket fell by one-half, from 3 percent in early 1965 to 1½ percent in early 1969. This rate hit a postwar low in 1969, falling even below the trough reached during the Korean war, although definitional changes introduced into the household survey starting in 1967 may have served to reduce the prime male rate in the late 1960's relative to, say, the early 1950's.

As the demand for labor grew and the unemployment rate declined, signs of wage inflation increased, gradually at first but with greater frequency as time went on. The beginnings of a crescendo of compensation growth were already evident in 1965, when hourly compensation, which had risen at a rate of slightly more than a four percent over most of the early 1960's, increased at a rate of about 5 percent during the final three quarters of the year. The hourly earnings index had inched up at a 3.1 percent pace during the 1960–1964 period; but its quarterly growth rose from a rate of 3.4 percent in late 1964 to 4.2 percent a year later. The median first year wage adjustment was 3.8 percent in 1965, compared to an average rise of 3.0 percent in the preceding four years. The small pickup in the average size of negotiated settlements in 1965 was concentrated in the manufacturing sector, where the median adjustment was 3.4 percent, as compared to an annual rise of 2.5 percent in the immediately preceding four years .

The wage acceleration that began in 1965 did not crest for several years. On an annual basis, compensation per manhour (of persons) in the private nonfarm sector climbed from less than 4 percent in 1965 to 7.3 percnt in 1968. Although the rise slowed in 1967, this was the result of reduced overtime hours and change in industry mix associated with the lull in demand. In contrast, negotiated wage settlements spiralled steadily upwards over this period, from a median first year adjustment of 3.8 percent in 1965 to 8.0 percent in 1969. It is quite important to note that the more encompassing measure of "effective wage adjustment" did not accelerate as rapidly, rising from 3.4 percent in 1965 to 5.5 percent in 1968 and 5.1 percent in 1969, mainly because of smaller deferred increases from settlements negotiated in earlier years.

A separate, although certainly not independent, factor in this wage escalation process was the rapid and severe distortion of traditional wage relationships which evolved during the latter half of the 1960's. The prevalence of long-term contracts locked substantial numbers of workers into gains that turned out to be inadequate not only by comparison with the rates at which price levels were rising but also relative to the speed at which wage rates were being adjusted for other workers. Both of these factors generated pressures for large first year wage increases in negotiated settlements which, in a sense, served largely as *retrospective* adjustments to wage and price inflation. However, *prospects* of further inflation also fueled union and nonunion wage demands. In the late 1960's particularly, wages in the construction industry escalated very rapidly and probably exerted an influence on overall wage changes that was far out of proportion to the share of construction in total employment. Excessive wage changes in one construction craft or geographic locale quickly spread to other segments of the industry and resulted in major distortions with respect to the wage levels of other industries.

In manufacturing median effective wage adjustments in unionized firms were less than those of nonunionized firms from 1965 to 1969 as a whole but the pattern within the period changed. In each year from 1965 through 1967, the effective wage adjustment for unionized firms was smaller than for nonunion establishments. However, in 1968 and 1969 the effective wage adjustments were identical for union and nonunion firms. (1970 and 1971 rises in union wages outstripped those in the nonunion sector.) If the maufacturing sector is reasonably typical of the economy as a whole in terms of its union-nonunion wage relationships, then wage growth in the unionized sector of the economy actually lagged behind that of the nonunionized portions for the period of excess demand as a whole.

During the latter half of the 1960's there was a steady acceleration of the increase in unit labor costs. After rising at an annual rate of only 0.4 percent in the 1960–1965 period in the private nonfarm sector, the average increase from 1965 to 1969 was 4.5 percent and by 1969 the rise was over 7 percent. At the same time that hourly compensation was rising rapidly, the improvement in productivity was showing a pronounced slowdown. Productivity rose from 1966 to 1968 but the average increase of 2.3 percent was well below the average rise of 3.4 percent during the first half of the 1960's.

To judge from nonfinancial corporations, rising profit margins do not appear to have been a significant factor in the price rise after 1965. Profits per unit of output peaked in late 1965 and approximately levelled out in 1966. The lull in demand in late 1966-early 1967 was accompanied by some reduction in profits per unit, but they experienced only a slight recovery of brief duration when the rise in demand and the rate of inflation accelerated after mid-1967 (Table 4).

TURNING THE INFLATIONARY TIDE

When the new Administration came in at the start of 1969 conditions of excess demand were at their worst. The rate of inflation in the GNP deflator had reachd 4.6 percent in the fourth quarter of 1968. The unemployment rate in December 1968 was 3.4 percent, the lowest it had been since 1953.

The Administration's anti-inflationary policies focused on the conditions underlying the rapid rate of price and wage increase, namely, the excess demand. It was successful in bringing about a closer coordination of monetary and fiscal policies. Following the move in the direction of expansion in the second half of 1968 Federal Reserve policy shifted toward restraint. Fiscal policy brought about some cutback in expenditures from those proposed by the preceding Administration, which had already begun to reduce the rise in outlays. Altogether there was a very pronounced move toward fiscal restraint from fiscal year 1968 to fiscal 1969 as the full employment budget moved from a substantial deficit to a substantial surplus.

TABLE 4.—CHANGES IN PRICES, COSTS, AND PROFITS PER UNIT OF OUTPUT FOR NONFINANCIAL CORPORATIONS, 1960-72 (ANNUAL RATE)

Item	1960–65	1965–66	1966–67	1967–68	1968–69	1969–70	1970–71	1971–72
Dollar change per unit of output:								
Price	0.007	0.018	0.031	0.028	0.030	0.046	0.044	0.021
Employee compensation	–.002	.018	.029	.020	.037	.048	.020	.010
Other costs	.003	–.001	.015	.009	.014	.024	.015	.003
Capital consumption allowances	.002	.001	.007	.002	.006	.009	.008	.004
Indirect business taxes [1]	.000	–.004	.004	.005	.004	.009	.006	–.002
Net interest	.001	.002	.004	.002	.004	.006	.002	.001
Profit [2]	.006	.001	–.013	–.001	–.021	–.026	.009	.008
Percent change per unit of output:								
Price	.6	1.7	2.9	2.5	2.7	4.0	3.6	1.7
Employee compensation	–.3	2.7	4.3	2.8	5.1	6.3	2.5	1.2
Compensation per man-hour	3.7	5.3	5.3	7.2	7.3	7.3	7.2	6.2
Output per man-hour	4.0	2.6	1.0	4.3	2.1	1.0	4.7	4.7
Other costs	1.4	–.5	7.0	3.9	5.9	9.5	5.4	1.0
Capital consumption allowances	1.7	1.0	7.0	1.9	5.5	7.8	6.5	3.0
Indirect business taxes	.2	–4.0	4.2	5.0	3.8	8.3	5.1	–1.6
Net interest	9.1	11.8	21.1	8.7	16.0	20.7	5.7	–2.7
Profits [2]	3.5	.6	–7.2	–.6	–12.7	–17.9	7.6	6.3
Percent change in output	6.0	7.6	1.4	6.4	4.6	–1.5	2.7	8.4

[1] Also includes business transfer payments less subsidies.
[2] Before taxes and including inventory valuation adjustment.

Note: Detail may not add to totals because of rounding.

Sources: Department of Commerce, Bureau of Economic Analysis, and Department of Labor, Bureau of Labor Statistics

Policy succeeded in attaining its first objective of getting rid of the excess demand. As compared to 1968 the rise in demand slowed in 1969 and fell markedly in the fourth quarter of 1969 when real output showed a moderate decline.

The Administration recognized that results of the fight against inflation—in the form of much slower rises in prices and wages—could not be expected quickly because inflation had been a way of life for too long a time; however, it was believed that business and labor would alter their behavior as they saw circumstances changing. At first the slowdown in demand and output was expected to reduce profits and cause employers to show greater resistance to demands for wage increases. The reduction in profits itself was expected to remove an important rationale for large wage demands. At the same time, the reduced demand for labor was expected to bring a moderation in workers' demands for wage increases. This process was expected to take time because the momentum of past wages and price increases were deeply imbedded in the behavior of business and labor. There was thus considerable catching up to be done by those who had fallen behind in the inflationary spiral, but ultimately the conditions of sluggish demand would make themselves felt. Business would moderate its price increases would foster a slower rise in unit labor costs and thus in prices.

Expectations of a slow price response proved to be correct since the price rise accelerated during much of 1969 and perhaps during all of it. It is not entirely clear from the existing data whether the inflation peaked in late 1969 or early 1970 because the various indexes that are available give somewhat conflicting results. Changes in the GNP deflator reflect both changes in prices and changes in weights so that if weight changes are to be avoided one must focus on a fixed weighted index. Such an index for all of GNP (with 1967 weights) would put the maximum rate of inflation in the years 1969 and 1970 in the third quarter of 1969, at 6.7 percent. If one focuses on the private sector alone—in order to eliminate the influence of government pay raises—that quarter would constitute the peak also, with an annual inflation rate of 5.6 percent. In contrast, the wholesale price index and its industrial component peaked in the final quarter of 1969 while the consumer price index increased at its highest rate in the first quarter of 1970.

Employers and employees alike were slow to adjust their behavior to changing circumstances. Although the rise in demand and output tapered off during 1969, the labor force continued to grow rapidly and employment increased until the early part of 1970. One plausible explanation for this behavior is that employers were hoarding labor in the belief that the slowdown would be both brief and mild.

The large increases in employment coming at a time when the rise in output was slowing down resulted in a slight absolute decline in nonfarm output per man-hour from 1968 to 1969. There was a slight diminution in the change in compensation per man-hour which was basically of a compositional nature. The net result was the largest increase in unit labor costs for any post-war year—7.2 percent in the private nonfarm sector.

Price behavior preceding the NEP

The disinflationary policies that had been started in 1969 caused the economy to decline a little more in early 1970 than had been anticipated, but the decrease in real output was quite small by post war standards. In any case it was clear that the excess demand had at long last been eliminated by early 1970. In the second and third quarter of 1970 the output decline was reversed with small increases. Indeed, monetary policy had already turned in the direction of expansion early in the year while the Administration clung to a fiscal policy that was essentially neutral. However, the recovery was a fragile one and when the General Motors strike occurred in mid-September the mild forces of expansion were swamped by the contractionary forces of the strike. The recovery continued to be sluggish through the spring and much of the summer of 1971.

Unemployment rose rapidly during 1970—from 3.6 percent at the end of 1969 to 6.1 percent a year later. Despite the recovery in demand and output unemployment did not stray far from 6 percent throughout 1971. The other labor market barometers pointed to the same softening in the demand for labor over the same period.

The year 1970 was the first during which prices responded to disinflationary policies of demand management, but progress on the price front was not steady nor was it so large as to eradicate doubts about the fight against inflation. By the third quarter of 1970 the fixed weighted GNP deflator had fallen to an annual rate of 3.7 percent, 3 full percentage points less than the rate of one year earlier. Its interim movement, however, was somewhat erratic. This was not true of the fixed weighted private deflator, whose rate of increase declined steadily from the third quarter of 1969 to the third quarter of 1970, to reach an annual rate of 3.3 percent. This was 2.3 percentage points below the peak one year earlier.

The rise in the consumer price index also fell to its lowest rate in more than 2 years by the third quarter of 1970. However, this was mainly because of smaller increases in food prices. Farm prices, which had risen rapidly in 1969, had peaked in early 1970. After reaching a high in early 1970 livestock prices declined sharply through the rest of the year, reflecting heavy marketings and more than offsetting a slight rise in crop prices. The rise in food prices exceeded 6 percent for 4 straight quarters, reaching 8.5 percent in the opening quarter of 1970. But two quarters later the rise was down to 1.0 percent. As in 1967, this experience provides another example of how changes in food prices can undergo pronounced shifts in relatively short periods of time.

The nonfood component of the CPI recorded some progress toward disinflation but not much. Inflation rates reached peaks ranging from 6½ to 7 in the first half of 1970 and fell to a little over 5 percent in the third quarter.

Unfortunately this behavior did not continue. The progress made in the spring and summer of 1970 was reversed in late 1970 and early 1971 coincident with the sharp decline in output associated with the General Motors strike and its aftermath. Inflation rates subsided after the first quarter of 1971 but at rates that were above those reached in the summer of 1970.

Wage behavior preceding the freeze

Although excess demand ceased to be a fact of U.S. economic life after 1969, wage rate changes seemed impervious to those developments. Salaries of white collar workers increased faster in 1970 than they did in any of the earlier years and from the middle of 1970 to the middle of 1971 they rose more quickly than in the preceding year. Collective bargaining settlements continued to accelerate, with first year negotiated wage increases reaching 10 percent in 1970. In construction these rose to a rate of more than 22 percent during the final half of 1970. The comprehensive hourly compensation series continued to rise briskly and, while not accelerating, showed no real signs of abating from the growth rate of about 7½ percent average during 1970 and the first half of 1971.

The failure of wage rate changes to slacken when excess demand for labor had abated has no simple explanation. Some economists who envisioned a more or less stable relationship between the rate of wage and price inflation, on the one hand, and the ratio of aggregate output to potential on the other, claim that this relationship shifted or worsened during the 1960's. In particular, they point to the changes in the age-sex composition of the labor force as a primary force behind this deterioration. While this may be relevant for the latter half of the 1960's and the early 1970's as a whole, it does not seem sufficient to explain why wage changes did not respond to the elimination of excess aggregate demand and the persistence of high unemployment.

The legacy of firmly imbedded inflationary expectations as well as the inherited accumulation of distortions in the wage structure undoubtedly exerted an important influence on wage changes. Although workers had been receiving large wage increases in money terms, they felt little real improvement because of the rapid inflation. Wages in major industries affected by collective bargaining agreements showed a persistent tendency to fall behind the rest of the economy during the term of a multi-year agreement and then to catch up through large increases when new agreemens were negotiated. Of course, as soon as one group of workers managed to regain its "place" in the relative wage structure, another group lost its standing.

In fact there is some evidence in manufacturing suggesting that wage rate increases in the nonunionized sector did indeed moderate during 1970 and 1971. However, for a variety of reasons this was not true of the highly publicized unionized sector, where wage increases accelerated (Table 5).

TABLE 5.—UNION AND NONUNION WAGE ADJUSTMENTS IN MANUFACTURING, 1959–71

Year	Median percentage adjustment			
	New wage decisions		Effective adjustment	
	Union	Nonunion	Union	Nonunion
1959	[1] 3.4	[1] 3.2	[1] 3.4	[1] 3.3
1960	[1] 3.4	[1] 2.2	[1] 3.4	[1] 2.5
1961	2.5	1.2	2.7	1.0
1962	2.5	1.6	2.6	1.6
1963	2.6	2.8	2.6	2.8
1964	2.3	2.0	2.2	2.0
1965	3.4	3.2	2.9	3.2
1966	4.0	3.7	3.2	3.9
1967	5.5	4.4	4.0	4.6
1968	6.4	5.0	5.0	5.0
1969	6.9	5.1	5.0	5.1
1970	7.3	5.0	5.7	5.1
1971	8.2	4.7	6.1	4.7

[1] Estimated.

Source: Department of Labor, Bureau of Labor Statistics.

The small amount of price improvement that occurred from early 1970 to the time of the price freeze—aside from slower rises in food costs—was associated mainly with an improvement in productivity. There had been a considerable decrease in productivity in late 1969-early 1970, associated with the down turn in real output. But after early 1970 business embarked on extensive cost-cutting activities that took the form mainly of steady reductions in man-hours through 1970, during the time that output had resumed its rise. The resultant productivity improvement served to offset the continued large increases in hourly compensation, so that the rise in unit labor costs was greatly reduced. After the recovery from the strike in the automobile industry the growth of productivity slowed down as the severest phase of cost-cutting ended and business resumed hiring.

That there was not more disinflation during this period may have been related to the severe squeeze on profit margins that business experienced in 1969 and 1970, when profits per unit of output fell by approximately one-third. The moderate improvement in demand in 1971 found businessmen attempting to expand their shrunken margins. However, efforts in this direction were necessarily limited mainly because the economy was still not enjoying a robust expansion. In the third quarter of 1971 unit profits of nonfinancial corporations were still 30 percent below their peaks reached some 5 years earlier.

THE ECONOMIC STABILIZATION PROGRAM, 1971–1973

In the middle of 1971 the economic recovery was proceeding slowly, unemployment had shown no improvement, while the inflation rate had slowed but was still too high. Consumer prices increased in the first half at an annual rate of 3.8 percent, the lowest rate for such a period in 4 years. However, wholesale prices accelerated to an annual rate of 5 percent, largely as a result of sharp demand-induced rises in prices of lumber and cattlehides. Concern persisted that measures taken to speed up the economy and reduce unemployment would worsen the price situation.

In the meantime the accelerating deterioration of the U.S. balance of international payments and of the dollar in world markets added a new facet to the policy dilemma. The Administration response was the New Economic Policy, announced August 15, 1971. The rationale for the comprehensive mandatory controls on prices and wages was that the 1970–1971 inflation was a result of expectations, contracts, and patterns of behavior built up during the 1965–1969 period of excess demand. The purpose of the controls was to provide a period of enforced relative price-wage stability during which behavior would adapt to the new expectation that rapid inflation was no longer the prospective condition of rational life.

Prices

The Economic Stabilization Program (ESP) was initiated without advance notice by a 90-day freeze of almost all prices and wages. This step impressed the existence of controls on the public consciousness and had a marked effect on monthly price indexes. Partly because the consumer price index includes some prices sampled only every six months, the impact on the CPI was less pronounced than on the wholesale index. The latter actually declined very slightly in the August-November 1971 period, the first decline in four years. Consumer prices as reflected in the CPI rose 0.5 percent during the freeze months, the smallest rise for such a period in 4½ years. In addition to efficiently initiating the control period, the freeze provided the time needed to organize more flexible and, therefore, a more durable system of controls together with the necessary administrative machinery.

The Phase II price control system was based on the principle of minimizing imposed rules and regulations and maximizing selfadministering guidelines to be applied by each company to its own prices. Thus, there were no industry-wide price ceilings. Each firm's prices were restricted to their level in a historical base period except to the extent its unit costs were increased (after reduction for productivity increases). Even cost-justified price increases were not permissible if the result were to raise a firm's ratio of profit to sales beyond a base-period standard. The net effect of these rules was not to eliminate price increases but to restrain them and also to maintain competitive pressures within sectors by restricting some firms to smaller increases than others.

There were, of course, some exempted prices, most importantly raw agricultural products, which at the beginning of the freeze were completely exempted from controls but in July 1972 were placed under control after the initial sale from the farm. Prices of small firms were exempted as were most residential rents and import prices at their first sale in the U.S. Altogtther it was estimated that 20 percent of the CPI's weight was free of controls.

The GNP deflator, which had risen at an average annual rate of 5 percent from 1968 to 1971, increased only 3 percent from 1971 to 1972. The deceleration of the rise in the private nonfarm business deflator was especially dramatic—from a peak of 4.8 percent in 1970 to 1.9 percent in 1972; if the change is measured from the second quarter of 1971 to the fourth quarter of 1972, the average annual rate of increase comes to 1.8 percent. Weight shifts last year tended to reduce the rate of inflation as measured by implicit deflators. The fixed weighted private index rose at an annual rate of 3.1 percent over the 6 quarters of Phase I and II as compared with 2.5 percent as measured by the implicit private deflator.

The impact of Phase II on the price indexes was less dramatic than that of the freeze but there can be no doubt that the accomplishments were substantial whether one considers Phase II alone or Phases I and II combined. Rising food prices, which were essentially uncontrolled, partly masked what Phase II brought about. Over the 18 months from August 1971 through December 1972 the nonfood items of the CPI increased at an annual rate of 2.9 as compared to a 3.4 percent rate in 8 months of 1971 preceding the freeze and 6.5 percent over the 12 months of 1970. From August 1971 to December 1972 the industrial commodity component of the WPI rose at an annual rate of 2.7 percent as compared to 4.7 percent over the first 8 months of 1971 and 3.6 percent during 1970 (Table 6).

TABLE 6.—CHANGES IN CONSUMER AND WHOLESALE PRICES, 1968 TO 1972

[Percent; seasonally adjusted annual rates]

Price index	Prephase I			Phase I	Phase II	Phases I and II
	December 1968 to December 1969	December 1969 to December 1970	December 1970 to August 1971	August 1971 to November 1971	November 1971 to December 1972	August 1971 to December 1972
Consumer price index: All items	6.1	5.5	3.8	1.9	3.4	3.2
Food	7.2	2.2	5.0	1.7	5.0	4.4
Commodities, less food	4.5	4.8	2.9	0	2.5	2.0
Services [1]	7.4	8.2	4.5	3.1	3.6	3.5
Rent [1]	3.8	4.5	4.3	2.8	3.5	3.3
Wholesale price index: All commodities	4.8	2.2	5.2	−.2	6.6	5.3
Farm products, processed foods and feeds	7.5	−1.4	6.5	1.1	14.7	12.0
Industrial commodities	3.9	3.6	4.7	−.5	3.5	2.7
Consumer finished goods	4.9	1.4	4.1	−1.1	5.0	3.8
Consumer foods	8.2	−2.5	6.8	.3	8.8	7.1
Consumer commodities less food	2.9	4.0	2.2	−.4	2.4	1.9
Producer finished goods	4.6	4.9	3.7	−2.0	2.3	1.5

[1] Not seasonally adjusted.

Source: Department of Labor, Bureau of Labor Statistics.

The effect of the Economic Stabilization Program on some important areas of prices was striking. Service prices, comprising 37 percent of the CPI, were reduced to an average annual rate increase of 3.5 percent as compared to 4.6 percent in 1971 prior to the freeze and a 7–8 percent range in 1969 and 1970. Retail commodity prices, other than for food, comprising 41 percent of the CPI, rose at a 1.9 percent rate during the control period compared to 2.9 percent in 1971 to August and 4.8 percent in 1970.

Wages

The comprehensive wage controls imposed in August 1971 evolved from Phase I's freeze on wage changes to the more flexible approaches of Phase II and III, which were designed to accommodate a rapidly growing economy and to facilitate the delicate, but essential task, of restoring order to the national wage structure. When Phase II began in November 1971, a basic overall norm for permitted wage changes was set at 5½ percent. The exemption for certain fringe benefits mandated by Congress in the amendments to the Economic Stabilization Act raised this norm to about 6.2 percent, and a number of other qualifications permitted departures from these numbers in particular cases.

The economy-wide measures of wage changes have slowed markedly during the controls period (Table 7). Although exhibiting considerable quarter-to-quarter variability, hourly compensation has increased at an annual rate of only 6 percent during the controls period as a whole. This is about one to one-and a half percentage points slower than in the precontrols period. The average hourly earnings index has also risen at about a 6 percent annual rate during the controls period; this represents a deceleration of comparable magnitude. Increases since the bulge at the start of Phase II have been even more moderate.

TABLE 7.—CHANGES IN WAGE MEASURES, 1969–72

[Percent; seasonally adjusted annual rate]

Wage measure	Prefreeze		Freeze	Bulge	Post-bulge	Economic stabilization program
	August 1969 to August 1970	August 1970 to August 1971	August 1971 to November 1971	November 1971 to February 1972	February 1972 to December 1972	August 1971 to December 1972
Average hourly earnings, private nonfarm economy [1]	6.9	6.9	3.1	9.5	6.4	6.4
	1969 II to 1970 II	1970 II to 1971 II	1971 II to 1971 IV	1971 IV to 1972 I	1972 I to 1972 IV [2]	1971 II to 1972 IV [2]
Average hourly compensation, all employees:						
Total private economy	7.2	7.6	5.3	8.7	5.7	6.1
Nonfarm	7.1	7.6	5.1	9.0	5.9	6.1
Average hourly earnings, private nonfarm economy [1]	6.5	7.4	5.7	8.0	6.1	6.3

[1] Adjusted for overtime (in manufacturing only) and interindustry employment shifts.
[2] Preliminary.

Source: Department of Labor, Bureau of Labor Statistics.

During the controls period, there was a very substantial decline in the size of negotiated settlements, judging from the information available in the Labor Department tabulations of changes in contracts covering 1,000 or more workers. Just prior to the start of the controls program, the typical first year wage increase had been close to 12 percent. The mean first year adjustment was 10.0 percent in 1970 and 11.8 percent in the first 9 months of 1971. In contrast, this first year increase dropped to 7.6 percent for all of Phase II and averaged 6.2 percent in the final quarter of 1972, the latest period for which information is available. For manufacturing alone, the first year increase was 8.1 percent in 1970 and 11 percent in the first 9 months of 1971. The manufacturing first year wage increase, which averaged 6.9 percent for all Phase II, declined from 9.1 percent in the last quarter of 1971 to 6.4 percent in the final quarter of 1972. It is very important to note that there was considerable variation around these averages during Phase II. For example, more than one-third of first year wage adjustments in 1972 called for less than 6 percent while the remaining two-thirds called for larger increases. Thus, the wage standards were applied in a flexible fashion to accomplish this pronounced deceleration in the overall size of negotiated settlements.

As a consequence of both the deceleration in compensation growth and the pick-up in the rise of productivity which has accompanied the strong expansion of output, unit labor costs increased little during 1972. The rise of less than 2 percent from 1971 to 1972, represents the smallest increase since 1965. In fact, a *deceleration* in the rise of unit labor costs is the opposite of what one would have predicted from the basis of past cyclical experience.

SHARES OF WAGES AND PROFITS IN GNP

A summary view of changes in prices and costs is provided by a breakdown of the GNP into income shares and other components of price like indirect business taxes and depreciation. One difficulty with a completely global breakdown for the entire U.S. economy is that the product of government consists solely of government workers, so that if government product has grown more rapidly than private product the share of wages will show a rise relative to the share of profits. Data for nonfinancial corporations provide the best basis for analyzing changing shares of GNP. Nonfinancial corporations accounted for 60 percent of private product last year and in the corporate form of organization—unlike the noncorporate form—distinctions between wages and salaries, on the one hand, and profits, on the other, are clearcut. Besides, the nonfinancial sector embraces the large corporations and the unions with whom they deal, that is to say, the major groups that have been the focus of incomes policies.

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A breakdown of gross product originating in nonfinancial corporations is shown in Table 8. Very briefly, it shows that from 1960 to 1965, the period of relative price stability, the share of employee compensation declined while the profits share rose. In contrast, during the period of excess demand, this process underwent a steady reversal. In 1970, the recession year, the profit share reached bottom—a trough for the post-World War II period—while the employee compensation share rose to a peak. Since profits rose faster than corporate output in 1971 and 1972, when the course of the economy was reversed, the profit share rose slightly while the wage and salary share declined, but the differences in shares since 1970 have been very small. For the post-war years the profit share of 10.6 percent in 1972 was lower than in every year except 1970 and 1971, while the wage and salary share of 66.2 percent was higher than in every year since 1970 and 1971.

TABLE 8.—DISTRIBUTION OF GROSS PRODUCT ORIGINATING IN NONFINANCIAL CORPORATIONS, 1947–72

[Percent [1]]

Period	Total	Compensation of employees	All other costs: Total	All other costs: Capital consumption allowances	All other costs: Indirect business taxes [2]	All other costs: Net interest	Profits [3]
1947	100.0	65.9	14.8	4.8	9.3	0.7	19.4
1948	100.0	63.9	14.5	5.0	8.8	.7	21.6
1949	100.0	63.8	16.1	5.9	9.5	.8	20.1
1950	100.0	62.4	15.5	5.7	9.2	.6	22.1
1951	100.0	63.1	15.1	5.8	8.7	.6	21.7
1952	100.0	64.8	16.1	6.2	9.2	.7	19.1
1953	100.0	65.9	16.6	6.6	9.3	.7	17.4
1954	100.0	65.9	17.6	7.7	9.1	.8	16.6
1955	100.0	63.9	17.5	7.9	8.9	.7	18.6
1956	100.0	65.3	17.7	8.0	9.0	.7	16.9
1957	100.0	65.6	18.6	8.4	9.3	.9	15.8
1958	100.0	65.9	19.9	9.1	9.7	1.1	14.2
1959	100.0	64.7	19.1	8.7	9.3	1.0	16.2
1960	100.0	65.5	19.7	8.9	9.7	1.1	14.8
1961	100.0	65.1	20.4	9.2	9.9	1.3	14.5
1962	100.0	64.3	20.8	9.7	9.8	1.4	14.9
1963	100.0	63.9	20.9	9.7	9.8	1.4	15.2
1964	100.0	63.3	20.8	9.5	9.8	1.5	16.0
1965	100.0	62.6	20.4	9.4	9.5	1.6	17.0
1966	100.0	63.2	20.0	9.3	8.9	1.8	16.8
1967	100.0	64.0	20.9	9.7	9.1	2.1	15.1
1968	100.0	64.2	21.2	9.7	9.3	2.2	14.7
1969	100.0	65.7	21.8	9.9	9.3	2.5	12.5
1970	100.0	67.2	23.0	10.3	9.7	2.9	9.8
1971	100.0	66.4	23.4	10.6	9.9	2.9	10.2
1972 [4]	100.0	66.1	23.2	10.7	9.6	2.9	10.7
1971: I	100.0	66.5	23.2	10.3	9.9	2.9	10.3
II	100.0	66.4	23.1	10.4	9.8	2.9	10.5
III	100.0	66.3	23.5	10.6	9.9	3.0	10.2
IV	100.0	66.4	23.7	10.8	10.0	3.0	9.9
1972: I	100.0	66.4	23.2	10.7	9.7	2.9	10.3
II	100.0	66.2	23.3	10.9	9.6	2.9	10.5
III	100.0	66.1	23.2	10.7	9.6	2.9	10.7
IV [4]	100.0	66.0	22.9	10.5	9.5	2.8	11.1

[1] Quarterly percents based on seasonally adjusted data.
[2] Also includes business transfer payments less subsidies.
[3] Before taxes and including inventory valuation adjustment.
[4] Preliminary.

Note.—Detail may not add to totals because of rounding.

Source: Department of Commerce, Bureau of Economic Analysis.

The picture of income shares outlined above is essentially correct but it is not complete. As the 1973 *Economic Report* stated:

"Long-range comparisons of the profits share, including those just cited, suffer from the fact that over the years depreciation laws and regulations have undergone many changes that affect the calculation of profits. This shortcoming can be overcome through the use of uniform methods of calculating depreciation over time, so that the resultant estimates of profits are not affected by changes in depreciation practices.

The Commerce Department has made such calculations, and the results are shown in the second column of Table 8a. This adjustment raises the profits share for most of the periods (it is lowered for the 1950–1954 period), but in terms of changes over long periods the picture shown by the unadjusted numbers (Column 1 of Table 8a) is not altered in any significant way. Comparisons should properly be made only between periods in comparable stages of the business cycle; but even if one focuses on a year like 1968, when economic activity was high and unemployment was very low, it is clear that the profits share has declined in comparison with earlier periods.

A final adjustment should take account of interest, which is part of the total return on capital and which has grown in importance over the post-World War II period, as corporations have placed greater reliance on debt as opposed to equity financing and as interest rates have risen more rapidly than the price of corporate output. The share of intesest plus adjusted profits in gross corporate output has also declined over the long run, but that decline has been milder than for adjusted profits alone."

REAL EARNINGS DURING THE 1960'S AND 1970'S

While people are certainly concerned with their relative earnings, they probably are even more interested in their real earnings—what their dollars will buy (Table 9).

TABLE 8A.—PROFITS BEFORE ADJUSTMENT, ADJUSTED PROFITS, AND INTEREST AS SHARES OF GROSS PRODUCT OF NONFINANCIAL CORPORATIONS, 1959–72

[Percent]

Period	Profits before adjustment	Adjusted profits [1]	Interest	Adjusted profits plus interest
1950–54 average	19.4	18.4	0.7	19.1
1955–59 average	16.3	16.6	.9	17.5
1960–64 average	15.1	15.6	1.3	16.9
1965–69 average	15.2	15.5	2.0	17.5
1968	14.7	14.9	2.2	17.1
1969	12.5	12.8	2.5	15.3
1970	9.8	10.0	2.9	12.9
1971	10.2	10.5	2.9	13.4
1972 [2]	10.6	[3] 11.0	2.9	13.9

[1] Based on uniform method of calculating depreciation: historical cost valuation of assets, double declining balance and service lives equal to 85 percent of those shown in Treasury Bulletin F.
[2] Preliminary.
[3] Estimate by Council of Economic Advisers.

Note.—All profits are before taxes and include inventory valuation adjustment.
Profits in this table exclude those on residential properties owned by nonfinancial corporations and therefore differ from those shown in Table 8.

Source: Department of Commerce, Bureau of Economic Analysis (except as noted).

TABLE 9.—CHANGES IN SELECTED MEASURES OF REAL EARNINGS AND COMPENSATION, 1960–72

[Percent change per year]

Measure	1960–65	1965–69	1969–70	1970–71	1971–72
Real private nonfarm earnings:					
Gross hourly	1.9	1.7	0	2.2	2.8
Hourly earnings index [1]	1.9	1.6	.7	2.6	3.0
Spendable weekly [2]	2.1	−.1	−1.2	2.8	4.3
Gross weekly	2.0	.9	−1.6	1.8	3.6
Real hourly compensation:					
All persons:					
Private	2.9	3.0	1.5	2.7	2.9
Nonfarm	2.5	2.6	1.2	2.7	3.1
All employees:					
Private	2.6	2.7	1.2	2.7	2.9
Nonfarm	2.4	2.5	1.2	2.7	3.0

[1] Adjusted for overtime (manufacturing only) and for interindustry employment shifts.
[2] Gross weekly earnings, after taxes, for workers with 3 dependents.

Source: Department of Labor, Bureau of Labor Statistics.

Although money wages were rising rapidly in the latter part of the 1960's, real spendable weekly earnings edged down and in 1970 fell by 1 percent. Improvements occurred in 1971 and 1972, especially last year, when the rate of increase in money wages decreased.

A comparison of the latter half of the 1960's with the earlier portion provides some major contrasts among the alternative indicators of real earnings improvements. The most dramatic difference appears in the series pertaining to weekly earnings. Real spendable weekly earnings declined slightly over the 1965–1969 period. A portion of the decline from the 2.1 percent rate of growth over the 1960–1965 period was the result of higher personal income taxes (the 1968 surcharge) and increased social security taxes. However, real gross weekly earnings before the deduction of these taxes had increased little during the latter half of the decade. This reflects both a slowing in the rate of growth in real average hourly earnings (from 1.9 to 1.7 percent) and a decline in the average length of the workweek. The reduction of hours accounts for, roughly speaking, 0.9 of the 1.1 percentage decline in the growth rate of real gross weekly earnings. Interestingly, the reduction in hours began in 1966, well before the beginnings of the economic downturn in late 1969. One possible reason for this is the growth of part-time employment, which rose several times as fast as full-time employment over the period. A decrease in weekly hours and weekly earnings emanating from this source would probably not be indicative of any reduction in the well-being of the working population.

Both series on real average hourly *earnings*—the unadjusted series and the series adjusted for changes in the industry mix of employment and for manufacturing overtime hours—show deceleration from the early to the latter part of the 1960's. This deceleration is not borne out in the series on real hourly *compensation*, which rose considerably more rapidly than the hourly earnings series throughout the 1960's. One reason for this discrepancy is straightforward. Hourly compensation includes fringe benefits while hourly earnings do not; supplements to employee compensation rose much more rapidly than wage and salary disbursements. Another major difference, whose implications are not as easily traced out, is that the hourly compensation series includes all persons or employees, depending on the series, while the earnings data only pertain to production and nonsupervisory workers.

Over the past eight calendar quarters, real hourly compensation has increased at about a 3 percent annual rate. As shown in Table 10, the current recovery appears quite favorable against the backdrop of the comparable stage of past recoveries. Since the start of the New Economic Policy (T+3 in Table 10), increases in real earnings have been larger than during the comparable stage of three of the past four post-war economic recoveries.

TABLE 10.—CHANGES IN REAL HOURLY COMPENSATION IN THE PRIVATE NONFARM ECONOMY DURING COMPARABLE PERIODS OF POSTWAR EXPANSIONS (SEASONALLY ADJUSTED ANNUAL RATES)

Trough quarter [1]	Percent change to 8 quarters after trough from— Trough	2d quarter after trough	3d quarter after trough	4th quarter after trough
All persons:				
1949 IV	2.9	1.3	1.6	1.1
1954 III	4.0	4.2	3.8	4.0
1958 II	3.4	3.1	2.5	2.5
1961 I	3.1	2.7	2.6	2.3
Average	3.4	2.8	2.6	2.5
1970 IV	3.2	2.8	3.2	3.3
All employees:				
1949 IV	2.9	1.3	1.7	1.2
1954 III	4.2	4.3	4.0	4.2
1958 II	3.4	3.0	2.4	2.5
1961 I	2.9	2.5	2.4	2.1
Average	3.4	2.8	2.6	2.5
1970 IV	3.1	2.7	3.1	3.1

[1] Trough quarters as designated by the National Bureau of Economic Research.

Source: Department of Labor, Bureau of Labor Statistics (except as noted).

Although the rise has been substantial in an absolute sense and relative to past recoveries, it is true that the 2.8 percent annual increase in real hourly compensation (compensation adjusted for the cost of living) for all persons in the private nonfarm sector is smaller than the 4.6 percent increase in output per manhour over the same period in that sector. It is a well-known proposition of economics that if real hourly compensation does not rise as fast as productivity, labor's share of GNP declines. However, this proposition holds only if the prices used to deflate money compensation are the prices of the products produced by labor. In the present case, prices in the private nonfarm sector rose much less than in the consumer price index because of the large influence of farm prices and import prices on the latter index. Therefore, real hourly compensation in terms of the things workers produced rose much more than real compensation in terms of the CPI market basket. It is the former which is relevant for the proposition about shares. From the second quarter of 1971 to the final quarter of 1972, the purchasing power of an hour of work in the private nonfarm sector rose at an annual rate of 2.8 percent in terms of the items included in the CPI, but at 4.2 percent in terms of the goods produced in the private nonfarm sector.

PRICES IN FOREIGN COUNTRIES

The inflationary experience of the United States over the past several years has not been a unique phenomenon. On the contrary it has been a characteristic development of all highly industrialized countries, none of which have solved the problem of maintaining growth at full employment without inflation.

Table 11 provides a comparison of consumer price behavior in six industrialized countries with that of the United States. On this basis U.S. price behavior since 1960 compares extremely well with that of leading Western European countries, Canada and Japan. The United States enjoyed an advantage in the early 1960's which it lost as the U.S. economy slowed down in 1969 and 1970. However, the reversal in 1971 and 1972 has been striking.

The higher rates of inflation experienced in the other industrialized countries as compared with the United States in the early 1960's were largely a reflection of post-war economic policies aimed at achieving and maintaining high levels of employment. The comparative price stability in this country was achieved with levels of unemployment demed unacceptable abroad. However, the rates of inflation in foreign countries were not equilibrium rates that could be maintained while countries continued to grow at full employment. Indeed, prices crept upward as demand increased and controlling the growth in demand in order to curb price rises became increasingly difficult. When foreign countries attempted to curb inflation by slowing down the rise in demand and output, they generally met with the same disappointing results experienced in the United States in 1969 and 1970, namely, rising unemployment with relatively little or no impact on the rate of inflation. In fact, some European countries experienced explosive increases in wages from which they have yet to recover.

TABLE 11.—PERCENT CHANGE IN CONSUMER PRICES IN 6 FOREIGN COUNTRIES AND IN THE UNITED STATES, 1960–72

[Percent change per year]

Country	1960–65	1965–70	1969	1970	1971	1972
United States	1.3	4.2	5.4	5.9	4.3	3.3
6 countries' average	3.8	4.0	4.5	5.3	5.7	5.7
Canada	1.6	3.9	4.3	3.3	2.9	4.9
United Kingdom	3.5	4.6	5.5	6.4	9.4	7.1
West Germany	2.8	2.6	2.7	3.8	5.1	5.8
France	3.8	4.4	6.4	5.5	5.6	5.8
Japan	6.0	5.5	5.2	7.8	6.1	4.6
Italy	4.9	2.9	2.6	4.9	4.9	5.7

Source: Department of Labor, Bureau of Labor Statistics.

Food Prices*

In the studies which this Committee has made of food prices since it was established on January 11, 1973, three facts have come sharply into focus:

First, the problem of rising food prices is serious and demands a concerted counter-attack by consumers and government alike. Food prices are rising faster than at any time in the past two decades.

Second, the Federal Government is now doing everything within its power to bring this problem under control. The government acted even before inflation hit the supermarket shelf, and it has taken a number of steps since then.

Third, despite the current seriousness of the problem today, we can reasonably expect an improvement in food prices within a few months. The heart of our problem today is a shortage of food supplies to meet rapidly increasing consumer demands. We cannot end this shortage overnight. Because of the strong actions taken by the government and the actions of the free marketplace, however, food prices should increase at a much slower rate in the second half of 1973. It is quite possible, in fact, that the rate of increase by the end of 1973 will be near zero.

The rising demands for food which we have experienced, particularly those for red meats, were generated by a vigorous expansion in consumer incomes during 1972 and early 1973. The food price problem has resulted, in part, from the basic health of our economy.

One additional element has been an increase in demand from other countries, such as the Soviet Union, which have suffered from poor harvests.

Unfortunately, this rising demand at home and abroad has been accompanied by a falling supply of food on our farms, particularly in the second half of 1972. The consequence has been a sharp upsurge in the prices of raw farm products, an upsurge which has now hit the retail markets.

During the remainder of 1973, food supplies should expand significantly, although most of the expansion will occur in the second half of the year. Once additional supplies reach the market, farm prices should move down quickly and we should have a flattening out in retail prices.

A word of caution about weather is necessary in making any predictions about food supplies. The outlook presented here is based on normal weather; unusually favorable weather would improve the outlook, but unfavorable weather would worsen it.

In this report, we shall try to explain the basis for the expectations we have expressed above. We shall review in particular detail the reasons for the current acceleration in food prices, the Cost of Living Council's three-part program to solve the problem, and finally the basis for our optimistic outlook for food prices and supplies for the remainder of 1973.

COMMITTEE ON FOOD OF THE COST OF LIVING COUNCIL

George P. Shultz, (Chairman), Secretary of the Treasury.

Herbert Stein, (Vice Chairman), Chairman of the Council of Economic Advisers.

John T. Dunlop, Director of the Cost of Living Council.

Earl L. Butz, Secretary of Agriculture.

Roy L. Ash, Director of the Office of Management and Budget.

Claude S. Brinegar, Secretary of Transportation.

CAUSES BEHIND THE PROBLEM

Food prices, like the prices of almost everything else rose sharply in the late 1960's and through early 1970. Beginning in mid-1970, food prices began increasing at a much slower pace because of a sharp increase in supplies that continued through 1971 and the establishment of the Economic Stabilization Program late that year. Food supplies in 1972, particularly supplies of meats, fruits and vegetables, were smaller and consumer demand grew as the economy expanded vigorously. As a result, food prices increased at a faster rate while prices of many other goods and services rose less than in 1971. Tight supplies combined with strong demand are continuing in 1973.

Several critical developments have converged to cause an upsurge in food prices since mid-1972.

1. *Strong Consumer Demand.*—Consumer purchasing power was advancing throughout 1972. By the fourth quarter disposable income was 9 percent higher than the same quarter of 1971. Even after discounting the effect of price in-

*A report prepared by the Cost of Living Council Committee on Food (Mar. 20, 1973).

creases, there was still a 6 percent increase in real income. Large increases are continuing in early 1973. Higher hourly earnings (up 6.2 percent); increased employment (up 2½ million), larger social security payments, $3.5 billion in food assistance programs, greater public assistance, and larger Federal tax refunds are all working to increase buying power for consumers. As a result, the demand for foods and especially meat has continued to grow. Incomes will continue to grow as the economy moves closer to full employment, though such increases will moderate as the economy approaches that goal.

The decline in unemployment and the optimistic business outlook have also helped to put consumers in a spending mood. Part of this increased spending is being directed to food purchases.

2. *Expanded Exports.*—In addition to buoyant demand at home, there has been an unexpected expansion in our export markets. Poor weather caused smaller grain crops than usual in Eastern Europe, the USSR, India, China, Australia and Argentina. The world crop of cereal in 1972 dropped more than 4 percent from 1971. Since mid-1972, U.S. exports of feed grains and wheat have been running about three-fourths higher than a year earlier. Other industrialized countries have increased their demand for livestock products and the feed materials to produce them. Peru placed a ban on fishing which cut back on supplies of fishmeal and caused unusually heavy demand for protein supplements (used in livestock & poultry feed) produced in the United States.

The adjustments in the value of the dollar relative to other currencies also helped to expand U.S. farm exports, and made imported foods more expensive. All these factors are contributing to all-time record U.S. exports. They will top $11 billion this fiscal year—up nearly 40 percent from fiscal year 1972.

World production of grains should increase in 1973 and Peru recently removed its ban on fishing. U.S. exports are expected to decline from the current year. These developments will relieve pressures on our production and marketing system and contribute to receding wholesale food prices in the second half of the year.

3. *Reduced Food Supplies in 1972.*—A key to today's food price problem was last year's decline in domestic food production, a decline which is continuing in early 1973. This has been caused by a series of factors. Red meat production fell 2 percent in 1972 as declines in hog production more than offset a small increase in beef. Earlier depressed prices for eggs and broilers and rising feed prices have contributed to levels of production which are now running well below a year ago. Weather also played an important part in reducing food supplies. Freezes, unseasonable weather, and Hurricane Agnes all damaged fruit and vegetable crops in many parts of the country. And bad weather during the fall interfered with the harvest and ruined a part of feed grain and soybean crops.

Food prices: An international problem

The same forces that have caused an escalation of food prices in this country have created problems abroad. Rising food prices are an international problem. Indeed, the latest statistics available report larger increases in food prices for other industrialized countries than for the United States. In one respect, rising food prices are a more critical problem abroad because consumers in every other major country spend a larger share of their income on food than U.S. consumers.

International comparison of food consumer price changes for food—(December 1971 to December 1972)

Country:	*Percent change*
Canada	7.7
United States	4.8
Japan	4.9
France	8.7
Germany	8.0
Italy [1]	8.4
United Kingdom [1]	7.9

[1] November 1971 to November 1972.

Source: OECD economic indicators, February 1973.

A Program to Stop Food Price Escalation

The Administration is giving the problem of rising food prices top priority in its anti-inflation efforts. Comprehensive steps have been taken in the past 3 months to moderate pressures on food prices this year.

First, price controls have been retained on food processors, wholesalers, retailers and food service organizations including large restaurant chains. These controls ensure that middlemen cannot increase their rate of profit when prices rise and that when farm prices recede, the benefits will reach the consumer promptly.

Second, to make certain that food supplies and prices receive top priority, new advisory and decision-making machinery has been established. The Cost of Living Council Committee on Food and a Food Advisory Committee are considering a broad range of steps that Government and the private sector can take to ensure an adequate supply of food at reasonable prices. Actions taken to expand supplies are being closely monitored each week to see that they are fully implemented and new initiatives are being examined on a regular basis. A new Food Industry Wage and Salary Committee is addressing the particular problems of collective bargaining in the food industry.

Third, positive actions already have been taken to augment the immediate and intermediate-run supply of food. Expanding food supplies to keep pace with growing demand is an absolutely essential ingredient in solving the food price problem. Actions to date include the following measures:

(1) The Government is selling its grain stocks with the objective of literally emptying its grain bins. Since December 1, 230 million bushels of Government-owned grains equivalent to about 3 percent of 1972 production have been sold. All government loans on farm-stored grains are scheduled for termination. Some of these loans go back to 1968 crops. Calling these loans will ensure that the equivalent of about 15 percent of 1972 production will be released into commercial market channels in coming months.

(2) The record volume of grains being transported has caused transportation congestion and shortages of boxcars and hopper cars. The Department of Transportation has established a cointrol center to identify and resolve such bottlenecks. Expediting teams are being sent into acute problem areas to help resolve problems on the spot.

(3) Meat import quotas were suspended in June, 1972 and, partly as a result, imports increased 15 percent in 1972. So far in 1973, imports are up 20 percent compared with the same period a year earlier. Import quotas on nonfat dry milk were raised in January of 1973 and, on March 8, the President asked the Tariff Commission to investigate the possibiilty of raising cheese import quotas 50 percent this year.

(4) All direct export subsidies on agricultural products have been discontinued.

(5) The rice acreage allotment has been increased 10 percent to encourage increased production.

(6) The price support for milk is being held to the minimum permitted by law—75 percent of parity. The Congress, however, is now considering legislation that would raise the minimum to 85 percent of parity. The Administration opposes this legislation. It would have an immediate unfavorable impact on the prices of milk and dairy products.

(7) Most importantly, our farm programs have been substantially adjusted this year to encourage greater production of grains and soybeans. In 1972, 60 million acres (about 15 percent of the Nation's cropland) were "set-aside" from productive use. Because of the new provisions this year, well over one-half of the acreage "set-aside" in 1972 will be available for productive use. Moreover, the Department of Agriculture will permit farmers to "set-aside" acres for year-around grazing and forage production in return for a 30 percent reduction in payments. This measure should encourage expanded livestock supplies in the future. In short, nearly all of the Nation's cropland can be put to productive use in 1973.

THE FOOD PRICE OUTLOOK IN 1973

The more favorable outlook for food prices in the second half of 1973 rests on a pattern of expanding food supplies through the year. Farm prices should fall below current levels after mid-year and should be no higher at the end of the year than at the beginning. Retail food prices typically adjust less dramatically than farm prices, and there is a delay before drops in farm prices are reflected at retail. Retail food prices should begin to level off after mid-year and the rate of increase may be near zero by the end of the year.

Food supplies expand in 1973

Adjustments in farm programs and favorable farm prices are encouraging farmers to expand food production. The latest reports indicate greater domestic production of all major groups of food commodities except dairy and poultry products. The Administration has taken steps to increase cheese imports which would help offset lagging dairy production.

PRODUCTION OF FOOD COMMODITIES

[In percent]

Item	Change from year earlier	
	1972	Estimated 1973
Commodity group:		
Meat	−2	+2
Dairy products	+2	−1
Poultry and eggs	+3	−1
Food grains	−5	+13
Vegetables	0	+1
Fruits and nuts	−10	+12

Although overall food supplies will be larger this year than last, most of the increases will come later in the year. During the first part of the year, supplies of most animal products are running below the same period of 1972. But we expect this picture to change dramatically by the fourth quarter.

ESTIMATED PRODUCTION OF ANIMAL PRODUCTS, 1ST AND 4TH QUARTERS OF 1973

[In percent]

Item	Change from a year earlier	
	1st quarter	4th quarter
Commodity:		
Beef	+2.5	+2.5
Pork	−3.5	+5.5
Broilers	−1.5	+3.5
Eggs	−4.5	−1.0
Milk	−1.0	+1.0

Meat Supplies. The number of cattle coming to market in recent weeks has been up only moderately from last year. However, there were 8 percent more cattle on feed at latest count (March 1) and beef production is expected to increase slightly in the next few months. Additional increases in beef supplies will continue to take place throughout the remainder of the year. Beef cattle producers are expanding their herds and more beef will be available for consumers in 1974 and 1975.

The hog production cycle is turning around which will expand meat supplies in the second half of the year. Hog producers are raising a 7 percent larger pig crop in the December–May period than they were a year ago. As a result, the price of hogs should decline significantly through the year.

Other Food Supplies

Poultry production is expected to increase 5 to 10 percent in the next few months, but supplies will remain smaller than in 1972 until late in the year. Production is expected to continue upward throughout the year because of more favorable feed prices later this year. As a result, broiler prices probably will fall substantially between now and the end of the year. A similar pattern is expected for eggs.

Production of fruits this summer is expected to be well above the weather-damaged crops of 1972. However, according to preliminary information vegetable production is expected to expand very little in 1973. Reasons and possible remedies for this situation are now under intensive study by the CLC Committee on Food and by the Department of Agriculture.

Farmers will produce more grains and soybeans

This Administration's actions to expand the production of wheat, feed grains and soybeans will help bring feed prices down to more normal levels by fall. The latest planting intentions survey (released on March 15th) indicates that farmers plan to plant nearly 6 percent more acreage to feed grains, and 14 percent more acreage to soybeans in 1973. Wheat acreage will be up about 6 percent this year. Current forecasts call for sharply higher production of these basic commodities.

Feed Grains, up 5 to 10 percent.
Soybeans, up 15 to 18 percent.
Wheat, up 12 to 14 percent.

Prices of feedstuffs play a major part in the production of livestock, poultry and milk. Over the past 12 months prices of manufactured animal feed have risen 60 percent and this has contributed to some of the current production cutbacks. With expanding supplies, feed prices should fall sharply by fall and encourage more production of broilers, eggs and milk later in 1973.

Beyond 1973

Much of the price-restraining benefits of bumper crops this year will not be felt by consumers until early 1974. The big crops in prospect for 1973 will reassure livestock producers of ample feed supplies next year and give them needed confidence for planning to increase meat supplies in 1974. Today's actions are, therefore, part of a larger effort to achieve sustained food price stability.

A second part of this effort is to modernize basic farm legislation. The Administration will support new farm legislation (which would affect 1974 and subsequent crops) calling for substantially less government involvement in farmers' decision making. The new proposal would unhook income support payments from the outmoded parity concept and would substitute whole-farm cropland bases for the antiquated individual crop allotments. This proposal would result in lower prices and reduced government payments and is designed to become effective over a four-year period. Farmers would receive more of their income from expanded output rather than from holding back on production.

Finally, the Cost of Living Council is addressing the long-term problem of costs in the food industry. The National Commission on Productivity has identified some eighty different ways to improve productivity and reduce costs. These measures are being studied and put into action wherever feasible so that the gains from more efficient farm production will not be eaten up by inefficiency in processing and distribution.

PRODUCTION OF LIVESTOCK PRODUCTS, 1973

[In percent]

Item	Change from a year earlier	
	1st quarter	4th quarter
Commodity:		
Beef	+2.5	+2.5
Pork	−3.5	+5.5
Broilers	−1.5	+3.5
Eggs	−4.5	−1.0
Milk	−1.0	+1.0

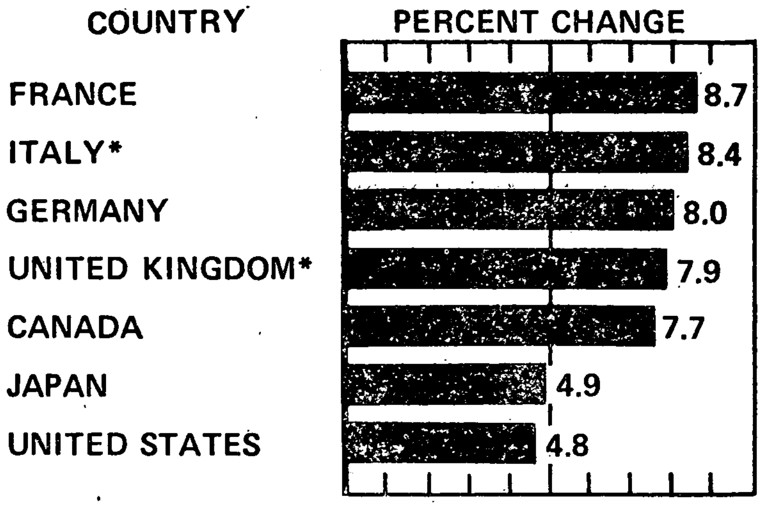
PRODUCTION OF FOOD COMMODITIES

[In percent]

Item	Change from a year earlier	
	1972	1973 estimate
Commodity group:		
Meat	−2	+2
Dairy products	+2	−1
Poultry and eggs	+3	−1
Food grains	−5	+13
Vegetables	0	+1
Fruits and nuts	−10	+12

INTERNATIONAL COMPARISON OF FOOD

CONSUMER PRICE CHANGES FOR FOOD: DECEMBER 1971 TO DECEMBER 1972



*November 1971 to November 1972

Source: OECD Economic Indicators, February 1973

Chairman HUMPHREY. Senator Javits, if it is agreeable with you, we will stick to the 10-minute rule for the members of the subcommittee and then we can come back.

Senator JAVITS. Both witnesses have testified?

Chairman HUMPHREY. Both witnesses. Now we are opening for questioning.

Senator JAVITS. Thank you, Mr. Chairman.

Mr. Chairman, if the Chair will allow, when the Chair has completed its questioning, I would like to make a brief statement.

Chairman HUMPHREY. Yes.

Just to highlight the situation which confronts us today in the immediate occurring situation, let me note—and I realize that the witnesses will not be able to comment on the Cost of Living Index that has been released again this morning, until about 45 minutes from now, because of the rule of an hour lag time in between release and commentary by Government officials—but I have here the information and it shows that the cost of living is rising at a annual rate of approximately 10 percent.

That for all items seasonally adjusted, eight-tenths of 1 percent increase in the month of February; for food, it was 2.2; for commodities other than food, five-tenths of 1 percent; for services, four-tenths of 1 percent. What we see here, more seriously and of greater concern, is a rise, a continuous rise since September, when the price index, changes of all items seasonally adjusted compound annual rates, was at 4.6, and now it is 6.3. So we do not have a pattern that indicates that the inflationary forces are under control.

As a matter of fact, the pattern is clear and unmistakable, at least during this period, that the prices are rising, not only substantially in food, but substantially in nonfood items and substantially in services.

And on top of this, I noted that Mr. Stein indicated in his oral statement, that the reduction of the rate of inflation during the past year and a half has been accompanied by a much faster increase of workers' real incomes, per hour or per week.

I note in the release from the Department of Labor for today, March 21, that real hourly and weekly earnings in February were no higher than they were last August or September; as a matter of fact, real hourly and weekly earnings in January and February of 1973 have not been any higher than they were in January and February of 1972, to any substantial degree. February 1973, $96.21; February 1972, $95.24; April 1972, $96.69; July 1972, $96.16; and January 1973 was $95.81.

So the facts are, from the Department of Labor, that real wages have not been increasing; they have been rather steady, with mild fluctuations for better than a year, and the Consumer Price Index is going up and it has been going up in recent weeks and months at a very frightening rate.

This is why I expressed earlier concern over phase III. And it is not just in food items. I know it is recognized that food items are much more variable, subject to price fluctuations.

Now, having noted those facts, might I note that the last time that all items in the Consumer Price Index, or the Food Consumer Price Index, increased as much in February 1973 as in February 1951, at the time of the Korean war, after there had been a substantial price increase just prior to the putting on of the controls.

Furthermore, the statements that we have had do not allude directly in any detail to three items that I think are of great concern: Rents—Congress thinks that rents are very important, they have gone up an average of 5.4 percent; food—I am speaking of an annual basis—food, 17.5 percent; fuel, 18.5.

These are for the last 3 months, the critical months, since the establishment or the institution of phase III. And it is these items in particular that means so much to the average family in the American communities.

On the basis of that, I want to ask Mr. Stein—as you know, the Senate yesterday passed two amendments to the Economic Stabilization Act, mandatory Federal rent controls on low- and moderate-priced apartments in metropolitan areas, and the requirement for large conglomerate companies to make detailed public reports on costs and profits when seeking price increases for a major product.

We, of course, tried to strengthen the control system in other ways, but our efforts were not very successful in that, due to what we think was some rather effective administration lobbying.

What is the administration's attitude toward the Senate amendments? I would appreciate both Mr. Dunlop and yourself to give us some indication.

Mr. STEIN. Thank you, Mr. Chairman.

Under the rules, I guess you have the ball for the first half as far as the February CPI is concerned, and I won't respond to your remarks on that. But I guess the rules do permit me to make a few comments on what you have said about the CPI for earlier months.

It was the implication of your statement that we have a steadily rising trend of the rate of price increases outside the food area, going back to last September. But as I look at these figures which I have before me, not referring to February, I don't see that. I would like to read off the increases in consumer commodities, less food.

Starting with August, last year, an increase of 0.3; September, 0.4; October, —0.1; November, +0.1; December, +0.2; and January, 0.

Chairman HUMPHREY. And February?

Mr. STEIN. I can't read February.

But I am referring to your point that we had a steadily rising trend in the increases going back to September.

On services, the increases were: August, 0.2; September, 0.2; October, 0.4; November, 0.2; December, 0.4; January, 0.2.

Chairman HUMPHREY. And then we come to February again.

Mr. STEIN. Yes.

Now, I think to describe what has been happening as a pattern of steadily rising rates of increase over the past 6 months, or 12 months, is incorrect.

I will come to your question about the two amendments that you mentioned, or at least I will talk about the rent amendment.

The amendment about reporting is one Mr. Dunlop is much more familiar with. Our observation during phase II and during the freeze, during the whole control period, was that the administrative burden of rent control was out of all proportion to its significance in the cost of living or in the consumer's budget. The problems of defining the quality and the number of units with which one has to deal are so enormous, and I suppose the personal relationships between the landlord and the tenant are so subject to irritation, that you can just think of thousands of people in the business of controlling this rather small segment of the overall Consumer Price Index when they can be much better used for other purposes.

Also, our observation of rent controls here and elsewhere, and I suppose New York City is an outstanding example where rent controls were long continued, was that there has been a terrible deterioration of housing starts and housing services provided by landlords. So we think that the restoration of mandatory rent control would be a very serious mistake.

As Mr. Dunlop has said, the rent increases during that period have been quite concentrated geographically, and we tend to doubt that on a local basis——

Chairman HUMPHREY. Do we assume, then, that the administration will oppose the Senate amendments?

Mr. STEIN. We did oppose them yesterday.

Chairman HUMPHREY. You did oppose them yesterday, and it is the official declared policy to be opposed to that type of amendments?

Mr. STEIN. Well, we have had no further discussion of this since yesterday. We opposed it yesterday and I am giving you my reasons, as an economic adviser, for being opposed to it. Perhaps there will be other reasons, however.

Chairman HUMPHREY. Mr. Dunlop.

Mr. DUNLOP. Well, I take it that you wish me to comment on the second of the two amendments?

Chairman HUMPHREY. Yes, or the reporting question, if you please.

Mr. DUNLOP. Yes. Well, actually, Mr. Chairman, I have not seen the text of that particular amendment. There are people with whom we met earlier this morning, who were on the Hill here last night in the Senate. However, they did not have the text of the amendment to discuss it with us at our early morning staff meeting and I am, therefore, unable to comment generally about it. Until I see the text of it, I don't think it is possible for me to make very many comments.

I would say in general, though, that whatever the merits of the particular amendment, I would myself, as an economist, have a very hard time believing that it could have a significant effect upon a price decision.

Chairman HUMPHREY. Do you think it would be helpful for the public to have some indication how these price decisions are made by the reporting information that is required under the amendment?

Mr. DUNLOP. Well, Mr. Chairman, as a person who is always interested in knowing about things, I certainly cannot take a position, other than to say that to know about things is always helpful. But the question I was addressing myself to was whether it would have any significant impact upon the resulting price decision. I am very skeptical about that.

Chairman HUMPHREY. My time is up.

Senator Javits, you have a statement. Might I suggest, you also take your 10 minutes for your questioning plus your statement.

Senator JAVITS. Very fine, Mr. Chairman. I shall do that.

Mr. Chairman, just so the witnesses may be acquainted with my position, so that they may, in answering questions, be cognizant of where I stand, it has been my feeling that phase III was premature and that phase II was terminated long before it should have been. And that has been our trouble. I believe the termination of phase III was based on doctrine, not on fact. I feel the administration, which does not like mandatory controls of wages or prices, went to phase III much sooner than it should have.

I believe this is very evident now in some very tight squeezes. such as rents, an issue on which I don't agree with Mr. Stein, as I will explain in a moment; in feed grains, which are our principal cause for the unreasonable rise in food prices, in meat and poultry prices. I know that from our experience in New York. And that the attribution of all of these troubles to the Russian wheat agreement is entirely inaccurate.

I hope the witnesses will give us the sentiment on that.

Also, I would hope—I am more or less stating the positions I have taken—that the raw foods would and could be controlled at the source. This doesn't mean a flat mandatory control to inhibit incentives for production. We are long overdue on understanding of what makes up our food and fiber content in terms of the corporate farm, the big producer and marginal producer.

The marginal producer should be subsidized, and that doesn't mean that prices can't be controlled and perhaps with even greater fairness to him. Nor does it mean the supplies can't be increased by special inducement to increase them within a controlled price.

Again, I believe that the refusal or failure to deal with the food components at the source is doctrinaire rather than based on the facts. This is the principal thing that is agitating the control picture in our country.

In short, it is my view that this thing could be done and done right, provided the control system responds to the economic facts, not the theories that some would like to see imported into it, but which don't stand up, based upon the exigencies of the time.

I believe deeply that, therefore, the amendments adopted by the Senate yesterday were quite proper. It doesn't mean they are perfect in form, they never are when you are out on the floor, but they can be perfected, I am confident. And I hope very much, I might say to both witnesses, who were so powerful in the control mechanism administered by the Executive power, that the power which is given by the act— we passed the act overwhelmingly—will be utilized effectively. I am not God, either. I don't pretend everything I am saying to you now is a Sermon on the Mount, but it is one man's view, not uninformed, of our situation.

And I hope the administration will listen to us, as we often listen to it, in terms of the legislators' understanding of this picture and the application of power which we are giving you by this act, even without regard to the two amendments to which I refer.

So I am much enlightened by your testimony. I might say, too, to both Mr. Stein and Mr. Dunlop, neither has ever been reluctant to come and face the music, as the saying goes in politics, and to both of you, one can never say, "If you don't like the heat, keep out of the kitchen," because you are always very willing to come up and deal with our problems as we see them.

I would like to ask, if I may, a question of Mr. Stein.

Mr. Stein, there is no question about the fact, the trend is extremely disquieting, without in any way discussing the February figures in detail. The question: Does the administration have an open-minded view, as you see it, based upon performance within the next few months? In other words, is there any inhibition about going back to more of phase II that a phase III system if the trend persists highly adverse in terms of price control?

Mr. STEIN. I am very glad to have that question because the answer to it is we do have an openminded view. The President has said that phase III will be as voluntary as it can be and as mandatory as it has to be. We are openminded about every aspect of the subject, including the treatment of food.

I realize that we are an easy target for the charge of being doctrinaire, especially because I went to the University of Chicago. But the President didn't go there, and I don't think that policy in this field has been doctrinaire, whatever may be true of our speech. So this decision to move to phase III was not an expression of a doctrinaire view; it was the result of very close observation of what was going on in the world at that time.

I would like to comment on your references to the big increases that have occurred in prices of feed grains, meat and poultry. Of course, I hope it is well-known by this time that phase III is no different with respect to the price of feed grains, meat and poultry, than phase II was.

In phase II, we had no controls on prices at the farm level. We had mandatory controls on processors' margins and distributors' margins, and we still do.

And, of course, the rise of food prices at the farm level and consequently at the retail level was going on during phase II. The acceleration in recent months is not the result of the transition to phase III.

I would say that we have taken very strong measures to deal with the food problem. As a person who has lived in Washington for 35 years and observed the forces at work here, I must say that I am amazed at the extent to which in this critical situation we have been able to turn agricultural policy around in a direction which will increase supply and which now holds out the very strong prospect of a reduction in farm prices for food, and leveling out of retail prices.

But I do want to emphasize again that we are constantly looking at the behavior of these prices and we are prepared to move. It is not obvious in all cases, or even in many cases, that the best move is in the direction of reinstituting the formalities of phase II. However, we did, as you know, do this in the petroleum case.

That was a close decision. There were good reasons for not doing it, but we decided the reasons for doing it were compelling, and did it, and we will be prepared to do it elsewhere.

Senator Javits. Mr. Dunlop, do you care to comment on that?

Mr. Dunlop. Well, I would be happy to, Senator Javits.

I would like to make a personal remark. I was not, as you know, involved in the decision with respect to the timing and the nature of the changes announced on January 11. And I assure you that I have no ideological view about the question of the use of controls.

I think the kind of interesting enigma on the price side is this: that it has been thought by many commentators that there were problems previously within the areas I said in my statement, often characterized as administered prices. Actually, it is reasonably easy for the Government to control or administer prices which other administrators administer.

The problems that we face in phase III are in this sense very different than phase II. The problem sectors all come out to be the areas where supply considerations, by and large, are the dominant problems. And whether you talk about oil, whether you talk about lumber, whether you talk about food, the problem before us is how to increase supply in the light of expanding both internal demand and expanding domestic demand growing out of higher levels of income and improvement.

Let me make one other remark in response to your question, if I may, in keeping with this approach, which seems to identify problem areas, if you like, or problem sectors.

At a recent meeting of the Cost of Living Council, I presented to the Council a list of 25 or so sectors of the economy, or industries, where we were regularly following the situation to be sure that we developed staff capability within the Cost of Living Council, people from various of our divisions, to monitor developments in those particular areas, to review on a regular monthly basis what are those conceivably difficult areas and what action should be taken.

So if those developments indicate that we should move back into more formal mandatory controls, I for one have no hesitation going for it.

I think the critical question in each case, however, is the problem of increasing supply—encouraging increase of output. It is not one in which one has reason to think that there are administered prices, price discretion of various kinds, which are the source of our difficulty.

The areas we face today most seriously are areas where these supply problems are central to the picture. And one wants to be sure in running price controls in these sectors, I think, that one is expanding output and not using price controls to restrict the supply. And therein the delicate, balancing enigma, I think, exists.

Senator JAVITS. Just two other questions within this time segment.

First, what would you say, Mr. Dunlop, to the proposition that where you face what Mr. Stein has described as a drive to increase supply, as in feed grains, and, you know, I am not being in any way disrespectful and the high prices will continue for a bridge period, say several months, 3 or 4 months. What would you think of the technique of freezing that price for 3 or 4 months during the bridge period, with the assurance that the freeze will come off when the price has increased, and in that way better serving the public interest than allowing the squeeze to continue?

Mr. DUNLOP. Well, Senator Javits, we have had that some of thing under careful study, detailed examination, in a number of sectors. I suppose as it is reported in the press, obviously the most seriously considered area is that of meat prices. There are a number of questions, problems to be considered. Whether one thinks of that as a retail problem or one thinks of it on the primary level; what one does to the structure of prices in between. Does one by that device hold supplies off the market or not; are there other ways of bringing supplies onto the market faster than the particular device that you have mentioned?

I assure you that I, at least, have no doctrinaire view about that. The real question is, What is the considered judgment of people that are familiar with those markets, who work with them and work with us on them for some time, as to those consequences?

I think that is the economic side of the picture. There are other aspects I am not so familiar with.

Senator JAVITS. So far, therefore, you made the economic decision against the freeze; is that correct?

Mr. DUNLOP. I think the answer I would give is that over many months, long before I came and since I came, there have been periodic reviews of this policy question. The fact that you state that thus far the decision has been made that on economic grounds it was not a wise thing to do, is, I think, the correct inference from our decision. But the problem is always up for review.

Senator JAVITS. It may change at any time?

Mr. DUNLOP. From time to time, it could be reviewed.

Senator JAVITS. Do you want to comment, Mr. Stein? My time is up, but the Chair said I could have two questions.

Mr. STEIN. I am afraid when you give a "Yes" answer to the question, "It may change any time," we will get a headline tonight—the administration will freeze something—so I would like to avoid that.

Mr. Dunlop says we will review this thing. Obviously, it is our biggest problem. We think about it all of the time. And there may be a moment in which the scales of the evidence will turn and we will decide to do it. I won't say we are on the margin of doing that.

I am interested in your particular reference to the price of feed grains. That isn't what I would have thought from the start. We think that the present feed and meat price relationship is such as to encourage a lot of meat production, feeding cattle and hogs and chickens and poultry. We don't think anything much will be done for the consumer by freezing the price of feed grain.

Senator JAVITS. In other words, it is the meat sector, the end product sector, that Mr. Dunlop referred to, which is having the concentrated attention to which you refer?

Mr. STEIN. Yes, sir.

Senator JAVITS. Thank you, Mr. Chairman.

Chairman HUMPHREY. I am sure you wouldn't agree that when soybean and meal prices have increased more than double in the last 3 months, that that has had no effect upon prices, particularly in dairy products?

Mr. STEIN. Well, we have been seeing lower soybean prices lately.

Chairman HUMPHREY. But not meal prices?

Mr. STEIN. I think we have on meal prices.

Chairman HUMPHREY. To the contrary. They went up substantially last month.

Mr. STEIN. Last month. But I am talking about today.

We believe that at the present prices for cattle and hogs, feeding is very attractive and especially with the prospect, which everybody by now is aware of, that feed prices will be lower subsequently. So we are getting a lot of cattle and hogs fed and hogs will be coming to the market in very much increased numbers in the next few months.

Chairman HUMPHREY. Yes. But, Mr. Stein, I would recommend, as a member of the Committee on Agriculture, and as one close to the agriculture sector, that you do not deceive yourself, in view of the shortages which we have in soybeans, which are monumental, and the increased costs that we have as a result of feed grain prices, that you are going to have any decrease in feed costs and in feed price costs. It just isn't going to happen.

Then add the costs and problems of transportation, which is nothing short of a national disaster, to which this administration has given no attention. Are you aware that, in the Midwest the railroad service is unbelievably inadequate, that the grain bins, the country elevators, are filled with no way to move the stocks, that soybeans are not able to be moved, and that the fuel crisis has made feed grain transportation even more difficult?

I have been in this business up to my ears, holding hearings in the Committee on Agriculture. I can't for the life of me understand why the Department of Agriculture hasn't been more cooperative in terms of permitting farmers to move their products to market, why the government hasn't taken some stern emergency measures on boxcars so we can move things to processing plants and move these products where they belong.

Mr. STEIN. Well, sir, it is inaccurate to say we have paid no attention to the transportation problem.

Chairman HUMPHREY. I think you are worried about it, but you haven't done anything.

Mr. STEIN. We are doing several things. The Commodity Credit Corporation has changed its regulation with respect to the type of cars in which its grain can be moved. The ICC has changed the regulation on the demurrage charges affecting the stay of harbor cars at the port, where the big problem is. A lot of cars are backed up at the ports.

The Department of Transportation is taking steps to make available the coal cars for movement of grain. This whole problem is being treated on a very serious emergency basis.

Chairman HUMPHREY. Mr. Stein, I respectfully say to you, it is not being treated on an emergency basis. Every farm producer, every country elevator operator, every person who is moving grain or wheat or soybeans, and even those who want fertilizer, know that there is a critical transportation crisis that is being treated really with a kind of "Ho-hum" attitude.

Now, the ICC is a disaster as far as being able to do anything about moving boxcars. Case No. 1 with the ICC when it was established, was on a shortage of boxcars. That was the first item on the docket, the first case they had, and the ICC has never effectively met the problem.

Mr. STEIN. There is no shortage of boxcars in the country.

Chairman HUMPHREY. There isn't? There isn't any shortage of boxcars? Would you like to come home with me and tell my folks out home in Minnesota, where they are trying to move agricultural products, there is no shortage of boxcars? Where have you been?

Mr. STEIN. I would be surprised if your people aren't moving grain in hopper cars.

Chairman HUMPHREY. You don't think we move grain in boxcars?

Mr. STEIN. In hopper cars.

Chairman HUMPHREY. We move it in boxcars, too. We have an emergency. We have been moving grain in boxcars for years.

Mr. STEIN. Anyway, you may know, the average working time of a boxcar in the United States is something like 8 percent. The problem in the United States is not a shortage of boxcars; it is a shortage of specialized kinds of cars and inadequate arrangement for the movement of the cars.

Chairman HUMPHREY. Mr. Stein, I won't burden you further on boxcars, except to call to your attention that a Senate subcommittee under the chairmanship of Senator Huddleston has conducted an intensive, in-depth survey, which is about the 200th survey made in the last 50 or 60 years. And while you may say there is no shortage of cars, hopper cars or boxcars——

Mr. STEIN. I said there is a shortage of hopper cars.

Chairman HUMPHREY. There is a shortage of boxcars. For goodness sakes alive, everybody knows it. Not only is there a shortage, in total numbers, the ones we have are locked up in the yards and the demurrage charges are considered too little, and this has complicated matters even more, and the Government hasn't done very much about it.

Mr. STEIN. I agree that the railroad cars are very ineffectively utilized. I am saying, the number of cars is not inadequate, and if 50 studies have shown that in the last 50 years——

Chairman HUMPHREY. The academic studies may show it. But when you are out in the country and trying to move the product, I can guarantee you the number of cars isn't adequate.

Mr. STEIN. We certainly agree there is a critical transportation problem. I just demurred on this particular point about there being a shortage of boxcars.

Chairman HUMPHREY. I would like to get some clarification of some of your statements. In my letter of invitation, I asked each of you to tell us what we could expect in the way of the future food price increases. We had some reference to it today. Unfortunately, after reading your statement and examining your studies, which the staff was able to help us do, we continue to be rather confused as to just what to expect.

Mr. Stein, you say, "We expect to see farm prices of foods declining in the second half of this year and retail prices leveling out." * * * "Nevertheless, despite this bad news that will be reported in the statistics in the next 2 months, the daily news observable in the grocery stores should be improving."

Mr. Dunlop, you say, "Food price performance is expected to level off during the last half of the year." The food price white paper prepared by the Cost-of-Living Council says, "Food prices should increase at a much slower rate in the second half of the year."

Taken together, this says, in 1973, food prices will decline, will level off, and increase at a slower rate. I would say that is quite a confusing report. I wonder if you could help us clarify this.

Just what is going to happen according to your predictions of food prices in 1973? Will they decline, will they level off, or will they increase at a slower rate?

Mr. STEIN. Maybe for clarity, we perhaps should choose. But I think that our point is quite clear and the confusion has arisen out of the failure to distinguish between the price of food at the farm and the price of food at the retail level. What we are saying is the price of food at the farm will decline in the latter part of this year. We are saying the retail price of food will rise very much more slowly and perhaps by the end of the year it will not be rising at all. The difference, of course, is due to the fact that the farm price of food constitutes something like 40 percent of the retail price. But in between the farm price of food and retail price is the cost of processing and distribution. We expect that there will be factors of increase in that sector.

Furthermore, we start with fairly low processing and distributing margins.

We forecast declining hog prices, declining cattle prices, and declining poultry prices in the remainder of this year. We forecast that in the second half of the year retail food prices will be rising very much more slowly. The rise of retail prices will be in the neighborhood of zero to 2 percent, annual rate.

Chairman HUMPHREY. Any comment, Mr. Dunlop? I notice both of you are saying the Government has been doing everything that it possibly could within its authority to increase the supply of food, recognizing that supply has a great deal of effect on price. Is that the general observation?

Mr. STEIN. I didn't hear that.

Chairman HUMPHREY. Recognizing supply has a direct effect on price.

Mr. STEIN. Yes.

Chairman HUMPHREY. Is it your judgment, the Government has been doing all it could to improve the supply of food products?

Mr. DUNLOP. Well, I would like to put it this way: that we have been taking great measures as set forth in the report placed in the record. We have a number of other ideas which we try to explore each day. If someone has additional ideas, we are prepared to explore them.

It is my view, if you keep working on any problem long enough you will find additional measures that you can take. And I wish to convey the notion of a sense of urgency about the problem, a sense of willingness to explore really any serious idea about it, and a sense that when you are dealing with a structural arrangement in agriculture over many years in this country, which has primary orientation in legislation and the administration of the Department has been aimed at raising levels of farm income by various devices of holding down output; that you cannot at all in a few weeks or months locate all of those devices by which that policy was perpetuated over many years. It takes a while to ferret out various measures by which output can be increased.

I would tend to devote some time of each day to that operation.

Chairman HUMPHREY. What has worried me, gentlemen, is the administration's management of our food situation. Just briefly put, last year the Government poured out $4 billion in set-aside payments and continues to do so after it knew that there would be some shortages in feed grains. That is No. 1.

No. 2, the Government saw the other shortages that were coming. For example, in dairy products. The Government made no plans, as I can recall, to deal with these predictable shortages.

Now, we have had the situation where we apparently didn't have the information in the Department of Agriculture about crop conditions in the Soviet Union. I have not been one of the stern critics, may I say, on the matter of the Soviet sale, but I do feel that we were more negligent, as the General Accounting Office has pointed out, in the Department of Agriculture, in terms of information to the producers and information to the public as to the impact of this sale and as to crop conditions in the Soviet Union.

My concern is whether or not, to put it bluntly, the "city boys" here in the administration have any concept at all what it takes to have a managed food supply or food supply management. The transportation crisis today is a serious matter. For example, we are planning on big crops this year, hopefully. I am sure the administration is aware of the fact there is a very difficult problem of getting fertilizer into the Midwestern crop areas because of the transportation crisis. A very serious problem. And apparently nothing is really being done about it.

Mr. DUNLOP. May I just comment, Mr. Chairman, about the transportation point you make. I think you should know that the Cost of Living Council has met with the Secretary of Transportation. He has put together a special group of people to work on these reports and the grain problem, particularly; and in view of your reference to the matter, I should like the opportunity to get a statement of what we have been doing in that area and submit it to you and to this subcommittee.

For the notion that we have not been aware of that problem, of its importance and significance, I think, is to convey the wrong impression. I would like to give you a detailed account of the various measures which, at our Cost of Living Council's request, the Department of Transportation has underway.

Chairman HUMPHREY. We will welcome the statement and hope that it will project a policy for some remedy.

[The following information was subsequently supplied for the record:]

Memorandum for the Director, COLC.
From: DOT Task Force on Freight Cars.
Subject: Summary of Task Force Activities.

OVERVIEW AND OBJECTIVE OF THE ANALYSIS

The overall objective of the Task Force is to improve the efficiency of the Nation's freight car fleet in fulfilling critical demands for rail transportation. As the most serious problem now facing the Government concerns the timely and expeditious movement of grain, we have endeavored to focus our initial efforts upon development of ways and means to improve rail transportation service to the agricultural community.

To a large degree, the flexibility and responsiveness of rail transportation service, so vital to efficient grain marketing, is constrained by the particular needs of the system it serves. Most grain marketing operations tend to place severe pressures upon transport carriers to quickly adapt to change in flow patterns and timing. Notwithstanding these facts, the institutional and operational barriers placed upon rail carriers and, to a lesser degree, other carriers, reflect principles of traditional marketing that cannot adapt to rapid change without significant delay, disruption and cost to all parties.

To that end, it is the objective of this Task Force to identify and recommend action alternatives, both short and long term, designed to bring the transportation system into better balance and efficiency, to more effectively meet the needs of the agricultural industry as a whole. Initial efforts, therefore, will be directed toward improving and enhancing the railroads' role in the movement of grain.

THE CRITICAL PROBLEMS

At present, we are confronted with resolving two distinct, but yet related problems. The first involves the question of how to physically move and expedite the high level of export grain now being shipped. The second is concerned with developing ways to move CCC controlled grain promptly into normal marketing channels.

As we see it, Governmental efforts to improve the physical distribution efficiency of grain marketing elements must initially concentrate directly upon the Gulf export problem. To be sure, the railroad system plays a vital and continuing role in domestic grain transport, but he inordinate consumption of system resources, motive power and equipment involved in fulfilling export commitments in a timely manner spills over into and dramatically affects normal domestic movements. We wish to emphasize that domestic grain movement difficulties are not, however, being set aside in terms of our analysis.

To the contrary, the sheer scope and magnitude of the export situation has put such strain upon normal grain marketing channels, as well as the carriers that serve them, that responsible remedial actions would clearly alleviate the domestic situation as well. Similarly, we would emphasize that disruption and inefficiency in grain transportation—domestic as well as export—has considerable effect upon most other commodities transported by rail. Accordingly, we believe that efforts to improve grain transportation will have a corollary effect upon shippers of other commodities by rail.

THE ACTION PLAN

In view of the close interdependency of marketing chain elements and the absolute necessity for better coordination of these elements, we propose to quickly identify, analyze and implement a series of actions designed to take the maximum economic and operational advantage of this interdependency. The steps we believe must be taken will necessitate the full and timely cooperation of the industry, the Department of Agriculture and the Interstate Commerce Commission, but are well within their respective statutory responsibiilties and purview.

The following specific actions are being taken by the Task Force:

Cooperation with the AAR identifying principal bottlenecks at the ports and at inland terminals. DOT personnel have been sent to these areas to furnish on-site assessments and develop specific action recommendations. Additional personnel will be dispatched as soon as their assembly and orientation permit.

Establishment of close liaison between USDA–CCC in identifying potential grain movements and allied problems, including use of open top cars in grain service.

Concurrent assessment of lumber shipping problems. Various incentives and advisory actions are being discussed and formulated with AAR and individual carriers to increase car availability on the west coast.

A meeting has been held with the major railroad presidents to facilitate cooperation of their railroads, including the establishment of direct contacts with principal operating and traffic offices.

Discussions will continue with the ICC to develop and coordinate actions and regulatory orders of asistance in increasing car availability and efficiency.

TRANSPORTATION

1. *Department of Transportation to facilitate the movement of CCC grain stocks.*

Progress

DOT has completed development of a computer based movement monitoring system for CCC grain. Initial reports will be generated next week, as updated information becomes available.

Elimination of uncommitted CCC wheat stocks has focused DOT's attention on problems in using open top cars. DOT is working with Kansas City CCC and headquarters AAR staff to develop advisory guidelines for open car use. In the interim, CCC will use discretion in application of these cars. DOT will meet next week with midwest railroad officers to discuss problem.

DOT will also check out the potential use of disposable paper covers for open cars, having been advised such covers are now being produced.

2. *Accelerate the movement of grain through the ports.*

Progress

DOT has tentatively set April 16 as the briefing date for the field teams. Ten men will be sent out directly following the briefings to cover the ports and inland terminals. Materials, training and personel items will be completed prior to that date.

DOT has been advised that the C&O/B&O grain test at Hampton Roads was completely successful. Rate division problems with originating carriers are being ironed out, and another ship has already been scheduled for loading April 15. It is estimated that future grain assembly for this service will be in Kansas and Nebraska.

A movement monitoring system is being established by DOT at the St. Lawrence locks to determine if grain will be backhauled; if so, by which port and the vessel ETA at the port. As very few ocean vessels enter the lakes in ballast, a lead time of 6–10 days is contemplated.

3. *Transportation problems.*

Progress

DOT is keeping in close contact with carriers that may be affected by Mississippi River flood cresting. Little problem for rails now occurring, with only small amount of rerouting necessary.

Lumber car shortages may begin to decline as California inventory tax date passes, allowing inbound loads to rise, freeing up empty cars for northbound movements to lumber areas. Also, reports indicate eastern carriers are delivering more empties to western connections. DOT will dispatch personnel next week to the west coast to assess situation.

West Texas harvest, beginning in 45 days, will be closely monitored. Existing country and terminal elevator capacity appears adequate to hold first surge. Within 60–70 days, however, some problems may appear. DOT will begin to assess truck capacity and availability/pricing for effect upon rail demand.

DOT has been advised that some fertilizer car shortages are occurring. Contact will be made with southeastern railroads to assess car problems in phosphate movements and to check on car turnaround from destinations.

Chairman HUMPHREY. Senator Proxmire.

Senator PROXMIRE. In about 2 minutes, the 11 o'clock hour will arrive and you will be free to comment on the consumer increase of last month. That, combined with the January increase, is one of the biggest increases, I guess the biggest increase we have had in 22 years, and one that gives us a great deal of concern.

My feeling is, if the Senate postponed action on phase III last night until today, we might well have had a much tougher and better anti-inflation law, because we would have had this additional information.

What I would like to ask you, Mr. Stein and Mr. Dunlop, to comment on, if you would, is the future of consumer prices, what you expect to happen in light of the fact that wholesale prices have increased so sharply in December, in January, and February and, while it is true that the wholesale prices aren't always reflected completely in consumer prices, usually wholesale prices are much more stable and consumer prices are much more volatile.

So how would you answer the argument, absent some kind of very decisive action by the administration, we are likely to have a sharp increase in consumer prices ensuing for March, April, May, and so forth?

Mr. STEIN. Well, Senator Proxmire——

Senator PROXMIRE. Eleven o'clock has come, so you are free to comment.

Mr. STEIN. I believe in answering the question. Since 11 o'clock has come, I would like to read a statement about the February CPI, since others have had some opportunity to comment on it. And, of course, we share with you the concern over the increase shown by the CPI.

This is not something that we welcome, obviously, or want to dismiss.

The Consumer Price Index rise of eight-tenths of 1 percent in February was the result of a continuing rapid rise of food prices added to a sharp 1-month spurt of nonfood items. Food prices rose 2.2 percent in February, after a rise of 1.9 percent in January, bringing the rise for the past year to 7.3 percent. The one-half of 1 percent increase in nonfood commodities and services followed several months of very small increases in those categories and raised their total increase for the past year to 3 percent.

Prices of meats rose 5.3 percent and contributed almost 40 percent to the rise of consumer prices in February. The rise of meat prices has resulted from a rapid increase of consumer incomes coupled with a lag in the supply of meat. The supplies of cattle, hogs, and poultry now in prospect indicate that meat prices will soon be declining at wholesale, and at least rising much less rapidly at retail. Nevertheless, the rises that have already occurred will cause meat price increases to be shown in the Consumer Price Index for March and April, which will be published in April and May.

The strength of the rise outside of the food sector reflected at least in part erratic factors plus the opportunity that the transition to phase III may have provided for speeding up price increases that would have occurred later. Nevertheless, this latest price news provides additional warning of the diligence that must be exercised to prevent the revival of rapid inflation as the U.S. economy rises strongly in a world generally experiencing much more inflation than we have. One aspect of this diligence is the continuous monitoring of price increases by the Cost of Living Council to see where stricter controls may be useful. However, the essential requirement is to prevent the revival of an inflationary boom by keeping a firm grip on Government spending and on monetary expansion.

Senator PROXMIRE. Now, what you are saying, Mr. Stein, is that you can concede you expect a further sharp increase at least in meat prices in April and May——

Mr. STEIN. No, that is not at all what I am saying. That is not what I am saying.

I am saying the figures that were released today relate to February. The figure that is released in April will relate to a period which is already passed, that is, to some time in March. The figure that is released in May will relate to the first week in April for food, and we are already halfway there. So, if prices did not rise at all from this point on, the price indexes which will come out in April and May, which will refer to March and April, will be higher than the February index.

Senator PROXMIRE. Mr. Stein, what you are saying, if I understand it, if wholesale prices, if farm prices, don't rise any more, they will be reflected in higher consumer prices in April and May.

Mr. STEIN. I am saying if retail prices don't rise from this point forward, the March figure which comes out in April, and which refers to a period that has already passed, will be higher than the February figure.

Senator PROXMIRE. Then you said April and May.

Mr. STEIN. The March figure comes out in April. Then the April figure, which would come out in May, will refer to the first week in April, and we are already halfway there. So if we leveled out right now, the April figure would be higher than the March figure which was sampled the first week of March.

Senator PROXMIRE. The reason I am concerned about that, what this really is likely to cause in terms of inflation, I say this because we have wage negotiations going on, as I think Mr. Dunlop is more familiar with, going on in the coming 4 or 5 months that are apt to be crucial to holding down prices for the next 3 years.

You have indicated that regardless of our interpretation, the Consumer Price Index will show increases for the March, April, and later figures, which will be disclosed in April, May, and so on. These are bound to be an essential part of negotiations. No labor leader can very well stand still for a 5½ percent guideline if the cost of living is going up anything like the way it went up in February. And if CPI goes up at an annual rate of 6 or 7 percent, he is going to have a hard time, very difficult time, persuading his supporters and the union that he should hold wage increases down below, or even close to the increase in the Consumer Price Index.

This is what concerns me so much, because this is a long-term effect. It is not an effect for a few months. It is an effect because the wage-price spiral is likely to go on for several years.

Mr. STEIN. We are deeply concerned about this. Let me say this: one aspect of our concern is that the real problem should not be further compounded by misunderstanding. As I explained to you, and has been explained to the labor leaders, a lot of what we are going to see in the price indexes that come out in April and May will refer to the past, not to the current time. And no one should go around extrapolating what happened in February as an indication of what is going to happen in 1973.

We don't think that is valid at all. That is why we have gone to such lengths to try to explain to people that we have a wave in the food situation which is reaching a peak. On the basis of everything we know about the supply side, the prospects of flattening out of retail food prices are good, so labor should not project that retail food prices are going to go on rising by 2.2 percnt per month.

Senator PROXMIRE. What assurance can you give us that food prices won't go on rising? We hope they won't. They may well not go on rising after the wholesale price index increases we had, but Mr. Schnittker, who is an impartial expert observer, testified before this subcommittee only a short time ago, that we have to have every kind of a break, from the weather, from the crop conditions in other countries, because we are going to have to export to help some of these countries, in order to be able to get through this year on the basis of projections the administration has indicated; that is, food prices remain moderate toward the end of the year.

He indicated there is every expectation with any kind of a bad break, with the average kind of situation throughout the world, we are going to have increasing prices the rest of the year. He projected something like a 6-percent increase for the year as a whole.

Mr. STEIN. Well, a 6-percent increase for the year on a whole would not imply any further increase from this point forward.

Senator PROXMIRE. He projected that on the basis of the favorable assumptions which you are making, which may not come about.

Mr. STEIN. The reason we produced this food paper was to permit you to see what underlies our belief. If you have some other expectations, we want to get this on the table. We say we expect some large increases in production of crops: feed grains will be up 5 to 10 percent in supply; soybeans up 15 to 18; wheat up 12 to 14. We have given you figures about what we expect about the supply of animal products. So if you conclude these figures are erroneous, we will be very interested, because we think they are very serious.

But we have devoted a great deal of work, we have an enormous agency over there with experts in this field, who have made estimates. I would hope you would have them reviewed by a person of your own choosing. I think it is essential.

Senator PROXMIRE. My time is up. Before I conclude, let me ask you this question. We not only had a big increase, as you conceded, in food prices in February, we also had a sharp increase, a very sharp increase in nonfood items. As I understand it, the increase was an average annual rate of about 6 percent. And this was sharper than it had been in some time. One of the sharpest increases we have ever had.

And in view of the wholesale price index in nonfood prices annual rate of around 12 percent in February, isn't this more likely to be more bad news?

Mr. STEIN. Well, the connection between wholesale prices and retail prices, as you know, is in any case a loose relationship, and we should also note that we have had one bad month of industrial wholesale prices. What we have behind us that will be passed on into retail prices, insofar as they are passed on, is the price behavior of the last several months. And before February, industrial wholesale prices were rising at an annual rate of 3½ percent.

But as you indicated, we are not complacent about this,. We have been looking at the situation. We have, as you know, taken some steps on the petroleum side. Mr. Dunlop is very vigorously involved with the lumber problem, which is one of the main contributors to the rise in industrial wholesale prices.

Maybe you were not here when he explained he has a list of critical areas which are being assessed. In many of these cases, or in most cases, it doesn't appear that some move on the control side is the best solution.

We shouldn't be in the position here of promising a rose garden. This is a difficult situation, as we recognize. We are trying to do something that is very difficult. We are riding on another wave of rising food prices, such as we have had before. We are living in a world that is having much more rapid inflation than we are having. We are going through a rapid expansion of the American economy, reaching closer to its potential. And we have at the same time made a move to change the control system.

All of these things create problems for us. We think they are problems for the country and we are working to solve them. We welcome your suggestions. A number of suggestions were presented to the Senate yesterday; some of them were rejected by more or less large amounts. We don't think we have a mandate for that.

Chairman HUMPHREY. Senator Javits.

Senator JAVITS. Thank you, Mr. Chairman.

Gentlemen, I would like to ask you about things which are now easier to answer, in terms of more information, because we have the February figures and your comments.

The first: rent increases. Isn't it a fact that phase III does radically differ from phase II in respect to rent increases, and that there are no controls on rents, not even guidelines, in terms of the economic stabilization program? Is that true, Mr. Dunlop?

Mr. DUNLOP. We have the authority to go into cases which I have described as abnormal increases where it is clear that the size of the increase is of such an amount that an attempt is made to recoup past stabilization efforts. It is true, as you have thought, that the rent areas have been exempted from control. If that is the statement, the answer is "Yes."

Senator JAVITS. And it is the fact you have not used the authority you referred to; is that true?

Mr. DUNLOP. Oh, no. We have sent the IRS into many areas. We have cases where we have been proceeding against parties who have in the past violated our standards. We have worked out understandings with local areas, such as in the Greater Washington Area, where we are working with the industries. There have been measurable rollbacks in rent increases that had been previously placed into effect.

Senator JAVITS. But under phase III, no one has been prosecuted for inordinate rent increases, have they?

Mr. DUNLOP. I don't really know.

Senator JAVITS. Nonetheless, isn't it true the component of rent in the February figures is up very substantially, at 3.7?

Mr. STEIN. Oh, no. That is a change from a year ago.

Senator JAVITS. An annual rate?

Mr. STEIN. That is a change from a year ago. That is not the February figure.

Senator JAVITS. Why, Mr. Stein, therefore, would you say that in phase II we needed rent controls and in phase III we don't, when there is no material difference in the circumstances? And, by the way, rent does, does it not, occupy a very big part of this Consumer Price Index?

Mr. STEIN. Rent has a weight of five percent.

Senator JAVITS. As compared with food of how much?

Mr. STEIN. Food is about 22 percent. But I don't know whether you remember that during phase II we reduced the coverage of rent controls and by the time we moved to phase III, I believe something like 70 percent of all rental units were exempt from control under the Federal control system. Some of those units were under control by the localities, mainly New York City. But we had exempted all units of four or fewer; we had exempted all units with rents in excess of a certain amount; and we had exempted the single-family units.

So the coverage of the rent controls had been progressively reduced. And even if we had not made the general move to phase III, we would have progressively moved to reducing rent control. In fact, we had a Rent Advisory Committee during phase II, with which we consulted on the move to phase III, and there was a very considerable sentiment, not unanimous, but a very considerable sentiment for getting out of rent control.

Mr. DUNLOP. May I comment on that? I have just seen the BLS release, and unless I am mistaken about it, one must be careful in interpreting the figures, as the discussion seems to, as they change from January. The last sentence in the BLS release says, "In addition, about 4,500 rental units were surveyed in February, and 19 percent of these reported rent increases from August."

So the system of reports in the Cost of Living Index are not month-to-month changes. Next month another group will be studied from another period and it is that change that is reflected in the index, not the implied change from January to February. At least, that is my understanding of it.

Senator JAVITS. Isn't it a fact, Mr. Stein, the five-percent component, which you have described, is an overall component, but it is 30 percent or thereabouts for those who actually rent in terms of their own cost of living?

Mr. STEIN. Well, the proportion is much higher for those who rent than for those who don't rent. And it varies among them. I don't know what the average would be for all people who rent.

But you asked me what it was in the Consumer Price Index.

Senator JAVITS. I understand that, but nonetheless, the impact on the individual family is very much greater than that. You concede that?

Mr. STEIN. The impact on that proportion of families that rent.

Senator JAVITS. As a matter of fact, our information is, it is greater than the proportion of food, the cost of rented premises.

Mr. STEIN. Well, it could vary a great deal.

Senator JAVITS. What do you say, Mr. Dunlop. Isn't that true?

Mr. DUNLOP. Well, I am not sure what Mr. Stein had in mind here, but it seems to me the statement follows from the premises that you had earlier stated, that if you take the families that do rent, and exclude those that don't rent and take the family as far as food is concerned, a clear proportion of expenditures on food is less than the figure you cited for rent.

Senator JAVITS. Mr. Dunlop, would it be proper to ask the administration, assuming the Congress exercises its will to insist on rent control, that is, an overall Federal standard, to ask you to give us a formula by which this can be effectively administered with accommodation to local option, et cetera? In other words, wouldn't it be appropriate in the relationship between the two branches that we should turn to you and say—don't make us write it alone, tell us how you think it can be intelligently administered?

Mr. DUNLOP. Well, my reaction to that is, if I am instructed to do something, I will do it.

Senator JAVITS When you say "instructed," you mean by the Congress or by the President, or by either?

Mr. DUNLOP. Well, I assume if it is the law, it is both.

Chairman HUMPHREY. Don't assume that any more, Mr. Dunlop. That is old stuff. That day has gone, apparently.

Senator JAVITS. Well, then, in order to get you to do what I say, Mr. Dunlop, it should be written in the statute; is that correct? In other words, if I requested you today to give us, based upon the Senate amendment which passed the Senate, a feasible plan for control which would change the methodology of the Senate amendment, because we are asking for your ideas, in view of the fact we want to do it, how should it be done and how should it be written, you would be unable to do it, unless we asked you to do it in the law by regulation?

Mr. DUNLOP. Well, although I may want to consult some of my associates, my own personal view is to be cooperative, and if you ask us to do something, I will try to do it.

Senator JAVITS. I do, and I ask unanimous consent advice of the Cost of Living Council may be made part of the record.

Chairman HUMPHREY. We will look forward to receiving it.

Senator JAVITS. I believe Senator Case and I, both sponsors of this proposition, would welcome intelligent and informed professional appraisal.

If we do want to do it, how should it be done?

Mr. STEIN. I would hope the advice and cooperation would take a different form, in which those people from the Cost of Living Council who had the expert experience in phase II would meet with you and Senator Case and other people and discuss the problems of doing this, rather than asking us or the Cost of Living Council to present you with a formula.

Senator JAVITS. I will accept that. We appreciate that. We will seek proper appointments with you on behalf of ourselves and Senator Case and such other Senators as might wish to participate.

Mr. DUNLOP. May I add a comment to the reason for the statement Mr. Stein made, and it is that the matter is not a simplistic one. That one of the problems has been that over the months in phase II, the complexities of dealing with this problem become very magnified in view of the detailed differences that exist among localities, rental properties, tenants of all kinds.

Therefore, more reason for the kind of consultation which you have agreed upon.

Senator JAVITS. I appreciate that very much and I am sure Senator Case would wish me to say the same thing.

My time is up.

Chairman HUMPHREY. Just for a moment, I would like to come back to the whole subject of management of food supplies, which I realize is not necessarily your area of expert knowledge; it is primarily in the area, hopefully, of the Department of Agriculture.

The present program of the Government food supply, to me, appears like applying aspirin and band aids in a rather hurried and frenzied manner. Now, the administration proposes the elimination of commodity supports; it asks for the opening up of millions of acres for feed grains, and I noted that Mr. Stein has commented on the fact that we are virtually emptying our grain bins. I want to say that I think all of this would be a major national disaster. It would simply tell the farmers, who are the only people who produce food and fibers, that their cause has been forgotten and they are the lost, forgotten people.

A year ago, some of us tried to get a food grain reserve, so we would not have a shortage of feed grains, a reserve for emergencies just like we have now. The administration opposed it. Now, when we see the number of milk cows disappearing and the consumption of milk going up, the trend is clear to all knowledgeable people in the dairy industry that there will be less milk. There will be fewer milk cows in part because they will be sold for beef at $45 a hundredweight or more. But yet administration insists on having the lowest support prices for milk that the law will permit, which is just another way of telling the farmer to get out of the dairy business. And they are getting out of it.

As one who spends a good deal of time looking at the problems of agriculture, it seems to me that what the administration is doing is running from one set of miscalculations to another. If the dairy industry, for example, has fewer milk cows, which it has—which it had this month, last month, and the month before—it is inevitable that dairy prices are going to go up. Inevitable. And you can't import fresh milk. We don't have any way of doing that. You can import powdered milk and cheese.

If, in addition, you are going to take all of the grain out of the grain bins, you are running the risk of an unbelievable emergency in this country, because we are a cattle-dairy agriculture. The price of cattle will skyrocket. If you are short of feed grains, you will have unbelievable increases in the cost of beef and pork products.

I know the point on pork is well taken, that you can get a hog for market, ready to market, in 6 months. But cows and steers are not born 2 years old, ready for market.

And the long-term price trends in feed grains, the long-term supply, determines what is going to happen to beef prices, and dairy prices.

What is the administration up to here? What are they trying to do? Are they just trying to con both the farmers and the public into believing they have some kind of an emergency program that is going to relieve the situation?

Mr. STEIN. Well, Mr. Chairman, we are not trying to con anybody. We have a program which is intended to deal with the situation, to deal with the critical aspect of the problem, which I thought we all agreed was the very high and rapidly rising prices of food. We are trying to deal with that problem by increasing the supply of food.

It is true we have set the dairy support level at the lowest point the law will allow. We did that as a contribution toward holding down one important element of food prices.

Chairman HUMPHREY. Wait a minute now. I don't want you to get by with that, because the support levels have no relationship to price at all today. The prices are much higher than the support level. The relationship the support level has, Mr. Stein, is to whether or not farmers will stay in dairying, and the answer is they are getting out. They are getting out because support levels are low, which this urbanized community doesn't seem to understand, nor does the administration understand.

Mr. STEIN. The dairy support level was set at the minimum. But the law required us to raise the dairy support level from $4.93 to $5.29.

Chairman HUMPHREY. That is 75 percent of parity.

Mr. STEIN. That is right. That is a 7-percent increase in the dairy support level. If you think the dairy support level is of no significance, I don't know why you asked me about it. But it is an increase of 7 percent. We think this will have an effect, for one thing, through the repercussions on the import restrictions for cheese.

Chairman HUMPHREY. What I would like to have from the Council of Economic Advisers are the judgments, the calculations, or the analyses you have made as to the relationship of the Department of Agriculture supply program to prices. Because I don't believe you two are talking together. I really don't believe there is much communication. If there is, both of you are slow learners.

Mr. STEIN. That may be. But I have learned more about agriculture in the last 2 months than I ever thought I would know.

Chairman HUMPHREY. That is the danger with crash courses.

Mr. STEIN. But it is an indication of the concern of the White House with respect to this problem.

I would like to raise another smaller problem.

Chairman HUMPHREY. You will provide that analyses for the record?

Mr. STEIN. We will provide it.

[The following inserts provided by Chairman Herbert Stein, which consists of testimony by Agriculture Secretary Earl L. Butz before the House and Senate Agriculture Committees, are inadequate because they are too general and do not focus on the technical question of agriculture supply program to price variations. Efforts on the part of the Joint Economic Committee staff to obtain a better answer, however, were not successful. The inserts are, nevertheless, provided as the administration's response to the question in an effort to make the record of the hearings as complete as possible:]

Statement of the Honorable Earl L. Butz
Secretary of Agriculture
before the
Committee on Agriculture
U.S. House of Representatives
March 20, 1973

Mr. Chairman:

It is with considerable pleasure that I come to the House Committee on Agriculture to discuss farm commodity legislation.

I look forward to working with the Committee to develop a bi-partisan farm bill for the benefit of all ....producers, consumers and taxpayers.

We have a rare opportunity to provide U.S. farmers with the agricultural structure they need in order to prosper in our modern day world.

Our goal is the same as yours—it is to strengthen farm income from the market over the long pull. In doing this, we should concentrate on net farm income, instead of prices per unit. Our goal is higher net farm income from larger production times strong market prices.

At the same time we want to slow the rise in farm costs due to inflation. We can make a contribution toward this end by keeping government costs under control to help stop inflation and to prevent a rise in taxes.

The 1970 farm legislation continued progress toward greater market orientation and increased farmer's freedom. As a result, we now have a stronger and more viable farm economy. Fortunately, we can now fix our sights with greater unanimity on holding these gains and making further progress. We have the greatest opportunity in several decades to build a farm program that will serve farmers and the nation well in a time of great change.

Basically, that can be accomplished by extending the Agricultural Act of 1970, including Title I and II of Public Law 480.

AGRICULTURAL ACT OF 1970

The Act of 1970 has served us well in the years it has been operative.

The set-aside concept has turned farm decision-making back to farmers where it belongs; it has increased farm income, which farmers deserve.

Among the Act's many accomplishments:

*It has increased farmer's income from the market--with a welcome decline in government interference with farmers' freedom to plant and manage their own business.

*It has brought about healthy adjustments in regional production patterns--and has brought new income and vitality to local areas.

*It has encouraged a shift of substantial acreages from one crop to another on individual farms. Farmers have prospered while national acreages of feed grains, wheat and cotton have been maintained.

*It has enabled farmers to use their land, capital, and labor resources more efficiently. This has strengthened individual farms and has made us more competitive in world markets.

*It has encouraged plantings of profitable, needed crops. Soybean plantings this year may be 10 million acres higher than in 1970, the last year of restricted acreage programs for grains.

*It has prevented surplus pileups--government-held stocks are the lowest since World War II.

*It's broader base has enabled more farmers than ever before to participate in commodity programs on a voluntary basis.

*It has stimulated exports....our farm shipments abroad have been at record levels for the two successive years of the program...and reached a record $9 billion for calendar year 1972....and are expected to reach 11 billion in fiscal year 1973.

*It has assured an abundant supply of food for U.S. consumers for the smallest portion of their income in history.

*It has helped push farm income to a new high. Net farm income for 1972 is estimated at $19.2 billion, $3.1 billion above the 1971 level.

*It has brought more hope for the future to farmers and has revitalized rural areas. This new confidence has slowed the reduction in farm numbers to less than half the rate of the 1960's.

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RISE IN FARM INCOME

The rise in farm income in 1972 was dramatic. The crops that are most directly affected by the 1970 legislation are in the forefront of the rise.

For example, the total value of 1972 crops of corn, grain sorghum and barley, including payments, is pushing beyond $10 billion for the first time in history.

Wheat crop value and payments are nearly $3.5 billion, also a record.

Cotton is making a strong recovery with crop value and payments totaling more than $2.5 billion for 1972, the highest in more than 15 years.

Soybeans are showing a crop value of nearly $5.1 billion, a billion and a half dollars more than the previous all-time high in 1971. This was accomplished without government payments.

At the same time, the development of market-oriented programs has been a boon to the livestock industry. Dairy, hog, and cattle producers are making more money.

The solid gains in farm returns during the past two years show that the legislation is meeting its objective of improved farm income. The record farm income for 1972 helped raise the average income of farm people to 83 percent of non-farm people. This is a considerable improvement over the 1960's when the average income of farm people was only 68 percent of the non-farm average. We will not be satisfied until farm incomes are on a full par with non-farm averages.

We can reach this goal if our farm programs continue to be responsive to the needs of farmers and keep farm products competitive at home and abroad. As we respond to these needs, sound farm programs can bring more idle acres into production and build more farm income from the marketplace.

The alternative--more money from the U.S. Treasury--is a bad choice. It is also unrealistic in today's society.

MORE FREEDOM FOR FARMERS

American agriculture decisively turned a corner. When artificial guarantees build surpluses--as they inevitably do--the only course left is to implement rigid mandatory controls. If there is any one thing that is clear, it is this: farmers do not want mandatory controls.

The Act of 1970 lets farmers make their decisions in response to market signals. Farmers are freed from controls and can manage their own businesses in the way they feel will make them the most profit. The set-aside lets farmers plant in a manner that is to their best advantage; they are not locked into outmoded production patterns of the past. The 1970 Act gives farmers more freedom than they have had in several decades.

The set-aside also enables us to deal adequately with our excess capacity. Adequate protection against runaway production is an essential part of any farm legislation.

We have demonstrated that you can prevent surpluses without putting each farm crop in its own production strait jacket. The set-aside concept recognizes that surplus production capacity should be approached as an overall acreage problem rather than a crop-by-crop problem. The set-aside concept permits us to return idled acres into production judiciously to supply growing markets, while at the same time continuing to improve farm income and permitting farmers to adjust their own acreage in the way that fits them best. It restores decision making and profit planning to the farmer, where it belongs.

Though I am pleased with the progress farmers are making in increasing their incomes, I am concerned about the high proportion of farm income that comes from government payments. In 1972, government farm payments approached $4 billion. This is equivalent to 21 percent of the 1972 record net farm income and 7 percent of the 1972 record farm cash receipts. This dependence on the U.S. Treasury is too heavy and too precarious, particularly at a time when taxpayers want Government income and outgo in better balance. And particularly when there is agitation about food prices. Our efforts to improve farm income should rest on the increasing strength of the domestic food market and the rising demand for farm exports--and we should rely less on the uncertainty of government payments based on annual appropriations.

BUILDING EXPORT MARKETS

Our record-breaking exports are now putting more acres to work--and are putting more people to work. A strong favorable balance of farm trade emanating from our record farm exports--at the time of a record $6.4 billion unfavorable national balance of trade--has saved the dollar from further international embarrassment. All the nation is indebted to U.S. farmers, and to the contribution made by farm programs based on the 1970 Agricultural Act.

American farmers want to keep this advantage in foreign markets. Farm programs should enhance farmers' efficiency and high productivity that give them a natural trade advantage throughout the world. We can protect this advantage with a sensible, market-oriented pricing structure. The alternative would arbitrarily limit the U.S. farmers' share of export and domestic markets--as the result of artificial price incentives which would stimulate foreign production and increase the use of substitutes here at home.

Our deliberations that lead us toward an improved and modern farm program should be done with one eye on the impact that our actions can have on upcoming critical international trade negotiations. 1973 is an important year for farmers on the international front. Talks will begin shortly with the enlarged European Community. Later, we will enter world-wide discussions with more than 100 countries under the General Agreement on Tariffs and Trade.

Our actions on a new farm program must reflect awareness of the critical export situation. It has a profound influence on U.S. farmers' incomes, and their plantings and their planning.

In aiding the American farmer, we must weigh the great potential embodied in the foreign purchasers who need our food and feed--and we must avoid precipitous changes and unfavorable measures that would damage the comparative advantage our farmers' production has in foreign markets.

Our objectives in reaching a legislative decision should find common ground with our trade negotiations. They affect one another, and increasingly so as we move through the year. We should carefully build a good balance in our final decisions on the farm legislation enacted here.

IMPROVING THE 1970 ACT

Against the backdrop of our forward progress under the two years of the set-aside program, I wish to explore with you a few parts of the legislation that we think could be improved so as to enhance a more efficient agriculture and workable farm program. Some inequities need correcting. The program authority in some instances is too restrictive to allow good judgment to prevail. For example, proven yields for payment purposes are required for cotton and wheat, yet the law provides broad authority to set yields for feed grains.

There has been substantial criticism of the failure of the law to protect set-aside acreage, particularly in areas where it lies fallow. Criticism has been made about the erosion hazard this land creates, and the loss of nesting and feeding areas for wildlife. We also wish to raise a serious question as to whether summer fallow designated as set-aside acreage is really land out of production.

Conserving bases have been more of a nuisance and an aggravation to farmers than they have been effective in meeting their objective. These bases also continue to create inequities from farm to farm in some instances.

Rigid payment and price guarantees prevent the program from being as effective as it should be to meet changing conditions. These guarantees lessen the ability of farmers to make decisions based on changing markets.

Payments to farmers, especially under the cotton and wheat programs, are higher than necessary to attain desired production adjustment objectives.

There are several ways to correct these limitations, and we are anxious to work with the Committee in finding acceptable and sound solutions.

RECOMMENDATIONS

We do have specific recommendations on some of these problems that I will offer for the Committee's consideration at this time.

First, income supplement payments, payments that exceed the amount needed to attain the desired set-aside or production adjustment objectives, should be discontinued. To provide an orderly transition and to provide farmers with a known transition period to facilitate long-range planning, these income supplement payments should be phased out over a 3-year period as we depend on a growing market demand to maintain farm incomes. The mandatory requirement that production adjustment payments must be made regardless of the amount of land set-aside should be modified.

Second, after the 3-year phase-out period for income supplement payments, it would be desirable to shift from the present use of outdated allotments and bases to a new cropland base. The set-aside requirement would be a percentage of the cropland base established for each farm. The payment rate per acre would be set at the level determined to achieve the total set-aside necessary to attain the production adjustment goal.

Third, the basic payment limitation of $55,000 should apply to income supplement payments only. The payment limit--as it applies to income supplements--should be reduced over a 3-year period in proportion to the reduction in income supplement payments.

Fourth, with respect to the dairy program, we recommend that the 75 percent of parity minimum price support level be removed to give greater ability to respond to changing conditions. We also recommend that the 1970 Act provisions, which temporarily suspended the requirement to provide price support on butterfat, be made permanent. However, we do not believe that a comparable case can be made for a permanent Class I Base Plan.

Fifth, the Secretary should have discretionary authority to set payments for wool and mohair at levels he determines necessary to meet income and other program objectives.

The peanut, rice, and extra long staple cotton programs are not included in the 1970 Act, but these three, and possibly tobacco, should be carefully examined at this time. These should be handled in such a way that these commodities can adjust readily to changing conditions and can look forward to expanding markets, as is now true of other major farm commodities. We are exploring alternatives to the present programs and hope to work with farmers and with this Committee to work out acceptable program changes.

MOVE OUT OF THE COMMODITY BUSINESS

As we look at new farm legislation, we should remind ourselves that in order to achieve a strong, vital, and prosperous market-oriented agriculture we must get the government out of the commodity business. We are doing that now. On March 9th, the uncommitted stocks of the Commodity Credit Corporation were valued at a little over $400 million, the smallest figure in more than two decades. At one time, this figure was in the billions of dollars--just a year ago, it was almost double today's holdings.

Farmers and the private trade should keep the supply in their hands. They should retain the marketing decision and market at the best prices for them. They should earn the profits for carrying the crop from periods of lower prices to periods of higher prices. Farmers are benefitting from this right now. The set-aside concept that we can continue in new legislation will help us hold these gains and multiply their effect in the coming years of growing markets and increased opportunities for farmers.

As long as there are surpluses hanging over our heads--no matter by what name they are called or for whatever purpose they are accumulated--they will depress farm prices. They will make buyers at home and abroad less aggressive. It is inevitable that if we pile up farm products in government hands we pile up problems for farmers.

URGENT TO ACT SOON

We cannot overemphasize the urgency that we all have to move ahead with our deliberations on new farm legislation. We will do all we can to work with you to move this legislation quickly. Farmers need time to plan. Foreign purchases should not be delayed while waiting for our new programs; markets lost are very difficult to recapture. This new legislation will be an integral part of the equation that will go into our positons in our 1973 trade negotiations.

Without new legislation, farm programs would fall back on the old, permanent legislation now on the books, which in our opinion should be repealed. This legislation is less than satisfactory. Under it, we would regress into the past and bring down a host of old problems on our heads: strict controls, rigid program provisions, unrealistic support levels, surpluses, dictation from government, and less freedom for farmers and for agriculture to meet today's changed conditions.

The old, permanent legislation on the books ranges from almost no program for feed grains to an impossibly rigid program for cotton. Under these provisions, there would be no way to avoid shrinking markets, rising stocks, increased government holdings and all of the problems that hopefully we have left behind.

Even though these provisions of the old law do not become effective until the 1974 crops, I am required by law, in the absence of wheat set-aside program, to decide and announce by April 15 whether or not strict marketing controls through quotas will be required on the 1974 wheat crop. In some parts of the country wheat farmers will be harvesting by May, and 1974 plantings will occupy their attention shortly thereafter. It is urgent that we get new legislation on the books quickly.

If deliberations continue through a long period into summer and fall, farmers will face uncertainties in their planning. Uncertainty will also diminish domestic and foreign consumption, particularly of cotton. Businesses would simply hesitate to make forward commitments while the U.S. legislative farm package is foggy and unclear.

WHO SHOULD CONTROL AGRICULTURE

In any discussion of legislation and the future of agriculture, we should turn to the question of who should control farming in America. I think we can agree--it should not be government. It should not be non-farm corporations. Farming should be controlled by the men and women and families who farm our land and provide our food.

We have taken a giant step away from domination of agriculture by government. The Agricultural Act of 1970 provided that step. It reversed a trend. The Federal Government is now serving agriculture rather than dominating it. The legislation we finally develop together can and should continue this trend to the undying gratitude of the Nation's farmers and in the best long-time interest of all citizens.

The entire Nation has a stake in farmers having the ability to be technically efficient, strong enough to keep our great agricultural plant functioning well, profitable enough to make a good living that is more on par with non-farm incomes, and independent enough to avoid government domination and control. I join with you in supporting legislation that will work toward that end, and which will give us a program that will bring promise and hope to the farm families of America and will bring abundant and safe food to the tables of Americans, as well as to hundreds of millions of people abroad.

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Statement of the Honorable Earl L. Butz
Secretary of Agriculture
before the
Committee on Agriculture and Forestry
U.S. Senate
March 29, 1973

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Mr. Chairman:

I appreciate the opportunity to meet with the Senate Committee on Agriculture and Forestry to present the Administration's views on farm commodity legislation.

Significantly, many views already heard by the Committee generally endorse the principles embodied by the Agricultural Act of 1970. Recognition of the legislation's merits by a wide and highly representative cross-section of the farm and agri-business community offers great promise for the continuation of progressive and forward-looking farm commodity programs.

Basically, the Administration also favors extension of the Act. Since our earlier informal discussions with the Chairman and other members of the Committee, we have extensively reviewed the legislation looking toward provisions more attuned and responsive to the rapidly-changing character of and climate for American agriculture.

Agricultural successes of the past two years....record net farm income, record farm exports, record farm production, improved farm efficiency, to name a few, and record farm program participation.... offer ample proof that we can part with the past and at the same time assure continued opportunity for growth and prosperity on our farms.

We are convinced that American agriculture can achieve true prosperity only if farm programs intrude minimally into farm decision making and market pricing. We are in the midst of great changes. We cannot allow the opportunity we now have to capitalize on the growth of farm markets both at home and abroad to escape us by refusing to step boldly into the future.

As agriculture responds to the growth of markets, more idled acres will go back into production, earning more income for farmers. Production to meet market needs in combination with favorable price is the key to a continuing enhancement of farm income.

I am aware that there are some who honestly fear the effect of any further lessening of government intrusion in agriculture. But I firmly believe that we can have a farm program that adequately protects farm income with fewer rules and regulations than we are relying on now or have relied on in the past.

We have already embarked on this course under the provisions of the Agricultural Act of 1970...with less government and more freedom for farmers to react to the signals from the market. What are some of the concrete results of the application of the set-aside concept?

First, it enabled farmers to break away from fixed acreage patterns of the past. As a result, crop acreages shifted on farms and among regions.

As farmers ignored their historical acreage allotments and bases, they began to employ their land, capital and labor more efficiently and effectively. They turned to the crops best suited for their land and operations. Farm income benefited from more efficient use of farm resources.

As crop acreages shifted on individual farms, so too have they shifted regionally....bringing new income and vitality to local areas.

Though substantial acreages have shifted, runaway surpluses have not developed as some had feared if acreage restrictions were loosened.

Plantings of profitable, needed crops have been encouraged. Farmers could turn to the market as a guide in production patterns rather than continuing to produce the same old crops on the same old acreage for fear of losing government program benefits as under former programs. Soybean plantings this year will probably be as much as 10 million acres or 25 percent above 1970 when acreage were channeled into specific crops under the past program.

The set-aside, in encouraging the most efficient use of acreages does not lessen our capability to deal with excess farm capacity and surplus production. This capability, of course, is a must for any farm legislation. The set-aside concept proved that we could depart from the past with its rigid acreage control crop by crop and at the same time prevent surplus build-up. Our excess agricultural capacity is an overall acreage problem, not confined to acreages for individual crops. To cope with this the set-aside authority needs to be extended and broadened.

If producers are to react to the changing needs of domestic and foreign users of farm products, they need a farm program giving them increased flexibility in determining their production patterns. As farmers are more able to respond to the growing diverse needs of our markets, more idle land will go back into production and more income will go into farmers' pockets.

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The need for increased program flexibility does not end with the relaxing of restrictive acreage provisions in farm legislation. Rigid payment and price guarantees under legislated minimums and strict formulae do not permit program decisions responsive to changing domestic and world demand for U.S. farm products. As decisions required by these artificial mandates mask true market demand, farmers are misled through no fault of their own into making production decisions to meet arbitrary program demands rather than demand reflecting consumer needs. Market opportunities are lost and government program outlays rise in an effort to cope with costly production adjustment and surplus build-ups resulting from both too much production of some crops and under consumption of some crops because of artificially high prices.

As consumer incomes go up both at home and abroad, American agriculture must be sensitive to changing eating habits throughout the world as millions seek to upgrade their diets. American agriculture can grow with this changing need or it can fall behind. The decisions we make in farm legislation can bolster the U.S. farmers natural advantage in domestic and foreign markets by encouraging continued efficiency and high productivity on U.S. farms. Or we can make decisions that will arbitrarily limit the U.S. farmers' share of these expanding markets....artificial price incentives and other actions stimulating foreign production and increasing the use of substitutes at home.

If farm commodity legislation is modified to reflect our changing situation, farmers will be able to claim a larger part of their income from the market with less dependence on direct government financial aid. Too-high a proportion of farm income now comes from government payments. This re-direction is a must in these days of concerted efforts to bring about a better balance between government income and outgo. The vulnerability of farm income based on government payments coming as a result of annual appropriations is even greater in the face of the current concerns over rising food prices.

There is no need to look on the re-direction toward a greater share of farm income from the market as a bleak prospect for the future. In arriving at the modifications I will recommend to the Committee, we have concentrated our efforts in developing the kind of program provisions that will enable farmers to prosper. Farm income can continue to improve if farmers are permitted to realize the income benefits from the increasing strength of domestic food markets and the rising demand for farm exports. Forward-looking farm program provisions capitalizing on U.S. farm efficiency must have this objective.

To meet this, I am offering the following specific recommendations for the committee's consideration.

First, income supplement payments, payments that exceed the amount necessary to achieve set-aside or production adjustment objectives, should be phased out over a 3-year period. The 3-year period would provide an orderly transition and give farmers a specific time in which to make their long-range plans as they shifted their income dependence to growing market demand.

Set-aside payments for production adjustment would continue as needed to prevent surplus accumulations. However, the mandatory requirement for making payments regardless of the amount of land set-aside, should be modified.

Second, as the income supplement payments are being phased out at the end of three years, we recommend a shift in the fourth year from the present outdated allotments and bases to a new cropland base. This would broaden the set-aside concept by basing production adjustment, as needed, on total crop acreage rather than limiting the adjustment to historical acreages of certain crops.

The set-aside requirement in a given year would be a percentage of the cropland base established for each farm. The payment rate per acre would be set at a level needed to get the total set-aside acreage required to meet the production adjustment goal.

Third, the basic payment limitation of $55,000 should apply to income supplement payments only during the 3-year phase out. The payment limit....as it applies to income supplements....should be reduced over the 3-year period in proportion to the reduction in income supplement payments.

To function, set-aside payments for production adjustment should be excluded from the $55,000 limitation. In the effort to rent land to adjust production, a payment limit would be counter productive in that acreage where payments are above the $55,000 level would be arbitrarily forced into production and excluded from the set-aside. We intend that this would be included in the legislation for set-aside production adjustment payment even during the 3-year phase out of income supplements.

Fourth, with respect to the dairy program, we recommend that the 75 percent of parity minimum price support level be removed to give greater ability to respond to changing conditions. We also recommend that the 1970 Act provisions, which temporarily suspended the requirement for direct support on butterfat, be made permanent. However, we do not believe that a comparable case can be made for a permanent Class I Base Plan.

Fifth, the Secretary should have discretionary authority to set payments for wool and mohair at levels he determines necessary to meet income and other program objectives.

There are other provisions of the Act that can be improved from the standpoint of the future of agriculture and in the best interests of the program's operations.

Even though we are recommending a phase-out of income supplements, we are concerned with the inconsistencies of determining yields for payment purposes. Proven yields for payment purposes are required for cotton and wheat, yet the law provides broad authority to set yields for feed grains. We favor the broader authority during the phase-out period.

Unprotected set-aside acreages, particularly in areas where acreage lies fallow, have received substantial criticism because of the erosion hazards created and also because of the loss of nesting and feeding areas for wildlife. There is a serious question as to whether summer-fallow designated as set-aside acreage is really land out of production or is a normal farming practice being paid for as production adjustment.

Conserving bases have never really met their objective while continuing to be an annoyance to farmers, creating inequities among some farms. This needs close scrutiny in light of our recommendation for a cropland base.

Rigid payment and price guarantees prevent the program from being as effective as it should be in meeting changing conditions. The artificial response prompted by these guarantees lessens the ability of farmers to make decisions based on changing markets. They force payments to a higher level than needed to attain desired production adjustment objectives.

Though not included in the 1970 Act, the peanut, rice, extra long staple cotton and possibly the tobacco programs, are in need of careful review. These programs should be more in line with the other major commodity programs by allowing adjustments to meet changing conditions and by permitting farmers to capitalize on expanding markets. We are exploring alternatives to the present programs and hope to work with farmers and with this Committee in working out acceptable program changes.

As we look to the importance of the coming months for agriculture, we cannot delay our decision making on farm legislation. Farmers can ill afford to face an uncertain future since they need lead time in planning next year's production. Foreign purchasers should not be deterred in their quest for U.S. farm products by prolonged deliberations on future programs for the major export commodities.

Without new legislation, we would be in a most unsatisfactory situation. Farm programs would revert to outmoded permanent legislation which in our opinion ought to be repealed in upcoming legislation. It is unworkable and no useful purpose is served by retaining it. It encompasses out-of-date provisions which would turn us toward rigid program provisions and unrealistic support levels and an accompaning set of problems--strict controls or surpluses--which we are trying to avoid. Its provisions are not suited for any of the commodities in their modern setting.

I am required by law, in absence of new legislation, to make a decision on the 1974 wheat crop by April 15. This would include setting an acreage allotment and determining whether or not strict marketing controls through quotas would be required for new year's crop. It quotas are needed, farmers will have to vote by August 1. The wheat harvest starts in the southern part of the U.S. in May. Soon after that date, these wheat farmers will begin making their 1974 planting plans, so we need to develop new legislation quickly.

The longer new legislation is delayed, the more our export markets will be affected as foreign buyers sit on the sidelines uncertain as to our future actions. This we can ill-afford to let happen. It is with great satisfaction that we look at the contribution our record-breaking farm exports made this year and last to farm income and to our balance of trade. This year, we embark on key discussions on international trade with the European Community, and later with more than 100 countries under the General Agreement on Tariffs and Trade. Both timely and intelligent action in our legislative efforts may well be the essential ingredient in these all-important discussions.

As we develop farm program provisions, we must carefully consider the impact of our decisions on the potential foreign purchases of food and feed. We can not expect this market to thrive if we undercut the U.S. farmers' comparative advantage by legislating unrealistic price provisions. In large measure, the continued improvement in farm income will rest with our ability to compete in world markets.

As our exports reached record levels, so did our net farm income for 1972 go to an all-time high of $19.2 billion, $3.1 billion above the 1971 level. Leading this dramatic climb were crops most benefited by the new course charted in 1970 legislation.

The crop value of 1972 production of corn, grain sorghum, and barley, including payments, soared for the first time to more than $10 billion, as shown in the table below.

Wheat crop value and payments also reached a record of $3.5 billion.

Cotton showed a welcome return to strength with crop value and payments rising to more than $2.5 billion, the highest in more than 15 years.

Soybeans made a dramatic rise of nearly a billion and a half dollars in value above the previous all-time high in 1971 to nearly $5.1 billion in 1972. This record was realized without any government payments.

Farm Value of Production
(million dollars)

	1968	1969	1970	1971	1972
Feedgrains	7,833	8,712	8,836	9,112	10,901
Wheat	2,704	2,682	2,680	3,045	3,562
Cotton	1,988	1,871	2,031	2,225	2,529
Soybeans	2,679	2,647	3,204	3,600	5,100

The effect of the market-oriented thrust of the 1970 Act spread to the livestock industry with dairy, hog and cattle producers chalking up substantial income gains. Thus, we are fulfilling the 1970 Act's objective of bettering farm income.

With the Agricultural Act of 1970, we took a long stride toward more complete control of farming by farmers. It has brought new hope to farming communities and slowed the reduction in farm numbers to less than half the rate of the 1960's.

The Act has reversed the trend toward increased dominance of agriculture by government. Significantly, it has brought the government's role in commodity business to its lowest level in more than 20 years.

Based on our Kansas City office working numbers the uncommitted stocks of the CCC were valued at a little less than $180 million dollars on March 27--the lowest figure since the end of World War II. Because of the delay in printing and publishing, these figures are well ahead of any published report. The stocks are as follows:

Barley	3.1 mil. bu.
Corn	25.0 mil. bu.
Sorghum	14.3 mil. bu.
Oats	143.0 mil. bu.
Rye	12.3 mil. bu.
Wheat	23.5 mil. bu.

Supplies of farm commodities should be and can be controlled by farmers and the private trade not government. Market decisions should be made by farmers at the prices best for them. This gives the market benefits to farmers as they are now getting. They should carry the supplies and earn the profits for carrying the crop from periods of low prices to periods of better prices. The commodity loan program enables them to do this. The set-aside reduces the possibility of a return to large government stocks. And large government stocks are surplus -- regardless of any other label or for what purpose they are accumulated. When on hand, farm prices suffer. And any incentive for either domestic or foreign users to buy ahead is diminished markedly. As government stocks grow so do farmers' problems.

We have turned away from farm programs that seek to perpetuate and increase the role of government in farming. We need a U.S. agriculture that is technically efficient, profitable, and independent. I urge the passage of legislation toward the goal of better farm income and of abundant food for the millions of people at home and abroad who look to the U.S. farmer to supply their tables.

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Mr. STEIN. When we set the stage and started early, at 9:30, it was on the basis of my having a problem of wanting to get away by 11:30. I hope we can come to a conclusion soon.

Chairman HUMPHREY. I understood that, Mr. Stein, and you are at liberty. We appreciate your courtesy in accommodating us. And I want to say for the record, it was an accommodation for which I am most grateful.

Mr. STEIN. Thank you. With that, I will take my leave.

Chairman HUMPHREY. I direct my next question to Mr. Dunlop.

One of the areas of concern is with the product called gasoline. Every place you go, the price is going up and expected to go up further. The Wall Street Journal, for example, on March 16, quoted oil industry officials as saying the newly imposed price controls on oil products do not apply to the retail price of gasoline.

Now, isn't it true, in fact, about 9 out of 10 filling stations are not actually owned by the major oil companies to which the controls apply? Will the controls hold down the price of gasoline at the station or won't they?

Mr. DUNLOP. Well, Senator Humphrey, let me comment this way about that order of ours.

First of all, we found at the hearings that we held on oil and the data submitted subsequently by the oil companies, that under the preexisting regulations that had been issued and were in effect, these 23 largest oil companies had a substantial margin in which to move their prices.

We were concerned also by the fact that the country faces a generalized energy problem and, therefore, we face the problem of how to reconcile on the one hand the need for price increases essentially to call for the increased output, that I was talking about earlier, and at the same time to restrain pricing increases for stabilization purposes.

Chairman HUMPHREY. Mr. Dunlop, will the controls hold down the price of gasoline where people buy it at the filling stations?

Mr. DUNLOP. For the 23 companies involved, that order applies at retail.

Chairman HUMPHREY. Now, let me ask you, as I understand it, you require there should be an average increase of only 1 percent? Is that correct?

Mr. DUNLOP. The order provides for an increase up to 1 percent.

Chairman HUMPHREY. Average?

Mr. DUNLOP. Among the average of petroleum products.

Chairman HUMPHREY. Doesn't that mean all kinds of finagling, for example, the lowering of fuel oil prices in the summertime when you don't need fuel oil and the lifting of the gasoline prices in the summertime when the people are traveling a great deal?

Mr. DUNLOP. I would not have called that finagling, Mr. Chairman; I would call it a system of control that is designed to provide flexibility in the shifting of the resources, in the shifting of the petroleum refinery output among various kinds of products that are required in different mixes during the course of the year.

Chairman HUMPHREY. Well, Mr. Dunlop, you say 23 companies are covered; is that correct?

Mr. DUNLOP. Twenty-three companies with a gross sales volume of over $250 million.

Chairman HUMPHREY. Am I correct, 9 out of 10 filling stations are not company-owned?

Mr. DUNLOP. I don't know.

Chairman HUMPHREY. The 23 companies are the large companies? That is our staff analysis.

Mr. DUNLOP. I will look into it.

Chairman HUMPHREY. Would you say that the majority of the filling stations are not owned by the 23 companies?

Mr. DUNLOP. This is not an area, Mr. Chairman, of my own specialization. I, of course, reviewed all of the testimony and discussed it with our staff. So I am not as well equipped to answer your question as perhaps I ought to be.

But there is also the fact that the ownership of retail outlets, I think, is a somewhat complicated matter.

Chairman HUMPHREY. Wouldn't it seem, if you feel the controls are to be effective, that you would know how many, what percentage of the stations, the outlets for the consumer, are covered? This matter of 1 percent average price is subject to great manipulation.

Mr. DUNLOP. Well, I wish also to emphasize that that order provided further leeway on prices up to 1½ percent and provided still further opportunity on the basis of our review for additional approval of increases.

You see, the problem that needs to be focused, I think, in people's minds, is that we face the need to expand the volume of imports of oil, in order to provide the oil products that we need.

Chairman HUMPHREY. I would agree to that.

Mr. DUNLOP. If those international prices continue to rise, we face the problem of finding a reconcilable balance between the desire to stabilize prices at retail for gasoline, fuel oil, and other products on the one hand; and on the other hand, to be sure that we get into the country the requisite volume of raw materials, and then the products that are necessary to get the output that our surging economy needs.

You can stabilize prices and cut off supply; on the other hand, you could provide such freedom that you had undue inflation. And the problem of stabilization is always a balance between the conflicting, at times, objectives.

Chairman HUMPHREY. Isn't this, again, the language of planning, Mr. Dunlop? Good Lord, didn't we have some idea if the economy perked up a little bit there was going to be a fuel shortage in this country? Isn't this Government sufficiently equipped with people of vision and of mentality to have some idea there was an energy crisis in the offing? Or are we in the same situation we were on food?

Mr. DUNLOP. Well, my understanding is that not only the Government but the individual companies involved have been foreseeing and talking about this problem for some time. My understanding, at least from the general discussion, is that a broadly based energy message, putting the whole natural resource problem involving energy in its full context and policy, is in the course of preparation.

Chairman HUMPHREY. My time is up. I will come back to this.

Mr. Brown, welcome.

Representative BROWN. Thank you very much, Mr. Chairman.

Mr. Dunlop, in terms of either supply increase or demand increase, perhaps supply reduction, on the food situation, what has your problem been? Is it a shortage of food? Is it an increase in demand? What is the thing that has jacked up the price? Is it a cost factor wherein the cost of production, processing and distribution of food has increased the price of food?

Mr. DUNLOP. The brief statement on that might be put this way: First, the fundamental factors that have been at work have been the expansion in demand, created first by the rising levels of domestic income, with rising real incomes and with the rising employment at the same time—and second, by expansion in demand growing out of international exports, these factors have played a very major role, coupled with some reductions in supply in certain critical areas, some related to weather, as in some of the crops of last year, and others related to phases of what are called the foreign hog cycle, at which time we have had a reduction in the output of pork and similar products.

We are looking forward at the end of the year, at the middle of the year, to being on the other side of that cycle, and therefore those supplies will expand.

So, in a sense, we are in a situation here, because of the substantial expansion in domestic demand; the expansion in the demand for exports; and the falling off of certain supplies in particular items of crops.

Representative BROWN. All right. Have you done anything about the weather? Or are you in a position to do anything about that?

Mr. DUNLOP. Not very much.

Representative BROWN. What about the corn-hog cycle? Can you do anything about that?

Mr. DUNLOP. We have provided a whole series of actions. I mentioned earlier about a page of our food report—this involves expansion in the acreage of grain and provides for the attempt to encourage transportation of grain. We have provided for various kinds of selling of Government stocks.

These actions are designed to provide increases in output, and are summarized in that report.

Representative BROWN. So you have increased the sale of Government stocks, you have increased or encouraged the increase of planting of acreage in grain products. What about the export increase; should we do anything to reduce the amount of food being exported from this country and has anything been done?

Mr. DUNLOP. Well, I suppose that is somewhat beyond my own area of competence, but I guess I would comment on it this way:

First of all, we are at a stage in the international field where we are trying to develop trading relationships with other countries. We are trying to encourage those countries to take our products which they have not imported in the past. It has not seemed to me very often wise, when we find ourselves in the kind of difficulty we are, either abruptly, or by embargo, to inhibit exports.

Secondly, these items have been very important to measure items in our balance-of-payments deficits, providing offsets to those deficits, and we very much need to export.

Representative BROWN. We have a substantial balance-of-payment problem.

Mr. DUNLOP. Yes. And those exports facilitate the resolution of those problems.

Third, I would say that—going back to something Senator Humphrey was talking about—we need a structural change in our agriculture, so over the long pull in this country we will regard our exports of food, grains, and such raw materials, as basic commodities which the rest of the world will take from us, and in which we have very substantial comparative values in the production of this matter. And to cut off our markets in that area all of a sudden, seems to me not to be entirely a wise policy.

Representative BROWN. In business, if you can't continue to be a reasonable source of supply, you sometimes lose the order. So I can't speak for Senator Humphrey or Senator Proxmire, but as for me, it would seem unwise for us to shut off our foreign exports, if we want to build that export market.

Chairman HUMPHREY. Don't let the record interpret that Senator Humphrey is for shutting off the exports.

Senator PROXMIRE. Or Senator Proxmire.

Representative BROWN. I just said, specifically, I couldn't speak for you——

Chairman HUMPHREY. I don't want the connotation.

Representative BROWN [continuing]. On this subject and many others, I guess.

What have you done about the domestic demand?

Mr. DUNLOP. I can't think of any way in which we are particularly anxious to restrict people's disposal of their income in this area. Households are, of course, free to adjust their consumption in accordance with their own tastes. There is a lot of demand increase which has also to do with Federal Government programs, providing lunches in schools, and things of that sort, which contribute, too, appropriately so perhaps, to the demand for food at this time.

We have not, as far as I am aware, sought to restrict demand.

Representative BROWN. So, really, what we are left with after we explore all of these things that might be done is the problem of the corn-hog cycle. In that regard Government stocks have been sold to try to increase the corn supply and acreage allotments have been increased, so as to encourage increased production.

With reference to hogs, as an example, the price support, and beef. What is the lag time? As I understand, it is what, 8 months to a year in pork production?

Mr. DUNLOP. Six to eight months; I am not an authority, Senator.

Represntative BROWN. When the time comes, indeed, he is going to increase his pork production and start to build his farrowing structures, and so forth, is it what, 6, 8, 12 months?

Mr. DUNLOP. It is a considerable period, such as 8 months, and I think——

Representative BROWN. That is, if you have got the capacity right now for the farrowing of pigs. But if you don't, you are going to have to build or make some investment and it will take a little longer. Isn't that correct?

Mr. DUNLOP. Yes.

Representative BROWN. What about beef?

Mr. DUNLOP. A couple of years.

Representative BROWN. Can you tell me if you deregulate the price of gas, and do something about our oil situation, what is the time lag there? As I understand, from the time we encourage the exploration and production of additional gas-producing areas, and oil-producing areas, we are talking about 5 to 12 years, aren't we?

Mr. DUNLOP. In terms of domestic production, that is correct.

In both of these areas, I should like, however, to add the notion that it is also possible to increase supplies by increasing imports. And in the case of food——

Representative BROWN. And we have done that.

Mr. DUNLOP. We have indeed done that. The meat import quotas were suspended as long ago as June, and imports have increased on meats. Since I came to this job, we have approached the President and asked the Tariff Commission to increase the imports of cheese. And so all areas where it is possible to increase the amount of imports would affect our problem in a shorter time period than would be possible by the development of the new capacities to which you refer. We tried also to do that.

Representative BROWN. Can you tell me—my time is up and I don't want to cut you off, but I am to be cut off—so can you tell me what has been the experience in the increase or decrease of exploration and development in either natural gas or oil in this country? Didn't, in fact, that exploration drop off sharply a few years ago and it has stayed off and declined since then because—and could you give me the date of that?

Mr. DUNLOP. I do not know that.

Representative BROWN. I wonder if you would supply it for the record?

Mr. DUNLOP. I will get it for you.

[The following information was subsequently supplied for the record:]

THE DECLINE OF PETROLEUM EXPLORATION AND DEVELOPMENT

Throughout the 1950's and the better part of the 1960's, the United States and the rest of the world were flush with oil. In this country and in the other oil rich areas of the world, companies were finding oil faster than it could be consumed. In fact, so much oil was being found outside the United States and was being sold at such low prices that in 1959 the U.S. adopted mandatory oil import restrictions to protect the domestic industry from being undercut by cheap foreign prices. It was a problem for the companies to sell all the oil they had available, despite such regulatory limits on production as prorationing in the oil states of the Southwest.

To get their oil on the market the major integrated companies overbuilt the nation's refinery capacity and glutted the market with cheap products through too many retail outlets. Petroleum products sold at clearance prices and abundant natural gas was an even better bargain. Not only did competition and over-supply hold down prices, but government jawboning and Federal Power Commission regulation of natural gas prices provided equal, if not more powerful, resistance to price increases. To keep oil prices down, the federal government threatened to relax restrictions on imports of cheap foreign oil and the FPC simply dictated cheap natural gas prices.

Clearly the investment climate was not right for stepped up exploration and development of new oil and natural gas reserves, and the number of new wells being drilled each year began to decline. Despite warnings from a few Cassandras, no one was especially concerned. The nation was on a petroleum picnic and the prospect of an oil shortage was unthinkable. This climate sent the nation's oil giants scurrying overseas to prospect in virgin fields that held out the promise of vast untapped reserves like those discovered in the early days of the U.S. oil exploration.

In the closing years of the 1960's, the situation began to change rapidly. In that period our productive capacity began to feel the pinch of growing demand and declining new discoveries. The Suez Crisis of 1967 made some aware that the U.S. was beginning to press the upper limits of our productive capability. Although we were able to help Europe ride out the squeeze on their supplies when the canal was suddenly closed, we realized at that time that we probably would never again have the surplus capacity to help them through another supply crisis. In 1969, the rupture and closing of the Trans-Arabian Pipeline (the Tap line) again strained world supply systems and brought it home to this nation just how dependent we were becoming on foreign sources for our crude oil supply.

New drilling in this country was still declining. In 1967 the U.S. experienced a negative addition to its oil reserves—we took more oil from our reserves than we added by new discoveries. And, in each year since 1967 consumption has out-paced discoveries—except in 1970 when the massive, but yet untapped, Alaskan reserves were added to the nation's total proven supply. The attached chart clearly sets forth this dangerous trend.

The demand for more oil was clearly there, but the oil industry responded that the incentive—that means price—was not there to make them explore for more oil and natural gas. The industry said both were grossly under-priced due to federal regulation and intervention.

Today, the U.S. is pumping its oil reserves out of the ground as rapidly as possible and we still do not have enough crude; and our refineries are producing petroleum products about as rapidly as they can and we still do not have enough products either. What's worse is that there are no plans to sharply increase exploration and development of domestic petroleum supplies and no major additions to domestic refinery capacity are on industry drawing boards. We now must look to the rest of the world for crude and products and both are in tight supply worldwide.

95-438—73——7

TABLE II.—ANNUAL ESTIMATES PROVED CRUDE OIL RESERVES IN THE UNITED STATES, 1946 THROUGH 1971

[Thousands of barrels of 42 U.S. gallons]

Year (1)	Proved reserves at beginning of year (2)	Revisions (3)	Extensions (4)	New field discoveries (5)	New reservoir discoveries in old fields (6)	Total of discoveries, revisions, and extensions (7)	Production [1] (8)	Proved reserves at end of year (9)	Net change from previous year (10)
1946	19,941,846	1,254,705	1,158,923	(2)	244,434	2,658,062	1,726,348	20,873,560	931,714
1947	20,873,560	749,278	1,269,862	(2)	445,430	2,464 570	1,850,445	21,487,685	614,125
1948	21,487,685	1,958,853	1,439,873	269,438	127,043	3,795,207	2,002,448	23,280,444	1,792,759
1949	23,280,444	603,566	1,693,862	544,319	346,098	3,187,845	1,818,800	24,649,489	1,369,045
1950	24,649,489	663,378	1,334,391	407,739	157,177	2,562,685	1,943,776	25,268,398	618,909
1951	25,268,398	1,776,110	2,248,588	205,959	183,297	4,413,954	2,214,321	27,468,031	2,199,633
1952	27,468,031	743,729	1,509,131	280,066	216,362	2,749,288	2,256,765	27,960,554	492,523
1953	27,960,554	1,264,832	1,439,618	344,053	247,627	3,296,130	2,311,856	28,944,828	984,274
1954	28,944,828	537,788	1,749,443	307,625	278,181	2,873,037	2,257,119	29,560,746	615,918
1955	29,560,746	696,114	1,697,653	219,824	257,133	2,870,724	2,419,300	30,012,170	451,424
1956	30,012,170	804,803	1,702,311	234,727	232,495	2,974,336	2,551,857	30,434,649	422,479
1957	30,434,649	465,421	1,543,182	207,437	208,760	2,424,800	2,559,044	30,300,405	(134,244)
1958	30,300,405	954,605	1,338,908	151,210	163,519	2,608,242	2,372,730	30,535,917	235,512
1959	30,535,917	1,518,678	1,778,705	165,695	203,667	3,666,745	2,483,315	31,719,347	1,183,430
1960	31,719,347	787,934	1,323,538	141,296	112,560	2,365,328	2,471,464	31,613,211	(106,136)
1961	31,613,211	1,087,092	1,209,101	107,423	253,951	2,657,567	2,512,273	31,758,505	145,294
1962	31,758,505	759,053	1,041,257	92,488	288,098	2,180,896	2,550,178	31,389,223	(369,282)
1963	31,389,223	966,051	858,168	96,732	253,159	2,174,110	2,593,343	30,969,990	(419,233)
1964	30,969,990	899,292	1,419,182	126,682	219,611	2,664,767	2,644,247	30,990,510	20,520
1965	30,990,510	1,783,231	792,901	237,335	234,612	3,048,079	2,686,198	31,352,391	361,881
1966	31,352,391	1,839,307	814,249	160,384	150,038	2,963,978	2,864,242	31,452,127	99,736
1967	31,452,127	1,900,969	716,467	125,105	219,581	2,962,122	3,037,579	31,376,670	(75,457)
1968	31,376,670	1,320,109	776,780	166,291	191,455	2,454,635	3,124,188	30,707,117	(669,553)
1969	30,707,117	1,258,142	614,710	96,435	150,749	2,120,036	3,195,291	29,631,862	(1,075,255)
1970	29,631,862	2,088,927	631,354	9,852,512	116,125	12,688,918	3,319,445	39,001,335	9,369,473
1971	39,001,335	1,600,426	560,596	91,469	65,241	2,317,732	3,256,110	38,062,957	(938,378)

[1] Production is the amount originally estimated and used by the committee in prior volumes of the reserve report. These figures differ from production data developed by the committee and reported in tables III and IV.

[2] All discoveries were classified as new reservoirs.

Note: Figures in parenthesis denotes negative volume.

Mr. DUNLOP. One other comment I would make, not only is there an equal effort to increase imports, we have also been taking action to remove direct export subsidies, which makes it less possible, profitable, to export our agricultural products. All those direct export subsidies on agricultural products have now been discontinued.

Representative BROWN. So while we haven't shut it off, we at least are not making it as expensive for the Government and somewhat more expensive for those people who are exporting domestic agricultural products.

Thank you, Mr. Chairman.

Chairman HUMPHREY. I have asked my colleague, Senator Proxmire, if I might take just 2 or 3 minutes, because I must leave to go to the funeral of a very dear friend of mine who passed away, Senator William Benton. And Mrs. Humphrey and I are going to Southport, Conn., at 12:30.

This hearing has been informative, helpful. One of the things I hope we can accomplish is some understanding of what it takes to change a cycle, what the time factors are, to get a better understanding of the importance of some planning and some proper management. In agriculture, for example, we did not plan to have the adequacy of grain reserves we should have, particularly if we were going to be in the export business. We ought to have a substantial grain reserve if we are going to have any stability of price at all in livestock. The lack of proper quantities of feed grains, particularly soybeans, raises the price of feed sharply and therefore increases the price of cattle and hogs and poultry.

These are the items that are reflected quickly in the marketplace, the supermarket. These are the perishable commodities. Actually, raising the price of wheat $1 a bushel would affect the breakfast foods very little. Similarly, 31 cents worth of cotton goes into a $11 shirt. So you can raise the price of raw material a good deal without significant affect on the price of the finished product.

My concern, and I say this to you, Mr. Dunlop, who have a tremendous responsibility, is that I don't see that there is importance placed on planning ahead in the field of agriculture. We are running from one position to another, almost at a frantic pace, opening up billions of acres in an effort to, hopefully, overcome a shortage.

If you get a bumper crop, you could have every farmer practically bankrupt because of surpluses. And particularly if the foreign market doesn't develop.

And from accounts just this morning, the Russian market doesn't look nearly as good as it did 2 months ago. Not nearly as good. That is, for grains. They are going to have a better crop. Their winter kill is not what they anticipated. That is the present indication.

My point is the same in the instance of fuel. I think Congressman Brown made this point very clearly. It takes quite a bit of time to turn that situation around. We—both Government and private groups—saw that it was coming, but little was done about it.

In the Midwest, for example, when the price freeze went in in August of 1971, it went in at a time when gasoline prices were relatively high, but fuel oil prices were relatively low. When we came around to the winter of 1972, we didn't have the fuel oil we needed and, had the good Lord not benefited us with an unbelievably warm winter, we would have been in a catastrophic situation. No doubt about it. We would have to close up schools. We were closing them up in December. And it was only because of the moderate weather in January and February that we have been able to get through the winter without great hardship.

We still have a problem, may I say, on fuel, for the time that farmers are going into the fields with their tractors.

Finally, on gasoline prices, what do you expect they will be this summer, Mr. Dunlop? They are up, unbelievably. Forty-five cents a gallon is not unusual and, in Minnesota, the Gulf Oil Co., has left, the Sun Oil Co., has left, the big companies with their own stations you put the controls on are pulling out. And that simply means the gasoline distribution that were under control have left the scene. They are going to take their sales to other areas or products where they can make more profit by finagling this 1-percent average. They are leaving the filling stations, that are not company owned and not controlled, there to operate.

What price do you expect those non-company-owned filling stations will be selling gasoline for, to the consumer in America?

Mr. DUNLOP. I don't know.

Chairman HUMPHREY. Well, is the price going up?

Mr. DUNLOP. I would expect, as I said to you earlier on the oil matter, that the point of the regulation was to provide not only an overall restraint to these companies, but to permit them flexibility in shifting their production from heating oil to gasoline as well.

Chairman HUMPHREY. So you would expect that you would have some shifts and fuel oil prices would go low in the summer and gasoline prices go high?

Mr. DUNLOP. That is the seasonal pattern.

Chairman HUMPHREY. And in the winter, fuel oil goes higher and gasoline lower?

Mr. DUNLOP. Yes.

Chairman HUMPHREY. That simply means inflation, doesn't it?

Mr. DUNLOP. Not necessarily.

Chairman HUMPHREY. It doesn't?

Mr. DUNLOP. If there is a seasonal pattern, sir——

Chairman HUMPHREY. But the seasonal pattern does not operate quite in those extremes when you have adequate supply. It is when you run short of supply that you get this effort made by the refiners to raise the price of gasoline in the summer and lower the price of fuel oil.

Mr. DUNLOP. I am not that familiar with it, and I will have to look into it.

Representative BROWN. Might I ask one question in connection with your line of questioning?

Chairman HUMPHREY. Yes.

Representative BROWN. Are there likely to be service stations in the Midwest which will not have gas to sell? In other words, are we going to be that short on gasoline or fuel oil? And I don't ask you to predict whether the Lord is going to cooperate in phase III or not.

Mr. DUNLOP. Well, I think the question you are raising is a point which I tried to emphasize at the very start of this discussion on oil, and that is that we face the problem of finding accommodation between our interest in stabilization and our interest in assuring adequate supplies of oil and gasoline in the country. And with the international price tending to go up, it is inevitable that there will be also increases at retail that follow.

Representative BROWN. This is the point I was trying to make about the controlled price of gas and the fact that we have had reduced supplies of gas and, consequently, oil, and if the prices continue to be controlled, we may face a real supply problem, which is even more critical than a price problem.

Mr. DUNLOP. I quite agree that the assurance of supply in the area of energy is a major problem which we face. And as I have indicated, I trust we will have a message that deals with that on a comprehensive basis before long.

Chairman HUMPHREY. I would sure like to know, after all of this, are gasoline prices going to go up?

Mr. DUNLOP. I think the outlook probably is yes.

Chairman HUMPHREY. Thank you, Mr. Dunlop. Thank you for coming.

Senator Proxmire will chair and conclude the hearings.

Senator PROXMIRE [presiding]. Mr. Dunlop, I want to ask you about things other than food. I think it has been very helpful to have this inquiry on food prices, but I want to get to a couple of other areas.

Before I do, I can't resist pointing out, I wish the administration would not only talk about cheese, which is marvelous, but dried milk powder. That is a real bargain. You can get a quarter of milk out of dried skimmed milk powder for 12 cents. It is a terrific buy and delicious. Really, it tastes good, and comes almost entirely from Wisconsin.

Let me get on to another subject we have neglected here and I think it is right in your area of competence and responsibility, and I think it is very significant.

I would like to know what information you now have to assure us that we control the apparatus for executive salaries and bonuses. This is something that is very critical if you are going to have effective negotiations with labor. It is something they always look at and it is something, on the basis of statistics I have that suggest this has gotten out of line under phase II and it can skyrocket under phase III.

Mr. DUNLOP. Well, Senator Proxmire, there is no change in our administrative arrangements on this matter. We have a unit in our Wage Stabilization Division which is concerned with executive compensation. We are at work on that range of problems at the present time.

I am perfectly aware of the importance of that range of stabilization to other types of stabilization and compensation fields.

Senator PROXMIRE. Let me indicate why I am concerned. We tried to get the Security and Exchange Commission data on increases in 1972. They said they hadn't even put into computers yet the data on 1972 increases, the SEC, the great agency that discloses a lot of these facts to the public. However, they did have some information that was pretty startling for 1971.

They pointed out the head of Allied Stores enjoyed an increase of 65 percent in salary.

Henry Ford enjoyed an increase from $500,000 to $689,000; that the next top Ford man, Iacocca, rose from $455,000 to $675,000, a 48-percent increase.

But, of course, this could have been before phase I or phase II went into effect.

I would like to point out, one thing I do have is what the bankers did under phase II. And this is a real eye-opener to me. Mr. Clausen—I can't believe his responsibilities have changed much—he is the president, has been for years, of BankAmerica Corp., and he enjoyed an increase from $171,000 to $212,000, a $40,000 increase at 24 percent.

Mr. Medberry, chairman of the board, an increase from $126,000 to $153,000, a $26,000 increase, 21 percent.

Mr. Clifford Tweter of Western Bancorporation enjoyed an increase from $118,000 to $149,000. That is a 26-percent increase. Ralph J. Voss, from $117,000 to $140,000.

Donald Platten of Chemical New York Corp., $120,000 to $140,000.

And the real big one, First Chicago Corp., Edward Blettner, from $177,000 under phase II to $245,000, a $68,000 increase. He was only vice chairman. The chairman of that corporation, Gaylord Freeman, enjoyed an increase from $248,000 to $378,000, a $134,000 increase, or 52 percent. And this was from 1971 to 1972.

How can those increases possibly be justified? These are men who have occupied these positions for years, and they are so prominent it would seem to me this is a conspicuous violation. They don't really need this kind of money, compared to the typical wage earner. And to expect the salaried workers to hold their compensation down to 5½ percent when top management is getting these enormous increases in salaries, it seems to me, is very difficult.

Mr. Dunlop. Well, I am not familiar with the particular data you have cited. It is my understanding that the Pay Board examined 1972 and passed upon about a thousand of these executive compensation plans. One does not typically, as I understand it, review individual adjustments. Most corporations of any size have what they call an executive compensation plan and it is that total plan that is submitted for review, or was submitted for review, rather than the compensation for individual officers.

Now, what the provision is under those plans, to what extent they are salaries, to what extent they are various types of bonuses, I am not familiar.

Senator Proxmire. Shouldn't we have that kind of information? Isn't it good public policy? Doesn't it make sense for us to know what these top executives are receiving in the way of increases and compensation, if we are going to be fair to the public, fair to the average wage earner, and have a system that has public support?

After all, we know what a worker in the United Auto Workers or Teamsters, what kind of increase they get. We know what people who work in non-union areas receive. But these corporation executives who get the largest increase of all, this kind of information doesn't seem to be disclosed.

Mr. Dunlop. I do not know what information has been made public about executive compensation changes. I would have thought there might be some problems of disclosure with respect to individual salaries, but that is another matter.

Senator PROXMIRE. Why not? Why should there be a problem of disclosure as far as the executives are concerned? The SEC requires it anyway. But as I say, it comes too late; we still don't have the 1972 even begin to be processed.

Let me ask you this: I have been told by the staff here that your agency is now having a survey made by the International Revenue Service on executive pay in 1972. Do you know anything about that?

Mr. DUNLOP. Yes.

Senator PROXMIRE. When will that be available?

Mr. DUNLOP. I remember that we asked them to do it. I do not know the answer to that. I will have to furnish it when it is available.

Senator PROXMIRE. I hope it is available as soon as possible.

One other element I would like to tie in before I get to the 5½-percent guideline that I think has been a very confused issue and I would like to have it clarified.

Yesterday, Chrysler announced a price increase averaging $42 a car. That seems to have been in the wind: 1.225 percent increase. But I don't see how it could be justified. There is something wrong with your guidelines in view of the fact Chrysler had profits of $200 million in 1972, an increase of 164 percent over 1971. Their return on equity was almost 10 percent. Earnings per share well over $4, and that favorable earnings picture was sustained in the fourth quarter, the latest available data. I don't understand why Chrysler needs a price increase, or how we can permit them to get away with it, if you are going to have any kind of wage-price control system that is going to have believeability and success.

Mr. DUNLOP. Well, Senator, we have been following that very carefully and particularly for the last 48 hours. We were quite pleased to see that General Motors had announced they were not planning to raise their prices, as I understand it, for the rest of the model year.

We thought it appropriate to explore what Ford Motor Co. was going to do and are in the process of doing that. In the meantime, we have been monitoring the situation with respect to pricing.

Now, I don't think that it is possible to prejudge the situation as to whether the increase was justified or not under the regulations, until we see whether they have previous authority under those regulations. In other words, there may have been authority from previous authorizations to provide that sort of price increase, from the cost justification. And until we look at that, I think it is impossible to pass judgment.

Senator PROXMIRE. I wonder if your regulations or guidelines are right under these circumstances. When you recognize the great profits this company is making now, made last year, the fact that we have the most serious kind of wage negotiations going on in the automobile industry, they will be culminated in a few months, when they have all of this pressure from rising cost of living, when they look at the executives and find Mr. Townsend received an enormous bonus recently—Townsend in 1972 received $413,000 in bonuses and Ricardo was given $51,000. These were the first bonuses for Chrysler's top executives since 1968, plus compensation of $638,000 for Townsend, $551,000 for Ricardo. That kind of enormous compensation for Chrysler. Then an increase in their prices, their increased profits. I would think the UAW would be in a position where they would be very reluctant to settle for anything like the kind of guideline we hope would be effective throughout the country. If they can't settle for that—this is, as you know, pacesetting, ripple effect, bellweather industry. I would hope that we can do something more effective in disclosing the salaries so late, and having guidelines that don't seem to control automobile products.

Mr. DUNLOP. Well, the price guidelines in the automobile industry are no different today than they were throughout phase II.

Senator PROXMIRE. That is right. I wonder if the guidelines are right. You have the power to change guidelines?

Mr. DUNLOP. That is correct. You see, as I explained in the statement I read before you came, the fact is, throughout the American manufacturing industry in phase II, there were many, many cases in which people had authority to raise prices, were authorized to raise prices, indeed, in some cases, were specifically authorized to raise prices, where the market wouldn't permit them to do so; and what is bound to happen is that as demand increases due to effective output growth, and disposable incomes, a number of companies will be able to raise prices that previously would not have been able to do so under the same regulations.

It is a normal process of expanding outward employment.

Senator PROXMIRE. As I say, I am probing this because I am very concerned about the wage guidelines. You are a man for whom I have the greatest respect, you have a great responsibility in this country in this area, but it would seem to me it would be very helpful if we understood what the rules of the game are.

As I understand the wage guidelines as enunciated by you and Secretary Schultz quite firmly and emphatically, it was 5½ percent, no different than it was under phase II.

The White House spokesman has indicated this as not the case, the 5½ percent guidelines is much more flexible; you hear less of the guidelines and more of specific settlements of one kind or another. Mr. Meany has indicated this as his understanding in staff consultations with you and Mr. Schultz that the guideline is not as firm it was in the past.

Now we would like to know, I think it would be very helpful if you could make a statement this morning to indicate what your understanding is as of now with respect to the 5½-percent guideline.

Do we have such a guideline? Is it going to be in force as much as possible with respect to big unions as well as nonunion? What is the situation?

Mr. DUNLOP. Senator Proxmire, if I had known you were going to ask me that question, I would have brought a prepared statement. I am at a loss to understand why the problem should appear to be complicated.

Senator PROXMIRE. Confusing statements on both sides of it by top officials in the administration.

Mr. DUNLOP. Let me try, therefore, once again, to state it.

Part of the difficulty arises from the illusion that there was a single number by which the Pay Board judged collective bargaining agreements. That is not the case. The Congress indeed had mandated additional figures for benefit. The Congress had also mandated, apparently, figures having to do with low-wage income. So from the legislative side only, there was general language about paying attention to inequities and so forth.

So the notion that there was in phase II a single guideline is a mistake. Was a mistake and is a mistake.

The fact is, as I have made clear on a number of occasions, the settlements under collective bargaining agreements in 1972, approved by the Pay Board of more than a thousand workers, that record showed that something like 16 percent of the settlements in industry were at 5 percent or less. The same figures show that 43 percent of those settlements were in excess of 7 percent.

I cite those numbers only to underscore the point I make; namely, there never was, there never has been, and I know of no stabilization program in the history of the world, including the two previous ones I have been involved in in this country, World War II and Korea, where there was such a single figure.

Then may I say in passing, Senator, that the same confusion about this issue arose in World War II. I remember very well when the War Labor Board was widely criticized for approving increases other than what was then known as the "little steel formula" at 15 percent over January of 1941. I remember very well in Korea when the National Wage Stabilization Board was criticized widely for approving increases beyond the 10-percent figure in regulation 6 of those days. So it seems to me there always was a system of standards. And the 5.5 was one of those, and it was labeled the general pay standard.

Senator PROXMIRE. Mr. Dunlop, let me interrupt there to say it was my understanding and perhaps my understanding was not complete in phase II, we had a set of established guidelines that applied to all; there were exceptions, as you say; there would have to be some catchup; there were situations in which a higher figure was proper, but Judge Boldt testified before this committee that it was in his understanding that there would be a 5½-percent guideline generally applied, generally recorded by the press, generally accepted by the public. A recent study of a report in the Wall Street Journal indicated nonunion employees are expected to confine their increases this year to less than a 5½-percent guideline.

What I am trying to get at is the extent to which we can now feel we have some sort of a fairly applied standard with whatever exceptions are necessary. But recognizing that the catchup should be behind us now, and that we should be able to keep the big union settlements close to that 5½-percent figure and if we don't, it is just unfair to the vast majority of people who don't belong to unions and whose compensation will be held down because the guideline announced by the President is expected to apply to them but it doesn't seem to apply to those who have higher compensation.

Mr. DUNLOP. On the narrow question that you put about whether different standards should apply to union or nonunion employees, I have no problem with that. Of course, there should not be a differentiation.

Senator PROXMIRE. Phase II union employees received a higher increase than nonunion employees.

Mr. DUNLOP. Yes; but that is a very complicated matter and goes back a long time in this country. If you were to compare the average, as your number seems to me to suggest, between union and nonunion, you are not comparing the same occupations and same industries and same localities and so forth.

If you average them all together, you will find over many unions, except for certain periods, that union wages have often gone up more than nonunion wages. But the relevant comparison would be whether in a given industry, in a given locality, with respect to different occupations, you found that differentiation. And the Pay Board general figures which you cite represent an average. You take a lot of employees and States which may be lower paid, nonunion, you may find a group of occupations, a group of industries that are nonunion, the increases there, may be less than other industries which are higher paid. But relative consideration would be if you took nonunion employees in a given industry.

Senator PROXMIRE. You see, I can see how this could look to many people, that phase III is a conspiracy of the powerful against the weak.

Mr. DUNLOP. Yes.

Senator PROXMIRE. Because the unions are powerful, by and large wages of union members are higher than nonunion people. You had a situation in phase II where they were more favored. Their increases were more substantial. You have every indication that under phase III the situation will be aggravated on the basis of the statements by the administration and labor leaders and the conclusions that have been reached on the basis of authoritative studies in the nonunion sector.

Mr. DUNLOP. Well, if you put the question in terms of whether the those increases authorized under the same Government regulations as union people, of course, the answer is that is inappropriate.

Senator PROXMIRE. Is there any place a small union or unorganized worker could complain if he feels he is being unjustly held at $5\frac{1}{2}$ percent, whereas, the big union employees are getting more?

Mr. DUNLOP. Well, I don't know if the Cost of Living Council wants to get into the business of having millions of individual employees around the country of nonunion establishments come to our Council or to me to adjudicate individual wage grievances with employers. That would be a pretty impossible situation.

Senator PROXMIRE. That is right, and the reason I ask that question, obviously, the only way you can bring greater equity there is to hold down prices, because we are all consumers and the extent to which we can prevent wage increases from going above the $5\frac{1}{2}$ percent guideline, if you do that you benefit people weak in organization and relatively of modest income.

Mr. DUNLOP. On the other hand, I take it you would agree that the Pay Board cuts in many more union agreements than it cuts nonunion wages. It was the union wages, union collective bargaining agreements, that the Pay Board cut. They did not cut very many nonunion wages, I suspect. And therefore you could say they took the brunt of the reductions.

Senator PROXMIRE. We have the facts. The fact was, before we had phases I, II, or III, there was compensation increasing more rapidly, at least in many years up to phase I, in the nonunion sector than the union sector.

Mr. DUNLOP. I don't agree with that.

Senator PROXMIRE. Under phases I, II, and III, you had much greater increase in the union sector than nonunion sector.

Mr. DUNLOP. I don't agree.

Senator PROXMIRE. This is what the facts show.

Mr. DUNLOP. I don't agree with that, Senator.

As a person who spent—who spent his life on wages——

Senator PROXMIRE. Wasn't that true in 1970, increases in the nonunion sector were greater?

Mr. DUNLOP. It may have been true in 1970, it was not true generally throughout the 1960's, and I would be happy to supply that for the record.

Senator PROXMIRE. I would like to have them.

[The following information was subsequently supplied for the record:]

THE COMPARISON OF UNION AND NONUNION WAGE CHANGES

There is considerable argument over the ability of unions to raise wages at a faster rate than occurs in the nonunion sector. While there is no evidence which provides a comparison of the relationship between union and nonunion wages over an extended period of time, there is evidence available for the period 1968 through the third quarter of 1972 on the average effective wage adjustment in manufacturing. The following table, from the Bureau of Labor Statistics, highlights such data as does exist.

[EDITOR'S NOTE:—Bureau of Labor Statistics data for the years 1961–71 was published in Martin Estey, "Union and Non-Union Wage Changes, 1959–1972," *Price and Wage Control: An Evaluation of Current Policies,* hearings before the Joint Economic Committee, Part 2—Studies of Selected Aspects, 1972. Pay Board data covering all settlements requiring Pay Board approval is also available.]

TABLE I.—AVERAGE EFFECTIVE WAGE ADJUSTMENTS IN MANUFACTURING UNION AND NONUNION ESTABLISHMENTS

[Mean percentage wage increase]

Year	All establishments	Union establishment	Nonunion establishment	Percentage point difference
1968	6.2	6.5	5.8	0.7
1969	6.8	7.4	6.1	1.3
1970	7.1	7.7	6.0	1.7
1971	7.9	9.3	5.3	4.0
1972 [1] [2]	5.5	6.1	4.5	1.6

[1] Preliminary.
[2] Average of first 3 quarters of 1972, at annual rates.

Several facts are apparent from Table I. The most obvious conclusion to be drawn from the Table is that effective wage increases moved upward from 1968 to 1971 and then tapered off in 1972. In each of the years the rate of increase for unionized establishments exceeded that of nonunion establishments. The differences were relatively small through 1970 while in 1971 the union rates increased by four percentage points more than did the nonunion rates. In 1972, the percentage points difference fell to 1.6, considerably below the 1971 figure. This is doubtless reflective, in part, of the fact that the Pay Board cut back more cases in the union sector than it did in the nonunion sector. These larger cutbacks resulted in a smaller relative gain for unionized workers than had taken place in the immediate preceding year.

It must be noted that such a pattern of wage changes is the result of many factors in addition to the Economic Stabilization Program. In the union sector, there will be differences depending upon whether the wage changes are newly negotiated or deferred adjustments. Last year, a year of relatively light bargaining, had many unionize units receiving deferred adjustments which are typically smaller than those which were bargained as first increases when the contract was initially negotiated. The fact that the labor market was tightening in 1972 helped push up the increases in the nonunion sector above what they would have been otherwise. The combination of these forces pushed the two averages together.

Senator PROXMIRE. The difficulty for the nonunion people is that they are in a position where the employer really enforces the suggestions of the President of the United States. And he can do so because he doesn't have a union to contend with and he can deal with his employees on an individual basis.

Mr. DUNLOP. Except I would contend in our history of the 1960's and recently, wages were not simply set by employers to carry forth the ideas or dictates or policies of the President of the United States. They are set in terms of reference to the local labor markets and demand for particular occupations, particular firms, particular localities.

Senator PROXMIRE. Well, Mr. Dunlop, I want to thank you very, very much. You have been an excellent witness. I think these have been most helpful hearings.

The subcommittee will stand adjourned.

[Whereupon, at 12:20 p.m., the subcommittee adjourned, subject to the call of the Chair.]

THE COST OF LIVING

WEDNESDAY, APRIL 4, 1973

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON CONSUMER ECONOMICS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:20 a.m., in room S-407, the Capitol Building, Hon. Hubert H. Humphrey (chairman of the subcommittee) presiding.

Present: Senators Humphrey and Javits; and Representative Carey.

Also present: Michael J. Runde, administrative assistant; Lucy A. Falcone, Jerry J. Jasinowski, and Courtenay M. Slater, professional staff members; Leslie J. Bander, minority economist; George D. Krumbhaar, Jr., minority counsel; and Walter B. Laessig, minority counsel.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. We will proceed.

I have a very brief statement, and then we will come to our panel.

First, I want to thank our panelists for being with us.

This is a timely and important hearing. It occurs in the midst of the first national consumer boycott of food in my memory, and at a time when the price of meat is at the highest in more than two decades.

Only a genuine crisis can account for the spontaneity and vehemence of the housewive's protest against rising prices.

This crisis has been long in coming, and the administration has consistently failed to recognize its importance or its dimension. Even today, the administration is only tinkering with the problem. It is groping for public relations gimmicks and cosmetics, but not for lasting answers.

All of us recall the administration's advice to consumers in the last 2 months. We have heard the head of the Federal Reserve suggest that people switch from meat to cheese, the President suggest that a switch be made to fish, and the Deputy Director of the Cost of Living Council suggest Americans eat less. The Assistant Secretary of Agriculture made the extraordinary suggestion that the American family simply back out of the food market altogether, while his boss, Mr. Butz said only damn fools would favor price controls on food. Mr. Nixon apparently agreed, and raised the ominous specter of blackmarketeering as an inevitable result of controls.

The Nixon administration, having proposed everything from meatless days to eatless days, now brings us very limited controls. With a cealing on meat prices, it is asking consumers to be content with the highest prices in nearly a quarter century.

I appreciate the fact that Mr. Nixon is not, as we would put it in the most friendly vein, a farm boy. But even he should know that beef and hogs and sheep cannot be produced for retail as quickly as a loaf of bread or a glass of milk. The problem of inadequate supply, resulting in unprecedented prices, was foreseeable.

Therefore, I charge this administration with negligence in agricultural and economic planning.

I charge that the administration knew or should have anticipated and provided for this crisis.

I charge that this administration has been letting the consumer bear the burden and the farmer bear the blame over high meat prices. This is a situation in which the administration's supposed experts have simply not been doing their job.

Today I am releasing a Joint Economic Committee staff study entitled "The 1972–73 Food Price Spiral"[1] that identifies the causes of the food-price spiral. To a considerable degree, as the study documents, the food price problem is the result of mismanagement by this administration and the Department of Agriculture. Mr. John Schnittker, who assisted the committee in the preparation of the study, will testify on some of the findings in the course of our hearing today.

Naturally, housewives welcome some recognition by the administration that the line had to be drawn on meat prices. But, like so much of what this administration has mishandled in the economy, it is another gross case of too little and too late.

Taking the administration at its word that meat prices were on the way down, it is also possible to detect a certain cynical opportunism in the President's announcement. If prices were on the way down, why impose controls—except to seek to take credit for natural price reductions?

It is a perilous situation for all of us if Mr. Nixon fails to recognize the seriousness of the present inflation in America.

Food price rises naturally will push up wage demands. This problem is well illustrated when you consider that while the present pay raise ceiling is 5.5 percent a year, the last 3 months have seen—

All food prices up at an annual rate of 20.3 percent, and

Meat prices up at an annual rate of 38.7 percent.

But rising prices are not limited to food items, and I want to emphasize this—while the news and the drama of the day seems to be on meat prices, I think we have to recognize that the price structure across the board in many items has been going up and up. We are already witnessing dangerous rises in the cost of gasoline, and there are more to come, heating oil, wood products, rents, new housing, interest rates, and in many areas on service charges.

These are the fundamental consumer problems. And unless the administration does something sensible about solving them, we are going to have a consumer uprising in this country which will make the meat boycott look like a Sunday afternoon picnic.

[1] See staff study, beginning on p. 103.

I must conclude my own observation on this by saying that the movement into phase III of the so-called price control program from phase II was not only premature, but to my mind was sheer political opportunism.

Phase III just hasn't been working. We have witnessed incredible difficulties with it.

And many people are even of the mind that one of the reasons for our problems with the dollar, at least in the early stages prior to devaluation, was the lack of confidence on the part of central bankers in Europe and elsewhere relating to to stability of the American economy. We are in another era, so to speak, another time frame of inflation. And the administration seems to be applying what I called the cosmetic to cover up the real blemishes.

Without objection, I will place in the record at this point the staff study referred to in my opening statement.

[The staff study referred to follows:]

THE 1972–73 FOOD PRICE SPIRAL*

SUMMARY

The sharp rise in U.S. and world prices of agricultural commodities in 1972 and 1973 traces to five principal causes:

1. A decline in world production of grains, and a persistent lag in growth in protein meal production relative to demand. The abrupt and unprecedented change in world grain production was largely the result of crop losses in Russia, China, and India, but it traces also to at least 10 other countries or regions. World grain reserves are being substantially exhausted this year, leaving little more than minimum pipeline stocks to fall back on in the event of further crop losses in 1973. Protein meal shortages are the result of growing demand, inadequate acreage expansion in the U.S., a reduced fish catch, and scattered peanut crop losses abroad.
2. Rapid growth in the demand for meats in all developed countries, based mainly on rising personal incomes. This situation will probably intensify worldwide as incomes rise, while output expansion proceeds only slowly. If high feed costs continue, output expansion late this year will be inhibited.
3. U.S. farm policies and programs which discouraged expansion of soybean production, and continued to idle large acreages of cropland which should have been turned to livestock production at least three years ago. The set-aside has favored corn production, and limited the expansion of soybean acreage in the U.S., adding to soybean price pressure this year. Also, beef production could be material higher this year if set-aside lands had been made available for cattle grazing in 1971, when the present meat shortage began to assert itself.
4. Administrative lags and errors regarding the use of export subsidies, evaluation of crop reports from abroad, estimation of prospective export volumes, and the need to expand agricultural production sharply in 1973. These lapses led to fitful decision making in regard to expansion of 1973 crop acreages resulting especially in loss of potential winter wheat supplies, increased uncertainty regarding corn and soybean crops, and unnecessary budgetary costs.
5. Devaluation of the dollar added to the demand for fram products, and raised prices in countries whose currency was devalued. A unit of foreign currency will buy a greater volume of U.S. farm commodities since devaluation.

THE STUDY

The sharp rise in U.S. and world prices of agricultural commodities in 1972 and 1973 traces to five principal causes:

1. A decline in world production of grains, and a persistent lag in growth in protein meal production relative to demand;
2. Rapid growth in the demand for meats in all developed countries, based mainly on rising personal incomes;

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*A Joint Economic Committee staff study prepared in consultation with Schnittker Associates, Washington, D.C., Apr. 3, 1973.

3. U.S. farm policies and programs which discouraged expansion of soybean production, and continued to idle large acreages of cropland which should have been turned to livestock production at least three years ago;

4. Administrative lags and errors regarding the use of export subsidies, evaluation of crop reports from abroad, estimation of prospective export volumes, and the need to expand agricultural production sharply in 1973;

5. Devaluation of the dollar added to the demand for farm products, and raised prices in countries whose currency was devalued.

The price rise occurred despite near-record grain and oilseed crops in the U.S., and despite the fact that sizable reserves of wheat and feed grains which had accumulated in prior years were utilized.

World Grain Production

The overriding single cause of the recent sharp rise in the prices of agricultural commodities was a decline of 42 million tons in world grain production in 1972, as shown in the tabulation below. Grain production had failed to rise significantly in four years since 1963 but never in the past 12 yeers had world production declined. The 42 million ton decline in a single year put 1972 world production some 75 million tons below the 10-year trend. Production had risen 334 million tons from 1961 to 1971 for an average gain of 33.4 million tons per year.

WORLD GRAIN PRODUCTION[1]

	Million metric tons	Change		
		Annual	Since 1961	Average since 1961
1961	771			
1962	816	+45	45	45.0
1963	826	+10	55	27.5
1964	859	+33	88	29.3
1965	868	+9	97	24.3
1966	935	+67	164	32.8
1967	974	+39	203	33.8
1968	1,005	+31	234	33.4
1969	1,010	+5	239	29.9
1970	1,016	+6	245	27.2
1971	1,105	+89	334	33.4
1972	1,063	−42	292	26.5

[1] Includes wheat, barley, corn, oats, sorghum, rye, rice (milled basis), plus mixed grain in EC, and miscellaneous grains in China. Production estimates for U.S.S.R. are adjusted for excess moisture and dockage.

The drop in food production in Russia was by far the most critical factor in world grain markets. Russia's reported gross output of grain and pulses in 1972 was 168 million tons compared with 181.2 million tons in 1971, and 186.8 million tons in 1970. Potato production also dropped sharply—from 92.7 million tons in 1971 to 77.8 million for 1972, and sugar and sunflower production also fell to recent low levels.

India and China experienced smaller but still significant shortfalls in grain output. India's 1972–73 harvest including the wheat crop soon to be harvested, is not likely to exceed 100 million tons of grain, 14 million tons below target. Grain production in China was officially reported to have fallen some 10 million tons below 1971. Australia had her wheat supplies for export cut in half, and Argentina, South Africa, and the Middle East also suffered crop losses. In the rice belt of Asia, Indonesia, Sri Lanka, the Philippines, Pakistan, Bangladesh, Vietnam, Cambodia, and Laos all experienced production below need for its population, from a variety of causes.

As a result, world grain trade is rising from 106 million tons in 1971–72 to 130 million tons in 1972–73, and internal stocks have been drawn down to rock bottom levels in virtually all importing and exporting countries.

Export Pricing in a Seller's Market

The USDA did not appreciate the significance of these developments in world grain production despite widespread public and private reports, beginning in February of 1972, of serious crop difficulties in Russia. This led to a bizarre period of export pricing in July and August 1972 after Russian grain purchases had begun. With wheat sales to Russia reported near 10 million tons by early

August, with total wheat exports authoritatively projected at 1.1 billion bushels or more, and with other exporters known to have been virtually out of the market for months because of large sales or short crops, USDA continued until September 22 a subsidy policy which priced wheat for export at levels that had been established in the buyer's market prevailing during the previous year. This probably added slightly to the physical volume of wheat exports, and contributed somewhat to increases in U.S. prices. The principal effect of the subsidy policy, however, was to waste some $300 million in public funds, and to lose about the same amount in badly needed export earnings.

Production of Oilseeds and Protein Meals

Price movements in this area in 1972 and 1973 have been the most spectacular of all the farm commodities. The demand for protein meals is tied closely to the demand for meats and poultry, since the meals are essential to efficient conversion of grains into meat. Strong demand, therefore, had kept oilseed and protein meal prices at fairly high levels in the 1971–72 season, and had reduced carryover stocks to minimum levels in all countries. The March 15, 1972 price of $120.00 for a ton of soybean meal was already high by earlier standards; a year later, the price was $250.00.

Bad harvests, bad luck, and adverse government policies all contributed to the demand-supply squeeze that was developing in protein meals in 1971–72. The Russian sunflower crop in both 1971 and 1972 fell below the previous year's crop. The peanut (groundnut) crops in India and Senegal fell well below target levels. Peruvian fish catch began to falter last year as water temperatures off the west coast of South America turned unfavorable for production of anchovies for fish meal.

Most important, the acreage of soybeans in the U.S. in 1971 did not rise at all and in 1972 did not increase adequately despite strong prices. This was largely the result of the "set-aside" feature of the Agricultural Act of 1970 which permitted farmers to plant additional corn at the expense of soybeans while at the same time participating in the program designed to reduce corn production. As a consequence disappearance of soybeans from the U.S. has exceeded production in each of the past four years, and stocks are down to dangerously low levels. We must go all the way back to 1968 for a year in which U.S. soybean production exceeded use.

Livestock and Poultry Production

FAO and USDA studies have documented the rapid growth in world demand for red meat and poultry, and the expectation that the world will experience a continuing shortage of animal products. Consumption in many countries is low and the capacity for change is great. Per capita consumption of meats in all developed countries is positively associated with rapidly rising per capita incomes despite rising prices.

Meat prices had risen rather steadily and sharply for several years prior to 1972, and the spectacular rise in the past few months represents only the acceleration of an established trend, not a new development. World beef prices doubled from 1963 to 1971, and have risen sharply since 1971.

World grain and oilseed shortages and high prices have interacted with the cyclical and short-term movements of cattle, hog, and poultry production in the U.S. Cattle raisers in 1972 were marking time on marketings, but were building their herds for future expanded production. Hog producers had reacted late in 1971 and 1972 to low prices a year or so earlier, and had reduced output. Both these sectors faced record high feed costs by late summer of 1972, thus limiting any tendency farmers and feeders may have had to feed to heavier weights to take advantage of high meat animal prices. Broiler and egg producers are even more sensitive to feed costs and cut back production especially in response to protein meal prices.

But that is not the whole story. We have known about the developing meat shortage for several years but have failed to act in a timely way to use our extensive land resources to expand basic cattle herds so essential to future supplies at reasonable prices. As early as 1963, Congress was asked to provide authority in the feed grain program for the Secretary of Agriculture to permit land diverted from crops to be used for grazing. This authority was granted, but only for emergency use on an area or county basis. In the Agricultural Act of 1970 Congress finally authorized unrestricted use of set-aside (diverted) acreages for grazing or for production of hay, but the Administration neglected to use the authority until it was faced with the present emergency last fall. Use

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of set-aside acres for cattle production will not expand beef output materially in less than 2 years, but it is definitely constructive and should be continued when new farm program legislation comes before Congress.

Government Policy Decisions

The strong demand for meat, poor 1972 harvests, and a pervasive worldwide inability to expand the output of protein meals enough to stabilize prices largely explain the price increases we have seen so far. A number of policy decisions were taken to temper the buoyant price movements. But chaotic decision-making with respect to planning for 1973 harvests contributed on the other hand to a psychology of scarcity which has dominated U.S. and world markets for grain and oilseeds for 8 months.

Measures to augment supplies included:

1. U.S. reserves of grains have been reduced sharply; CCC stocks were sold and federal grain loans to farmers were terminated. As the new crop year begins, CCC will have literally no reserves with which to meet price or other emergencies.

2. The suspension of beef import quotas was continued and dairy product imports were increased.

Measures to limit exports included:

1. Termination of export subsidy payments on rice, lard, poultry, and tobacco, after the wheat subsidy policy had been reversed.

2. Administrative limitations to restrict agricultural exports under Public Law 480, barter, and CCC credit programs.

For the new crop year, the Administration has released most of the acreage that was to be set aside under 1973 farm programs. Errors of judgment in assessing the impact of the events of 1972 on production requirements for 1973 or lags in decision making, however, have increased the danger of a new round of price escalation. Equally important, this will cost taxpayers nearly $¾ billion in farm program expenditures that could easily have been avoided. These actions include:

1. Announcement on July 17 of a wheat program providing for maximum acreage set-aside for the 1973 crop, authorizing additional set-aside for further payments beyond the statutory payment to wheat growers, and determining that barley acreage would again be limited in 1973. This decision, made only 2 weeks after the massive wheat sales to Russia had begun, could easily have been corrected in time to permit needed expansion of wheat plantings in the fall of 1972. Instead, it stood until January, when decision making in farm program matters was assumed by the Executive Office of the President. No economic basis can be found for the failure to change the wheat program at least by September 1; it was clear by August that wheat exports would exceed 1,100 million bushels, that carryover stocks would be reduced to under 500 million bushels, and that crop losses were prevalent throughout the world.

2. Announcement on December 11 of a feed grain program designed to divert some 25 million acres from production, and to produce a 1973 corn crop of only 5.7 billion bushels. Had this decision stood, both corn and soybean production in 1973 might well have been so short as to push prices to higher levels than in 1972, even with generally good crops abroad. Fortunately the program was amended on January 31 and again on March 27, to bring larger acreages into production. Even though some potential output was lost as a result of a stop-start nature of farm program decisions, there is now a good chance that the 1973 corn crop will reach 6 billion bushels, and that the U.S. feed grain carryover will not be further reduced during the 1973–74 marketing year. The 1973 soybean crop, with average growing conditions, will reach 1.5 billion bushels, large enough to hold prices at the farm around $3.75 per bushel, or slightly lower if exports fall short of expectations.

3. The false starts in reaching a final decision on the 1973 feed grain and wheat programs have resulted in huge cost overruns for both programs. If USDA had acted on information available last fall, and with due regard for the necessity of maintaining an adequate reserve carryover of grains and oilseeds, program expenditures could have been reduced by $190 million for wheat,[1] and by some

[1] Expenditures to continue a "voluntary" set-aside of wheat acreage in 1973 will be about $190 million. This feature of the program was announced in July when it should have been deferred or made contingent upon need, and was inexplicably continued at the same time that the 10 million acre set-aside associated with mandatory federal payments of some $750 million to wheat farmers was terminated. The same production result would have been achieved for $190 million less if the "voluntary" set-aside had been avoided or had been terminated in 1972; the "mandatory" set-aside could have been reduced instead of terminated.

$500 million for feed grains [3] compared with anticipated expenditure levels. Those savings would have funded the most essential of programs the Administration proposes to terminate this year. If Congress had provided adequate statutory flexibility for the feed grains and wheat programs, and if the programs had been adequately managed, program costs this year could easily have been reduced by $1 billion.

The Outlook for 1973

The price impact of even moderate crop losses in 1973 would be even more severe than was experienced during the past year. The 25–30 million ton drawdown of U.S. reserve grain stocks, and a sharp drop in Canadian reserves during the present season kept the 1972–73 price increases far smaller than would have been possible had reserve stocks not been available. This is demonstrated by the fact that the greatest percentage increase in prices occurred in soybeans, where the rapidly growing demand and slowly expanding supply have prevented accumulation of any reserve stocks.

There are a number of ominous signs that make lower prices and larger supplies in the new crop year far from certain; crop losses abroad could easily nullify the anticipated price effects of record U.S. production. These factors include:

1. Wheat plantings last fall were 17 million acres below plans in the Soviet Union because of poor planting conditions. Lack of winter snow suggests short moisture supplies this spring.

2. Continuing short food supplies in India, and signs that the 1973 wheat harvest may not exceed 28 million tons despite official claims for a 30 million ton outlook, and disappearance of all reserve stocks as a result of last winter's shortfall.

3. Reports that last year's drought is continuing in grain producing provinces of China.

4. Short supplies in a large number of Middle East, African and Asian countries this year which has probably resulted in use of any reserve stocks they might have held. South Africa's corn crop has been cut in half, to below domestic needs. A number of Asian countries which largely use rice are crucially dependent on the 1973 monsoon and have no place to turn if that fails. The decline in Asian rice production of some 18 million tons over the past two years has been largely overlooked as a factor in the near term food situation.

5. Weather for early field work in the U.S. has been adverse, following a fall season when the harvests were late and fall tillage was below average.

6. Reported shortages of fuel and fertilizer which may inhibit U.S. production in 1973.

On the other side, the major grain-producing countries have set record high farm production targets for 1973. Reasonable success in achieving those targets could turn grain and oilseed prices back toward longer-term levels as reserve stocks accumulate once again. These factors include:

1. The expansion of U.S. feed grain, spring wheat, and soybean acreages;

2. The prospective increase of 5–7 million acres in Canadian wheat plantings, an increase which would insure that Canada's exportable supplies of wheat in 1973–74 would be as high as this year when stocks were being reduced;

3. Improved crop prospects in Australia, where the export target for 1973–74 has been set at some 450 million bushels, nearly 2½ times the quantity available for export this year.

4. Reports of intensified grain production efforts in the USSR to offset the effects of last years disastrous harvest.

5. Argentina is harvesting generally good crops of grain and will have sizable export supplies.

The outlook for expanded production of red meat and poultry in the late months of 1973 and 1974 depends partly on expansionary forces already in motion

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[3] Federal payments to feed grain producers in 1973 will be about $1,100 million to officially set aside some 10 million acres of land (but to reduce feed grain plantings below full-production potential by only 2–3 million acres). This huge expenditure for so little set-aside was partly the result of the commitment made by the USDA in December 1972 to a large set-aside and resulting in large payments. The set-aside was later reduced but payments were not. A significantly different and far less costly commitment could have been made to farmers in December 1972 if the world grain situation had been appraised accurately. Also seriously at fault here is a Congressionally-initiated feature of the Agricultural Act of 1970, requiring federal payments on corn, when taken in conjunction with average prices received by farmers in the first five months of the marketing year, to equal at least 70 percent of parity (on March 15, 1973, $1.51 per bushel). This statutory feature of the feed grain program makes it extremely difficult to avoid grossly excessive federal expenditures for feed grain payments, when little feed grain acreage needs to be set aside.

within the livestock industry, but also importantly on world grain and oilseed developments in 1973. Swine producers have indicated their intention to produce more pigs this summer than last year, and the fact that breeding cattle numbers were at record high levels on January 1, 1973, virtually insures a larger total supply of beef about a year from now.

Even so, the most optimistic projections available are not reassuring to consumers. The White Paper entitled "Food Prices" issued by the Cost of Living Council on March 20 projects total red meat supplies in 1973 to be only 2 percent greater than in 1972. More important, it projects beef and pork supplies in the October–December quarter this year only 2.5 and 5.5 percent greater, respectively, than in the same quarter last year.

Increases of that size will barely offset the demand increases that inevitably arise from income and population gains, and will not generate measurably lower farm prices in December 1973 than in the same month last year. Thus, any predictions that retail meat prices late this year will have retraced the increases of the past three months runs a serious risk unless consumer reaction against high price levels is widespread and lasting.

The Cost of Living Council White Paper states cautiously that . . . "the rate of increase (in food prices) may be near zero by the end of the year". With retail food prices up 4 percent in January and February, and with the March and April figures likely to raise that to 7 percent or more, we should not be surprised if food prices rise by a total of 10 percent in 1973, even if the Administration's best hopes for farm price stability are realized.

If adverse crop weather becomes widespread, or if meat production does not expand as indicated, food price increases for 1973 could be held to 10 percent only by special measures designed to achieve price stability at home by reducing the supplies available to world markets. Limiting exports of grains and oilseeds in such a situation by direct means, continued limitations on use of P.L. 480 and CCC credit, and restrictions on exportation of meats from the U.S. would be appropriate in these circumstances.

ANNEX

Price Movements

Farm product and food price indexes for recent years and months at the farm, wholesale and retail levels compare with all commodities and all items indexes as follows:

	Index of prices received by farmers			Wholesale price index		Consumer price index	
	All farm products	All Crops	Livestock	All commodities	Farm products [1]	All items	Food
Year:							
1967	100	100	100	100.0	100.0	100.0	100.0
1968	103	101	104	102.5	102.4	104.2	103.6
1969	108	97	117	106.5	108.0	109.8	108.9
1970	110	100	118	110.4	111.6	116.3	114.9
1971	112	107	116	113.9	113.8	121.3	118.4
1972	126	116	133	119.1	122.4	125.3	123.5
Month and year:							
January 1971	107	102	110	111.8	110.7	119.2	115.5
April 1971	111	108	114	113.3	113.3	120.2	117.8
July 1971	112	109	114	114.6	115.0	121.8	119.8
October 1971	114	106	118	114.4	113.0	122.4	118.9
January 1972	119	111	126	116.3	117.4	123.2	120.3
April 1972	119	112	129	117.5	118.3	124.3	122.4
July 1972	127	116	136	119.7	124.0	125.5	124.2
October 1972	129	116	138	120.0	123.3	126.6	124.9
November 1972	130	120	138	120.7	125.3	126.9	125.4
December 1972	137	127	145	122.9	132.6	127.3	126.0
January 1973	144	131	153	124.5	137.0	127.7	128.6
February 1973	149	132	161	126.9	142.4	128.6	131.1
March 1973	159	140	174				

[1] Includes processed foods and feeds.

Farm prices increased 12.5 percent from 1971 to 1972—crop prices were up 8.4 percent and livestock and product prices advanced 14.6 percent. At the wholesale level all commodities increased in price from 1971 to 1972 by 4.6 percent while the farm product price index, including processed foods and feeds, rose 7.5 percent. The consumer price index for all items increased 3.3 percent from 1971 to 1972, while the advance for the food index was 4.3 percent.

Early in 1972 the wholesale price index for all commodities and for farm products, including processed foods and feeds, differed by only a point. But from January 1972 to February 1973 farm product prices in the wholesale index rose 21.3 percent while prices for all commodities increased by only 9.1 percent.

The consumer price index for food rose 9.0 percent from January 1972 to February 1973, much less than the 21.3 percent increase registered at the wholesale level for farm products, and the 25.2 percent rise at the farm level. Food prices at retail level can be expected to advance sharply again in March and probably in April. The retail price index for food used at home has been rising mainly from the rise in prices of meats, poultry and fish—a 38.7 percent jump in the three months ending in February 1973.

PRICES RECEIVED BY FARMERS FOR SELECTED COMMODITIES AT VARIOUS POINTS IN TIME

Date	Dollars per bushel			Dollars per hundredweight			Broilers	Eggs
	Wheat	Corn	Soybeans	Calves	Steers heifers	Hogs	(cents per pound)	(cents per doz.)
1967	1.47	1.17	2.62	26.40	24.00	19.00	13.3	13.2
April 1971	1.40	1.41	2.80	35.40	31.20	16.00	13.6	31.9
April 1972	1.36	1.13	3.37	41.70	34.00	22.50	13.1	27.4
July 1972	1.32	1.14	3.34	45.10	37.10	27.50	15.7	30.6
October 1972	1.89	1.19	3.13	47.10	36.40	27.50	14.6	31.0
November 1972	1.97	1.20	3.38	46.80	35.30	26.80	13.8	36.7
December 1972	2.38	1.42	3.95	46.50	37.30	29.50	14.0	43.2
January 1973	2.38	1.39	4.10	49.10	40.40	31.00	17.2	49.5
February 1972	1.97	1.35	5.49	52.50	43.30	34.20	19.4	42.5
March 1973	2.06	1.37	6.05	58.20	45.80	38.30	23.3	47.2

Source: Agricultural prices, SRS, USDA, various issues.

Prices Paid by Farmers for Feed

The average price paid by farmers for feed a year ago was only 4 percent higher than in 1967. This encouraged steady expansion of livestock production, yet meat prices generally rose. By March 15, 1973, farmers were paying 38.5 percent more for feed than in 1967, with the major increase in the price of protein meal. On March 15, 1972 the price paid by farmers for a ton of soybean meal was $120.00; a year later the cost was $250.00. This has severely inhibited livestock production.

Feed prices for various types of livestock and poultry on March 15, 1972 and 1973, compare as follows:

	Mar. 15, 1972	Mar. 15, 1973	Percentage change
Cattle feed (100 pounds, 30 percent protein and over)	$5.00	$6.91	38.2
Hog feed (100 pounds, 14-18 percent protein)	4.66	6.20	33.0
Hog feed (100 pounds, over 29 percent protein)	7.05	12.40	75.9
Broiler grower feed (ton)	95.00	133.00	40.0
Laying feed (ton)	84.00	122.00	45.0
Dairy feed (ton, 14 percent)	72.00	92.00	27.8
Dairy feed (ton, 32 percent)	112.00	165.00	47.3

PRODUCTION OF LIVESTOCK PRODUCTS, 1973

[In Percent]

Item	Change from a year earlier	
	1st quarter	4th quarter
Commodity:		
Beef	+2.5	+2.5
Pork	−3.5	+5.5
Broilers	−1.5	+3.5
Eggs	−4.5	−1.0
Milk	−1.0	+1.0

PRODUCTION OF FOOD COMMODITIES

[In Percent]

Item	Change from a year earlier 1972	Estimated 1973
Commodity group:		
Meat	−2	+2
Dairy products	+2	−1
Poultry and eggs	+3	−1
Food grains	−5	+13
Vegetables	0	+1
Fruits and nuts	−10	+12

Source: Cost of Living Council Paper "Food Prices," Mar. 20, 1973.

Chairman HUMPHREY. With that we welcome our witnesses, the first panel that we have.

Congressman Carey is with us this morning, and has long-time interest in the problems that we face here in our economy.

Congressman, would you like to make any comment at all?

OPENING STATEMENT OF REPRESENTATIVE CAREY

Representative CAREY. Just to concur in your observations, Mr. Chairman, that this is a result of a pileup and a pyramiding of neglect, bovine neglect as far as the farmer is concerned, and neglect as far as the consumer is concerned.

Our long studies in the field of agriculture have indicated that we have been neglecting what I consider to be more imperative in our farm policy. We know that we have the capacity through our technology to feed our own people better and at more moderate cost than any country in the world. And yet we have been creating through neglect in Washington, and perhaps by reason of considered judgments in the political arena, deliberate scarcities. These have produced some increases in farm income. But they are increases that are not, believe me, the kind of lasting income increases that we want for the farmer. They are the result of the Russian wheat deal, the result of buying habits that have been created largely artificially by temporary inflation. And the farmer is suffering and the consumer is suffering.

So I think that the chairman today in presiding here gives us an opportunity to hear from the consumer and from those who have been working in consumer organizations as to what has been coming next.

Mr. Chairman, I heard the leading economic counselor of the administration, Mr. Shultz, say today that prices are coming down, and if we just wait a while things will be all right.

Well, if the coming down is going to be because of the activities of the witnesses of the kind we have here today, and indeed if they are coming down, then perhaps the administration should be talking about phase IV, in terms of a phase down of prices and not pegging prices at the highest level in 22 years and calling that some kind of a price control.

So I hope that Mr. Shultz will listen to what these witnesses are saying for us today. And the real majority are emerging now. They are the consumers who have gone to the ramparts to protect themselves. And I am glad to be with the real majority and you today, Senator.

Chairman HUMPHREY. Our panel consists of June Donavan, housewife and founder of Fight Inflation Together, I believe it is called FIT—Miss Furness is not able to be with us today, she is being sworn in, as you know, in another office, I believe in New York—Mr. Mark Silbergeld, attorney for the Consumers Union, and Carolyn Sugiuchi, Ohio housewife, who heads the 22d Congressional District Committee on Consumer Prices.

Later on we have another panel.

We will now start with June Donavan.

STATEMENT OF JUNE DONAVAN, FOUNDER, FIGHT INFLATION TOGETHER (FIT)

Mrs. DONAVAN. By now the story of FIT, which is the acronym for Fight Inflation Together, has mushroomed the width and breadth of every State in the Union, including Hawaii, Alaska, and now Canada.

Four women in the San Fernando Valley, a suburb of Los Angeles, expressed concern to each other over the extraordinary upward price spiral of meat, and determined in their own, what they thought was a small way, to abstain from buying and eating meat Tuesday and Thursday in the first week in April.

Through their each sending letters to five friends out of state and to different communities in California, the FIT plan burgeoned across the United States in just 1 week, and Tuesdays and Thursdays have become sacrosanct to meat boycotters, numbering in the hundreds of thousands.

Housewives have been outraged by the confiscatory prices of meat. And the only way that they can reflect their anger is at the retail level. They have tolerated tax increases, rental hikes, gasoline tax increases, higher clothing, appliance and car costs, but when it comes up to being held up for ransom at the supermarket they rebel. Enough is enough.

It reminds me of the last big rebellion, and this was the Boston Tea Party. And that was 200 years ago, 1773.

FIT is not political, it is not partisan, and not militant. It is irrelevant who is culpable. We have been told by various segments of society and Government a different study of today about the culprit responsibility. If economists don't know who is responsible, how can an ingenuous housewife place the blame? She doesn't care. All she is interested in is the deescalation of ridiculous meat prices so that she can feed her family and at least come out even.

We of FIT have made Government, retailers, wholesalers, packers, cattlemen, everyone aware that gouging meat prices are no longer acceptable to the consumer. And if the law of supply and demand still obtains at the marketplace, we will not demand.

We have been told to eat less expensive cuts of meats. There are no longer any inexpensive cuts of meat. We have been told to eat fish; we are. We have been told to eat eggs and cheese; we are. We have been told to be patient; we have been patient, but no longer. The housewife has stretched her budget as well as her meals, and she is fighting a losing battle even with a culinary wizardy.

Because FIT feels that the current ceiling on meat prices is insufficient, substantially insufficient with freezing at the highest level retroactive 30 days, we have no choice but to continue with our boycott.

FIT was formed on February 27, 1973, simply because meat prices were unacceptable then. In some cases where consumer pressure had forced down the wholesale indices under the new ceiling, the prices are allowed to increase to the higher level again. It is not a jolly prospect.

We of FIT have heard condescending statements that the boycott is only temporary. Don't you believe it. If it is a contest of wills, as well as the dollar sign, the housewives of America who are furious have stiffened their resolve, and are prepared to wait it out, make do with nutritious, meatless meals, and change their eating habits. Too much beef causes a cholesterol problem anyway.

The boycott does not end on April 7. We are giving fair warning to the National Farmers Association, who said that they would withhold beef from the market, for the first time in history women are organized. Chapters of FIT have sprung up in every State in the Union, including Hawaii and Alaska, every town in every State and every community of every town. A chairwoman is selected for each chapter. She keeps in touch regularly with the headquarters in Woodland Hill, Calif. Because FIT is nonfunded it is easier, more efficient and less expensive that way. FIT keeps the chairwoman informed of progress and strategy.

FIT has never become militant or flammatory, because it is really not necessary. FIT has accomplished what it has by being reasonable, softspoken, forearmed with facts and figures. Members are asked to read the Wall Street Journal, financial sections and tucked away articles in newspapers. It is amazing how much they have learned about economics.

Since the kickoff on March 3, ladies have leafleted markets every Tuesday and Thursday, and now every day in California, with the laudatory cooperation of supermarket managers, who feel that once the price of meat is reduced, people will buy in greater volume.

FIT has been succesful in causing a 35- to 80-percent diminution of sales. The wholesale price last week in California decreased 3 cents, affecting a 5- to 10-cent drop at the retail level. Restaurant owners are serving meatless meals. The Los Angeles County Board of Supervisors has removed meat from their meals at all county cafeterias this week. The L.A. City Council has also declared a meatless week, and backs our boycott.

Mrs. June Donavan, Lillian Miller, and Ann Schwartz, housewives, and the founders and policymakers, feel that a determined abstinance from the purchase of meat will have a substantial effect on the spiraling cost, and that with a lessening of demands, those costs must necessarily be reduced. And as they say in the deodorant commercials, it is working.

Thank you.

Chairman HUMPHREY. Thank you very much.

I think what we will do, if it is agreeable, we will have all of the statements, and then we can come back to the individual questions that we might want to ask.

Our next witness will be Mr. Silbergeld.

STATEMENT OF MARK SILBERGELD, ATTORNEY, CONSUMERS UNION WASHINGTON OFFICE

Mr. SILBERGELD. Thank you, Mr. Chairman.

I appreciate the invitation of the subcommittee to appear today.

If it is acceptable, I would like to submit my prepared statement as written for the record, and merely summarize it to save time.

Chairman HUMPHREY. That would be very helpful. And it will be included in its totality in the record.

Mr. SILBERGELD. I will also give the reporter at the conclusion of my presentation some of the articles which are referred to as attached to the prepared statement for inclusion either in the record of in the committee files as you determine.

Chairman HUMPHREY. I think it would be well to include them in the record. And that will be so ordered.

Mr. SILBERGELD. There are really two questions.

One, of course, is the short-term cyclical problem of decreasing production in the face of somewhat increased demand.

The other question which I believe determines equal attention as indicated in the chairman's opening statement is the price base from which this short-term skyrocketing of prices is measured. And those considerations, I believe, are equally important, because if they don't receive attention, what we are going to have is this scene repeated year after year.

The short-term causes seem to be a combination of things coming together. Some of them, such as bad weather and a very poor Peruvian fish catch, there is not much man can do anything about. But there are a number of things, including the planning problem that you referred to in your opening statement, Mr. Chairman, that we expect Government to do and to do well. Or at least, to attempt to approach in the proper manner. And it appears that the system hasn't dealt with those.

In the prepared statement we call for a GAO investigation of USDA planning. I see that the report you are releasing meets that suggestion. And I will be very interested in reading that report.

Transportation policy and the failure of transportation policy to meet the needs of moving farm production—and, most especially in the short term, the failure to plan the moving of the grain for the Russian wheat sale and Commodity Credit Corporation sales—appears to put a tremendous strain on supplies. So, therefore, not only do we have a decreased supply of wheat for domestic consumption, but it appears—according to testimony held on the 13th and 16th of March before the Senate Subcommittee on Freightcar Shortages—that we can't move all the grain we have as fast as we need to move it. My feeling is that until we deal with that problem the prices are going to be unnecessarily high for both food grains and feed grains.

The failure to deal with fuel policy and fuel shortages is another cause that adds to the short-term problem. There is a statement by Senator Hartke in those freight car hearings which I referred to, and there have also been newspaper accounts, referred to in my prepared statement, which describe the lack of natural gas to dry wheat crops which were wet due to an unusually wet fall. That has to do with a whole other policy area which necessarily overlaps into the availability and the price level of farm products.

Until we learn to deal with that, we are going to have repeated problems whenever we have wet falls.

There are some bad warning signs already this year. I understand from conversations with people at the Cost of Living Council, that the fish catch in Peru is down again. That means that there is less fish feed for poultry feed, and that puts pressure on soybean prices.

I see also in the "Journal of Commerce" that vegetable oil production which is normally up 1 million tons a year is only going to be up 100,000 tons in the coming season. That means that those prices will necessarily be up.

In addition to these and other short-term pressures which have added to the short-term skyrocketing of food prices, there is the question of the base from which these prices are measured. There are indications that the base is unacceptably high. I refer specifically to what has become known, among economists I suppose, as the "McGovern Papers."

Last spring Senator McGovern made available unofficially the summary table from a Federal Trade Commission Bureau of Economics report, which I understand is still in preparation, listing 100 selected industries and showing the calculated overcharges which result from lack of workable competition. I suspect that a number of Government policies, patent policies and other problems, probably explain some of the unexplained figures on that summary table. The Federal Trade Commission refused to release that study when the chairman of the full committee in the last Congress—Senator Proxmire—requested it.

But when we look at the food prices, the pressures on food prices which are caused by ineffective competition, we find 17 industries at the 4-digit level which affect—this is in table 2 of my prepared statement—17 industries which affect the price of foods. They apparently are charging higher than competitive prices due to whatever reasons the full study, which is not available attributes it.

My calculation is that about 4.3 percent of the total value of shipments of the products of those industries is monopoly overcharge. If we had workable competition in those 17 industries, the prices for those products alone would be down 4.56 percent, which would be a very substantial reduction.

I am concerned that the Senate itself appears to be moving toward keeping up the price of one food commodity, admittedly a small weighted factor in the consumer price index. It appears—and I am told in conversations—that S. 978, which would grant a special antitrust exemption to the soft drink industry—and thereby interfere with Federal Trade Commission litigation now in progress which seeks to bring down the price of soft drinks by ending territorial monopolies—is rather certain of passing. If passed, this bill would assure that those prices do stay up.

While, as I say, the cola drink, which is included in the CPI market basket, is a small factor in the total price, it indicates a policy which needs to be reviewed because it reflects the general policy of not holding ourselves to what we claim to be our belief in competition as the best regulator of prices in the marketplace.

In addition, of course, there is the question of nonfood prices which, as you pointed out in your opening statement, not only are rising, but which put pressures on the family budget when food prices rise to the extent that some of that rise may be unavoidable. If we are paying oligopolistic overcharges for other products that come out of the family budget, there is less flexibility in the family budget to meet that portion of the food price increase which is necessarily unavoidable.

I think that one part of the answer—and certainly it is not a short-term answer but it is a long-term answer—is more effective antitrust policy. Such economists formerly associated with this administration as Murray Wiedenbaum and Henrik Houthakker have come to the Hill and said that we are not going to stop inflation until we have an effective antitrust policy.

So, in looking at long-term ceilings I urge much greater attention to that area, as well as to efforts to get the Justice Department and the Federal Trade Commission to do much more than they are doing in terms of bringing prices down. Because that is really their job. They are charged with keeping the marketplace competitive and keeping prices down through that mechanism, and that seems somehow to have been lost.

I will conclude at this point.

[The prepared statement of Mr. Silbergeld and attachments follow:]

PREPARED STATEMENT OF MARK SILBERGELD

Mr. Chairman and members of the subcommittee, Consumers Union is pleased to accept your invitation to appear before these hearings to comment on food prices. My name is Mark Silbergeld, and I am an Attorney in Consumers Union's Washington Office.

Before I offer you my comments, a bit of background about Consumers Union, which is a nonprofit membership organization chartered in 1936 under the laws of the State of New York to provide information and counsel to consumers about the management of family expenditures. Consumers Union's financial support comes from our more than two million subscribers and newsstand readers. We accept no support from any commercial organization. *Consumer Reports*, the magazine published by Consumer Union, carries no advertising. Besides testing and reporting tests on consumer products, *Consumer Reports* publishes general information for consumers on health, medicine, product safety, the economics of the marketplace, and legislative, judicial and regulatory actions of government which affect consumer welfare.

Food quality and value has been a primary topic in *Consumer Reports* for many years. In 1972 alone, our magazine reported test results on frozen breaded shrimp, rosé wines, frankfurters, frozen orange juice concentrate, honey, peanut butter, frozen pizza, ice cream and baby foods, and also published articles on drained weight of canned foods and freshness dating of packaged foods. Consumers Union also submitted extensive technical comments to the FDA on nutritional labeling and to the FTC on its proposed supermarket comparative price surveys.

Consumers are, needless to say, greatly concerned by recent food price increases, which outdistance the price increases of all other commodities in the Consumer Price Index. Indeed, since the Consumer Price Index does not reflect the apparently substantial increase in consumption of prepared (so-called "convenience") foods in the recent years since the CPI marketbasket was composed, actual food expenditure levels may be even higher than officially reported. On the other hand, neither can the CPI reflect compensatory consumer actions for reducing food expenditures, since it consists of a fixed group of food commodities which does not shift as buying patterns change.

Still, it is clear, food prices are drastically higher than they were a year ago, and the prospects for lower prices are some distance away—if at all in sight. What is more, the situation is not solely an American problem. Demand appears to be outstripping supply on a worldwide basis.

The primary focus of concern is the short term problem. Why the sudden, sharp increase in 1972, which we are continuing to experience? But, in addition the interest in this cyclical production decrease, other questions also are relevant. "From what base is the increase measured?" and "Does that base reflect higher than competitive prices for significant food commodities?" are two questions which should be asked. And, although a worldwide supply shortage means that imports are not available to make up all of our domestic deficit, import policies bear scrutiny as an expression of a policy posture contrary to our expressed desire to keep food prices down.

PRODUCTION AND SUPPLY

It is clear that there was in 1972 a cyclical decline in production levels of significant food commodities. The Cost of Living Council Committee on Food reports,[1] from other government data sources, the following changes from 1971 to 1972:

TABLE 1.—*Percent change, 1971–72*

Commodity:	
Meat	—2
Dairy products	+2
Poultry and eggs	+3
Food grains	—5
Vegetables	0
Fruits and nuts	—10

The CLC Food Committee, in its March 20 white paper on food prices, predicted substantial 1973 production level recovery. This prediction, however, must be viewed with reservations, especially since the government has already revised from mid-year to year's end the time by which it estimates that food prices will level off.

A number of factors seem to have resulted in reduced 1972 production levels. Two of these simply were not under the control of man. One was a reduction in supplies of fishmeal, used as poultry protein supplement, because of low Peruvian fish catches. Another was lower production of domestic soybeans, in part due to bad weather. Soybeans are another primary livestock feed.

Demand estimate and policy coordination, however, are within the purview of man—and the government, specifically, is expected to perform satisfactorily in these areas. There are clues that such is not the case. One clue comes from a briefing on March 22 by Council of Economic Advisers Chairman Herbert Stein. According to reports in the *Washington Post* the following day, Mr. Stein:

> . . . conceded that "one or two years ago" the administration had not foreseen the extent of demand for agricultural products. "Now we have a policy more conducive to the production of farm products than we had (then) . . . I would sound silly if I said we had forecast the situation correctly."[2]

Attached is a column by *Washington Post* Finance Editor Hobart Rowen regarding Mr. Stein's remarks and the underlying situation. This subcommittee should order a General Accounting Office investigation into economic forecasting and acreage allotment management at the Agriculture Department in order to determine just what causes lay behind the inaccurate forecasts and to determine whether in fact the present policy referred to by Mr. Stein is indeed more conducive to increased production of farm products.

Production on the farm was not the only supply problem over which the government was supposed to have some ability to exercise control. There have been indications that both a shortage of fuel necessary to dry out the wet crops resulting from bad weather and a worsening rail transportation system added to the supply problem.

The fuel shortage problem was reported in the *Washington Post* on December 12, 1972.[3] Senator Hartke also noted the inadequate supply of natural gas

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[1] Cost of Living Council Committee on Food, White Paper on "Food Prices," March 20, 1973.

[2] Hobart Rowen, "Stein Sees Buyer Effect on Meat Cost," *Washington Post,* Friday, March 23, 1973, p. A–1. The Cost of Living Council Food Committee White Paper on Food Prices does not mention inadequate forecasting as a cause of production shortages.

[3] "Lack of Heating Fuel May Shut Some Iowa Firms," *Washington Post,* Wednesday, December 13, 1972, p. A1.

during hearings earlier this month on freight car shortages[4]—and freight car shortages also appear to have been (and to be) a very substantial portion of the food supply problem.

According to testimony given to the Senate Commerce Committee's Special Subcommittee on Freight Car Shortages during hearings in March, the shortage of rolling stock to move farm produce and elevator-stored grain is now more serious than ever before, even though such shortages have been a problem since before the turn of this century—and even though rail freight moved fifty percent more farm produce tonnage in 1972 than in 1971.[5]

Witnesses and members of the Special Subcommittee have blamed the transportation requirements of the Soviet wheat sale and of Commodity Credit Corporation sales for the fact that the problem is worse despite greatly increased tonnage moved.[6] So that, in addition to production problems, the economy is not able to fully utilize what production was available for consumption.

It seems clear that a lack of coordination of government policies and actions is one of the factors contributing to food supply problems, and it seems equally clear that unless steps are taken to coordinate these policies and actions, and to solve related problems which have such effects, these incremental costs will continue to be reflected in food prices.

INCREASED DEMAND

Together with production declines, the economy has seen increased consumer demand. As the Cost of Living Council White Paper points out, an effective increase of six percent in real personal income during the fourth quarter of 1972, a 2.5 million person increase in employment, larger social security, public assistance and tax refund payments all add to demand. Increased foreign demand on U.S. agricultural products also add. The added demand can only exacerbate the supply shortage problem.

Additionally, the relatively inelastic consumer demand for red meat, especially beef, necessarily adds to food price levels. The consumer resistance which has finally set in to meat price levels is now having some effect on meat prices. Secretary Butz reports that beef prices were down 3¢ per pound during the week ended March 24.[7] It remains to be seen, however, how much resistance will remain as prices for meat drop. If a small drop results in a return to former meat consumption patterns before supplies are adequately increased, prices can be expected to rise again for that commodity.

IMPORT POLICIES

The worldwide food shortage relative to worldwide demand means that relaxing import restrictions is not necessarily a means of solving our production shortage. The June, 1972 removal of import quotas on meat resulted in a 15 percent increase in imports during 1972. So far in 1973, imports are up 20 percent over the previous comparable period.[8] However, it is our understanding that use of the imports is primarily in food away from home, and in prepared foods which have little weight in the Consumer Price Index, so that the effects on price levels are minimal.

At the same time, there are some government actions which, while having minimal effect, are not consonant with our present situation. For example, a March 1 determination of the Tariff Commission under the 1921 Antidumping Act will have the likely effect of keeping out an additional supply of canned Bartlett pears from Australia, even though Australian Bartlett imports have never constituted more than 8.9 percent of the relevant U.S. market and at the end of 1972 constituted less than 5 percent of that market.[9] This seems particularly inappropriate in view of last year's 10% decline in the domestic production of fruits and nuts.

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[4] United States Senate. Special Subcommittee on Freight Car Shortages of the Committee on Commerce, hearings, March 13, 1973, p. 5.

[5] Special Subcommittee Hearings, March 13, pp. 27–28, 69.

[6] Special Subcommittee Hearings, March 13, pp. 9–10, 26, 31–33. The CLC White Paper states: "The record volume of grains being transported has caused transportation congestion and shortages of boxcars and hopper cars." It does not mention the effect of export sales on transportation of grain for domestic feed and food consumption!

[7] "Beefed Up Boycott Squeezes Meat Packers," *Washington Evening Star*, Tuesday, March 27, 1973, p. A–3.

[8] CLC Food Committee White Paper, p. 6.

[9] 38 Fed. Reg. 44, p. 6239, Wednesday, March 7, 1973.

Further, the President's request for Tariff Commission investigation of possible suspension of import quotas for nonfat dry milk and for cheese and cheese substitutes only cover a period of short duration, ending well before the December, 1973, date by which the administration now estimates as the earliest that food price increases will level off.[10]

THE ALREADY INFLATED BASE

To this point, focus has been on the nature of the cyclical supply and production shortage associated with the sharp food price increases of 1972 and early 1973. However, the ability of consumers to afford such increases in the face of the economy's inability to provide short-term solutions is affected in great part by the price base from which those increases depart.

Failure to enforce the antitrust laws and to conform governmental policies to our underlying assumption that competition will regulate prices appears to have a significant effect on food prices. Last spring, Senator McGovern unofficially released the summary data from a Federal Trade Commission Bureau of Economics study of costs imposed on the economy by lack of effective price competition in 100 selected industries. On the FTC's lists are seventeen food and food-related industries which, for lack of effective price competition, adds an estimated $2.6332 billion annually to the nation's food bill. This overcharge—which is above and beyond what we would pay for the same commodities under price-competitive conditions—is made on a total value of shipments of $60.1 billion. In other words, we could reduce our food expenditures for these items alone by about 4.36 percent if antitrust and other government polices truly assured the competition which we often profess to exist—and this list is itself incomplete![11] If we do not assure competition, which is the market's way of fighting inflation, then we may be in for permanent controls or permanent inflation—or both.

TABLE 2

SIC	Industry	Value of shipments (billions)	Monopoly overcharge (millions)
2011	Meat packing plants	$15.6	$489.3
2026	Fluid milk	7.8	256.7
3522	Farm machinery	4.3	251.1
2036	Soft drinks, botted and canned	3.2	247.8
2042	Prepared animal and fowl feed	4.8	201.5
2082	Malt liquors	2.9	198.0
2051	Bread, cake and related products	5.1	191.9
2033	Canned fruits and vegetables	3.5	143.6
2071	Confectionery products	1.9	94.4
2041	Flour and other grain mill production	2.5	88.5
2085	Distilled liquor, except brandy	1.4	88.3
2037	Frozen fruits and vegetables	2.1	84.9
2062	Cane sugar refining	1.4	71.5
2032	Canned specialties	1.4	71.2
2654	Sanitary food containers	1.1	64.1
2052	Crackers and cookies	1.4	57.3
3551	Food products machinery	.8	38.5

To make matters worse, it appears that the Senate is preparing to assist in the maintenance of high food prices by granting special antitrust exemption to the soft drink industry—thereby interfering with pending FTC litigation designed to end expensive regional monopolies in soft drink bottling. It is our understanding that S. 978, a bill with over forty Senatorial sponsors, will have little if any Senate opposition, thus assuring that the estimated $250 million in annual monopoly overcharges by that industry will continue to burden the nation's food bill. Adoption of that legislation would not be consistent with the Senate's expressed concern over food prices.

Additionally, costs built into modern supermarketing add greatly to the costs of food—costs associated with such problems as brand proliferation, deceptive packaging, trading stamps, brand-name advertising and other marketing and promo-

[10] See 38 Fed. Reg. 6, p. 1240, Wed. Jan. 10, 1973; 38 Fed. Reg. 48, p. 6855, Tues., Mar. 13, 1973.

[11] The FTC data are reported and analyzed in Scanlon, "FTC and Phase II: The 'McGovern Papers,'" 5 Antitrust Law and Economics Review 3, p. 19, Spring 1972. The seventeen food and food-related industries are:

tional gimmicks. Attached and offered for the record is a copy of the article "The High Cost of the Supermarket Revolution," *International Consumer*, Journal of the International Organization of Consumers Unions, No. 1–1967, by Colston E. Warne, Professor of Economics at Amherst College and President of Consumers Union of United States, Inc. Dr. Warne's article outlines the nature of these costs.

ALLEVIATION OF SHORT-TERM PRICE PRESSURES

To a great extent, the administration is correct in suggesting that wise consumer shopping is the best means of alleviating the short-term pressures of food price inflation. Although it is regrettable that this advice comes from a government which admits that bad agricultural planning is a cause of our supply problem, it is nevertheless true that supply cannot be increase overnight.

Consumers Union has recommended over a number of years adoption of such information aids to the would-be-wise shopper as unit pricing and open freshness dating. If such information were to be made available in useable form, it could help consumers to get the most for their money. We have recommended these and other potential measures to the Food Industry Advisory Committee to the Cost of Living Council or to the Food and Drug Administration. The recommended informational measures include a petition to FDA for disclosure of drained weight, rather than net weight, on labels of canned fruits and vegetables. A copy of the petition is offered for inclusion in the record or the Committee files, as the Chairman may deem appropriate. Other proposals include recommendations to the Advisory Committee for CLC rules requiring unit pricing, USDA grade disclosure in conjunction with labeling and packaging of food. It has been Consumers Union's position that uniform use of ABC grading plus disclosure to consumers would promote shopping on the basis of quality rather than advertising-created brand preference or presumptions that higher prices assure quality. A copy of a letter to Advisory Committee Chairman Donald S. Perkins is also offered for the Committee's information.

Additionally, Consumers Union has supported the proposal that FDA issue nutritional labeling standards to help consumers make food quality judgments and the Federal Trade Commission conduct a supermarket comparative price survey to help consumers sort out competing "low price" claims in supermarket advertising. Such information would be of obvious use to consumers who seek to maximize the purchasing power of their food dollar.

SUMMARY

In summary, Mr. Chairman, we believe that this Committee should pursue further reports of government mismanagement and lack of policy coordination as a cause of short-term food production and supply shortages; that the Senate look to its own legislative policies—as will be reflected in the expectedly upcoming vote on special antitrust exemptions—to assure that it is not adding to or helping to continue burdens on the consumers food budget; that an effective antitrust policy and other pro-competitive government policies be adopted as a means of fighting inflation through the market mechanism; and that the Congress take any and all steps available to increase consumer product information so that consumers can make informed, economically sound purchasing decisions.

[From the Washington Post, Mar. 29, 1973]

FOOD PRICES: PAYING NOW FOR PAST MISTAKES

(By Hobart Rowen)

Secretary of Agriculture Earl Butz and others who oppose price controls on food products argue that it's all a question of supply and demand. The artificiality of controls, they suggest, will merely bring about shortages and black markets.

We must suffer the thing through, they say, until the good old free market system, stimulated by high prices, increases producers' incentive to put more food on the table.

Well, where were Mr. Butz and Co. a year or two ago?

The real answer, and it was supplied with great candor by none other than Economic Council Chairman Herbert Stein, is that they had forgotten all about the free enterprise system, and were concentrating on getting the farmer to the polling place where he would vote Republican.

Before the White House mafia descends on Mr. Stein, let me hasten to say that he didn't put it in just that language.

But in briefing the press on the worst cost of living data in 22 years, Stein conceded that "one or two years ago," the Administration had not foreseen the extent of demand for agricultural products.

"Now," he said—referring to the desperate attempts to boost farm output—"we have a policy more conducive to the production of farm products than we had (then). . . . I would sound silly if I said we had forecast the situation correctly."

It is true that unfavorable weather conditions, including a corn blight in 1972, and the extraordinary demand from abroad have contributed to the rise in farm prices.

At the same time, the rise reflects the earlier policy of the Nixon Administration. Net farm income declined in 1970 after reaching the highest level in 20 years in 1969. Looking ahead to the 1972 election, the administration became anxious about the farm vote.

The 1971 Economic Report of the President, at a time when the President was saying that "free prices and wages are the heart of our economic system," was duty bound to report the following:

"To some extent, the rise in these (crop) prices was a consequence of Federal cropland adjustment programs, which had diverted substantial acreage from production in the past two years, and the large stocks of commodities built up earlier were thus somewhat diminished."

By early August, 1972, Butz knew the dimensions of the Soviet grain purchase. But as farm expert John A. Schnittker (a former Agriculture department Under Secretary in the Johnson Administration) pointed out in recent Congressional testimony, Butz as late as October wanted a conservative corn crop target. Then, in December, he announced a restrictive program for feed grains that had to be junked in January.

So the Nixon Administration record in the whole area runs from poor to dismal, and one is entitled to view with a jaundiced eye the bland assurances that everything that should be done is now being done, and that price controls would only mess things up.

Reasonable persons can differ about the long run impact of price controls. But there just can't be any doubt that controls would put an end to the present unacceptable level of skyrocketing food prices and put more meat in the supermarkets.

That much is conceded by David Stroud of the National Meat Board. But he contends that pig farmers and cattle breeders who have been urged lately by the administration to stimulate their production and who will—he insists—deliver more meat by the end of 1973, would quit under price controls and return to the old scarcity policy.

No one ever explains why this should be so. The attitude of the authorized spokesmen for the meat industry, such as Mr. Stroud, seems to be that the livestock farmer has gotten a bum rap in the distribution of national income since the end of World War II, and no one should interfere now, because for the first time, he is getting what's coming to him.

There is no reason why the livestock producers should not get a reasonable price for their meat, with controls in effect. If rising demand is there—and this is the element on which Mr. Butz puts most of the blame—it should be able to sustain good prices for heavy marketings over a long period of time, assuring a prosperous time for farmers.

Price controls now, for three to four months, with encouragements rather than discouragements to production, are needed to shoot down the soaring price balloon.

[Editorial from Business Week, Mar. 31, 1973]

Agriculture Needs a Change

There is a sort of rough justice in the fact that the Agriculture Dept. this week drew the painful task of telling the American public that the cost of food to the average family went up 2.4% between January and February. The Administration has blamed bad luck and bad weather for the climb in food prices. But the main reason is bad management. And the Secretary of Agriculture, Earl Butz, has been primarily responsible for the management mistakes.

Under Butz, the Agriculture Dept. has acted as though inflation and wage-price controls were the problems of some other country. It has plugged away single-mindedly with policies designed to limit crops and raise farm incomes by raising farm prices.

It slept quietly through the negotiations with the Russians for huge grain purchases last year. And though it is supported to employ some of the most expert agricultural forecasters in the world, it did not anticipate the impact of the purchase program on world markets. When the prices of wheat and feed grains skyrocketed, no one was more surprised than Agriculture, which found itself obligated to pay $100-million in export subsidies on the Russian purchases.

Nor has the department shown any capacity to learn from its mistakes. When it set up crop targets last fall, it still was thinking of limiting output. And more recently, it programmed a cutback in turkey production to keep prices up.

Butz's scornful opposition to farm price controls has made it all but impossible for the Administration to give this crucial question serious consideration. And since he ranks as a super-Cabinet official, his public comments have undermined confidence overseas in the willingness of the Administration to do anything effective about inflation.

When the most productive agricultural country in the world finds itself facing runaway prices and food shortages, it needs a new policy and new people to administer the policy. The only way President Nixon can now do what must be done with prices is to overhaul the Agriculture Dept., beginning with the replacement of Secretary Butz.

[From the International Consumer, journal of the International Organization of Consumers Unions, No. 1—1967]

The High Cost of the Supermarket Revolution

(By Colston E. Warne)

PROLIFERATING BRANDS, DECEPTIVE PACKAGING, TRADING STAMPS AND OTHER GIMMICKS HAVE COMBINED TO RAISE FOOD PRICES WHILE ELIMINATING MOST OF THE SERVICES PROVIDED BY THE CORNER GROCERY

Few marketing revolutions have been accomplished with as little social comment as the transfer of the nation's allegiance from the neighborhood store to the supermarket and the shopping center. Our cities and towns have become encircled with vast structures, beckoning the buyer with neon signs and a bewildering display of competitive brands and sanitized packages.

As the revolution has proceeded, lines between types of merchandising outlets have become blurred. Grocery stores encroach upon the high-margin lines of drugstores, clothing stores and variety stores. Discount houses add groceries. Every where there are supermarkets, each seeking to outdo their rivals in the proliferation of brands and the number of promotion gimmicks.

Yet the problems posed by the supermarket of today do not seem so dissimilar from those suggested more than a century ago by John Stuart Mill in his *Principles of Political Economy* (1848). Mill wrote:

"But retail price, the price paid by the actual consumer, seems to feel very slowly and imperfectly the effect of competition; and when competition does exist, it often, instead of lowering prices, merely divides the gains of the high price among a greater number of dealers. Hence it is that, of the price paid by the consumer, so large a proportion is absorbed by the gains of retailers; and anyone who inquires into the amount which reaches the hands of those who made the things he buys, will often be astonished at its smallness."

The question plaguing consumers today, however, is not the mounting gains of retailers; it is, rather, that the advancing efficiency of our basic industries seems ever to be absorbed by higher marketing costs. The political reaction to the growing discrepancy between what the farmer gets for his wheat and what the consumer pays for his bread was well reflected in the recent report of the National Commission on Food Marketing. The report also raised many doubts as to whether the supermarket, as now operated, fulfills the promise which it initially held out to consumers.

The sad truth seems to be emerging that, as a nation, we have moved full range from a small-scale, inefficient food distribution system to a large-scale and highly costly one. The supermarket of today has not brought a decrease in total distribution costs. Moreover, it has transferred many of the costs of retailing squarely onto the shoulders of the consumer who now pays an ever mounting retail margin for only a fragment of the service he used to get. Fifty years ago the genial neighborhood grocer of American folklore solicited orders from customers either at their homes or by telephone. He packaged and assembled his merchandise. He extended credit for a week, a month, and sometimes in rural areas until the harvest was in. In most communities he delivered the goods. He kept long hours. His store was unquestionably inefficient, often unsanitary and limited in selection.

Yet for all its defects the local grocery was a highly competitive and vigorous segment of our enterprise economy. Its profits were a meager portion of the typical markup of about 25 per cent.

Battered remnants of this American heritage still survive. Today, however, no eager driver comes to the door to solicit orders. Little, if any, credit is extended by grocers. Store hours are circumscribed by custom, by legislation and by unions. In some areas, however, hours are being lengthened to meet consumer needs. The retailer receives few telephone orders.

The packaging function at the retail level has so shrunk that a typical grocery clerk needs little or no competence other than that of stamping prices on prepackaged merchandise and carting it to a spot along the counter. He knows nothing about the goods on sale save their shelf location.

A significant share of the cost of marketing has been transferred to the consumer. Upon him falls the laborious chore of navigating a shopping cart through the seemingly endless supermarket aisles and assuming the full burden of selecting, assembling and transporting groceries, meat and vegetables from store to home often even grinding his own coffee. In essence, the consumer has become an uncompensated store clerk, assuming many marketing functions that were traditionally those of the seller.

Stimulated by soft music and fortified by "cents off" unstipulated prices and by double trading stamps, the shopper of today has accepted his role as a second-class member of the distributive team. But consumers are slowly awakening to the fact that they are now paying almost as high a percentage in distribution costs for food as they did 50 years ago when they received home delivery, credit and service.

Those who eulogize our burgeoning supermarkets are prone to accent the convenience of prepackaging. Yet this very prepackaging is decidedly a mixed blessing. Modern packaging has clearly netted sanitary gains which the "mom and pop" stores did not posses. It is also time saving.

Yet, as Senator Philip Hart (D.-Mich.) has pointed out, in today's supermarket, prepackaging practices have led to endless deception as declining weights have been employed to offset price decreases or to create confusion for the shopper. All of this makes valid price comparisons well nigh impossible.

Moreover, prepackaging may commonly be employed to conceal the scrawny sweet potato at the bottom of the cellophane container or the odd detached leaves of spinach. It may also allow the seller to tuck in odd scraps of meat or hide the end of the bone-in a word, to prevent the close inspection that was traditional in the corner grocery.

A recent study by Paul E. Nelson, Jr. and Lee E. Preston (published by the Institute of Business and Economic Research of the University of California, Berkeley) has surveyed for a typical city, Greensboro, North Carolina, the price fabric of modern retail stores with their off-street parking, air conditioning, automatic doors, carry-out service, shopping carts, trading stamps, check cashing facilities, coffee grinders, music and highly promoted specials.

Wide differences were found in the individual store prices and in the pricing practices of retail food stores. A central observation was "variable price merchandising". Retailers were, through their advertised specials, seeking to attract consumers by creating the impression of being low-price stores.

This sort of manipulation, as the authors suggest, was based upon the fact that only a small number of prices within the total price mix of a retail establishment can be known or evaluated by any individual consumer." What the alert manager then does is to establish a suitable "price mix" of high prices and low prices. He accents his constantly shifting roster of specials so as to entice purchasers, oftentimes without regard to the market. "By raising and lowering different prices relatively often, the large stores may be able to maintain a reputation for price reductions sufficient to assure their continued patronage without actually bringing about a permanent change in the level of prices in the market."

Because of the chaos of current merchandising tactics, our retail food markets seem increasingly to be segmented into a mass market of large stores and a variety of small isolated ones catering to specialized consumer contingents. "Variable price merchandising thus creates a kind of price discrimination against the customer who is limited by taste, knowledge, income or location to one store or group of items, and in favor of the customer with the time, equipment and information required for careful shopping." In summary, it would appear that modern variable price merchandising is an euphemistic description of consumer deception based upon the rapid juggling of certain prices so as to insure higher profit margins on other lines.

In the early days of the supermarket, sites for shopping centers were relatively cheap. Farmers could be induced to part with land at low prices with little realization that new traffic arteries and urbanization would skyrocket land values. Today a new type of real estate speculator has emerged to make careful studies of suburban shopping sites and to estimate statistically the pulling power of each. This often involves difficult calculations.

Major arteries have come to be lined with competitive shopping centers, each established under the impression that it would draw patronage from a given radius when, in fact, another similarly motivated enterprise emerged on a nearby corner. Mounting land costs, higher mortgage costs and the splintering of business between competing shopping centers have conspired to pyramid overhead costs.

One of the spectacular cost advantages of the early chain supermarkets was rapid turnover. Each unit had a small inventory of cash-and-carry items that could be sold with a markup of 15 per cent or less. Today the oldfashioned, prewar chain store has, for the most part, been abandoned. In its place is the supermarket with 6,000 to 8,000 items stacked on its burgeoning shelves.

Some of these items represent a real benefit or convenience to the consumer in precooking or preparation and in other innovations such as frozen foods. The supermarket can truly be said to have adapted itself to a different type of shopper, to the employed woman, or at least to the woman who no longer bakes and is glad to have the food manufacturer provide relief from the more arduous kitchen chores.

Yet the vast majority of items on the overburdened shelves of supermarkets emerge from competitive inventiveness—the proliferation of cereals in a variety of shapes and sizes of packaging and sugar coating, the host of novel soaps and sprays, the wide range of seasonings and sauces.

The packaging explosion has been characterized by colorful containers in which the package has become the principal salesman. The buyer is seldom offered a simple, unbranded generic item—sugar, salt, popcorn, green tea. Instead, he is presented with shelfloads of similar but differentiated goods, each with a unique container, each fortified by special advertising plans, some with "cents off", some even with lotteries for trips to Bermuda.

Merchandising is no longer a simple transaction of buying beans, bread and butter. It is surrounded by the siren voices of radio and television that seek to imbue a brand consciousness in listeners, young and old. At the checkout counter the buyer presents a miscellany of coupons and receives a miscellany of stamps, bingo cards and pictures to match. The modern supermarket presents itself as a virtual treasure trove with specials around hidden corners. Coupons addressed to "the occupant" come through the mail offering products, new and old, at "cents off" prices. Dealers are offered extra enticements to handle these coupons. Favorable shelf space is often leased to the highest bidders—a modern kind or merchandising payola. The very arrangement of the merchandise accents high markup items.

In the constant effort to increase profits, the private brand has come to play a significant role. National brands have been laboring under two serious handicaps—first, they must employ extensive and costly national advertising to secure and maintain their following. Not infrequently, the manufacturer may indeed help cover the cost of the retailer's promotion of a national brand. Second, once entrenched in the community, the national brand can fairly readily be associated with a certain, well-remembered price.

Given these two attributes, the national brand becomes a logical football for competitive retailers, each wishing to create a vivid (though false) impression of low prices by advertising as specials the nationally advertised article. Such specials may, in the short run, entrench the national brand in the market.

Yet the accendancy of the national brand has, by no means, been complete, nor is its dominance apt to be permanent. The countervailing power of large retail chains has increasingly been demonstrated in the emergence of private brands of detergents, canned goods, bread, and a host of other items. These private brands are indeed often packed by the very manufacturers who market comppeting products.

In setting its prices, the supermarket chain can exact from the consumer a considerably higher profit margin and yet sell considerably below the price of the nationally advertised article. Thus national advertising has created an umbrella under which private labelling has come to flourish. Yet consumer prices have risen with the higher inventory costs resulting from duplication.

The rising birthrate of supermarkets in the last decade or so has created for each a skein of high overhead costs. The net effect is, to repeat, that retailing exacts in margins an ever larger percentage from the consumer's pocketbook. One item that should not be neglected in this analysis is the cost of labor. Formerly, retailing was essentially a nonunion trade, heavily subsidized by the underpayment of clerks as well as of proprietors. Not a little of this type of hidden subsidy still persists, although most supermarkets have been compelled to draw on an ever more costly labor force and, in metropolitan areas, have been confronted with the necessity of bargaining with whitecollar unions, which have demanded wages commensurate with those prevailing elsewhere.

In this setting, supermarket retailing has lost some of the cost advantage it once possessed. Its economy in the use of labor has by now been measurably dissipated by the extra gimmicks provided, by the extra stamps and coupons handled, by extra brands and by the extra inventories. Now, however, a new type of "stripped-down" supermarket seems to be emerging, a supermarket that limits its brands and noisily accents price competition. Whether such an effort will make serious inroads upon American supermarketing would appear to depend largely upon whether consumers can be attracted to such new cut-price undertakings. As a phase of this surge toward lower cost merchandising, periodically some of the larger chains strip themselves of the cost of stamps and proclaim their immunity from some of the costpyramiding practices. Such efforts thus far have been short-lived.

Looked at in perspective, it does not appear that in the years immediately ahead the consumer will gain great advantage from the new merchandising trends. While the Food Marketing Commission has urged the employment of A, B, C labels to delineate the quality of an increasing range of foodstuffs, it seems unlikely that for some time legislation requiring such labels will be readily accepted either at the manufacturing level or at the retail level. The status quo seems to offer better profit prospects. And the House Commerce Committee has cut the heart out of Senator Hart's "truth-in-packaging" bill—the most comprehensive piece of legislation in this area in years.

There was a day when, here and abroad, the cooperative movement possessed a dynamism which promised the consumer some respite from rising marketing costs. Through this movement, consumers owned and controlled retail enterprises. Consumer-owners would bear the risks and secure the gains of efficiency. By owning the retail store they could increase the turnover, assure quality products and secure a respite from exaggerated advertising. Such cooperative enterprises are still of great significance in Scandinavia and persist in a number of American cities. The probability, however, that the cooperative solution will be widely adopted in the United States seems increasingly remote. The stores of our supermarket era are large anonymous units patronized by a mobile populace possessed of little loyalty toward any particular enterprise. For good or ill, the consumer seems destined, for some time to come, to push his shopping cart, rejoice in his packaged miracles, sing in harmony with the canned music and pay the mounting bill. Some will seek buying guidance and will search out bargains. For most, however, the pressures of time are great, so great that the supermarket will continue to be tailored to the hasty plucking of the impulse buyer.

[From the Antitrust Law & Economics Review, vol. 5, No. 3, spring 1972]

THE "McGOVERN PAPERS"

TABLE 1.—FTC ESTIMATES OF MONOPOLY MARGIN IN 100 SELECTED MANUFACTURING INDUSTRIES

Rank	SIC	Industry	(1) FTC adjusted monopoly margin (as per-cent of sales)	(2) Value of shipments (sales in billions)	(1)×(1) monopoly. overcharge (millions)
1	3711	Motor vehicles	9.11	$27.3	$2,486.7
2	2911	Petroleum refining	6.19	20.3	1,256.2
3	3312	Blast furnaces and steel mills	6.40	19.6	1,255.7
4	3714	Motor vehicle parts and accessories	6.36	11.6	739.3
5	2011	Meatpacking plants	3.10	15.6	483.9
6	3861	Photographic equipment and supplies	11.01	3.7	403.5
7	2834	Pharmaceutical preparations	8.04	4.7	377.6
8	2818	Industrial organic chemicals, n.e.c	5.46	6.4	348.2
9	2711	Newspapers	5.67	5.8	315.1
10	2111	Cigarettes	9.36	3.0	284.9
11	2819	Industrial inorganic chemicals, n.e.c	6.42	4.2	272.7
12	2026	Fluid milk	3.28	7.8	256.7
13	3522	Farm machinery	5.84	4.3	251.1
14	2036	Soft drinks, bottled and canned	7.31	3.2	247.8
15	2042	Prepared feeds for animals and fowls	4.20	4.8	201.5
16	2082	Malt liquors	6.76	2.9	198.0
17	2051	Bread, cake and related products	3.76	5.1	191.9
18	2821	Plastic materials and resins	5.23	3.5	181.7
19	3273	Ready-mix concrete	6.59	2.7	176.9
20	2841	Soaps and other detergents	6.79	2.6	176.1
21	2751	Commercial printing, except lithographic	5.22	3.3	169.9
22	2211	Weaving mills, cotton	5.10	3.3	169.7
23	3731	Shipbuilding and repairing	6.39	2.5	160.9
24	2844	Toilet preparations	6.17	2.5	155.2
25	3011	Tires and inner tubes	5.57	2.7	152.3
26	2631	Paperboard mills	5.20	2.9	151.2
27	2653	Corrugated and solid fiber boxes	5.10	3.0	150.9
28	3443	Fabricated plate work (boiler shops)	5.61	2.7	150.8
29	3433	Heating equipment, except electric	5.95	1.1	
30	3441	Fabricated structural steel	5.05	3.0	149.9
31	3651	Radio and TV receiving sets	3.88	3.8	149.2
32	2033	Canned fruits and vegetables	4.14	3.5	143.6
33	2851	Paints and allied products	4.86	2.9	141.5
34	3519	Internal combustion engines, n.e.c	6.67	2.1	139.6
35	3334	Primary aluminum	8.03	1.6	129.2
36	3621	Motors and generators	4.92	2.4	118.2
37	3561	Pumps and compressors	5.31	2.2	117.2
38	3494	valves and pipe fittings	5.14	2.3	116.9
39	3541	Machine tools, metal cutting type	5.32	2.1	113.2
40	3613	Switchgear and switchboard apparatus	6.47	1.7	109.3
41	2721	Periodicals	3.24	3.1	100.3
42	2071	Confectionery products	5.05	1.9	94.4
43	2641	Paper coating and glazing	5.72	1.6	89.6
44	2041	Flour and other grain mill products	3.60	2.5	88.5
45	2085	Distilled liquor, except brandy	6.47	1.4	88.3
46	3221	Glass containers	6.49	1.4	85.1
47	2037	Frozen fruits and vegetables	4.08	2.1	84.9
48	3612	Transformers	6.92	1.2	81.9
49	3511	Steam engines and turbines	7.79	1.0	81.3
50	3642	Lighting fixtures	4.95	1.6	78.9
51	3241	Cement, hydraulic	6.29	1.2	78.4
52	2731	Book publishing	3.79	2.0	78.1
53	3821	Mechanical measuring devices	5.20	1.4	75.7
54	2647	Sanitary paper products	5.72	1.3	73.9
55	3452	Bolts, nuts, rivets and washers	4.46	1.6	73.3
56	2062	Cane sugar refining	5.20	1.4	71.5
57	2823	Cellulosic man-made fibers	7.91	.9	71.4
58	2032	Canned specialties	5.23	1.4	71.2
59	2654	Sanitary food containers	5.85	1.1	64.1
60	3391	Iron and steel forgings	5.03	1.3	63.5
61	2499	Wood products, n.e.c	5.20	.7	62.6
62	3611	Electric measuring instruments	5.21	1.2	61.7
63	3791	Trailer coaches	4.52	1.3	59.9

THE "McGOVERN PAPERS"—Continued

TABLE 1.—FTC ESTIMATES OF MONOPOLY MARGIN IN 100 SELECTED MANUFACTURING INDUSTRIES—Continued

Rank	SIC	Industry	(1) FTC adjusted monopoly margin (as percent of sales)	(2) Value of shipments (sales in billions)	(1)×(1) monopoly overcharge (millions)
64	2052	Crackers and cookies	4.29	1.4	57.3
65	3141	Shoes, except rubber	2.01	2.3	55.9
66	3811	Engineering and scientific instruments	5.54	1.0	55.4
67	2335	Women's and misses' dresses	1.75	3.1	54.0
68	3272	Concrete products, n.e.c	4.40	1.2	52.8
69	3641	Electric lamps	6.37	.8	49.8
70	2812	Alkalies and chlorine	6.42	.7	46.2
71	3291	Abrasive products	6.32	.7	45.8
72	3555	Printing trades machinery	5.73	.8	43.1
73	2311	Men's and boys' suits and coats	2.25	1.9	43.0
74	3842	Surgical appliances and supplies	4.77	.8	39.9
75	3551	Food products machinery	4.64	.8	38.5
76	3822	Automatic temperature controls	6.08	.6	37.3
77	2611	Pulp mills	4.97	.7	36.3
78	2282	Throwing and winding mills	6.40	.6	36.3
79	3552	Textile machinery	4.61	.7	32.8
80	3871	Watches and clocks	4.30	.7	32.1
81	3721	Aircraft	6.95	.4	31.1
82	3579	Office machines, n.e.c	5.89	.5	30.4
83	2771	Greeting card publishing	5.88	.5	30.4
84	3713	Truck and bus bodies	4.20	.7	29.7
85	3941	Games and toys	2.62	1.1	29.2
86	3275	Gypsum products	7.45	.4	28.9
87	3251	Bricks and structural clay tile	7.95	.4	28.8
88	3671	Electron tubes, receiving type	7.75	.3	23.3
89	3673	Electron tubes, transmitting	6.07	.4	22.4
90	3536	Hoists, cranes and monorails	4.97	.4	22.1
91	2241	Narrow fabric mills	4.33	.4	19.3
92	3931	Musical instruments and parts	4.35	.4	18.9
93	3831	Optical instruments and lenses	4.40	.4	17.9
94	2121	Cigars	3.65	.4	13.3
95	3843	Dental equipment and supplies	4.43	.2	9.8
96	3253	Ceramic wall and floor tile	5.69	.2	9.1
97	2342	Corsets and allied garments	1.00	.7	6.6
98	2337	Women's and misses' suits and coats	.36	1.8	6.4
99	2341	Women's and children's underwear	.53	1.1	5.9
100	2831	Biological products	1.34	.2	2.1

ECONOMIC STABILIZATION PROGRAM,
COST OF LIVING COUNCIL,
Washington, D.C., February 2, 1973.

Mr. MARK SILBERGELD,
Consumers Union,
Washington, D.C.

DEAR MR. SILBERGELD: On January 11, 1973, in conjunction with the announcement on Phase III, President Nixon signed an Executive Order creating a Food Advisory Committee to the Cost of Living Council. The Order described the purpose of the Committee as follows:

> The Food Industry Advisory Committee shall provide advice to the Cost of Living Council Committee on Food on the operation of the Economic Stabilization Program in the food industry and other matters related to food costs and prices.

As Chairman of this Committee, it is my hope that we will be able to count on your help for input and advice from time to time. In the hope that this is so, we would like to begin by requesting your help on the Food Supply actions also announced on January 11. A copy of the relevant announcement is attached.

Specifically, can you make any additional action-oriented suggestions or comments related to near term government action which will in turn have a near term impact of lowering food prices or keeping them from rising?

I also encourage you to suggest any long term action that you feel could be taken either by government or any other sector of our economy for the same purpose. However, please do not delay your response to the request for short-term action recommendations. If at all possible, we would appreciate hearing from you by February 9, as our Food Advisory Committee will be meeting shortly thereafter.

Thanks for your help.

Sincerely,

DONALD S. PERKINS,
Chairman, Food Industry Advisory Committee.

Attachment.

COST OF LIVING COUNCIL NEWS

FOOD SUPPLY ACTIONS

In continuing efforts against rising food prices, the following steps to expand market supplies of farm and food products are being announced today. These actions include:

Review Production and Demand Prospects for 1937 Crop Production

After a survey of 1973 crop production becomes available on Jaunary 19, the Administration will examine the overall production and demand prospects for 1973, and determine whether further adjustments should be made to encourage production of grains and soybeans.

Policy Coordination

In order to more effectively coordinate actions affecting food prices with the objectives of the Economic Stabilization Program, Department of Agriculture decisions relating to market orders and agreements, marketing guides, and purchases of food for distribution programs will be cleared with the Cost of Living Council.

Other Actions Recently Taken

Encourage Additional Acreages of Grain and Soybeans

In a move to assure a larger supply of grains and soybeans to meet growing markets, the Department of Agriculture has announced the elimination of the mandatory set-aside requirement under the 1973 wheat program.

Accelerated Disposal of Stocks Owned by the Commodity Credit Corporation

All stocks of grain owned by the Commodity Credit Corporation, except small quantities of emergency reserves, are scheduled to be moved promptly into market channels.

Terminate Extended CCC Loans on Farm Stored Grain

CCC-Loans on all remaining grain crops prior to 1972. will be called by May 31, 1973. There will be no extension of loans for 1972 crop wheat.

Eliminate All Export Subsidies

Yesterday the Department of Agriculture announced that direct export subsidies for lard, broilers and flour would be terminated. This brings to an end all direct subsidies on the exportation of farm products.

Expanded Livestock Production

The Department of Agriculture will allow farmers to use set-aside acres for year-around grazing of livestock. This will be done by adjusting payments that farmers receive for set-aside acres.

Food Supply Actions Announced in Late 1972

The Administration announced in late December that all quotas would be suspended on meat imports throughout 1973.

On December 30, 1972, the Department of Agriculture temporarily suspended quotas on imported nonfat dry milk.

Programs announced for cotton and feed grains in late 1972 were designed to permit about 30 percent of the land diverted in 1972 to return to production.

The 1973 rice program provides for 10 percent increase in acreage.

FEBRUARY 8, 1973.

Mr. DONALD S. PERKINS,
Chairman, Food Industry Advisory Committee,
Cost of Living Council, Washington, D.C.

Dear Mr. PERKINS: In response to your letter of February 2, 1973, I am pleased to offer my suggestions as to short term actions related to food supply and food prices. As you suggest recommendations for long-term actions will follow. Further requests for suggestions will also be welcome at any time, and I hope you will feel free to call on me if I can be of assistance in any way.

Since domestic supply cannot be promptly increased, because of the time required for growth of crops and livestock, I suggest the following short term actions to facilitate the minimization of food price increases:

1. *Unit pricing*—A rule applicable to all large food retailers should be issued. Massachusetts has favorable experience with unit pricing. And, of course, several major food chains have adopted unit pricing, which establishes its economic feasibility for large chains. Staff in what was the General Counsel's Office of the erstwhile Price Commission had indicated that a unit pricing rule was drafted for consideration during Phase II. The background work on that proposal still should be in CLC files.

2. *UCDA Grade disclosure rule.*—Portions of Title 7 C.F.R. set forth quality grading standards for various agricultural commodities. The standards for many of these commodities are not required to be disclosed to the public, although it is my understanding that food processors, middlemen and retailers order to these specifications. It could greatly facilitate economical consumer shopping if it were required that all processed food products be so packaged as to disclose the USDA grade designation prominently, and preferably in direct conjunction with the brand name as it appears most prominently on the label or packaging. A part of the rule requiring grade designation to be indicated in conjunction with the sale of fresh product should also be adopted, although application of this requirement might be limited to packers and retail sellers of such size as will obviate undue costs relative to sales of this commodity. Those not responsible for making the disclosure which reaches the consumer should be required to designate the grades to their purchasers if this is not always the case. Since the changeover period in labeling would require some time (a matter of a few months), the rule should not actually be promulgated until such time as the Economic Stabilization Act is extended or substitute legislation adopted and signed. USDA should be requested to make the standards for commodities available in pamphlet form, either by commodity or by some appropriate commodity group. CLC should take public service spots on the electronic media to make the significance of the information and the availability of the USDA grades known.

3. *Nutritional Labeling.*—The Food & Drug Administration has proposed voluntary nutritional labeling standards. Cost of Living Council should act quickly to evaluate these proposals and to support the proposed concept, as well as recommend improvements in the standards, as a means of facilitating consumer shopping on a product value basis, since the nutritional quality of a product is a very important measure of its value. Comment deadline is February 19 for one part of the proposal and mid-March for the balance.

4. *Private label disclosures.*—Many manufacturers of highly promoted (advertised) brand name food items also produce the same items with house brand labels or with brand names which are not promoted. This permits the manufacturer to command a premium price for the promoted brand, due to effective product differentiation, and still utilize excess capacity or even expand capacity to produce the unadvertised brands. This, of course, increases food price levels because the consumer is paying more than necessary for identical quality. A rule should be considered which would require any importer, distributor, or processor which, directly or through a subsidiary, or whose parent of otherwise affiliated corporation or association, produces more than one brand of the identical commodity, to disclose prominently and in direct conjunction with the brand name of the commodity offered for sale, the brand name of the identical commodity with largest value of shipments for its most recent fiscal year, sold by the importer, distributor or processor, or its parent, subsidiary or other affiliated corporation or voluntary association. Hearings should be held on private label practices, which should develop information relating to the patterns of private label selling, the economics of private label manufacture and supply, and the probable effect of such a disclosure rule on the availability, supply restrictions, mix of private and promoted label products bearing same standards identities,

and other factors tending to indicate whether such a rule would be of long term benefit in reducing food price levels.

5. *Open dating.*—Open dating of food commodities could greatly increase productivity. It reduces spoilage and the attendant secondary costs of spoilage (increased storage costs, unnecessary transportation costs, additional employee costs in removing and disposing of spoiled goods) for the producer and retailer, by creating incentives to control the level and rate of supply to meet demand levels within a frame more closely related to rates of spoilage and rate of consumer use. Some major chains already utilize some form of open dating.

I am certain that this list will give the Food Advisory Council a good start in considering food issues. If other possibilities come to mind, I will let you know.

The membership of the Advisory Committee which you have been named to chair has not yet been announced and, I assume, has not been completely decided upon. I strongly urge that there be at least two consumer members who represent no commercial interests and who are technically competent (in the area of food marketing or agricultural economics, for instance) to represent consumers in more than a broad policy manner. If suggestions are still in order, I would be more than pleased to provide you with a short list of possible consumer members who meet this qualification.

Sincerely,

MARK SILBERGELD.

Enclosure.

STATEMENT OF GROUNDS

INTEREST OF PETITIONER

Petitioner Consumers Union of United States, Inc., ("Consumers Union") is a nonprofit corporation chartered under the laws of the State of New York. Since its organization in 1936, Consumers Union has tested products and evaluated services, and has disseminated the resulting information to the readers of its publication, *Consumer Reports,* which has a current paid circulation of approximately 2.2 million.

The largest consumer organization in the world, Consumers Union represents its approximately 350,000 members on administrative, judicial, and, upon invitation, legislative proceedings in which consumer interests are at stake. Most of these members are purchasers of processed fruits and vegetables who rely on product labeling requirements to provide them with the information necessary to make informed choices in the marketplace. A recent study in *Consumer Reports* ("Why Net Weight Spells Nonsense on Canned Food Labels," October 1972, p. 665), demonstrates that these members would realize significant savings if all processed fruit and vegetable labels revealed drained as well as net weight.

APPLICABLE LAWS AND REGULATIONS

Section 403(e) of the Federal Food, Drug, and Cosmetic Act of 1938 (21 U.S.C. Section 343(e)) provides that a food in package form shall be deemed to be misbranded "unless it bears a label containing . . . an accurate statement of the quantity of the contents in terms of weight, measure, or numerical count." The consumer's need to know the contents of packaged products in order to purchase more rationally and more economically is also recognized and protected by the Fair Packaging and Labeling Act (15 U.S.C. 1451–1461), which declares that, "Packages and their labels should enable consumers to obtain accurate information as to the quantity of the contents and should facilitate value comparisons.

The regulations issued pursuant to these statutory authorities (21 C.F.R. Sections 1.7–1.15) provide that whenever the Commission "determines that an existing practice of declaring net quantity of contents by weight, measure, numerical count, or a combination in the case of a specific packaged food does not facilitate value comparisons by consumers and offers opportunity for consumer confusion, he *will* by regulation designate the appropriate term or terms to be used for such commodity (21 C.F.R. 1.8b(a))." (Emphasis added.) For the reasons set forth below, the law requires the Commissioner to promulgate drained weight labeling requirements in order to facilitate value comparisons and reduce consumer confusion.

FACTS RELIED UPON BY PETITIONER

The past policy of the Food and Drug Administration, according to its former Commissioner, has been to include the packing medium as part of the declared net weight, "if the packing medium is generally consumed as part of the food. Conversely, where solid foods are packed in a salt brine or other medium which is almost (*sic*) or always discarded before serving, we have required that the label disclose the drained weight." (Dr. Herbert L. Ley, Commissioner, testimony, Special Consumer Inquiry, House Committee on Government Operations, June 3, 1969, p. 73). In accordance with this policy, drained weight declarations have been required, for example, on processed clams, mushrooms, olives, and artichokes. Petitioner Consumers Union contends that all processed fruits and vegetables should be labeled in the same manner as these few products. Whether or not the consumer intends to use the packing medium, he should be able to determine how much of the net contents of his purchase is fruit or vegetable and how much is liquid. Former FDA Commissioner Ley agreed with petitioner's position that "the consumer could best be served by being advised of the drained weight as well as the net weight of canned fruits and vegetables which they are purchasing." (*Id.*)

Data produced during the packing and labeling hearings and by petitioner's 1972 study of the problem support the need for drained weight labeling. Containers of the same product marked with the same net weight vary considerably in drained weight from packer to packer. For example, in *Consumer Reports* testing, the average drained weight of five brands of whole kernel corn, packed in 17 oz. net weight cans, ranged from 10.6 to 12.2 ounces, a variation of 15%. Two brands of canned yellow cling peach halves in heavy syrup would confuse the value-seeking cans containing the identical 9.8 oz. drained weight. But the 29 oz. net weight cans of the same brands weighed in at 17.0 and 18.9 drained ounces, respectively, making one much more economical than the other at the same price. It is no wonder that the *Consumer Reports* study concluded that "net" weight is virtually useless as a buying yardstick." (*Consumer Reports, supra*, p. 665.)

The lack of drained weight labeling totally frustrates the consumer's attempt to obtain the most fruit or vegetable for his money. Even the most sophisticated shopper cannot make value comparisons, either with respect to the drained contents or with respect to the liquid fill. Only rough visual estimates—more properly, "guesstimates"—or at-home measuring after purchase reveal the division of the contents of a package. But there are simply too many brands of too many items in the typical supermarket to remember comparative yields from past experience. Furthermore, many private label, as well as brand name, products are obtained from contract canners who may vary the fill of fruit or vegetable as commodity prices rise. By a barely noticeable one-half ounce per can drop in drained weight, the packer saves more than 15 tons of produce in packing a million cans. The need for drained-weight labeling, then, is clear—to effectuate the intentiton of the regulatory statutes tha consumer confusion be minimized and that value comparison by the consumer be facilitated.

Both the desirability and feasibility of drained weight labeling are evidenced by the reliance on drained weight by the nation's largest and most sophisticated purchasers of food products. Both the United States Department of Agriculture and the Defense Supply Agency require minimum drained weights for many processed fruits and vegetables. Moreover, as stated above, a number of products are already marketed to consumers with drained weight labeling. Surely some information about drained weight is at least as important to the retail purchaser—for whom the cost of obtaining information from sources other than the label is prohibitive (if, in fact, it is even possible)—as it is to the Federal Government.

The value of providing drained weight labeling far exceeds the costs and problems such a regulation would entail. Costs to the packer (and probably to the consumer) would arise from the need to change labels and calculate drained weights, with attendant equipment adjustments. Label change costs would be minimal because no major revisions would be reqnired as were necessary for original compliance with the Fair Packaging and Labeling Act. The addition of one line of type would cost little or nothing, particularly at this time, when other new regulations require sweeping label changes.

Calculation of the drained weight and machine adjustments to assure that the labeled amount will be fact be uniformly packed will not involve significant costs, and any such costs will be non-recurring. Many packers already know the average drained weights of their goods and may already have their machines adjusted to provide that amount. The test to determine the current average drained weight is an exremely simple weighting process. Machine adjustments to assure correct packing should prove no more difficlult or costly than adjustments regularly made to assure a certain level of can fill. These costs will occur primarily at the beginning of the program and should fall to zero as it progresses. Compared to the savings by consumers who will be enabled to shop for quantity value, these start-up costs are trivial. That the technical and economic capability exists to comply with a drained weight requiremen is obvious from packer compliance for a number of years wih minimum drained weight standards now found in the law (*e.g.*, 21 C.F.R. 27.42 (canned fruit cocktail) ; 21 C.F.R. 51.503 (canned mushrooms)), and from packer ability to meet Federal purchasing program specifications in terms of drained weight. It is noteworthy that the Defense Supply Agency pays no more for its purchases under drained weight specifications than do commercial buyers of the same size containers.

Petitioner recognizes that fruits and vegetables of one kind—but of a different variety, maturity, and growing area—may vary considerably in weight. Nevertheless, because the proposed regulation does not specify a minimum weight, but merely requires drained weight disclosure, packers whose products vary in weight from variety to variety or from season to season need only have on hand different labels to reflect the weights of different sub-varieties of their products. Nor is the rule less necessary because of the possibility that packers might be tempted to increase drained weight yields by shifting to more mature or heavier strains of produce. If the resulting heavier products is a "best buy" in quantitative terms, but has declined in quality, that is a decision which the individual consumer is capable of making on the most available information of all: the contents of the container.

In sum, petitioner contends that drained weight labeling is essential to avoid confusion of consumers and to enable value comparison at the consumer level. Accordingly, the Food and Drug Administration should order the publication of this proposed regulation in the Federal Register, and thereafter promulgate the proposed regulation.

Chairman HUMPHREY. Mrs. Sugiuchi, I look forward to hearing from you.

I see my friend Congressman Vanik is here, and I believe that Mrs. Sugiuchi is your constituent.

Representative VANIK. Mr. Chairman, I would like the privilege of introducing Carolyn Sugiuchi to the committee.

I want to point out that immediately after the freeze in August of 1971 we organized a committee which Mrs. Sugiuchi represents which made an immediate documentary, a record of all the available prices of consumer items. I think she will probably tell you the number of items that were cataloged, but it varies from 5,000 to 10,000 consumer items, by brand name, and by quality item. So far as I know this is probably the largest documentation of prices as of that time, because the Bureau of Labor Statistics lists them simply without brand name, without quality verification.

I want you to know that she has served as our consumer agent in a hope that something like this could be established througout the America as a pattern for studying consumer prices throughout the country. This committee is a nonpartisan activity. It is one that had a wide area of involvement. And I want you to know that we are very proud of the work of this fine lady. I know she is going to make a very worthwhile contribution to your testimony today.

Chairman HUMPHREY. We thank you very much.

Mrs. Sugiuchi, you may proceed.

STATEMENT OF CAROLYN SUGIUCHI, CHAIRMAN, CLEVELAND COMMITTEE ON CONSUMER PRICES

Mrs. SUGIUCHI. Thank you.

Mr. Chairman, members of the Subcommittee on Consumer Economics, I appreciate this opportunity to appear before you and to share with you some of the work and experiences of the citizens in the Community Committee on Consumer Prices. The material contains a description of the group, its purpose, the plan of implementation, results of price monitoring, examples of problems in food shopping, effects of increased food costs on the family budget, and recommendations for improving the situation.

The committee is composed of citizens from Ohio's 22d Congressional District, which generally is considered middle income, middle class, and family oriented. The group was formed in October 1971, after many citizens in our district became extremely concerned with the spiraling inflation during the summer of 1971. We were interested in taking constructive action and agreed on a project of helping to monitor the voluntary compliance to the economic stabilization program. Our U.S. Representative, Congressman Charles A. Vanik, encouraged and supported the volunteer citizen participation of his constituents in this endeavor, and his offices were helpful in organizing the group.

To implement the project, organized and directed checking of items was planned. Consumer items were divided into eight categories—autos and transportation, clothing, food, health, housing, recreation, services, and utilities. Pricing forms were developed to collect the data systematically, and these, plus instruction sheets were given to every volunteer to insure accurate documentation.[1]

We began by randomly collecting prices on items before the beginning of phase II. As the cataloging of items progressed, the overwhelming interest in food prices became evident immediately. Mass monitoring and spot checks were conducted and recorded; violations of the guidelines during phase II were sent to the Internal Revenue Service. Information was sent to Congressman Vanik, providing him with details on price increases and trends in our district. We were helpful not only in providing meaningful information to our congressional representative, but also in raising the level of consumer awareness among our volunteers and the citizens in the district.

In table 1 are examples of the kinds of food data collected by the community committee. With the initial data available for comparative purposes, one can see at a glance what is happening to food prices. Several cheese and fish items have been included to illustrate the status of those items that have been suggested as meat substitutes.

[The table referred to above follows:]

TABLE 1

Item	Quantity	Fall 1971	Mar. 31, 1973	Percent of change, fall 1971–Mar. 19, 1973
Stokely's cut green beans	16 oz	0.25	0.29	16.0
Heritage House English walnuts	16 oz	.99	1.59	60.6
Heritage House American cheese	12 oz	.69	.79	14.5
Trim cottage cheese	16 oz	.49	.57	16.3
Kraft Swiss cheese	8 oz	.59	.73	23.6
Nabisco shredded wheat (spoon sized)	18 oz	.49	.55	12.2
Gold Medal flour—all purpose	10 lbs	1.05	1.25	19.0
Bumble Bee salmon	16 oz	1.09	1.49	36.6
Frozen perch	1 lb	.78	.89	14.1
Frozen turbot	do	.65	.89	37.0
Frozen haddock	do	.89	1.29	44.7
Ground lamb patties	do	.54	.89	65.0
Turkey legs	do	.33	.59	72.7

[1] See attachments, beginning on p. 137.

Mrs. SUGIUCHI. Table 2 illustrates price increases and the percentage of change in items taken from a randomly chosen list of meats and poultry.

[The table referred to above follows:]

TABLE 2

Item	Fall 1971	Mar 1, 1971	Mar 19, 1973	Percent of change, Fall 1971–Mar 19, 1973
Beef: ground				
Hamburger	0.69	0.S2	0.99	43
Ground chuck	.68	.98	1.04	53
Beef: roasts				
Chuck, semiboneless	.88	1.14	1.18	34
Pot roast	.74	1.09	1.18	59
Beef: steaks				
Chuck, semiboneless	.98	1.24	1.35	37
Top round	1.09	1.68	1.78	70
Sirloin	1.34	1.64	1.68	25
Porterhouse	1.64	1.88	1.94	18
Poultry:				
Fryer, whole	.29	.52	.54	86

Note.—See attachments for table containing recent monitoring of a prescribed list in supermarkets in our area, beginning on p. 138.

Mrs. SUGIUCHI. No one would be surprised that all items in the table have experienced an increase in price. What is amazing is the size of those increases over a longer period of time, and the number of increases—often sharp—over a short period of time. Pot roast in one supermarket was priced at $1.28 a pound on March 31, 1973, up from $1.18 on March 19.

In addition to prices, there are other problems in food buying with which the cosumer must cope. The following vignettes illustrate only a few of the kinds of frustrations encountered in food shopping. These are not fictitious examples.

1. NOT SELLING AS ADVERTISED IN THE NEWSPAPER

A consumer went to the supermarket to buy split broilers, advertised as a special at 43 cents a pound. All the packages in the meat case were marked 49 cents. The consumer questioned the stock clerk who said she had not seen the newspaper ad; the meat manager observed the questioning, and asked, "What does she want?" The consumer explained a second time, after which the manager removed and repriced the broilers. He made no effort to explain. The time was 11 a.m. and the store had been selling this item for 2 hours at the higher price.

2. DECEPTIVE PACKAGING

Another consumer bought a piece of steak, freezing it immediately for future use. The cut contained a round bone approximately 2 inches in diameter. In the process of preparation she turned the meat over and found the bone on the under side was four inches in diameter.

3. MISLEADING ADVERTISING IN THE STORE

A consumer saw English Walnuts for $1.59 a pound in one grocery. The same morning this consumer went to a second store and found a sign stating "English Walnuts—$1.39." "A bargain!" thinks Mrs. Consumer. Right? Wrong! Alas, the walnuts were $1.59 a pound. The packages in the second store contained only 14 ounces.

4. FAT CONTENT AND QUALITY

Mrs. Consumer browned a package of ground chuck which cost $1.08 per pound and is supposed to contain 17–20-percent fat. From approximately 19 ounces (1.19 pounds) she poured approximately 4 ounces of fat (about 21 percent). No attempt was made to completely render the meat or thoroughly drain the fat. Still, ⅔ of a cup was drained. Presenting the fat to the manager, who weighed it, the consumer explained that the browned meat was still swimming in grease. The manager referred to the allowable percentage of fat and assured the consumer that the meat she had bought was lean.

5. MARK UPS OF SHELVED STOCK

A shopper took a jar of salad dressing from the shelf. The price tag under the section of jars was 59 cents. The lid on the jar contained 3 prices—55 cents, 57 cents, 59 cents. This incident occurred in a food chain which have assured the community committee they did not increase the price of an item until the supply purchased at lower wholesale prices had been exhausted.

6. QUANTITIES OTHER THAN EXPECTED AMOUNTS

A dozen oranges were purchased. The checkout girl noted the oranges were 10 for 89 cents, or over $1.00 for a dozen. "There's a method to their madness," she laughed, ringing up $1.07.

Every food shopper could compile his own list of aggravating incidents with which he has had to cope. In his battle to protect the buying power of his dollar, the consumer must try to match wits to be the better player in a game in which the house sets the rules, using to its advantage approaches the consumer eventually learns through bitter and expensive experience. In some instances, the situation is stacked and learning is to no avail.

In considering the impact of increased costs for food, life styles and the priorities of a family must be considered. The impact varies, depending on the amount of income, flexibility of the budget, and the concept of basic necessities. Keeping in mind these variables, the increase in food prices have been felt to a greater or lesser degree, regardless of one's income level. Some families are able to absorb the shock; others are shattered by the situation.

For most, the family budget has undergone several changes in the past 18–24 months, with dramatic changes in the last several months. The pinch of prices is one of progressive pain which occurs in stages. Recognizing that individual family differences exist, four stages of adjustment are suggested.

In the first stage, the consumer's food buying habits are maintained by increasing the money in the food budget, if possible.

The second stage occurs when the amount of money needed to maintain the established budget level exceeds the amount beyond which one cannot or will not spend. At this point choices and adjustments have to be made and one must rely on his resourcefulness. Usually this means that budget areas other than food are reduced or eliminated to support the food budget. Buying habits may be modified, also. Shopping may be done at several markets, for example. The consumer probably will ignore national brands and buy chain brands. He will not indulge in his preferences, but will buy weekly specials and items having a manufacturer's discount. He may shop early in the morning or late in the afternoon for day-old produce and bread. Such items as snack foods and relishes, if purchased before, are now eliminated from the shopping list. Fresh fruits are treats. Food buying has become very basic. Nonfood household items such as toweling, aluminum foil, and spray cleaners are now considered nonessential, if they had not been before.

In the third stage, as prices continue to increase, quantity is reduced to maintain quality of food purchasing—especially in meats and fresh fruits. For example, if ground chuck is purchased instead of hamburger in an effort to maintain quality, the amount for 4 people will be limited to 1 pound which will probably yield 6 hamburgers—guaranteed to shrink when cooked.

In the past several weeks more consumers have entered the fourth stage—that of eliminating what was considered basic. They are overwhelmed by the price increases in food, especially the sizable increases in meats. Beef, most other meats except the least expensive items, and many kinds of fresh produce have been eliminated. For those families or individuals who were already in this fourth stage of necessity, these last weeks have been critical. For those who are at this stage by choice, the situation is confounding. What has angered the food consumer is the fact that, if he wants to purchase an item, he has borne the entire accumulation of price increases by every business involved, with protection from no one with regard to the amount each business can increase its price and/or without regard to the total of those increases.

What about the effects of increased food costs on the remainder of the family budget? Before considering these effects, look at the role of food. Food is a basic need, and though we do not have to eat as well or as much as we have in the past—some have eaten neither well nor much—we do have to eat something. Food is purchased with more or less regularity and, distasteful as the task may be, food buying cannot be avoided. While not all the economic woes within a family can be attributed to increased food prices, the fact remains that other areas of the family budget suffer to support the food budget. Consequently, the consumer's wrath is directed toward the food markets where he must go to buy, and where he faces ever increasing prices. What once was a pleasure has become a burdensome loathsome chore.

To this picture of gloom, add the reslts of restrictions in other areas of the family budget. As with food, either income is added to the other areas of the budget or those areas are reduced or eliminated. In many cases, additional jobs are taken to maintain the standard of living. Most families have had to make at least some of the following kinds of adjustments in their budgets as a whole:

1. Commercial recreation and entertainment have been drastically reduced or eliminated.
2. Eating dinner out is considered "A Happening."
3. Home maintenance and improvements occur when the materials can be afforded and if those involved are do-it-yourselfers.
4. Replacement or addition of household furnishings or appliances is delayed, often indefinitely. Servicemen are called rarely, if ever.

5. If a second car is owned and wears out, it is not replaced.
6. Haircuts are given at home.
7. Children are clothed by using hand-me-downs, buying irregulars, shopping factory outlets, and if buying, doing so only when on sale. Clothing requiring dry cleaning is avoided.

For many, if you can put off, substitute, repair, or otherwise get along, you don't need it.

One can understand why resentment is high over the galloping price increases in food. Every aspect of family life is affected. Statements from Washington have not helped the situation. Statistics indicating food costs or the cost of living have risen a small percentage mean little to the consumer who sees such things as chicken double in price and beef increase as much as 77 percent. Consumers wonder on what these figures are based and how they are determined. Also annoying are statements indicating that while the cost of living has increased, so have consumer's incomes. This may be true for some, but not for all. If income increases, the amount must be substantial to keep pace with inflation. Consumers are not reassured by statements advising us that the rate of food increases will be slower toward the end of the year. Prices will still increase. The talk of increased productivity is no comfort to those who know results will not be forthcoming for months—even years. With all due respect for the President, we do not need his exhortations to shop wisely. Many of us found the nine-point battle plan suggested by the Consumers Affairs Office absolutely ludicrous. We've been doing all those suggestions and more for years.

Once there was the hope that with innate intelligence, education, honesty, a sense of responsibility, and hard work, one could increase his income and improve his standard of living. For far too many that hope is becoming less and less a reality. Many of us are weary of being manipulated and used to the advantage of the already prosperous. Many feel at the mercies of policies and procedures unknown or not understood, with no place to turn to gain even a feeling of control.

Most disheartened, and disheartening of all, are people on low and fixed incomes who already have been counting every penny and cutting every corner. They have felt the pinch of inflation longer and more acutely than any other group. Think of the physically handicapped person who cannot work and receives a disability payment of $140. His housing and utilities cost $100; from the remainder he must buy his medicine and other needs. Think of the mental patient who is well enough to be discharged from the hospital but not well enough to work. While waiting to be eligible for disability help, he receives Ohio general relief of $93 a month. Think of the person or couple who lives on a small retirement check. Think of the family with growing children that has an income too low to live other than marginally—but too high for outside assistance in an emergency. These individuals must do their buying in the same market places with the rest of us, enduring the impact of the same increases in prices. These people just exist and, along with the rest of us, are indignant, angry, and, most of all, fearful of where the economy of this country is heading.

[The following attachments were appended to Mrs. Sugiuchi's statement:]

Some Possible Solutions to the Food Price Crisis

There are a number of steps which I feel could be taken to help improve the marketing of food products at reasonable prices.

1. Discontinue the fancy packaging which may be very nice but must add to costs. Then, we must pay to dispose of all the packaging material—so who needs it.

2. Discontinue the gimmicks in cereals that aren't worth a thing but entice children. I also question the worth of many of the coupons that entice adults into buying more expensive brands and products.

3. Consumers could probably get more for the money if less attention were given to soft music and fancy decors in the supermarkets.

4. How much additional cost do supermarkets pass on to the consumer when they add on bakeries, dellis; when they stock drugs, hardware, and sometimes even clothing and household furnishings. How about going back to the basic grocery store?

5. The pricing data which the Consumer Committee passed on to our Congressman caused him, as early as January, 1972, to begin advocating permanent repeal of the meat import quota law and to reduce the number of acres in the various U.S. Agriculture Department "set-aside" programs. It appears that some consumer relief could be provided by permanent repeal of the quota and by elimination of certain tariffs on imported meat.

6. I might add that most of the consumers to whom I have been talking are not very impressed by the mechanisms of the Administration's controls on meat. Congressman Vanik's office tells me that as of noon yesterday, the price of livestock on the hoof was higher than at the time the President made his announcement. The price of choice steers (6/700) which was 66 to 66.5¢ per pound on March 28th has risen to 70.5¢ by Monday. This, incidentally, is the highest price which choice steers reached during the 30-day period prior to the President's announcement. Thus to many us, the controls seem to come at the period of nearly peak prices.

7. Finally, I would hope that more consideration could be given to questions of the efficiency of large food producers. There have been a number of newspaper stories which I have seen that describe the entry of conglomerates into agriculture. How efficient is agribusiness? How much cost goes into management, advertising, and other gimmicks?

Community Committee on Consumer Prices

INSTRUCTIONS

1. *Be accurate.*—This is most important. We must *not* call the attention of the Congress and President to an exorbitant and unwarranted price increase *which in reality is a clerical error on our part.*

2. *Type of item.*—This should be a statement of the broad, general, common name of the item. For example, women's dress suit; aspirin; shampoo, etc.

3. *Brand, description, or style.*—For example, Westinghouse Electric Clothes Dryer, Model XYZ. It is important to note difference in styles. For example, chunky peanut butter and chunk-style tuna fish will probably be priced differently than other styles. Stuffed olives will be different in price from whole olives.

4. It is important in establishing the base price catalog to record only items which one can be fairly certain of finding again when checking prices after the freeze. For example, a knit, flaired, blue and white Pierre Cardin suit would probably not be a good item to record!

5. *Quantity, size, weight.*—For example, in listing a window air conditioner, one might want to list the cooling capacity of the appliance. In listing paper towels, one might list the width of the towel and the number of square feet in the roll. Quantity, size, and weight are very important for if the quantity of the item is reduced and the price remains the same, it is the equivalent of an often substantial price increase.

6. *Date, price, and comment.*—Fill in the date on which you record the price. The comment column is to record such items as a "Sale," "Special" or "Cents Off" promotion, etc.

7. The second and third "Price" columns are to be used for your consumer checks *after* the freeze is over. If the quantity and price have *not* changed, simply check-mark the new column. Only fill in the new column if there are changes.

COMMUNITY COMMITTEE ON CONSUMER PRICES

Type of item	Brand, description, or style	Quantity, size, weight	Date: —— Price	Comments	Date: —— Price	Comments	Date: —— Price	Comments

	Store A			Store B			Store C		
	October 1971	End of February 1973	Mar. 19, 1973	October 1971	End of February 1973	Mar. 19, 1973	October 1971	End of February 1973	Mar. 19, 1973
Beef:									
All-beef hot dogs		0.95	1.05		1.09	NA	0.69	0.85	0.93
Hamburger		.89	.99	0.69	.84	0.84	.62	.82	.84
Ground chuck		1.09	1.19	.79	.98	.98	.79	1.08	1.09
Roasts:									
Chuck—Semiboneless		1.19	1.25	.79	1.19	1.19	.88	1.14	1.18
Rump		1.69	NA	1.19	1.59	1.69	1.28	1.64	1.74
English		1.49	1.49	.95	1.39	[1] 1.29	.98	1.34	1.34
Sirloin tip		1.69	NA		1.69	1.69	1.24	1.68	1.78
Boneless briskett		NA	NA			1.79	1.22	1.48	1.58
Pot		1.19	NA		1.09	1.19	.74	1.09	1.18
Steaks:									
Chuck—Semiboneless	0.99	1.29	1.35		1.19	1.29	.98	1.29	1.24
Top round boneless	1.09	1.78	NA		1.69	[1] 1.69	1.09	1.68	1.78
Sirloin		1.69	1.79	1.49	1.68	1.68	1.48	1.64	1.64
Porterhouse		1.98	2.09		2.18	2.19	1.64	1.88	NA
Pork:									
Chops—Center cut		1.58	1.59	.79	1.39	1.39	1.11	1.48	[1] 1.38
Roast		1.09	1.15	.69	1.19	1.19	.64	.98	.99
Cooked ham (whole)		.88	.95	.75	.99	1.09		1.34	1.38
Poultry:									
Roasting chicken		.63	.63		.65	.59		.57	.69
Fryers—Whole		.59	.53	.25	.59	[2] .65	.29	.59	.59
Broilers		NA	NA		.59	NA	.35	.55	.53
Chicken breasts		.95	.99		.89	.95	.55	.99	1.14
Thighs				.63	.59	.83			
Bread:									
Millbrook—White		[3] .47	NA	.43	.47	.47	.43	.47	.47
Wonder—Whole wheat		[4] .47	NA		NA	NA			
Tip Top—White		[3] .47	NA	[5] .35	[6] .41	[6] .41			

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	Store D			Store E			Store F		
	October–November 1971	End of February, early March 1973	Mar. 19, 1973	Mar. 15, 1972	Mar. 1, 1973	Mar. 19, 1973	October–November 1971	Feb. 27, 1973	Mar. 19, 1973
Beef:									
All beef hot dogs	0.78	0.98	1.14	----------------	0.99	NA	0.89	0.99	NA
Hamburger	.59	.82	.84	0.69	.90	0.99	.69	[1].78	0.95
Ground chuck	.68	.98	1.04	.99	1.19	1.19	.85	1.08	1.08
Roasts:									
Chuck—Semiboneless	.88	1.24	1.32	1.05	1.19	1.19	.79	[1].98	1.28
Rump	1.28	1.48	1.74	.99	1.59	1.59	1.28	1.78	1.84
English	.98	1.34	1.44	1.39	NA	1.48	.98	1.34	1.44
Sirloin tip	1.28	1.68	1.78	1.18	NA	NA	NA	1.78	1.78
Boneless brisket	1.12	1.44	1.48	1.19	[7]1.29	[7]1.29	.89	1.58	1.58
Pot	.68	.98	1.14	NA	NA	NA	NA	1.18	NA
Steaks:									
Chuck—Semiboneless	.98	1.24	[8]1.38	.99	1.19	[8]1.39	.79	1.08	1.38
Top round—Boneless	1.14	1.68	1.78	1.39	1.89	1.79	1.29	1.84	1.94
Sirloin	1.34	1.64	1.68	1.59	1.48	[1]1.28	[1]1.19	1.88	NA
Porterhouse	1.64	1.88	1.94	NA	1.88	1.99	1.69	2.28	1.98
Pork:									
Chops—Center cut	.98	1.48	1.48	----------------	1.48	1.59	1.09	1.54	1.44
Roast	.64	[1].98	.88	----------------	1.09	10.9	.63	1.24	1.24
Cooked ham (whole)	.78	.98	1.08	----------------	.88	[1].98	.69	[1].98	1.39
Poultry:									
Roasting chicken	.38	[1].45	.45	----------------	.59	NA	NA	NA	NA
Fryers—Whole	.29	.52	.54	----------------	.55	.53	.43	.59	.59
Broilers	.38	.49	.56	----------------	.45	.45	33	.53	.55
Chicken breasts	.42	.89	.92	----------------	.99	.99	.59	.99	1.09
Bread:									
Millbrook—White	.43	[3].47	.47	----------------	.47	.47	.43	.47	.47
Wonder—Whole wheat	.39	.43	.43	----------------	----------------	----------------	NA	NA	NA
Tip Top—White	.38	[6].41	[6].41	----------------	[3].47	[3].47	NA	NA	NA

[1] Special.
[2] Price for 1 quarter.
[3] 22 oz.
[4] 24 oz.
[5] 16 oz.
[6] 20 oz.
[7] Flat.
[8] Boneless.

Chairman HUMPHREY. Thank you.

I shall open up the questioning, and we will rotate to our respective subcommittee members.

I want to first of all take note of one factor that I think should be brought to people's attention. In the agricultural area there is a great deal of difference between what we call the perishable commodities and those that are more storable. The perishables, of course, are meat and poultry, milk, eggs, fruits, and vegetables. In all fairness it is very difficult to really adequately plan for all of the contingencies which may exist. The farm people today feel that they are being set upon, so to speak; for example, I don't know if you heard Senator Talmadge on Sunday's "Meet the Press." But if a person buys a shirt today, let's say, a $10 shirt, or an $8 shirt—shirts are pretty expensive—the price of the cotton that goes in that shirt is maybe 30 cents. That is what the farmer gets. The relationship between the farm price and the retail price, of course, is much closer when you come into the perishable commodities.

I come from a county in Minnesota, for example, in which we have large egg production. I can remember a few months ago buying eggs from a farmer friend of ours there, Mr. Wegner, who has just a small farm, and I paid 29 cents a dozen. I come back to Washington and find that they are 65 cents a dozen, 66 cents a dozen. The farmer decides that the egg business just isn't for him, he can't make any money at that price.

We had large companies, for example, that went out of the poultry business here, and the egg business, only 6 or 8 or 10 months ago, because they were losing their shirts, they were losing everything. But it is what happens from the time that that product leaves its natural state and works up through our whole distribution system. And yet I must say as far as distribution is concerned we may have in the nation one of the best distribution systems. The one caution I want to make here is that a large number of farm families feel that they are being selected out today for abusive attack, because they are getting for the first time in years, and I mean in many years, any kind of a price. When there was a surplus on the markets everybody got it cheap. Now that there is a shortage, of course, prices have gone up.

I thought that the statement that was made by Mr. Silbergeld was very informative for us, citing many of the factors that have evolved.

Let me just give you a little indication of what you are going to be up against today.

In the southern part of my State the wheat fields are now open for ploughing and planting. We haven't got any oil. And if we get it, we have got to pay big prices, if you can get a hold of it. And obviously they sometimes pay more than the market price.

In my State there are soybeans that are in elevators that can't be moved.

Also last winter, November or December, when the crop was supposed to come out of the field, we had sleet and rain and we couldn't get the crop. When we got the crop we didn't have the natural gas to dry it. This is a very complicated business.

I am merely putting this in to show you the factors which were properly noted.

There are also the prices, for example, on poultry today. In order to get the kind of poultry that you want—by the way, the average American consumer wouldn't buy poultry like they buy in some countries, you just wouldn't eat it—but the kind of poultry that you want has to be fed with a certain kind of feed mix. The feed mix is a high protein mix. And how do I go on out to Beverly Hills and explain to the housewives out there that the reason that soybean prices are way up, is No. 1, water, freezing, lack of propane gas for drying, and we didn't catch any fish off the coast of Peru?

Because protein is protein whether it is soybeans or rape seed or sunflower seed or cottonseed cake, whatever it is, it is protein. And fish meal is the best protein, it has the most protein. And when the fish catch went down for 6 to 8 months and then you had a 20-percent crop loss due to weather, prices went up.

And finally, there isn't any beef. You can take off the quota here, but it won't do any good. I was in the Argentine a few years ago, and you could get a beef steak for $1.50 much bigger than this [indicating]. And they have 1-day-a-week beef in the Argentine today. As incomes have gone up all over the world people want protein, they want beef. They want it in Poland, in the Soviet Union, in Czechoslovakia, and in Hungary. They used to get by on cereals.

So that there is great competition for this limited amount of product. And, of course, it goes right back to what we talked about, planning, the inability to plan. If you are going to plan, then you have to have some reserves.

And reserves, for example, in the feed grain industry, feed grains today are contributing, because of certain shortages, particularly in oil seeds, to high prices. Had we had a reserve program, which some of us have been advocating for years, as these prices went up we could have fed into the marketplace the reserves to give some stability to prices.

I mention these things because I do think that while we are witnessing today a tremendous problem here, and a great burden, particularly on people of fixed incomes, we also have to understand that there is an opposite side of this coin. And I tried to say in my opening statement why I thought some of these problems had taken place.

Now, there is no way in God's green earth that you can get around to getting beef cattle in less than 2 to 3 years. Actually, the cycle might, from the day of planning and all, be closer to 3 to 4 years, because a steer that is ready for market isn't born weighing a thousand pounds. You can improve your meat situation with poultry sooner. And you can improve it with pork.

I thought you would be interested in noting—and this doesn't give us any comfort here at home, I want you to know, this doesn't give us any comfort—but if you think beef prices are higher here, in Japan the price per pound, using—this isn't the one that I want, they haven't converted it to dollars here, which they should—but the U.S. price per pound is $1.49. In West Germany it is $4.68. There has been a 25-percent increase in 1 year's time in Germany, a 14-percent increase in France, 23-percent increase in the United Kingdom, a 19-percent increase in Italy, and a 1-percent increase in the Soviet Union. I saw the more recent figures—which I have asked the staff to get for me, and they have not provided them for me—which converted into language that we can all understand, say that the price structure for beef products in every other country is substantially beyond what we have in our country. That is, all of the industrialized countries.

First of all, they are importers, so that generally is why they most likely would pay more. Here we ought to be in a position to have an adequate supply and be exporters.

I want to say that pork prices in the United States, however, are higher than they are in some other countries. And there is a reason for it. We don't eat much pork, and we therefore don't produce that much, as compared to some countries.

Congressman Carey, you were here, and we will turn to you.

Representative CAREY. Thank you, Mr. Chairman.

Mrs. Sugiuchi, you touched a nerve with me concerning, what is going to happen to those who pay 40 percent of their available income for food, talking about the urban poor or the rural poor, and those who subsist on stipends, on welfare, or those who subsist on the programs to support the handicapped, the elderly, and so forth. Many of the things you recommend, discriminating buying practices and watching for specials, and so forth, won't avail them very much, because if they had a car they wouldn't have the money for the gasoline to go shopping on a competitive basis. Do not we in the country owe a rather special obligation to them? We basically have a ceiling on any income they can get, especially as regards the handicapped and our children in the school lunch program.

For instance, the President signed a change in the school lunch program only 2 days ago. It says that the available money will remain the same, but because we don't have any surplus commodities. As Senator Humphrey said, we are now dealing with the economics of scarcity in the food plants of this country. We have eliminated our surpluses either by shipping them over to other countries, by taking land out of production, or by marketing quotas on fruits and vegetables to the extent that we basically trimmed down the availability of food.

And to get back to the school lunch program change, the change we had to make was that because of the lid on the money available set by the President's budget and by the President, we found out there wasn't enough money in the surplus food provided and the bulk commodities program to supply the school lunches. Now they were going to use the same money and try to go into the open market and buy the food to fulfill the school lunch obligation.

Aren't you concerned, if you have children in the school lunch program, that they are not going to get as much food or as wholesome meals as they got last year? In other words, isn't there a Federal obligation to look at the impact of this food price or whatever you want to call it, on those who can't afford to do anything about the situation in which they find themselves?

What do you think we ought to do as a Congress for those who simply can't afford food?

I am worried from a nutritional standpoint. When we started the Head Start program—one of the first Head Start programs I had a chance to visit was out in Mr. Vanik's district where he had a fine program going on—we discovered that one of the greatest disadvantages to learning was protein deficiency, which brought about a lack of energy, lack of motivation because they basically didn't have food. And we started the hot lunch program to compensate. We are going to lose some of the benefits of that because of the cost factor to poor families.

Mrs. SUGIUCHI. That is right.

In the Cleveland city schools there they also had a breakfast program for the children, and they have been wrangling between the State and the city as to who is responsible, who is going to pay for that. While Congress wrangles and the State legislature wrangles, and the board of education wrangles, the kids go without breakfast or hot lunches. This has been one of the things that had been done that we felt was really worthwhile.

Representative CAREY. In other words, since we as a government are food buyers for the poor in a real sense, we supply them with the money for their food purchasing, and we supply the handicapped in the same regard, we should take emergency steps right now in the Government in some form to provide a supplementary income or to have an overall plan to get subsistence for those who have been worse hit by the present food price crunch.

Mr. Silbergeld, you indicated that through nutritional studies and other means, the Federal Trade Commission and the Food and Drug Administration are working in the area right now to begin some long-term steps toward improved labeling by setting standards and conducting competitive price surveys. This is all being done in some kind of administrative hearings, is it not?

There isn't any reference to congressional legislation that will implement this. What is your comment on that?

Mr. SILBERGELD. There is a variety of programs involved here. I should preface this by saying that all this will do is that it will help the kind of hard shopping that Mrs. Sugiuchi has talked about. The administration, I think, has received criticism for it. The problem is that those kinds of suggestions come from an administration which, by CEA Chairman Stein's own admission, has done some very bad planning that has added to the shortages we are talking about.

But it will merely help the kind of hard shopping we are talking about.

The Federal Trade Commission has proposed a protocol for supermarket survey that will provide each metropolitan area included in the survey a market basket price average by chain, so that shoppers can sort out the competing claims in advertising.

Representative CARY. Right. I want to help Mrs. Donavan, and I want to help myself. By the way, my wife has been laid up, so I have been doing the shopping for a family of 14. I want to join FIT as soon as I can.

But one of the things, with the help of Esther Peterson, that I have been doing is looking at the unit price labeling and nutritional quality labeling that she has been able to put into her chain. And that is not available across the country. So you are still buying by brand in many ways. As you move from the meat counter and turn your back you are looking in other directions to provide the same nutritional quality in your diet that the family needs.

Don't you think, in addition to putting a lid on prices right now, the Administration should step up its efforts and get something going in terms of forced nutritional quality labeling so that we will know what we are going to supplement our diets with and at what price.

Mrs. DONAVAN. The concomitant of course, to not having amino acid is mental retardation in children. I think we are aware of this. But Senator Humphrey is talking about the scarcity. We are talking about

3,000 tons of beef to Japan alone. They paid $17 a pound, we sell it to them for $7 a pound. Maybe this is why there is a scarcity.

You have probably read about the Newcastle disease of chickens in California. Curiously enough, 2 weeks before the kill of Newcastle's disease there was an article in the business and financial section of the Los Angeles Times that said the price of eggs was too low, they would have to destroy some of the chickens. And it is very curious that 2 weeks later all of a sudden Newcastle disease popped up again. They had supposedly gotten rid of it before. They admitted that there was an overkill. And they were paid over $2 a pound, about $2.50 for each chicken to kill it. And they admitted that there was an overkill.

Representative CAREY. What I am driving at is that principally because of your efforts, the Consumer's Union, the cries in Congress and in the marketplace, the administration has come to a reluctant decision to put a lid on prices. Not as much is being done about the market prices, the quality controls, and the nutritional labeling as could be done.

Isn't there something more in terms of an emergency food control commission, a quality control commission, that we can put on the line here?

Mrs. DONAVAN. Well, I don't know too much about the Commodity Exchange Authority. But it is obviously an arm of the Agriculture Department. This was an exclusive to the Los Angeles Times from the Washington Post.

And it said:

> The Federal agency charged by the law with responsibility for regulating future market has in part turned this task over to the professional traders themselves, who operate in a club-like atmosphere at the various commodity exchanges. For example, commodity industry officials themselves agree that a recent suspected manipulation of the egg futures market boosted the price of eggs on supermarket shelves by as much as 10 cents a dozen.

Representative CAREY. Mrs. Donavan, it might intrigue you to know that yesterday the seat on the New York Stock Exchange fell to the $90,000 category, the lowest price in two decades. But Commodity Exchange seats are in the $300,000 category. It looks like there is more money in commodities right now than common stock in the country.

Does that tell us something, that perhaps there is manipulation in the marketplace somewhere that the Government should move in on?

Mrs. DONAVAN. Senator Humphrey was talking about the farmer's income, the fact that the farmer is not making it.

Warner Geppinger, president of the Soybean Growers Association, said that most of the farmers had sold their soybeans for less than $3 a bushel. It was the speculators who made some money on the market.

Representative CAREY. Speculators made some money on Russian wheat.

Mrs. DONAVAN. Yes, they did. Maybe that is why our cattle are not being fed sufficiently.

Representative CAREY. I am glad you brought it up. With regard to Chinese-Russian wheat deals, they not only bought very competitively and very cleverly at prices lower than the world wheat prices, I am told they also bought our best quality wheat. As a result, the millers now are running into trouble because we are going to have to mill poorer quality wheat for the flour in our own bread, and this is going to gum up the bread machines—which are made in Germany, by the way—and we are going to be paying more for bread because of the Russian wheat deal.

Am I right?

Mr. SILBERGELD. It is my understanding that the best quality wheat was purchased. In addition to which the transportation problems aren't over. As of mid-March, the Special Subcommittee on Freight Car Shortage was told, only 45 percent of the wheat involved in the sale was transported. So that that problem is going to continue to plague our domestic transportation problems into this season.

I would also like to go back to the questions you were asking a few moments ago about product information and shopping information.

Part of the answer is that the power does exist. As Chairman Patman stated, the Economic Stabilization Act is an economic Gulf of Tonkin resolution. And that can be either good and bad. But it is not necessarily viewed that way when some of the kind of proposals we are talking about were put up. I happen to know that the staff of what was then the Cost of Living Council had proposed a unit pricing rule, because as you say, unit pricing is not available throughout the country. That got to the Price Commission, and was about to be issued. In anticipation of the January 11 action abolishing the Price Commission in phase II, that was never put forward as a proposal, even though they apparently have the authority to issue any regulation or order that the President deems appropriate, according to section 307 (a) of the Economic Stabilization Act. And I am afraid what we have over this—and I use the term advisedly—an "OPA-mentality" which says we do nothing more than approve or disapprove increases or roll back prices, and never mind the other kind of action we could take, which range from making recommendations to other Government agencies which have specific authority to taking information-producing actions.

For instance, I believe the Cost of Living Council should be making up a list—should have a long time ago made up a list such as I made up from available information of industries which affect food prices because of noncompetitive problems, and try to get some of those problems dealt with in the long range by recommending Federal Trade Commission reports and actions. The President can order the Federal Trade Commission to provide him with an economic report under the provisions of the Federal Trade Commission Act. And that hasn't been done.

They also can issue a unit pricing rule. On January 26 the Consumer's Union petitioned the Cost of Hiring Council to promulgate the octane posting rule, which would help consumers with fuel prices a great deal by making it possible to buy only as much octane as is needed for a particular individual's automobile. There has still been no action on that. I understand there are some legal problems, because the FTC, for completely unrelated reasons, has been enjoined by the court from issuing that rule. But the reading I get is that they are very hesitant in the Cost of Living Council to do anything other than roll back prices, approve price increases or disapprove price increases. When it comes to informational programs, they really don't want to touch it.

Representative CAREY. My time has expired.

Chairman HUMPHREY. I hope that you will get a great interest in our consumer protection legislation that has been before the Government Operations Committee. This is right at the heart of what you are talking about. And Senator Percy and Senator Javits and others have been very interested in it, as I have.

Senator Javits.

Senator JAVITS. Thank you.

Mr. Chairman, first I would like to congratulate the witnesses on the action they have taken. There is nothing in our country like self-help. And this is a great illustration of it. And I think what Mrs. Donavan has done has been quite an inspiration to women everywhere, as has Mrs. Sugiuchi. Your Congressman is lucky that he has got you, Mrs. Sugiuchi.

Of course, the Consumer's Union has been tremendously helpful for a long time.

I think it would be unfair to you to ask you to settle all our problems, whether it is FTC or antitrust or the laggardness of Government agencies, or the stupidity of forecasters.

These are jobs we have got. And you pay us "tremendous salaries," because we are supposed to be around here to see that while we crack down on inordinate prices, the supply doesn't dry up either, and there aren't black markets in this country.

Also, thank God, most people have pretty good pay envelopes, so the cost of food even today, with all our troubles, is still less in terms of percentage of what it takes out of the back of the worker than it has heretofore been in modern times.

So I would like to confine my questions to the way you can help us in the consumer field, where you have a direct interest, and where this most admirable self-help action has taken place.

As I see it, in order for you to do that effectively you have to tell us how we can help you find the best area where you can exert your consumer power, and secondly, we have to keep business competitive, so that you don't just face a blank wall. We can give you the best advice in the world on where to shop, but if everybody has got the same thing at the same price, you are dead, just as the Congressman has properly said.

So, I would like to ask you this question: One, on consumer services, would it help, in your judgment, if we could finance local government, as we did in wartime, to tell the local community every morning, based on strictly local conditions—not Mrs. Knauer from Washington, but strictly local conditions—what you ought to be looking for and how to best alleviate the pressure on prices by patronizing what is at a reasonable price.

In other words, getting right down to the nitty gritty, suppose you had a morning broadcast from a local marketing agency, like we have in New York City where there is a pretty good consumer operation going, which says, we have surveyed the markets, take our advice or leave it, but here is what we find today, and we hope the public will try to help itself today by proceeding along the following lines with respect to shopping.

Would that be of any help?

Mrs. SUGIUCHI. Newspapers in Cleveland have columns in the women's section entitled "Best Price," and what is the lower priced meats, or cabbage may be 10 cents a pound instead of 19 cents a pound, and this kind of thing. So you already have some of that.

If the Government has information in addition to that I think our consumers would appreciate any help in that area.

Senator JAVITS. Of course, newspapers worry about their advertisers and whether they are approving. A Government agency is supposed to be objective.

Do you feel that that could add a dimension to the range of the shopper, Mrs. Donavan?

Mrs. DONAVAN. I think you will find the shopper is very sophisticated even now. And to me that is like putting a band aid on a wound that requires stitches.

We get 1,500 letters a day from women all over the country. And here is one thing—and Mrs. Sugiuchi brought it up. When purchases of meat have already been made by some stores, if they hear that there is a wholesale increase in the price of food, whether that has been there a week or 2 weeks, they price that up. And they bought it at a lower price. So this is an inflationary thing at the retail level, which has nothing to do with the farmer or the processor or whoever it is. And I think you will find that is rampant quite a bit, especially in the California area.

Every Thursday the "Best Price" comes out. And you will see women going from market to market if there is a sale on chuck, maybe for 89 cents—which, by the way, is all bone and gristle and fat by this time—they will go on to that market, and then they will go to another market and spend at least 4 or 5 hours purchasing what they could at the cheaper prices.

So, I think you need more than that, because the housewife is very sophisticated, and very efficient.

Senator JAVITS. I appreciate what you say very much, because, as I say, we are not anxious to shoot arrows into the air, we have got to hit the target.

So you would feel, Mrs. Donavan, that while it is okay, it is not such a big deal? You really are for pricing regulation on basic foods, aren't you?

Mrs. DONAVAN. Yes; I am.

Senator JAVITS. You don't think there is any other way?

Mrs. DONAVAN. I can't say that. I am not an economist. I don't know. I can only determine what I think by my own shopping and by talking to other women.

Senator JAVITS. That is right, Mrs. Donavan. And that is why I said what I did when I began. That is where you help us. We will have farmers and government agencies and other people who will tell us other things. Tell us, from your point of view, do you feel that the only way is price regulation?

Mrs. DONAVAN. Thus far I think that is the only way.

Senator JAVITS. Price regulation?

Mrs. DONAVAN. It is astronomical in everything.

Senator JAVITS. Do you feel that that price regulation, however, must be applied selectively, or do you feel it needs to be applied across the board like a freeze or a rollback?

I will tell you why I asked. I was just up State in my State the day before yesterday with the milk farmers. They claim that with all of this hash about high prices they are losing their shirts, they are all going out of business. Why? Because milk has simply gone backward while all these meat prices have run away, and because the meat guys are getting such good prices they are buying all the feed, and the dairy farmer can't get feed grains.

And that is why I ask you this question. That is a problem.

But forget about their problem. That is my problem. I am asking you, what did you think about it? Do you think it ought to be selective? In other words, do you think we really ought to establish a ceiling price on given categories which might be difficult, or do you believe in simply a freeze or a rollback so that everything goes one way?

Mrs. DONAVAN. I don't see how you can be selective when everything goes up. How can you put a freeze on milk? There is a very strong dairymen's association, I understand, who are active politically, and the price of milk was allowed to increase enormously. The past week it is up 3 and 4 cents for a half gallon. I don't think you can be selective. Macaroni has gone up. Poor people are ingesting too many carbohydrates. This is wrong. But so have the soybeans gone up. So just being selective and saying, you have got to put a ceiling on milk, or meat, to me is not enough. There has got to be something on some sort of a rollback on some basis.

Senator JAVITS. We are talking at cross purposes, because when I say selectively I mean that you might five different ceilings for different categories of commodities.

Mrs. DONAVAN. You mean not at a certain month or a certain level?

Senator JAVITS. Yes.

Mrs. DONAVAN. I understand what you mean.

Senator JAVITS. You have to allow for the fact that meat may have gone out of sight and some other particular items might have been held back. And these shouldn't be frozen at a level where the producer is losing his shirt.

Mrs. DONAVAN. I understand because of the devaluation of the dollar much of our frozen fish is imported. So we will have to pay at least 7 percent increase. We have already paid 7 plus more, as far as that is concerned.

Senator JAVITS. I am very sympathetic of your point of view. But we want to get what we think from our point of view would be best.

And the other question I would like to ask is this: Do you feel that allowing as much as we can bring in the way of food will help us? Does the consumer see a connection between the relaxation of any limitations on imports and the price to him?

Mrs. DONAVAN. I think imports should not be regulated any more, bring as many as you can in, and not export so much, if you will pardon the expression. Who is making the money in exporting the meat to Japan and England, while the American consumer is the one who takes the dung end of the stick, frankly?

Senator JAVITS. Mrs. Donavan, this is no time to give you an economic lecture, but I could demonstrate to you that it is to your great interest that there should be agricultural exports, to your interest and that of your family.

But the only way you can help us is by being a witness to your own interest. And I am very grateful to you.

Mr. Silbergeld, you have made a very interesting point to me, and that is as to the enforcement of the antitrust laws and the activities of the agencies supposed to enforce it, to wit, the FTC, the Department of Justice, and to a certain extent the Food and Drug Administration.

Now, do you feel that consumers would be terribly helped if we whipped up these agencies to really move into these fields so that you really had a competitive structure in price and quality in the areas in which people like Mrs. Donavan and Mrs. Sugiuchi have to shop?

Mr. SILBERGELD. Senator Javits, the Senate Subcommitte on Antitrust and Monopoly has estimated as just a ball park figure that super competitive prices because of the lack of competition costs us something like 20 percent of our take-home pay, of our disposal personal income. If that estimate is even half right, in the long term that is a tremendous relief for the American consumer.

Senator JAVITS. I can assure you—and I think my colleagues here feel exactly as I do—that this is one area that we will certainly not overlook getting at right now, in an effort to give the consumer the choice that he has got to have if Mrs. Donavan's movement is to be successful.

Mr. SILBERGELD. I hope the Senate itself will look at that when it considers special antitrust exemption legislation for the soft drink industry.

Senator JAVITS. I notice you pointed that out, S. 978.

Thank you, Mr. Chairman.

Senator HUMPHREY. Just one or two more things to emphasize once again the importance of this testimony from this panel as to the interrelationship of the many factors which go into this inflationary spiral.

That is why I have believed that the kind of price control which we have, just putting it to meat and not here and there, just isn't going to work. Really what it does is paint over the problem, rather than getting at the problem.

I would like to say to Mrs. Sugiuchi—you mentioned that the Cleveland papers carried the "Best Price"—is that as important as the printed press is on this, a large number of people in low income areas particularly don't read the press. I think this becomes radio and television, electronics communication. At one time immediately after the war when we had some serious consumer price problems the Government then asked every mayor, every locality to set up its own consumer office, and so forth. I agree with Mrs. Donavan that a lot of this is just temporarily helpful. It alleviates some of the problem. The biggest problem though that we have here, the generalized figures of the percentage of income that we spend on food, the fact is that there is an awful lot of people in this country that have low incomes, and that food budget for them is a tremendous amount of their income.

It should be noted, just so that we try to have some balance here in our records, that food stamps, for example, and commodities now supplied by the Government, are $2½ billion. That has been good for the people, but it has consumed some of the food that ordinarily other people that had cash income got. A billion and a half from our school lunch program—which is not nearly enough, I happen to be for a universal school lunch program. And the breakfast program I am familiar with, for example, in Cleveland. What we have even here, in other words, is a number of factors that are quite evident that are moving along. And as I said earlier, these factors were here, but nobody apparently wanted to deal with them as a real fact of life. And then with the export program—and I understand your concern with exports, even though I think Senator Javits could have given you—he is an expert in this—a good dissertation on the value of exports—we find that there is a scramble in what we call the open market for scarce commodities. And unless the Government is willing to put restraint upon exports, as we have done on imports, we are going to have a struggle in the marketplace for the beef product, for example. I just noticed these prices—this is only January, and of course since then things have happened, but this is the end of January 1973—beef sirloin in this country sold for about $1.28, in Japan at $4.56, in the United Kingdom at $1.77, in Denmark at $2, and so on. Whenever you have got open export markets, that meat is going to go to those markets. And that puts the pressure on this market, and the American consumer pays a bigger price.

Devaluation is very interesting. You know there have been a lot of economic explanations of it. But what it really means is that when we sell we get less for it, and what we buy that is imported we pay more for it. So it really doesn't help the consumer very much.

Mr. Carey, do you have any more?

Representative CAREY. On your last statement, Senator, there isn't any question that all of us are for free and fair exchange of goods in international commerce, when we have an equilibrium in ordinary working conditions. But when we have a lid on prices in this country on beef, lamb, and pork, and other markets are demanding scarce products and hold huge dollar balances, as do the Japanese, the Germans, the French and other countries, it is absolutely normal to expect that they are going to buy as much as they can of those scarce commodities, because they are worth more than dollars, and will continue to be, while gold is at $90 an ounce as it is now.

Therefore, what you are suggesting, Mrs. Donavan, is at an extremely critical time when the consumer is working to boycott meat, and the lid is on the price, in order to prevent the natural design and desire of the cattlemen to go elsewhere abroad for their markets, you are saying that we should put some impediment, some export control on beef and other exports, is that right?

Mrs. DONAVAN. I think so.

Representative CAREY. Otherwise it is going to go to Japan and to where the market is best.

Mrs. DONAVAN. And there are 90 billion Eurodollars flapping around in Europe now that aren't any good. So naturally they are going to buy something that is in demand.

Representative CAREY. Let me set an example.

Esther Peterson was trying to get her meat buyer in the Giant chain for which she works to add to the meat counter some items that perhaps would be a little bit less in cost than some beef and beef products. They found somewhere there was a buy on tongue, so the meat purchaser called to buy some tongue. At the price of 89 cents a pound, he had to go to the merchandise manager for permission to make the buy. By the time he got back, every pound of beef tongue had been sold to Japan at over a dollar a pound.

So this is working in the marketplace right now. And these kind of things are going to worsen the conflict that we don't want to see between the consumer and the cattlemen. And that conflict shouldn't happen in our country.

I think that as a second suggestion, since the Secretary of the Treasury, Mr. Shultz, and the Chief of the Council of Economic Advisers, who must formulate the President's policy in terms of recommendation, is saying to us that prices are going to come down, we can expect that various commodities are going to come down. Just wait, Mr. Stein says, just wait; beef, lamb, and pork are going to decrease, and maybe by midsummer in the fall harvest season there will be a decrease in produce prices. If they believe that, and they want us to rest on it, then wouldn't it make sense for them to put a phase down on a monthly schedule to get back to the prices of, say, August 1971, or even October 1972, so there would be some relief in sight? That would tell the cattlemen or the meat processor that he is not going to get any more for his meat by waiting, and he would put it back in the chain of shipment, the chain of transportation and preparation.

Would that make sense to say, since it is going to happen, we are going to prepare for it; and we are going to phase the prices down over the following period of time and set up some program for relief if we are adversely affecting any segment of the farm economy?

In other words, if we are forcing a cattleman or beef processor out of business because of this, then we should have some asssitance to help that man, because we don't want to lose a cattleman or beef processing man.

Wouldn't it make sense for some sort of orderly phase down for those who move out of the farm economy since that is what a sensible government would do, don't you think?

Mrs. DONAVAN. Yes, I do. And I think also that the GAO should regulate the farmers committee, perhaps regulate it a little more. We are just housewives. And certainly you in government know a lot more than we do.

Representative CAREY. You remind me of the story that appeared in the Wall Street Journal about the lady who said she didn't want to charge anybody with any wrongdoing, she didn't want to accuse anybody of watering the milk, but when she found a fish in the milk, she knew something was wrong.

You have found the fish in the milk a few times.

Thank you, Mr. Chairman.

Chairman HUMPHREY. Senator Bellmon is not on our committee, but we always appreciate the chance to hear from him.

Go ahead, Senator Bellmon.

Senator BELLMON. I will only take a second, Mr. Chairman. I came here primarily to hear the tesitmony of your next panel. But I am afraid I don't have time to stay for it.

Mrs. Donavan mentioned the export of 3,000 tons of beef to Japan. I am sure that sounds like a great deal to housewives and consumers. But when you realize that we are consuming in this country some 12 million tons of beef each year, I think you can recognize that this is not particularly significant.

But it is significant in another way. Our cattlemen are building very rapidly in this country. They went up 4 million head last year, and if you look ahead only a very short time, perhaps 12 months or less, we are going to have, believe it or not, a glut of beef in this country as these animals begin to reproduce and their calves grow up and they are ready for slaughter. And by developing a market in Japan now which we will be able to supply without any detriment to the American consumers within a very few months is in the long range in the best interests of American consumers who are also American taxpayers, because at the present time we are using some $4 billions of taxpayers' money to keep some of our land, our productive farmlands out of production. And this land can produce beef if there is a place to sell it.

So I would hope that the consumers group would understand that there is a long-range problem here that we can deal with if we will take a longer view.

Mrs. DONAVAN. They are being hit at the gut level, so I think they are just a little bit impatient.

Senator BELLMON. But remember, consumers have had a tremendous break for a long time.

For instance, in the "Report of Economic Indicators" that is on the table now, the parity prices received by farmers on February 15, 1973, were 82 percent, and farmer incomes are still substantially below urban incomes.

And I think it is not fair or equitable for consumers to think that they can have cheap food and a high income, because the farmers costs will go up, and when they are still receiving far lower parity, I don't believe it is realistic to try to freeze them in that position.

Mrs. DONAVAN. Isn't there someone besides the farmers? I know the farmers 10 years ago got 35 cents a pound. And now they are getting only between 45 and 48. Obviously it isn't the little farmer. Where is the squeeze in between?

All I can talk about is being a consumer.

Chairman HUMPHREY. That is what I said about this panel this morning—and I thought Senator Javits pointed it out well—that we want from you your observations, because really they are much more impressive than just to read about them. And you get a balance here of different points of view, but it fits into a picture. The Consumers Union, for example, is giving us a good deal of information on a number of things that we ought to be doing in the Government that do not relate just to price control, but has a great effect upon price. And it is perfectly obvious that now, in the light of the expenses that we are going through, and also of the great importance that we are placing on international trade, that in our food economy we have got to do much better planning than we have done, otherwise we are going to be running up and down like a yoyo here with high prices one time and low prices another, and gluts on the market.

And those of us who have served in the Congress have been literally badgered by media, commentaries, economists, and everybody else about surpluses. And all at once we find out there are no surpluses. And it isn't just that there is no surplus of food. I tried to bring to your attention, which I think is something critical, energy. We are really going to be—as a matter of fact, had we had the propane gas this winter that we needed, we could have reduced the price of soybeans considerably by the drying process.

And then you bring up the price of eggs. I forget which one of you brought this up, but in my book there is something rotten in Denmark and something rotten in the henhouse about the price of eggs. Between what the farmer gets and what ultimately we pay in the supermarket there is such a gap that it is incredible. And there is no processing with an egg, once the hen gets through with it, that is it.

But for some reason or another the farmer out here gets a low price, let's say, 30 cents a dozen, and by the time you get it it is 65 cents a dozen.

One thing that impressed me when I came to Washington, coming from a Midwestern State, was what had happened to the eggs by the time they got down here. And then I find out they have chickens in Maryland, too. But all at once a Maryland farmer will be getting 35 cents a dozen, you will be paying 59 cents, 60 cents a dozen right over in the supermarket.

Representative CAREY. They are 75 this morning.

Chairman HUMPHREY. 75 cents.

By the way, the brokers are right up there in New York.

Mrs. SUGIUCHI. May I comment?

I am not unsympathetic with the farmer. I grew up in southwestern Ohio, where there are a lot of farms. I am sympathetic to the farmer predicament. But I think, from the consumers that I have worked with in this group, they are middle income people. They feel they are really being gouged. The paper gives statistics about incomes in the urban areas. There are people whose incomes are not going up. There are people who are salaried people who don't get cost-of-living increases as the cost of living goes up. Those people are really struggling. And they are very angry. When a little boy comes running to his mother saying, "Gee, at so and so's house they get to eat a whole apple," in a middle income community, something is wrong.

Chairman HUMPHREY. I can't agree with you more.

Mrs. SUGIUCHI. Whose pockets are we lining?

Chairman HUMPHREY. General statistics are not very impressive to me, it is the specifics that count, what happens to fixed income people, people on wages, this is the problem. And frankly, we are searching for some answers. And I feel that if we are going to have price controls, if you have to have them, you can't fool around with them, you have to follow them. You can't just have a price control at the retail level and not have it on down the line. You can't have wage controls which we have had—and they have been quite effectively enforced—and then have the kind of price controls that fluctuate all over the lot. This is what is causing what you might call the anger. And I said in my opening statement that unless something is done, that this present consumers boycott is going to look like a Sunday picnic, because it is going across the board. We are on food here today, but you ought to hear the people we had sometime ago in another committee on rents around here.

And we have found out, for example, the other day that our tax laws here put a premium on the export of logs from the United States overseas, because they get capital gains treatment, but if you cut the logs here and make them available and keep the logs, keep the lumber here, so that you can build houses in the United States, you pay corporate tax schedules. So that there is a 20-percent difference in the tax rate, which means that it is for the person that is doing the logging, if you are looking at the money angle, it is better to ship the logs to Japan, ship the logs someplace else. And I think this is what Mrs. Donavan in a sense was referring to in terms of export policy.

We have some other witnesses. We do thank you, and I am awfully pleased that you came. I know one of you said, well, we are just housewives, and I am always reminded of the fellow who says, I am just a country lawyer.

Thank you.

We have Mr. Brandow, Mr. Helming, and Mr. Schnittker.

We are going to proceed rather quickly. And since Mr. Schnittker was the gentlman that prepared the report for the committee, I think it would only be well and proper if we would start with Mr. Schnittker. And we will proceed right down the line from Mr. Schnittker to Mr. Helming to Mr. Brandow, and let you make your statements. And then we will come to questions.

STATEMENT OF JOHN SCHNITTKER, ECONOMIC CONSULTANT, SCHNITTKER ASSOCIATES, WASHINGTON, D.C.

Mr. SCHNITTKER. Mr. Chairman, I have a prepared statement which I ask with your permission to be incorporated in the record, and I will take just a couple of minutes.

I think the extraordinary rise in farm and food prices in the past 8 or 10 months has been pretty adequately described this morning and elsewhere. I won't dwell on it. I want to turn immediately to the question of where we are today, and what might happen in the future.

I find that carryover stocks in both grain and oilseeds are so badly depleted by the situation we have just been through that any crop shortfalls in 1973, even less serious than we had in 1972, would set off a new spiral of grain and oilseed prices, to new record highs. We are already having some bad signs——

Chairman HUMPHREY. Let me get that again, Mr. Schnittker.

Mr. SCHNITTKER. Any crop shortfalls in 1973, even if they were not as severe as we saw around the world in 1972, would set off a new rise in grain and oilseed prices which would dwarf the price increases we have seen during the past 6 or 7 months.

We see some bad signs around the world at this time. Russia's wheat crop is off to a poor start. India's food supplies are very tight. The growing season in Canada is not starting out well. The Middle East and parts of West Africa are also experiencing poor crops and poor propsects.

Even if record crops were to be harvested in the United States this year, bad crops in one or two other major countries could cause sharp new price increases because the reserve stocks in all the countries in the world have simply been used up by the bad harvests of the past 8 to 10 months.

So if harvests in the United States, Canada, or other major countries fall substantially below targeted levels in the summer ahead, strong measures, including a continuation of the freeze on meat prices, and even limitations on the exports of grains, oilseeds and meats, would be required to keep retail prices from rising into 1974.

Chairman HUMPHREY. In other words, you found some merit in what Mrs. Donavan was saying a moment ago with reference to the problems that we might face on exports?

Mr. SCHNITTKER. Yes, that we should consider our free and open export market in terms of its effect upon domestic price stabilization, and then judge as the harvests come along this summer, whether or not we have to limit, but of course, not terminate, the exports of key agricultural commodities from this country. Refusal to invoke those kind of measures, if adverse crop conditions strike, would virtually assure another escalation of food prices into 1974.

Thank you, sir.

Chairman HUMPHREY. Your prepared statement will be incorporated in the record as with all our witnesses.

[The prepared statement of Mr. Schnittker follows:]

PREPARED STATEMENT OF JOHN SCHNITTKER

The extraordinary rise in the prices of agricultural commodities and in wholesale and retail food prices over the past few months can be traced to a number of causes. The most important single factor behind the rise in crop prices was the disastrous crop failure in the Soviet Union, requiring the USSR to import some 25 to 30 million tons of grains and oilseeds in the 1972–73 season after having been in a small net export position for many years. Food grain crops in India and China in 1972 were also down some 5 percent, while crops in Australia, Argentina, South Africa, the Middle East and West Africa were also below average, requiring larger imports or reduced exports. Australia's wheat exports were only half of normal, and South Africa has virtually no corn for export. The result, taking all the countries of the world together, was the first reduction in total world grain production in modern history.

Livestock price increases can be traced to the increased worldwide demand for meats, to the long biological cycle required to expand beef production, and to high feed costs arising directly out of world climatic disturbances and increased exports of the past year. U.S. cattle numbers are increasing, however, and we are fairly sure to have slightly larger supplies of beef this fall and next year. Pork and poultry supplies will also increase, but so will the demand for all meat products. Official predictions that food prices will be lower at the end of the year than at the beginning do not appear to rest on a realistic analysis of the situation. In February USDA specialists anticipated a food price rise of some 6 percent in 1973. We have already had a 4 percent rise, and this will probably go to 7 percent when the April CPI is in, given wholesale prices already reported. A 10 percent rise in food prices by year's end should not be ruled out, even if crop prices stabilize.

The managers of federal farm programs in the Executive Branch also bear a share of the responsibility for the current accelerated rise in food prices. Only days after the USSR had begun its massive purchases of U.S. grain last July, and when the full magnitude of the Russian crop disaster was well known, USDA announced a restrictive wheat acreage program for 1973. Officials consistently refused to correct that error until January this year. U.S. wheat exports were subsidized at a cost of millions of dollars for a least 2 months after the world grain situation had turned from a buyer's to a seller's market. A restrictive program was announced in December for feed grains only to be changed in January and again in March, not because of new developments but because of belated recognition of the actual state of world grain and oilseed supplies and prices.

The "set-aside" has had the effect in 1971 and 1972 of accentuating the shortage and the spectacular price increase in soybeans, the scarcest of all agricultural products. The set-aside encourages expansion of corn acreage more than soybeans, even though demand expansion is most rapid in soybeans. Congress should look closely at this program this year. Serious losses during harvest last fall were also an important cause of present high prices in the protein meal complex.

Carryover stocks in both grains and oilseeds are so badly depleted worldwide by the 1972–73 situation, that crop shortfalls in 1973 far less serious than in 1972 would set off a new spiral of grain and oilseed prices to new record high's. Russia's wheat crop is off to another poor start, India's food supplies remain tight, and the growing season is still a few month's away in the U.S. and Canada, where record crops this year are essential if there is to be a degree of price stability later this year. In this situation, the U.S. can afford to err only on the side of plenty. If record crops were to be harvested everywhere this year and prices fell toward early 1972 levels, present price support laws could be brought into play to help cushion the drop in farm prices, since it would be partly the result of expansionary production policies.

If the 1973 harvests in the U.S., Canada, or other major countries fall substantially below targeted levels, strong measures, including a continuation of the freeze on meat prices, and limitations of exports of grains, oilseeds, and meats would be required to keep retail food prices from rising into 1974. Alternatively, refusal to invoke such measures when adverse world crop conditions become known would virtually assure further escalation of food prices.

Chairman HUMPHREY. Mr. Helming, the general manager of the Lifestock Business Advisory Service.

STATEMENT OF WILLIAM C. HELMING, GENERAL MANAGER AND CHIEF ECONOMIST, LIVESTOCK BUSINESS ADVISORY SERVICES

Mr. HELMING. Mr. Chairman, it is indeed a pleasure to be here today.

And I, too, in an effort to save time, would like to submit for the record my prepared statement. I will not read it. I would, however, like to cover several key points.

You have asked that we briefly discuss the major causes of rising farm and food prices and what we think is going to happen in the future. I would particularly like to address myself to some of the recommendations that we have made.

But before getting to that, relative to the grain situation, it is just a simple matter than Russia has decided to upgrade the diets of its people. I won't go into that in detail now, but it is a good example of what is happening throughout the world. The demand for food and protein not only in this country, but throughout the world, is indeed increasing. And in my judgment it will continue to increase, even more so in the future.

We can speak of devaluation. Exports of meat went up 301 percent during January and February from the United States to such countries as Japan and countries in Western Europe.

I think some of our social programs have had a major impact on demand. You mentioned $2½ billion-plus being spent for food stamps and related programs, which I think has very definitely stimulated demand for meat and other foods. And it is certainly a very fine program. It has made the less privileged people, in terms of lower income groups, able to spend more money or at least some money for meat. And I think it has really had more of an effect on our our demand picture than what we want to give credit to.

I would like now to turn to some specific recommendations. I do believe, however, that in 1973 the price of food in the United States at the retail level will be 6 to 9 percent above the 1972 level.

I believe the price of cattle and hogs will not lessen materially at all during 1973 from present levels.

I also think we are due for a milk shortage by this fall. I can see the price per half gallon going from 60 to 65 or 66 cents, which is about a 10-percent increase, largely because they are now culling cow herds and going out of business because their costs of production are substantially above the price they are receiving.

And I think you very ably outlined what was happening in the broiler industry.

I think there are four basic needs that pretty well sum up this whole food price supply-and-demand situation that we are all talking about.

No. 1, the prevention of a food shortage in the United States.

No. 2, make the standard of living and income in rural and urban America equal, and keep it that way. We need more young farmers.

No. 3, further strengthen this country's ability to be the most efficient producer of the most, the best, and the lowest priced food in the world. And indeed we do have the lowest price food in the world.

And No. 4, improve the U.S. balance-of-trade and payments position and the stability of the U.S. dollar.

Now, I have several recommendations that we have given a lot of thought to that we believe would help serve as solutions to those four main points.

1. When the American farmer and rancher, through the profit incentive and free market system, is in a position to consistently make a comparable return on his labor, land, and capital investment as other industries do, he and the American farm family will solve all of the major needs and problems referred to above. This is the only solution that will really work and that will stand the test of time.

2. If the American consumer spent 20 percent of his income on food instead of the present 16 percent, the American public would actually benefit. Why? Because it would insure an ample supply of high quality food and a sound expanding total economy in the future. The American farmer is optimistic by nature and when he starts making a real profit that he can be proud of, he will unquestionably produce plenty of food for our needs, plus the needs of many other countries.

3. Do not make the serious mistake of placing the sole blame for this country's price inflation problems on farm and food prices. The record shows very clearly that the American farmer has contributed the least to rising consumer prices than any other basic industry in this country. This is true today and it was true 20 years ago.

4. Once rural and urban incomes become equal, then food prices should increase in proportion to all wage increases on a year-to-year basis.

5. Extend the 1970 Farm Act for only 1 year, and then make proper changes in the farm program next year, with the emphasis on much less Government involvement financially and otherwise, while letting the free market and profit incentive system take over.

6. Adjust the milk price support level this year only from 75 percent to 85 percent of parity.

7. Develop and implement a more flexible and longer range two-way market sharing and foreign trade policy regarding agricultural farm commodities. The American farmer needs longer range production guidelines which are self-imposed relative to the world supply and demand for food.

8. More than ever before, we have a world market for food. American agriculture and the public would benefit greatly by having much more complete and timely information regarding supplies, demand, and prices for farm commodities and food for all countries of the world. We recommend that the U.S. Government finance and develop, in cooperation with other countries, a sophisticated and computerized agricultural market information system. And the one we have now is indeed inadequate.

I could go into much more, but I will not at this time.

Chairman HUMPHREY. Very good. I appreciate those constructive suggestions. We will come back to you on this, because I know people are going to ask questions about your milk proposal.

[The prepared statement of Mr. Helming follows:]

Prepared Statement of William C. Helming

Why Farm Prices Have Increased During 1972-1973 and Price Outlook for Farm Commodities and Food During the Balance of 1973

I. INTRODUCTION

Mr. Chairman, I appreciate having the opportunity and pleasure of being asked to appear and testify before this committee today to outline the major causes of rising farm and food prices during 1972, what we believe the farm and retail food price outlook will be during the balance of 1973, plus making any recommendations which we believe are appropriate. My name is William C. Helming and I am General Manager and Chief Economist for Livestock Business Advisory Services in Kansas City, a Division of the American Hereford Association. Setting aside the question of policy recommendations for the moment, my staff and myself do this type of analysis and price projections constantly. In an effort to lend order to my presentation, I wish to first speak briefly about the factors that caused grain prices to increase and then about beef, poultry and milk price, which depend in part on feed grain and protein supplement prices. Then on to our price projections and policy recommendations.

II. WHY FARM AND FOOD PRICES HAVE INCREASED DURING 1972–1973

A. *Grain.*—The factors that influence markets are always broadly characterized as affecting supply or demand. The operations of the market place that concerns grain is so complex that no computer model has ever successfully duplicated its action, let alone correctly anticipated the events that influence markets and which are there for everyone to see. It is the interpretation of these events by various interests in the market place that influence prices. These factors are also political, economical and climatological. The best way to set the stage is to go back to the period just before the beginning of this fiscal year. The U.S. was raising a huge wheat crop. In fact in mid-July, U.S.D.A. announced a new wheat program with the goal of reducing acreage by 5 million acres and production by 150 million bushels. That announcement was the result of many months study prior to its release. I mention it here not to say that the U.S.D.A. had embarked on a wrong course, but rather to point out the attitude that was then prevalent in the market place. There was no thought of wheat surplusses becoming deficits at that time. The same was true of feed grains. Proteins were known to be in short supply during mid-1972.

1. *Soybean Complex.*—The protein situation first. As indicated above, events need interpretation. My colleague (who has provided the background and forecasts in this grain sector) pointed out in his Daily Grain Letter of March 16th, 1972, let me repeat that year 1972, that the flooding that was then taking place in Peru had sometimes forced the Humboldt current away from the shore. At that time he said, "There are not yet any reports of disaster to the fishing industry, but we are suggesting that this situation should be watched closely as a sharply reduced fish catch would alter world protein supplies in a way that has not yet been seen or calculated." That event, as you know by now, was the major factor in the upward movement in protein prices which did not take place until fall.

Such other factors as Russian purchases and the late harvest were small in comparison to the protein that was lost to the world as the Peruvians curtailed their fishing and then stopped entirely. There are vast details of world oilseed meal supply and demand balances, but to sum these up is to say the world was already known to be protein short, and the Peruvian situation made it worse.

2. *Feed Grains and Wheat.*—In regard to wheat and feed grains, the all pervasive influence was Russia's political decision to improve the diets of her citizens. In October, 1971, Russia made purchases of feed grains from this country. From that time on, officials of both countries made no secret of that country's willingness to buy feed grains and proteins. Russia's five year plan projected a 27% increase in the production of meat and eggs between 1971 and 1975. For the same period, she projected an increase of feed grain production of only 10–13% with the presumption that the balance would be imported from other countries. This plan of Russia's was known by March, 1972. There is a question of when the Russian authorities recognized that their wheat crop would not be within 30% of their earlier projections. Whether any one in authority should have anticipated the Russian need for wheat is unimportant here. We are looking at factors that made prices rise and that lack of knowledge by U.S. officials and/or

private enterprises did not change the fact itself. It only introduced the element of surprise.

There were specific elements that magnified the Russian demand. For example, Canada had book—or even overbooked—her own facilities. (This is not strictly the result of the internal railroad transportation system of Canada or even the ability of the elevators to load ocean vessels.) The major bottleneck was the cleaning facilities at the elevators.) The crops of Australia declined sharply. That left only Argentina and South Africa among the major exporting nations. Their physical facilities were also inadequate.

There were minor factors. For example, the late harvest of wheat in this country. There was the rumor that China would enter the market (she subsequently did but on a scale that compared with the Rusian purchases.) Another was that the regular major importers of U.S. wheat and feed grains became frightened. Once the size of the Russian purchases became a subject of conversation, Japan, Korea, Taiwan all had to protect themselves, as did India, Pakistan and Bangladesh. These countries could not run the risk of undertaking Russian purchases because there was not an adequate alternative source of supply.

One other factor operated in all markets and that was the makings of another currency crisis. The increasing deficits in the U.S. National budget, trade balance, and balance of payments that lead to the wage and price ceilings of August, 1971, limited convertability of the dollar to gold and the 10% surcharge on selected imports were still prevalent. Every effort was made by the Administration to increase exports, particularly dollar-earning exports.

There were two other factors. The first is that the ever increasing export sales of all grains to all destinations created a massive traffic jam. Figures were produced last August pointing out that the volume of exports were more than the ports could handle and what would occur. This traffic jam created really two sets of prices. The FOB vessel price, which included a substantial premium for the use of the elevator space itself. The tie up on the railroads actually tended to depress prices in the interior of the United States. This last fact became more apparent as the fall harvest was delayed by weather. As you know, some fields were not harvested until calendar 1973, and some not at all due to poor weather conditions. There was wet grain that could not be stored and could not be dried. The transportation problem is a factor that is still with us, and will continue to be with us for several more years.

The second factor was the U.S.D.A's handling of the subsidy. I return to my beginning statement of the attitude of this country that wheat was in surplus supply, and, in fact, a new program was introduced to reduce acres and production. The wheat exports for the year ending June 30, 1972, totaled 581 million bushels, compared to 677 million bushels the previous year. It was hoped that the Russian purchases might return the exports to the year ago level. The CCC continued to sell wheat at the formula price, because that not only helps stabilize markets, but permitted the CCC (and the Administration) to reduce wheat storage and ancillary costs. The policy of the U.S.D.A. was to maintain world wheat prices at the level that was then about $66.00 per metric ton, cost and freight, Antwerp/Rotterdam. As domestic wheat prices went up, the policy of maintaining world prices at unchanged levels caused the subsidy to go up. It is only reasonable to assume that exporters relied on the evidence derived from CCC subsidy and sales policy that the U.S.D.A. did not want an increase in world wheat prices. It is inconceivable that the subsidy policy would not change. Thus reassured, additional sales were made when the Russian buying team returned to the U.S. from Canada. If the subsidy was going to move upward with domestic prices, then exporters could refrain from booking subsidy at the time sales were made. By the same token, once it became evident that the Administration policy had changed, then exporters would book all the subsidy they could handle in advance of their sales to overseas buyers. The assurance provided the courage to trade large volumes: uncertainty about regulations, laws, or their interpretation inhibits trade.

Again, it was the sheer volume of trade as it became publicized that helped to cause markets to rise.

Summing up, while maybe there are other and lesser factors that operated in our market places the above are certainly the significant reasons for the upward price move in protein, food, and feed grains from July 1, 1972 onwards.

B. *Meat Supplies.*—Beef, pork and mutton production in the first quarter of 1973 was down 2% compared to the first quarter and down 11% compared to the fourth quarter of 1972. The major factors affecting the supply of livestock, poultry and meat since early 1972 are as follows:

1. *Buildup in Cattle and Hog Inventory.*—Farmers and ranchers are now building inventories of both cattle and hogs. Since the first part of 1970, cattlemen have been holding back more cows and replacement heifers to increase their cow herds. At the same time, total cattle slaughter and beef production has been reduced. This is a normal relationship and during 1972–1973, this trend has been accelerated.

Since mid 1972, hog producers have been holding back sows and gilts to build their inventories. At the same time, hog slaughter and pork production has been reduced and this trend has also been accelerated since the first part of 1973.

It normally takes a minimum of 5 years for cattle and 2 years for hogs for the inventory building cycle to result in substantially larger slaughter and meat production and therefore, subsequent lower prices at the farm and retail level. Significant increases in beef production will not show up until 1975–1976 and major increases in pork production will not take place until late 1973, 1974 and the first part of 1975.

2. *Poultry Production Is Not Profitable*—Until the last part of 1972, poultry supplies exceeded demand, causing prices to drop and financial losses to be incurred by the producer and processor. This has caused the production of broilers and chickens to be cut back significantly. The sharp rise in feed grain and protein supplement prices since last fall has also caused broiler and chicken production to be restricted.

3. *Poor Weather.*—Cold, snow and rain throughout most of the agricultural producing areas of the country since last October has (1) caused cattle and hogs to gain poorly, resulting in delayed marketings, and (2) has caused much higher than normal death losses. The poor weather also contributed to the feeding of large quantities of wet or deteriorated corn, causing further delays in cattle and hog marketings. In addition, the poor weather has caused the cost of feeding cattle and hogs to increase sharply and this situation is as bad now as anytime in the past six months.

4. *Restricted Use of Growth Stimulants.*—The government imposed restrictions on the use of DES for feeding cattle has resulted in cattle requiring more feed per pound of gain and more time to reach slaughter weight and grade. This has caused substantial delays in cattle being marketed and has of course significantly increased the cost of grain.

5. *Consumer Boycotts and Ceiling on Meat Prices.*—Contrary to popular belief, this, in this instance, caused prices to rise. The emotionalism associated with consumer boycotts and the recently announced ceiling on meat prices, coupled with considerable adversed publicity and poor market psychology regarding increasing farm and food prices, has resulted in widely fluctuating livestock prices the past several weeks and has caused many farmers to temporarily restrict the supply of livestock going to slaughter. This is a natural reaction, particularly since the farmer is now faced with the real prospect of selling his livestock below the cost of production.

C. *Demand For Meat.*—The demand for beef, pork and poultry has increased sharply. The primary factors affecting the demand for livestock, poultry, and meat since early 1972 are as follows:

1. *Higher Incomes.*—Personal incomes in the U.S. have increased sharply in recent years and this trend is continuing in 1973. People simply have more money to spend for food, particularly meat. Since 1960, personal incomes in this country increased 104%, while meat prices since 1960 have increased only 67%. In 1960. the average American homemaker spent 21% of the families take home income on food, whereas today the average family spends 16% on food. The American people have by far the cheapest food in the world today.

2. *More people are Employed.*—The total number of people employed in the U.S. today is a record 89 million. This also means more women working, larger family incomes, greater demand for convenience foods that require a minimum amount of time for preparation. plus improved food quality. This all costs more money, particularly after the food leaves the farm.

3. *People Like Red Meat & Poultry.*—Red meat and poultry are an increasingly more popular in the American diet. Per capita meat and poultry consumption is continually increasing and now is 198 pounds per person, which is 29% over what it was in 1960.

4. *Devaluation of the Dollar and Increased Exports.*—The devaluation of the dollar by 25–30% in relation to gold and other currencies and the subsequent buying of meat and other commodities by other countries since August of 1971 has been a major factor in increasing the exports of important meat and feedstuffs.

For example, even though the absolute quantities are relatively small now, meat exports from the U.S. to other countries during January and February of 1973, principally to Japan and Canada, were up 301% over year ago levels.

Hide and offal values for cattle have increased substantially since early 1972. The hide and offal value during the first quarter of 1973 was $4.45 compared to $2.70 the first quarter of 1972. This is due primarily to a strong export demand for cattle hides. In addition, Argentina, Brazil, India, Pakistan, South Africa and Australia have all placed an embargo on their respective hide exports since mid 1971, which has further restricted the world supply and therefore the demand for U.S. hides.

The demand for red meat, poultry, feed grains, food grains and protein throughout the world is increasing rapidly. Some of this increased demand is caused by short supplies resulting from such things as crop failures and a poor fish catch, but much of the increased demand repersents a real change in and shift of the demand curve to the right. Many governments have placed a high priority on improving the diets of their citizens. The implications of this increased demand are most important.

5. *Government Social Reform Program.*—The demand for red meat and poultry has accelerated during 1971–1973, in part because of various government social reform programs resulting in a redistribution of income, allowing traditionally lower income groups to have more money to spend for meat. For example, spending over $2 billion during 1972 in the food stamp program, plus two major jumps in social security payments during the past 18 months, have greatly stimulated the demand for food.

D. *Cost of Production.*—The cost of producing and finishing beef, dairy cattle, hogs and poultry since July of 1972 have increased 30–40%. This is partly due to sharply higher prices paid for feed grains, protein supplements and hay. In addition, the inflation spiral of continually rising prices also affects the farmer and rancher regarding everything he keeps. Some of these sharply increased costs are now showing up in the retail price of food.

The cost of processing, packaging and distributing food from the farm level to the retail level have increased substantially over the past two years and are contributing greatly to the increase in food prices. Sharply higher labor costs at the wholesale, processing and retail level is a major factor contributing to higher food prices.

E. *Milk Prices are Higher.*—Prices for all dairy products are presently 3% higher than a year ago levels. Milk supplies are down about 1% since November 1972. The factors causing milk supplies to be down and prices up are as follows:

1. *Cost of Production.*—The cost of producing milk has increased 25–30% in the past six months, largely due to increased feed grain, protein and hay prices. This has caused liquidation of milk cows by dairy farmers, who have in turn taken advantage of improved slaughter cow prices since the first of the year. Poor weather has been a factor. The Cost of Production has been higher than the prices received for milk.

2. *Demand.*—The per capita consumption of milk in 1972 was up and this was the first increase since 1955. We expect the improved demand for milk and milk products to improve during 1973.

III. PRICE OUTLOOKS FOR GRAIN IN 1973

It must be obvious that forecasts of grain prices at this time are singularly dependent upon the weather. I must be emphatic in stating that the *primary* weather concern is that which will influence American farmers in the use to which they put their acreage. The probability is that the weather will delay the planting of corn beyond the optimum date for the major corn growing states. *Secondary* weather considerations are that which governs the growth and rate of maturity of what ever grain is planted on what ever number of acres.

Prices will move in response to these same weather factors that govern planting and growth throughout the Northern Hemisphere during this time of year. We have no reasonable way to proceed except to assume normality in Western Eupore, Eastern Europe, Canada and China. Even with that assumption, it is important to state that there are indications that all of these areas have given indications that their difficulties are no less than our own.

Another assumption is that there will be no further changes in program regulations. I realize that the Administration has requested the Congress to extend the Agricultural Act of 1970 for one more year. Furthermore that in the absence of new legislation, the Secretary of Agriculture is required to make a decision on the 1974 wheat crop by April 15th. The wheat harvest in the southern part of the United States will begin in late May. Wheat farmers in those areas need to make their 1974 plans so there is an element of urgency. Extending legislation may not incorporate perfection, but it incurs less evil than any enlarged attempt to interfere with the ordinary operation of supply and demand factors.

A. *Wheat Prices.*—For the last half of 1973 the farm prices of wheat in the major wheat producing areas of the United States is going to emphasize the transportation tie up that has plagued us for so long. At the height of the harvest, farm wheat prices will average in the $1.65–$1.85 per bushel range. This will be the excess of wheat for which farmers cannot find a convenient home. They will recall that in the harvest time of 1972, they sold their wheat when, subsequently hindsight proved they should have held on to it. They will remember that and sell only the surplus. I have every confidence that wheat prices will move sharply upwards after the flush of the harvest.

How much upwards certainly depends to a large extent on the crops of the other countries in the Northern Hemisphere. We are of the strong opinion that farm wheat prices a year from now will not be less than they are today. By the same token, these price levels will most certainly stimulate an increase of wheat acreage throughout the world. Nature will one harvest season be as bountiful to Russia and Western Europe as it has been to Canada and United States. Southern Hemisphere countries will be equally blessed and then farm prices of wheat will move downward to test the current support levels of the United States.

B. *Corn Prices.*—Corn prices will move somewhat in concert with wheat. Considering our forecast of wet weather through April and May, we have to consider that harvest time corn prices would not be lower than a year ago levels and depending on the weather could be equal to current levels. It seems obvious that year ago levels will reaffirm the interest that Russia has expressed in our feed grains, particularly, for corn. It was in the heart of the harvest season in 1972 that the President announced the sale of corn to China and so that country will also be a factor. It will be difficult for corn to move sharply upwards, while wheat is at depressed levels. Once that excess wheat has been put under cover, corn prices will move up also. They will range in the summer of 1974 to near the $1.75 per bushel level. It is true that there is research under way to increase the yield of corn. If Russia, Brazil, the Argentine and South Africa all attain breakthroughs on yields at the same time, our forecasts for higher prices in late 1974 may be modified. Price levels for corn during the summer of 1973 have to reflect what happens to the new corn. It will test the highs that prevailed in early part of 1973.

C. *Protein.*—Protein prices are measured by farm prices of soybeans has a lot of correcting to do. The weather is forecasting a sharply higher soybean crop and we envision that farm prices this fall will be close to the $3.00–$3.30 per bushel level. This assumes a resumption of fishing in Peru, and normal oilseed crops in Canada, Eastern Europe, and next year's Southern Hemisphere crops. Farmers are now looking at sales of new crop beans close to $4.00 per bushel, so the above levels of $3.0–$3.30 will not be readily accepted. For that reason, and the willingness to postpone sales into the next tax year, these lower prices may not occur until the first quarter of 1974.

D. PRICE OUTLOOK FOR LIVESTOCK, POULTRY, MILK AND FOOD IN 1973

We expect food prices during 1973 to average 6–9% above the average price of food at the retail level for 1972. Farm prices during 1973 will be more than 10% over the 1972 levels. Following below are our more specific price projections and reasons for increased farm and food prices during 1973 for the major items of (1) Beef and Pork, (2) Poultry, and (3) Dairy products.

1. BEEF AND PORK OUTLOOK

Beef.—Choice slaughter steers, Amarillo basis averaged $45.30 per CWT in March 1973, and will range between $43.00–$47.00 during the months of April through December, 1973. if the ceiling on meat prices recently announced remains in effect. The ceiling price for choice steers is about $46.00–$47.00 per CWT.

Retail beef prices averaged $1.30 per pound in February, 1973, or 14% above the 1972 average. Retail choice beef prices for March, 1973, will be above the February price levels. Retail beef prices, April through December, 1973, will range between $1.10 and $1.45 per pound.

2. Pork—No. 1 and 2 Slaughter hog prices, Peoria basis, averaged $38.69 per CWT in March, 1973, and will range between $35.00–$40.00 April through August and $32.00–$36.00 September through December. This assumes the recently announced ceiling on meat prices will remain in effect. The ceiling price for slaughter hogs is about $40.00–$41.00 per CWT.

Retail pork prices averaged 97¢ per pound in February, 1973, or 17% over the 1972 average. Retail pork prices, March through December, 1973 will range between 85¢ and $1.20 per pound.

3. *Reasons.*—In addition to the causes outlined in Part II—A, B, C and D, we expect larger than normal numbers of feeder cattle to be diverted to grass during the March–June period of this year. Many feedlot operators are going to make an effort to "'cheapen back" the feeder cattle they are now purchasing. In addition to the continued relatively high cost of grains being a major factor, grass conditions and/or prospects throughout the U.S. for this spring and summer appear to be excellent.

The diversion to grass will cause feedlot placements to be lower than normal during the spring and summer months, and it will in turn cause fed cattle marketings in the last half of 1973 to be lighter than normal for most of the Midwest and Panhandle areas. Feedlot placements during the February–May period stand an excellent chance of being below year ago levels. Cattle numbers coming off of wheat this spring will be sharply lower than a year ago. Movement off grass of much larger than average placements on the West Coast and Arizona Desert areas during the winter and spring months will offset somewhat the reduced spring and summer Midwest placements, as far as total on feed numbers is concerned. Early fall marketing in the western feeding areas will be larger than normal. Feedlot placements will be much larger than normal during the August–November period, which will in turn cause above average fed cattle marketings during the first part of 1974, resulting in subsequent lower prices for fed cattle at that time. If high death losses continue this years' calf crop will not show as much increase as originally anticipated.

Pork supplies will start to increase significantly during the last quarter of 1973, which is the primary reason hog and pork prices will be lower then, compared to present levels. We expect this trend of lower prices to continue during most of 1974 for hogs.

4. *Poultry.*—Average retail broiler prices in the U.S. will range between .35 and .50 cents a pound during the balance of 1973. Retail broiler prices averaged .46 cents a pound in February of 1973, which is 11% over the average U.S. retail broiler price for 1972.

5. *Reasons.*—There is a strong demand for broilers, chickens and eggs and we expect this trend to continue during 1973. Broiler and related poultry supplies compared to 1970–1971 levels will stay low through September of this year. This is due to sharply raising costs, resulting in the cost of production being above the price received by the poultry producer and processor.

6. *Dairy products.*—The average retail price for milk in the U.S. in February was about .60 cents per one half-gallon, which was up about 3% over the average retail price of milk during all of 1972. We expect the retail price of milk during the balance of 1973 to range between .60 and .66 cents per half-gallon of milk, which represents about a 10% increase in milk prices by this fall, compared to the last half of 1972.

7. *Reasons.*—As with the care of red meat and poultry the demand for milk has been increasing. We expect this trend to continue during the balance of 1973. Total milk production in the U.S. during the first half of 1973 will be about 1% below the first half of 1972 and milk production during the second half of 1973 will be down about 2% compared to the second half of last year. This is because of sharply rising production costs which are now above prices received for milk and many milk products by the producer and the processor. Dairy farmers are, as a result, culling their cow-herds more heavily than normal now and we expect this trend to continue for several more months during 1973.

SUMMING UP

Grain prices increase due to:
- U.S.S.R. decision to upgrade diet.
- U.S.S.R. unexpectedly large wheat purchases.
- U.S. harvesting delays.
- U.S. logistic problems:
  - Interior transportation.
  - Seaboard elevation.

Protein price increase due to:
  Reduction/cessation Peruvian fish catch.
  Existing and known world shortage of protein.
Livestock/Poultry/Milk/Meat price increases due to:
  Increased demand:
    Increasing personal income.
    Increased exports.
  Decreased supplies:
    Weather.
    Mud losses.
    Inventory building.
  Increased costs for farmer:
    Cost of feed.
    Cost of gain—(weather/mud).
    DES.
  Increased spread between farm and market:
    Inflation.
    Wage Increases.
    Transportation charges.
  Consumer Boycotts.

THE NEED

1. The prevention of a food shortage in the United States.

2. Make the standard of living and income in rural and urban America equal and keep it that way. We need more farmers.

3. Further strengthen this country's ability to be the most efficient producer of the most, the best and the lowest priced food in the world.

4. Improve the U.S. balance of trade and payments position and the stability of the U.S. dollar.

RECOMMENDED SOLUTIONS

1. When the American Farmer and Rancher, through the *profit incentive* and *free market system*, is in a position to consistently make a comparable return on his labor, land and capital investment as other industries do, he and the American farm family will solve all of the major needs, and problems referred to above. This is the only solution that will really work and that will stand the test of time.

2. If the American consumer spent 20% of his income on food instead of the present 16%, the American public would actually benefit. Why? Because it would insure an ample supply of high quality food and a sound expanding total economy in the future. The American Farmer is optimistic by nature and when he starts making a real profit that he can be proud of, he will unquestionably produce plenty of food for our needs, plus the need of many other countries.

3. Do not make the serious mistake of placing the sole blame for this country's price inflation problems on farm and food prices. The record shows very clearly that the American Farmer has contributed the least to rising consumer prices than any other basic industry in this country. This is true today and it was true 20 years ago.

4. Once rural and urban incomes become equal, then food prices should increase in proportion to all wage increases on a year to year basis.

5. Extend the 1970 Farm Act for only one year, and then make proper changes in the farm program next year, with the emphasis on much less government involvement financially and otherwise, while letting the free market and profit incentive system take over.

6. Adjust the milk price support level this year only from 75% to 85% of parity.

7. Develop and implement, a more flexible and longer range two-way market sharing and foreign trade policy regarding agricultural farm commodities. The American farmer needs longer production guidelines self-imposed relative to the world supply and demand for food.

8. More than ever before, we have a world market for food. American Agriculture and the public would benefit greatly by having much more complete and timely information regarding supplies, demand and prices for farm commodities and food for all countries of the world. We recommend that the U.S. Government finance and develop, in cooperation with other countries, a sophisticated and computerized agricultural market information system.

Exhibit A

THE BUILD-UP IS TOO RAPID

We interpret the USDA January 1, 1973 Cattle Inventory Report as bearish especially from late 1974 to 1976. In addition, it appears as though both pork and feed grain supplies will be substantially larger in 1974 compared to 1972 levels. Caution, restraint and positive action are the keys to a continued profitable cattle industry.

A 7% build-up in replacement heifer numbers, plus a 6% jump in beef cow numbers during 1972, spells trouble down the road. This sharp increase during 1972 in beef cow numbers is on top of previous significant jumps during 1970 and 1971. The *increase* in beef cow numbers during 1972 was 2,295,000 head or 245% more than the increase of 930,000 head during 1971.

To further illustrate the trend towards building beef cows numbers, cow slaughter was lower in 1972 than in any of the eight previous years (except 1970) since 1964. At the same time, a trend towards holding back significantly larger numbers of replacement heifers has been obvious since 1970. Cow slaughter under federal inspection in 1972 was 5,400,000 head or more than *4% below* the 1971 figure.

We expect cow slaughter in the U.S. to start increasing during the 1974–1976 period, compared to the 1972–1973 levels. With a trend of increased cow slaughter between now and 1976, any increase in beef imports from foreign countries will have a pronounced depressing effect on domestic cattle prices during this same period.

This word of caution regarding too rapid a build-up in our cattle numbers may sound out of place in view of today's prices, but the commercial cow/calf operator is again faced with the important decision of how much to increase his herd inventory. It is a decision that will greatly affect the beef business for at least the next three to five years. We have now had three years of sharp increases in our beef cow inventory. With this trend continuing during 1973 and 1974, we believe that the favorable position which the cow/calf operator is in today will have eroded considerably by 1975. The results will be lower cattle prices than what we have in 1973 and substantially larger feeder cattle supplies.

In the past few years, cattlemen have done an excellent job of efficiently producing a uniform supply of high quality beef which the consumer has come to readily accept. It is a case of regularly satisfying the consumer with predictable quality and uniform eating satisfaction.

To keep pace with the growing demand and consumer preference for beef, some growth in cow numbers is needed. The key question is how much growth is healthy and when do we reach the "too much" level.

We do expect personal incomes to further increase and therefore the demand for beef and pork to continue improving in the years ahead. However, the accelerated demand for meat during 1972 and 1973 has been caused in part by various government social reform programs resulting in a redistribution of income, allowing traditionally lower income groups to have more money to spend for beef and pork. For example, our government spent over $2 billion during 1972 in the Food Stamp program. In addition, there were two jumps in social security payments during the past 15 months of about 20% each. Furthermore, local, state and national welfare payments were at an all-time high in 1971–1972.

During the 1974–1976 period, it appears that these government programs causing accelerated demand and expenditures for beef and pork in 1972–1973, will be leveled off, and in many cases, reduced. Therefore, the demand for beef and pork in the future will primarily come from increases in consumer personal incomes, population growth, and from whatever exports of pork and beef we are able to achieve to foreign countries, such as Japan. We believe, therefore, that it is unrealistic to assume that the demand for beef and pork will continue to increase at the same accelerated rates during the 1974–1976 period as it did during the 1971–1973 period.

Relating this to the cow/calf operator, all the indicators point toward an ideal steady growth rate in beef cow numbers of no more than 2.0% to 2.5% per year. This rate of growth would add about 820,000 to 1,000.000 head of new females to the breeding herd each year and keep supply and demand in a healthy balance for both the producer and the consumer. We believe that sound supply-management guidelines call for cow/calf operators to regulate their calving and replacement programs so that beef cow numbers do not increase more than 2.5% per year during the next three years. They should start now.

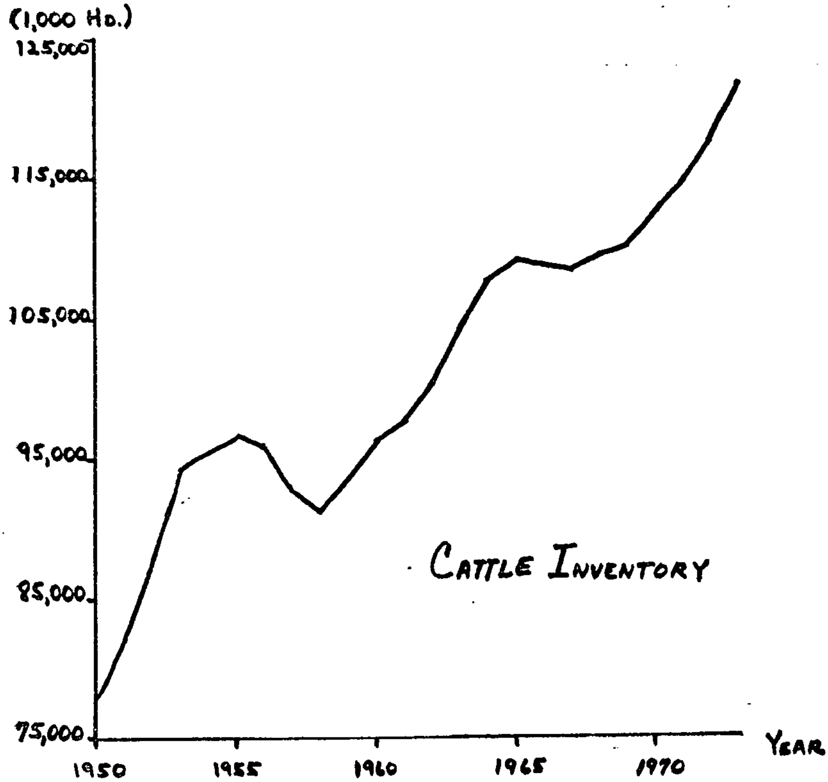
The trend of improved efficiency on the part of the U.S. cattlemen to obtain proportionately higher increases in beef tonnage from relatively small increases in the nation's cow herd, will continue for at least the next five years. Improved seedstock, better management, greater emphasis on fertility and the expanding feedlot industry all contribute greatly to having an adequate supply of beef available from a steady 2.0% to 2.5% per year increase in beef cow numbers.

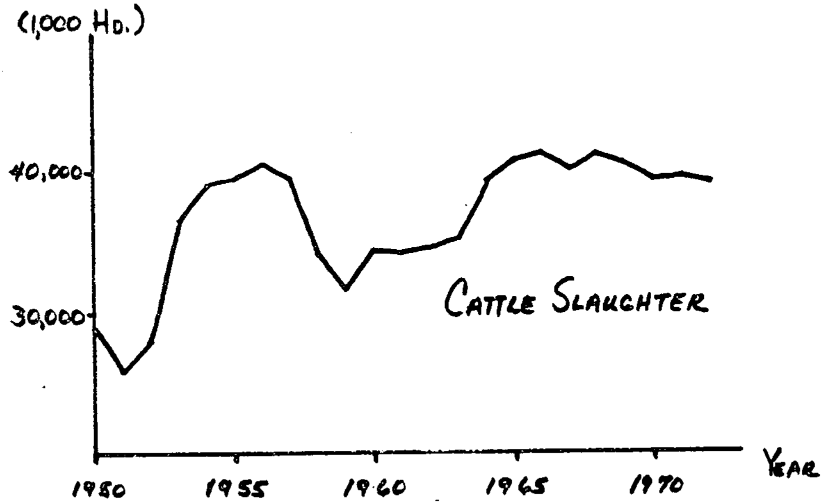
The dairy cattle inventory in the U.S. has finally stabilized. For the first time in many years, dairy herd replacements are now increasing. This will result in even larger total beef supplies in the years ahead.

All major regions in the U.S. had increases in beef cow numbers during 1972, ranging between a plus of 2.3% to 8.8%. The most significant increases were in the states of Texas, Oklahoma, Kansas, Missouri, North Dakota and the southeastern states. We expect this trend to continue.

In the case of state rankings 50% of the beef cows in the U.S. are in the eight states of (1) Texas, (2) Oklahoma, (3) Missouri, (4) Nebraska, (5) Kansas, (6) South Dakota, (7) Iowa and (8) Montana.

Exhibit B


(1,000 Hd.)
125,000
115,000
105,000
95,000
85,000
75,000
1950
1955
1960
1965
1970
Year
Cattle Inventory


(1,000 Hd.)
40,000
30,000
1950
1955
1960
1965
1970
Year
Cattle Slaughter

USDA ANNUAL CATTLE INVENTORY ESTIMATES—JAN. 1, 1970 TO 1973

Cattle classification	1970	1971	Percent change	1972	Percent change	1973	Percent change
A. All cattle:							
1. All cattle and calves	112,303	114,578	+2	117,862	+3	121,990	+4
2. All cows and heifers that have calved	48,982	49,786	+2	50,585	+2	52,753	+4
B. Beef cattle:							
1. Cows and heifers that have calved	36,404	37,877	+3	38,807	+3	41,021	+6
2. Heifers over 500 lb, for replacement	6,253	6,664	+7	6,987	+5	7,470	+7
3. Steers, heifers and bulls under 500 lb	29,704	30,235	+2	31,688	+5	32,342	+2
4. Steers over 500 lb	15,080	15,610	+4	15,999	+2	16,655	+4
5. Bulls over 500 lb	2,245	2,327	+4	2,376	+2	2,465	+4
C. Dairy cattle:							
1. Cows and heifers that have calved	12,578	11,909	−5	11,778	−1	11,651	−1
2. Heifers kept for replacement	3,974	3,843	−3	3,828	0	3,875	+1
3. Other heifers	6,065	6,113	+1	6,399	+5	6,430	0

Exhibit C

AVERAGE QUARTERLY PRICES OF CHOICE SLAUGHTER STEER AT AMARILLO AND SLAUGHTER HOGS AT PEORIA PER HUNDREDWEIGHT

	1st quarter, 1972	2d quarter, 1972	3d quarter, 1972	4th quarter, 1972	1st quarter, 1973
Cattle	$35.20	$35.53	$35.30	$35.37	$43.02
Hogs	25.98	26.46	29.84	30.19	36.27

MEAT PRODUCTION BY QUARTER FOR BEEF, PORK, AND MUTTON

[Millions of pounds]

	1st quarter	2d quarter	3d quarter	4th quarter
1972	8,272	8,396	8,466	9,137
1973	8,135			

POULTRY SLAUGHTER BY QUARTER

[Millions of pounds of poultry inspected for slaughter]

	1st quarter	2d quarter	3d quarter	4th quarter
1972	3,052	3,443	3,879	3,764
1973	[1] 2,022			

[1] For January and February.

Exhibit D

AVERAGE RETAIL BEEF PRICES

[Cents per pound]

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
1972	114.4	112.3	115.3	113.2
1973	[1] 126.3			

[1] For January and February.

AVERAGE RETAIL PORK PRICES

[Cents per pound]

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
1972	79.0	79.9	86.1	87.7
1973	[1] 95.6			

[1] For January and February.

AVERAGE RETAIL BROILER PRICES

[Cents per pound]

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
1972	41.4	40.7	42.0	41.5
1973	44.7			

EXHIBIT E

AVERAGE QUARTERLY PRICE SPREADS FOR BEEF, PORK, AND BROILERS PER HUNDREDWEIGHT

	Live-wholesale price spread			Wholesale-retail price spread		
	Beef	Pork	Broilers	Beef	Pork	Broilers
Quarter:						
1 (1972)	$3.07	$7.95	$13.60	$23.39	$16.52	$13.60
2 (1972)	3.09	7.62	11.50	22.05	17.60	13.50
3 (1972)	2.94	7.05	14.40	25.15	17.68	12.30
4 (1972)	3.15	9.28	13.90	25.19	14.77	13.50
1 (1973)	[1] 3.36	[1] 7.59	[1] 18.80	[1] 23.51	[1] 16.24	7.60

[1] For January and February.

AVERAGE QUARTERLY HIDE AND OFFAL VALUES

[Price per hundredweight for live weight steers]

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
1971	$2.06	$2.25	$2.16	$2.24
1972	2.70	3.33	3.78	4.26
1973	4.45			

EXHIBIT F

LIVESTOCK PRICES—RETAIL PRICES—CONSUMER INCOME, 1951-72

	Price per hundredweight		Price per pound		Disposable personal income per capita
	Average cattle prices	Average hog prices	Average choice beef prices (cents)	Average pork prices (cents)	
Year:					
1951	$29.69	$20.00	87.3	57.8	$1,468
1952	25.71	17.80	85.7	56.2	1,518
1953	17.66	21.40	68.4	62.1	1,582
1954	17.44	21.60	67.8	63.4	1,585
1955	16.92	15.00	66.8	53.6	1,666
1956	16.34	14.40	65.4	51.4	1,743
1957	18.50	17.80	69.9	59.4	1,801
1958	23.11	19.60	80.2	63.8	1,831
1959	23.91	14.10	82.0	56.3	1,905
1960	21.98	15.30	80.2	55.9	1,937
1961	21.41	16.70	78.4	58.4	1,984
1962	22.95	16.40	81.7	58.8	2,066
1963	21.10	15.00	78.5	56.6	2,139
1964	19.71	14.80	76.5	55.9	2,284
1965	21.37	20.80	80.1	65.8	2,436
1966	23.34	23.00	82.4	74.0	2,605
1967	23.43	19.00	82.6	67.2	2,751
1968	24.63	18.70	86.6	67.4	2,946
1969	27.25	22.90	96.3	74.3	3,130
1970	27.79	21.90	98.8	78.0	3,358
1971	28.80	17.95	104.3	70.3	3,581
1972	33.20	26.00	113.8	83.2	3,767
Percent increase:					
1951-72	12	30	30	44	150
January 1973	37.10	31.00	122.3	94.1	
February 1973	40.50	34.20	130.3	97.1	

EXHIBIT G

Share of Food Expenditures From Personal Disposable Income

Name of Country or Area:	Food expenditure percentage
U.S.A.	16.7
Canada	20.6
West Germany	24.2
Japan	26.6
Western Europe	30.0
U.S.S.R.	52.0
Eastern Europe	54.0
Other Nations	Up to 60.0

Economically Active Population in Agriculture as a Percent of Total Economically Active Population

Name of Country of Area:	Agriculture population percent
U.S.A.	4
Oceania	18
Europe	19
Japan	21
U.S.S.R.	32
South America	39
Central America	47
Asia	63
Peoples Republic of China	67
Africa	69

Chairman HUMPHREY. Now, we have Mr. Brandow, from Pennsylvania State University, the Department of Agricultural Economics.

STATEMENT OF GEORGE E. BRANDOW, PROFESSOR OF AGRICULTURAL ECONOMICS, PENNSYLVANIA STATE UNIVERSITY

Mr. BRANDOW. Thank you, Senator. I, too, have a prepared statement that I would like to submit for the record. I shall not try to review it in any detail.

We have heard this morning a number of the reasons for high food prices. In general I agree with them. It is not a question of where anybody has deliberately undertaken to overcharge and get exorbitant prices. We are in a situation where demand has been rising rather phenomenally. This year food consumption per capita will be at an all-time record, and meat consumption per capita will be only a hair below the all-time record. Yet consumers are taking 9 percent more money to the markets. They are interested in meat and spending for it.

We are in an inflationary period. Increasing costs are permeating all our economy, farm costs, processing, and distribution costs in the food industry, and so on. On the one hand we have rising incomes, and on the other hand we have rising costs. And this has been going on for a decade. I really don't believe we are likely to see the end of it very soon.

The important thing at the present time is the status of the farm program, which was just alluded to. Historically the farm program has been carried out in order to support farm income, but I think the experience of the past year dramatically emphasizes that the program has substantial potential if properly used for stabilization both ways, helping protect the consumer against excessive surges of prices as well as protecting farmers against excessive drops in prices.

I do think that in the operation of the program the past year the Department of Agriculture has been very slow to recognize the stabilization function, and has not in fact operated that quite as well as it might to ameliorate the price difficulties that consumers are now having.

However, it is true, I believe, that the Department by now has gone quite far in arranging to release acreage from the setaside. But I am impressed that despite rather drastic steps at this point in loosening up the farm program for the purpose of increasing food supplies, we are still in a rather tight situation. As John Schnittker says, if crops aren't good, we can be in serious trouble. And unfortunately, here in the United States, we aren't getting off to a good start. It is raining too much out in the Midwest.

As John Schnittker pointed out, around the world, the situation is not particularly bright. If the weather becomes unfavorable we could be in more real trouble with food prices.

However, if weather is favorable, I think that this fall we should have enough feed grains and soybeans to get feed prices substantially lower than they have been this past winter. If we do this, we can expect more pork supplies, more poultry, more eggs, in 1974. Pork supplies should increase this fall just because of increases in production that farmers now have under way. If the weather deals kindly with us, I think that food prices, as indicated by the retail food price index, may approximately level off this fall.

Looking ahead into 1974, I see the possibility, provided the weather is good to us, of larger supplies of poultry, eggs, pork, and possibly even beef, in substantial enough increase to have something to do with price.

So this is sort of optimistic.

On the other hand, I think there are going to be, even under the best of circumstances, offsetting influences. There are going to be prices of items such as dairy products, fats and oils, and restaurant meals that will be going up.

The costs of processing and distributing food, which in recent months have not played much role in the rise of food prices, are going to go up. And that is going to affect food prices.

Imported food is going to cost more. Fish is going to cost more.

I think that analysts in general have underestimated the importance to the U.S. price level of the two devaluations of the dollar for the future.

Chairman HUMPHREY. Yes.

Mr. BRANDOW. So I believe that at the end of 1973 the sharp rise in food prices, if the weather is kind to us, will very appreciably slow down and perhaps level off. During 1974, I believe that food prices will tend to work upward. But contrary to the experience of recent months, food prices should no longer rise faster than the consumer price index as a whole.

Chairman HUMPHREY. All of the prepared statements will be included in the record at the end of your oral statements. And we are indebted to you gentlemen for your work in preparing this testimony.

[The prepared statement of Mr. Brandow follows:]

Prepared Statement of George E. Brandow

Inflation and Food

Inflation of food prices during the past 18 months has been attributable mainly to expanding demand, fueled by rapidly rising incomes, and to failure to increase food supplies rapidly enough to keep up with demand. From 1965 to 1971, per capita food consumption rose about 1 percent per year, which was enough to keep food prices from rising more rapidly than the Consumer Price Index. Both foods as a whole and meat were consumed in record quantities in 1971. Per capita supplies of total food and of meat turned down slightly in 1972, however, and food prices became the problem child in the effort to control inflation. In the current year, 1973 food consumption per capita is expected to hit another all-time high, and meat consumption per capita will be the second highest on record. But consumers have about 9 percent more money to spend and a strong disposition to buy meat with it, with the result that food prices are up sharply again this year.

The reduced supplies of food that began to appear in the summer of 1972 were mostly fortuitous. Adverse weather hurt fruit and vegetable production. Hog producers, who had cut back breeding in response to low prices in 1970 and 1971, had fewer animals to send to market. Egg production entered a similar period of low production as the result of depressed prices in the past two years. Unfavorable harvest weather somewhat reduced production of corn and soybeans.

Export demand has added to strong domestic demand. The most spectacular instance, of course, was the huge wheat purchase by Russia in the summer of 1972. But a fact of more enduring significance is that Europe and Japan are reaching the levels of affluence at which demand for meat and poultry become strong. Their consumers, and apparently Russia's, too, want livestock products, which in turn require feedstuffs that cannot be wholly supplied locally. Thus American exports of feed grains and soybeans have been rising, and they have risen especially strongly in the past year. Furthermore, the meat supply lags behind demand also in other countries, with the result that suspending U.S. import quotas on beef has had little effect on U.S. prices. The devaluation of the dollar, of course, has increased the ability of foreign countries to buy in American markets and has reduced our ability to buy abroad.

A factor of minor significance in the recent surge of food prices but likely to resume its customary importance is the cost of processing and distributing food. This cost ordinarily accounts for about 60 percent of prices paid by consumers in food stores. USDA's "market basket" statistics show only 2.4 percent increase in the farm-retail price spread between June 1972 and February 1973. To some extent, this is a statistical illusion, for customary lags of retail price movements behind farm prices narrow the computed price spread when prices are rising. But it appears to be generally true that margins taken by processors and distributors have not increased much. The rising costs that are permeating the whole economy are affecting food processing and distribution, however, and a widening spread between farm and retail prices can be expected in the future.

Though reasons for rising food prices in the past 18 months are fairly clear, the extent of the increases since mid-1972 is less easily explained and was anticipated by very few analysts. An inflation temperament seems to have taken hold. The tight supply situation in wheat created by the Russian purchase generated expectations that exports might indefinitely outrace capacity to produce. Similar expectations seem to have rubbed off on feed grains even though currrent supplies were ample. The soybean situation was genuinely tight and added to expectations of higher prices for farm products in general. Even markets for such perishable products as beef and pork seem to have been affected. Consumers accepted inflation, not in the sense that they were happy about it but in the sense that in their private purchasing decisions they were little deterred by soaring prices. In such a market, retailers and packers could pay almost anything for the meat and livestock they bought and get their money back when they sold. The precision that economists like to attribute to price in equilibrating markets was shrouded by an inflation psychology.

The giant farm program administered by the USDA inescapably gives it great influence over supplies and prices of farm products. As 1972 began, farm prices probably were higher than they would have been if no farm program had been in existence. But the country was in much better position to increase market supplies of food than it otherwise would have been. Stored stocks of feed grains and wheat were considerably larger than the private trade would have carried. Large acreages of productive cropland were in operating farms but were withheld from use by the set-aside program. Prices of wheat and feed grains were near support levels and were little different from prices in 1965, seven years earlier.

In the absence of the farm program, food prices probably would have risen more than they did in 1972–73, and, more important, there would be little prospect of prompt increases in supplies of feedstuffs with which to curb rising meat and poultry prices later on. The experience dramatically illustrates the potential role of the farm program in stabilization, in ameliorating upward surges of prices for consumers as well as preventing excessive declines of prices for farmers.

I think the principal criticism of the administration of the farm program since early 1972 is the failure to recognize and implement the stabilization function. One can understand why USDA, for many years plagued by costly and embarassing surpluses, was willing to commit almost any amount of wheat the Russians might want. Refusal to sell would not have precented a rise in the price of wheat, for Russia would have had to buy somewhere and thus raise the world price. But when the effects of the sale began to be apparent, and when other food prices began to rise rapidly for other reasons, the Secretary of Agriculure was explicit in saying that he wanted higher farm prices and in rejecting the idea of stabilization.

If USDA had been quick to change its thinking, it might have modified the set-aside program for wheat seeded in the fall of 1972 to increase acreage. To have done something so unpopular with farmers in an election year would have required a disregard for politics most unusual in Washington. Probably USDA could have somewhat abated the speculative upward pressure on grain prices in the fall of 1972 if the Department had announced a firm policy of operating the farm program in 1973 and later to stabilize grain prices as soon as possible at the levels of early 1972. The actions, finally completed in late March 1973, to release set-aside acreage have been substantial, but the delay probably tended to hold up feed prices during a crucial period for livestock and poultry producers.

The retail food price index should slow down its rise and perhaps level off temporarily in the fall of 1973. An increase in hog marketings in response to high prices will reduce pork prices. If weather is not unfavorable, several fruits and vegetables will be more abundant than last year. Modest increases in production of beef and poultry should hold their prices in check. On the assumption that acreage expansion will materially increase supplies of feed grains and soybeans late in 1972, we may expect rising supplies and somewhat lower prices of pork, poultry, and eggs in 1974. Even retail beef prices may weaken in 1974 or 1975 as the current build-up of herds leads to a faster increase in beef slaughter than has occured in recent years.

Other factors will tend to offset such price-decreasing tendencies, however. Prices of such items as dairy products, fats and oils, beverages, and restaurant meals probably will gradually rise. Increasing costs of processing and distributing foods will particularly affect prices of highly prepared foods. Imported foods and fish probably will advance in price. Thus, a significant decline in the retail food price index after 1973 seems unlikely. Rather, food prices may rise roughly in line with the Consumer Price Index as a whole.

Prospects for keeping food prices from outracing other consumer prices after 1973 depend crucially upon the size of feed grain and soybean crops this year. If the weather is favorable, crops should be large enough to bring prices of feedstuffs well below their winter peaks and to encourage livestock and poultry producers to expand production. But the situation is vulnerable to the weather: poor feed grain and soybean crops could cause a repetition of the 1972–73 experience.

One recommendation for curbing inflation of food prices is obvious—operate the farm program so as to bring land back into use and to produce enough feed grains and wheat to hold their prices near the levels of early 1972. Full production of wheat cannot be achieved until 1974. Unless exports grow faster than seems likely, it seems possible to produce adequate supplies of feed grains and wheat in the next few years. Soybean production also can be abundant, though prices will be higher than they were prior to 1972. Pork, poultry, and egg prices can then be kept within reasonable bounds, and even cattle prices may be moderated by rising output. This does not mean that retail prices will be stabilized—both farm costs other than feedstuffs and costs of processing and distributing food will rise with inflation in the general economy and will increase retail prices.

A second recommendation is also familiar: suspend or eliminate import quotas on foods deemed excessively high priced in the United States. The practical effect of this is likely to be minor. Cheese perhaps offers the best possibility at present.

Since I think we face a long-term inflation problem, I doubt that much can be accomplished to control food prices by such devices as ceilings, boycotts, or other short-term expedients. Ceilings that are nominal may be of some temporary use in political bargaining with labor and industrial groups capable of increasing wages and prices by the exercise of private economic power. Price ceilings that materially reduce prices will eventually require rationing, and the program could soon replace high prices as the focus of dissatisfaction. We should not tie the economy in knots to solve long-term problems with emergency measures.

The current meat boycott has obviously affected prices for a brief period. Just possibly it will stimulate some consumers to turn away from expensive cuts of meat in the future, but only if that happens will the boycott have any lasting effect. Though the heat is now on food prices, the more enduring danger is that inflationary forces serving to increase the Consumer Price Index by 40 percent in the past decade will be at least as strong in the future. Containing those forces requires, of course, much broader policies than those affecting the food sector alone.

Chairman HUMPHREY. I am going to ask the staff to see that every member of the Joint Economic Committee receives a copy of the prepared statements of these three witnesses in particular, and indeed of the witnesses that we had on the other panel. And I want to discuss the areas that we would like to mark up to call to the attention of the committee.

The thing that comes through here, without going into much detail on other matters, is this business of what appears to be somewhat of a difference of opinion as to what will be happening to food prices. I have Mr. Schnittker's prepared statement before me, for example, where you said, Mr. Schnittker, that official predictions that food prices will be lower at the end of the year than at the beginning do not appear to rest on a realistic analysis of the situation. And then you go on and give some statistical information.

I gather that you are all basically in agreement with that. If not, let's just get a little note on it.

Mr. Schnittker, you are saying in substance that even without any danger of some crop loss or crop failure, that your analysis of the food situation and all the factors that go into pricing food indicate that food prices will continue to go up rather than to go down, is that correct?

Mr. SCHNITTKER. Throughout 1973, and that the rise during 1973 will be about 10 percent.

Chairman HUMPHREY. Instead of the projected, what was it, 6 percent?

Mr. SCHNITTKER. Yes.

Mr. HELMING. I am in complete agreement. I am saying 6 to 9 percent. I see very little relief any time this year. When it comes to beef cattle, I don't see any particular relief until 1975–76.

Chairman HUMPHREY. I want to get a little more on that. Because the one thing that is quite disturbing to me is the lack of understanding of the problem of food pricing, and the factors that go into it.

Now, you are saying that on beef cattle you do not expect any decrease, certainly not this year, is that correct?

Mr. HELMING. Not any significant decline at all. As a matter of fact, I can see prices going higher this summer.

Let me explain why. Ever since 1970 we have seen the American farmer and cattleman in this case holding back heifers and buiding his cow inventory, and there is nothing unusual about that. We have seen this cyclical pattern develop for hogs and cattle for years and years. It takes about 5 years realistically to get to the point where you really start substantially increasing the slaughter of cattle after you have had a buildup. And the best estimates that I can come up with—and I think there are a lot of people that would agree with me—is that we will not get to the point where we see a liquidation or a substantial increase in cattle slaughter, and therefore an increase in beef tonnage, until at the very earliest late 1974, and I am inclined to believe that it will be well into 1975 and into 1976 before we see the next major increase in beef supplies.

At that time, instead of a 1 or 2 percent increase in beef production that we are seeing now—and right now, by the way, at this particular moment, it is substantially below what it was a year ago—I can see beef supplies going up 6, 7, or 8 percent over a year ago levels by 1975–76. But it is simply going to take more time.

On the pork side, I believe that we will see more some substantial increases in 1974. And it will start to show up late this year.

Chairman HUMPHREY. Increases in supply?

Mr. HELMING. Yes, sir.

Chairman HUMPHREY. And that will lower prices?

Mr. HELMING. That will lower prices, certainly under current levels, as we go into 1974.

I see very little hope if any for broiler production and basic poultry supplies to increase materially, because as you indicated, they were losing their shirts for the last several years, and of course with the tremendous rise in production costs, they are just simply cutting down. And even though it takes a lot shorter period of time to get back into gearing up for poultry production it simply is not going to be done in the next 2 or 3 months. It is going to be more like 6 to 8 months before we are going to see any relief there in terms of lower form and retail prices than what we have now.

And I share John's concern with the matter of weather and to subsequent effect on crop production. We monitor this on a day by day basis back in Kansas City, and we very well could have substantially higher food and feed grain prices this fall than we had last fall and this winter. And I think they are going to be relatively high, comparable to prevent price levels. The weather will be a key factor.

Chairman HUMPHREY. That is my judgment, too.

Mr. HELMING. If we don't have good weather we could see corn go to $2 and $2.50 a bushel.

Chairman HUMPHREY. I will come back to that.

Mr. Brandow, do you fall in this ball park of a 10 percent figure on price increase?

Mr. BRANDOW. Having made a notably bad forecast last fall when I seriously underestimated the increase in price that was going to occur, I haven't tried to work through any detailed one since. But I certainly agree that food prices are likely to continue to increase this year until the late fall. And then I think they might temporarily level off, or at least they will slow down.

But this leaves us with a substantial increase over the beginning of the year. So essentially I agree.

Chairman HUMPHREY. Do you gentlemen have any reason to believe that your calculations in the light of what has been happening to food prices might be slightly conservative?

Mr. HELMING. Yes.

Mr. SCHNITTKER. I think it is possible, particularly if we get some concern about crops, some reports from mysterious countries like China and Russia, about which we know very little. We would react to the possibility that the worst is happening there. And this could lead to quite a speculative period and sharply higher grain and oilseed prices.

Chairman HUMPHREY. Do you have any idea of what early warning signs we might look for or hear about?

Mr. SCHNITTKER. The most important thing is for the Department of Agriculture to not only receive but to evaluate and disseminate the information they get in attaché and other reports from the countries which provide relatively little news to the world. Here Russia, of course, is the principal example. But we now have some greater access to China than we formerly had. These are two very decisive countries for the year ahead, and both presently seem to have some trouble getting their 1973 crops underway.

Chairman HUMPHREY. The Earth Resource Satellite could be of some help on this, couldn't it?

Mr. SCHNITTKER. Yes, it could, and it is providing information. But we just don't hear very much about it. And even attaché reports that come in to Department of Agriculture, if they say anything, tend to be classified and you can't get your hands on them.

Chairman HUMPHREY. We have made some study in the Committee on Agriculture, as you know now, on this whole subject of crop information. It is quite obvious that on the Russian wheat deal information did come to the Department, but it was not properly digested and then made available to the public. There was a hesitancy to make real calculated predictions on it. I can understand the caution of men in the research division of the Department. But our most recent hearings now that the information was coming in, that we did have indications of serious crop problems, but a great underestimation as to how much the Russians would buy.

The political decision—in other words, you cannot estimate the political decision—we knew that we had crop problems, but as you recall, in 1963 they had serious crop problems, too, crop failures, but they didn't buy very much, they just decided to slaughter their cattle. This year they bought because the politics of the Soviet Union compelled that the Government provide beef and provide a better diet for its people. And the politics is always involved in this at the other country levels, particularly in these rather closed societies.

I guess what is maybe the more important thing we have heard here this morning is from you men, who have been in this work a long time, that it is your judgment that the price of food products in the supermarket, where the consumer goes to make his or her purchase, is going to continue to go up. It might slow down a little, according to Mr. Brandow, at the end of the year, in the fall, but it will still be going on, is that your prediction?

Mr. BRANDOW. Yes; I think so. I wouldn't be surprised to see a month or two of fractional let down or something of that sort, but I think the trend is up.

Chairman HUMPHREY. Out our way, speaking of weather, when we have no snow, we always worry about what the crop is going to be like.

Now, we are getting a lot of rain, as you said, in the Midwest. But there is a lot of difference between a good snow cover in the winter and a lot of rain, which has a fast runoff in the spring.

Mr. HELMING. Right. There has virtually been no fall ploughing done, as I am sure you know. There is a fuel shortage and fertilizer shortage in this country at the present time. And then when you put the weather on top of that, plus not a totally adequate seed supply, plus a farmer who is a little bit peeved—and you can't blame him for it, in view of everything that has been going on particularly recently—you have got a combination of factors that are not going to lend itself to any immediate cure to the problem of needing increased production.

And in reference to points No. 1 and No. 2 that I address myself to in terms of recommendations, we can talk until we are tired as consumers and as professionals about the food price situation. But fundamentally the American farmer is where it all starts. And I sincerely believe that the long-term solution is to allow him to operate in our free market system with the profit motive, because believe me, he will solve the problem, just give him enough time and sufficient profit incentive he will solve it.

Chairman HUMPHREY. But as Mrs. Donavan said, everybody is feeling pretty angry for the moment.

Mr. HELMING. But, you know, we need to look at it from the point of view that the American people, and indeed the people of the world, are going to have to eat 6 months from now and 5 years from now. And in order to meet those requirements, which by no means will remain static, we have got to get more production. And the Government can say all it wants about additional acres and additional other things of that kind, but that won't do any particular good in my view until we get down to the real basic problem. And that is, allow the farmer to make what he needs to make on that product, and he will produce more than perhaps we can handle.

Chairman HUMPHREY. Mr. Brandow.

Mr. BRANDOW. I would like to enter a slight demurrer about that. I think the prices that farmers have been getting by and large in recent months are plenty high enough to provide a very strong incentive for increased output. Very much depends upon what happens as we loosen up on the farm program and try to get those setaside acres back into production. If those setaside acres are really there and come back into production, then I think that there is plenty of price incentive for the farmers to go to work, that is, for the immediate future. Maybe in 10 years these prices will seem modest.

On the other hand, if it turns out that the world suddenly descends on the United States and starts buying food, and if we do not find all these setaside acreas that we think are there—and I am pretty sure not all of them are there—if we loosen up completely on the farm program and don't get enough output then I am rather skeptical that we are going to be able to further increase agricultural output very rapidly despite high prices. So, I would like to disagree slightly with the emphasis given by the other witnesses.

Chairman HUMPHREY. Let me get to an immediate question here. We will start and just go down the line. Is the imposition of a ceiling on meat prices an adequate measure to deal with the current inflation, and will it accomplish anything at all?

Mr. SCHNITTKER. I don't think it is necessarily adequate, especially if we get into a round of bad harvests. It is probably adequate if we get record harvests here and around the world this year. But if we get into a new round of price increases, then I think we must have some kind of programing of agricultural exports, so that we can keep our food costs reasonable in order to be able to enforce a meat price ceiling at retail.

Chairman HUMPHREY. Mr. Helming.

Mr. HELMING. I think the answer to that is whether you are looking at this whole food supply, demand and price situation from the immediate term or the longer range point of view. It is not realistic at all to me to look at just meat as opposed to the total food complex, let alone the total economy. That is the first thing.

Second, any imposition of a ceiling or controls of any period by the Government I think in the case of food, and particularly in the case of meat, would have a damaging effect in the long range. That is my view, because cattlemen would slow down their present rate of building cattle inventories.

Chairman HUMPHREY. Mr. Brandow.

Mr. BRANDOW. I don't have much confidence in more than temporary value of ceilings. I think if we do get abuandant crops this year, those ceiling prices, as I say, provide sufficient incentive for the time being for increased farm output. I think the biggest danger is that beef prices might press against those ceilings, and we would begin to have some real troubles in rationing our supply of beef and maybe some black marketing, and so on. I don't think that is necessarily in the offing in the next few months, but it might be.

I think that the imposition of that particular ceiling was largely a political and probably rather necessary move: One, in response to the rebellion of consumers, and second, to try to hold down the level of wages in the forthcoming wage negotiations. If particularly in the latter respect they serve some purpose, then I think perhaps they have been temporarily useful. But for the long run I don't think this goes very far.

If you would indulge me, I would like to disagree with John Schnittker about restricting exports, because I think there is a very real danger that if we restrict our exports at a time when the dollar is weak—and we already have a very serious adverse balance of payments and of trade—that all that will happen is that Europe will say that the Americans are not going to honor the value of the dollar at all, and we will have to depreciate further. And there seems to be general agreement that dollar depreciation doesn't do our price situation any good.

So, I think the long run effects of an emergency move to deal with the temporary situation could be very bad. We have gotten ourselves in a difficult problem with our balance of payments, and we just sort of have to tough it out.

Mr. HELMING. Could I say just one thing?

Chairman HUMPHREY. Yes.

Mr. HELMING. I think it can't be emphasized too strongly how important it is to do everything in our power in this country to improve upon our exports. The only thing that we have in the United States that we can really compete with the rest of the world on is food. And I think it would be a most serious and shortsighted approach to limit our exportation of any food commodity, whether it be grain or meat.

Mr. SCHNITTKER. May I say in rebuttal, Mr. Chairman, that we could export perhaps 5 or 7 percent less of some critical commodity like soybeans and soak up just as many European dollars and Japanese dollars for the smaller quantity as we get up today for a larger quantity. I think very careful and very hesitant export restrictions in the next round of food crises should not be ruled out. If we rule it out, we then give up the degree of food price stabilization that we want.

Chairman HUMPHREY. I want to ask a question about the boycott. It has been reported that the meat boycott will reduce meat sales this week by 30 to 40 percent. The processors are laying off people, but meat prices remain firm. What is your evaluation of the impact that the meat boycott will have on the economy, in the light of your assessment of that impact?

Do you support or oppose it?

Mr. Helming.

Mr. HELMING. I am anxious to answer that.

Frankly, I think it is having an effect. And it is my sincere belief that the American consumer can have far more of an impact in the short run, and particularly in the long run, to do with the influences on demand for meat, food, automobiles, and everything else, than any government imposition of controls, ceilings or anything else. I sincerely believe that. I did not say I condone it. But I do believe that in terms of its impact that it has had an immediate impact.

Now, I don't expect by any means that meat purchases will stay down 40 percent. I think that is totally unrealistic. But I do believe that it is going to be a while before we get back to any point of what you might call normal or an equilibrium. And the American public and the American housewife has had an effect and could well continue to have an effect for sometime.

Chairman HUMPHREY. What will we do with all those packinghouse workers that will be laid off?

Mr. HELMING. It is a real tough thing. And we are backing up livestock at the feedlot and at the farm level. Some producers and farmers are temporarily restricting livestock sales because of their boycotting the boycott, you might say, and you can't blame them for that since it is only human nature. And it is a serious matter because eventually these cattle and hogs will have to be marketed whether demand improves or not. I am very concerned about it.

Mr. SCHNITTKER. I am not supporting the boycott, but I have become a vegetarian for the week. I think a lot of people have, and are finding it much easier for a week or two than they expected it to be.

I would not expect it to be very long lasting, however. There will be some surge in meat consumption if prices come down ever so slightly after the activity of the boycott is over. I would not expect it to have more than a 2 or 3 percent effect on total meat consumption for the year.

Chairman HUMPHREY. Mr. Brandow.

Mr. BRANDOW. I think the immediate effect is appreciable, as has been indicated. Everything depends on what consumers do after the boycott period is over. If they go back to spending their dollars in exactly the same way as they did before, and continue to get more dollars, which is the trend of income, then the effect will rapidly wash out.

However, I think there is just a bare possibility that the boycott might be instrumental in changing consumers' attitude somewhat. Consumers really have shown a remarkable disposition to spend money on meat regardless of what it costs in recent months, more than statistical evidence indicates they had in the past.

Now, if this boycott leads a number of consumers to really say to themselves, they just don't have to buy all that expensive meat, or not quite so often—if it really made them more prudent shoppers, it could have an effect, and a lasting effect. But I think perhaps I am being a little hopeful when I suggest that.

Chairman HUMPHREY. It is interesting what price does to consumer habits. I remember when I worked in my father's drugstore we could buy a carton of cigarettes for—what we call leader brands—$1.40, $1.39, and it got up to $1.50. And I understand now that carton is about $4.50 and $5.00. And they smoke more cigarettes than they ever smoked in the history of the country.

Food, of course, is the immediate item for people. And yet I must say that I watched people complaining about food prices just smoking like they are going out of style. And cigarettes cost a lot of money. It doesn't seem to have any effect on buying automobiles, people bought more automobiles last year than they ever did in the history of the country.

Mr. HELMING. Fundamentally what we have concluded here is that supplies are basically tight and demand is increasing. Now, as to a boycott, whether it is short term in its effect or long term, you can only draw one conclusion. I don't view the boycott as a means of further stimulating and solving the need for increased production. I think it will have the reverse effect. So later on it is going to make our problems worse. I sincerely believe that will be the case.

Chairman HUMPHREY. Americans, as has been said here today, currently pay a smaller portion of their income for food than anyone else in the world. And meat prices are the lowest in the United States. And yet is it possible, given our extraordinary productivity in producing food and the high world demand for food, to supply the same food for still a small proportion of the family budget, while at the same time affording a farmer a fair return?

Mr. Schnittker.

Mr. SCHNITTKER. I think it is. The fact that American consumers pay a small percentage of their income for food is principally attributable to the high per capita income of American consumers as well as to the productivity of American farmers. But I see no reason why 10 years from now we could not be spending only 12 or 15 percent of our disposable income for food, whereas we are spending 18 or 20 percent for it today. It depends upon productivity and rising incomes.

Chairman HUMPHREY. Do you gentlemen agree with that?

Mr. HELMING. I believe that is right. But I believe the thing that we need to keep in mind is that somebody has to pay the price to stimulate production and going from the present 16 percent of our income spent for food would be a small price to pay to insure an adequate future supply.

Chairman HUMPHREY. Mr. Brandow.

Mr. BRANDOW. I wouldn't be surprised if the proportion of consumers' incomes spent on food levels off approximately where it has been.

Chairman HUMPHREY. Another point, and then we will conclude on this. Commentators on the current situation claim that farmers are making excessive profits because farm income is up. To some extent it seems to me that the farmer may be just recovering from years of poor farm prices. That is my own reaction to it. What is the average rate of return to farmers as you have studied it?

And do you believe that this return is fair or excessive, or how do you judge it?

Mr. HELMING. Historically it has been demonstrated in many studies that the average return on capital and investment was 1 to 3 percent, and in some years a minus, which is not what I would term, nor would I think anyone else, as a large return on a substantial investment, whether it be for his labor, his land, or any way I want to express it. They have been very modest, I would say.

Chairman HUMPHREY. Mr. Brandow, what do you think?

Mr. BRANDOW. I always dislike answering a question about the average or typical farmer, because farmers vary so enormously. There are undoubtedly many farmers in the United States that aren't doing very well, and are unlikely to do well regardless of what the level of prices is. And there are big differences on commodity grounds. The dairy farmer certainly has been squeezed by high feed prices recently. On the other hand, the rancher that sells feeder cattle should be making more money than he ever dreamed of a few years ago. I think that for products that are in short supply and have high prices, the efficient farmers are doing well enough financially so that the public need not worry particularly about their financial condition. There are much more important problems in this country in regard to economic well-being than those farmers.

Chairman HUMPHREY. Mr. Schnittker.

Mr. SCHNITTKER. I agree with Mr. Brandow. Even 5 years ago a parity income study by the Department of Agriculture reported that about half a million of the larger farmers were earning slightly below to slightly above parity incomes, based upon 1969 prices which were not really as high as prices today.

Now, costs have risen. But those half million farmers, who market 80 to 90 percent of all the farm products, are doing very well. They are not getting rich in the sense of General Motors or Du Pont, but in terms of their own investment and labor and their own objectives, I think they feel that they have done exceptionally well in the last couple of years.

Chairman HUMPHREY. Gentlemen, I want to thank you.

I see the hour is late, and we have other work.

Thank you very much. The subcommittee is adjourned.

[Whereupon, at 12:40 p.m., the subcommittee adjourned, subject to call of the Chair.]

[The following letter was subsequently supplied for the record by Chairman Humphrey:]

DEPARTMENT OF AGRICULTURE ECONOMICS,
UNIVERSITY OF MISSOURI,
Columbia, Mo., March 28, 1973.

Hon. HUBERT HUMPHREY,
Chairman, Subcommittee on Consumer Economics,
Washington, D.C.

DEAR SENATOR HUMPHREY: As no economist forecast the intensity of the present uptrend in retail food prices, all should be guarded in accounting for it *ex post.*

On the other hand, we should strive to learn what we can retrospectively. The broad outlines are almost indisputable. Elements are (1) the administration's frantic deficit-financing of economic expansion in 1971–72; (2) the 1970 drouth and corn blight that still are affecting production of livestock products; (3) coincidence of vigorous export demand, delayed and damaged harvests, and tight transportation that added to inflationary psychology.

The biology of hogs and cattle, requiring that breeding stock be held back during expansion, accentuates the short-run inflation.

These points are familiar and lead to a prospect for only gradual price decreases before the end of 1973. Nevertheless, if bumper crops should come into view by July, or if business conditions should deteriorate, the price tone would change quite materially.

More salient are these questions: (1) Is the uptrend in U.S. farm productivity slowing down? (2) How sensitive is food demand to flows and commitments of consumer income? (3) How competitive is the U.S. food industry? (4) How sensitive are prices of food and farm products to changes in supply or demand? The answers have deep significance for the longer run.

Productivity.—The U.S. has passed the peak of burgeoning productivity in agriculture. Resources for grains continue abundant but cheap grassland scarcely exists any longer. Henceforth surpluses will be episodic rather than continuous. Tightness of production capacity will show up first in beef.

Demand.—A useful distinction is between demand for food commodities in spot markets and industrial commodities having "administered" prices. During rampant inflation, spot market commodities feel the greater first effects. Price controls on industrial products have shunted even more of the deficit-financed purchasing power into farm products and food. Furthermore, one must suspect that spending for both consumer durable and investment goods has lagged a bit relative to the expended purchasing power. All these add to food price inflation.

Inevitably, when the upsurge in demand slackens, spot markets turn around abruptly.

Competitiveness.—Recent increases in prices for food have been reflected back to farm products to remarkable degree. In meats, competitiveness is not an issue. But several food processing industries, as breakfast cereals and some canned foods, are so concentrated as to add appreciably to retail prices. It would be fortunate indeed if the present crisis should lead to antitrust action against oligopolies and the conglomerate trend in some food industries.

Paradoxically, food retailers are caught in a pinchers, for as they individually scramble to capture more business they engage in cost-increasing practices. Retailers and consumers alike would benefit from universal trade practice rules banning games and trading stamps and rolling back the escalation in hours stores are open.

Price inelasticity.—This year's experience proves once again how touchy are prices of food and farm products to very moderate tightness in supply. They are equally sensitive to moderate surplus. If abundance is necessary in the interest of price stability, it becomes essential to underpin the price consequences to farmers of any unintended swing to overproduction. In commodities subject to variable supply and inelastic demand, unaided market forces lead to pronounced instability.

Respectfully yours,

HAROLD F. BREIMYER,
Professor.

THE COST OF LIVING

TUESDAY, MAY 8, 1973

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON CONSUMER ECONOMICS,
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:20 a.m., in room S-407, the Capitol Building, Hon. Hubert H. Humphrey (chairman of the subcommittee) presiding.

Present: Senator Humphrey.

Also present: Loughlin F. McHugh, senior economist; William A. Cox, Lucy A. Falcone, Jerry J. Jasinowski, and Courtenay M. Slater, professional staff members; Michael J. Runde, administrative assistant; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. This morning the Subcommittee on Consumer Economics has invited three distinguished private economists or I should say economists who are in private life, to give us their perspective on prices of nonfood commodities.

Several weeks ago, when we first began planning this hearing, we were aware that there was a severe problem of rapidly rising industrial prices. But I can say that we did not realize how severe that rise in industrial prices would be. The wholesale price numbers which were released last Thursday brought the problem home with dramatic force. In the last 3 months, industrial prices have been rising at an annual rate of nearly 15 percent. That single statistic should serve to wake up the country to the problems that we face. Most of these recent price increases have not yet reached the consumer. But they surely will. In the months ahead the consumer faces the probability of sharp price increase for a wide variety of nonfood commodities—clothing, appliances, furniture, fuel, and many other basic items.

The poor consumer must accommodate these price increases in addition to the 8-percent price increase which has already taken place this year for food. I should add that the morning's press indicates that food prices now will continue to rise, that the so-called leveling off that had been earlier predicted now seems really rather remote and that most likely food prices will go higher than they have. This is due to unfavorable weather conditions, unfavorable crop prospects.

I also would note at this point that the health costs have been increasing. I was in my home State of Minnesota this weekend and I noticed that the lead item in the local press was the increase in hospitalization costs and medical costs.

Wages have not been rising to keep pace with this inflation. Wage increases negotiated in the first quarter were smaller, on the average, than they were in 1972. The index of real hourly earnings has been falling steadily for the last 3 months.

Of course, the imbalance between prices and wages cannot continue. If prices keep going up, wages must also go up. Unless there is immediate effective action to interrupt the price-wage spiral—notice I put prices first there—unless there is immediate action, the country may find itself facing a price-wage spiral which will make the 1969–71 experience look pale by comparison. And it should be added that all of those price increases have a very serious effect upon those with fixed incomes, particularly those on pensions and smaller or lower fixed incomes.

The administration has done almost nothing to cope with this urgent problem. The very limited moves announced last week seem designed to give the impression of action without actually doing anything.

Congress has extended for another year the administration's authority to take firm action to control inflation. But the administration has indicated that it will take no action until prices have already been raised 1½ percent on a weighted average for all the products sold by a firm. There is no limit on how much the price of an individual item can go up. And what action must a firm take if it wishes to raise prices by more than 1½ percent? It must notify the Cost of Living Council. That is all. Just notify them. There is no requirement that they must obtain approval.

I am not the only one who thinks recent actions are totally inadequate. Dissatisfaction with present policies is almost universal. For example, Pierre Rinfret, an adviser to President Nixon, has called the current policies "a continuation of a do-nothing policy * * * merely hoping or praying."

This morning we are going to do more than hope and pray. We are going to analyse the facts and try to come up with remedies which are adequate to the present need.

Our first witness will be Walter Adams, distinguished professor of economics at Michigan State University. Mr. Adams served as president of Michigan State University in 1969. He has written books and articles on many different subjects. Most relevant to our interests this morning, he is the author of "Monopoly in America," and "The Structure of American Industry." He is widely recognized as a leading expert on the steel industry. His statement this morning will be devoted largely to the behavior of steel prices. I believe that is correct, is it not, Mr. Adams?

Mr. ADAMS. Yes, it is.

Chairman HUMPHREY. Let me say that is an extremely timely subject, since we have read in the newspapers just yesterday and again this morning that the steel industry wants to raise prices an additional 4 to 6 percent.

Following Mr. Adams, our next witness will be Robert Lanzillotti, Professor of Economics and Dean of the College of Business Administration at the University of Florida. Lanzillotti was a member of the Price Commission, where he served as a vigorous spokesman for tougher rules and regulations governing price increases. He appeared before the Joint Economic Committee at our annual hearings last

February, and we are very grateful that he has returned today to give us his assessment of the startling price developments which have taken place in just the brief 3 months since those hearings were held.

Our final witness will be my old friend, Robert Nathan of Robert Nathan Associates. Like Mr. Lanzillotti, Bob Nathan brings to the question of how to control prices both practical experience and professional competence and expertise. Mr. Nathan is both a lawyer and an economist. He has been an observer or participant in economic policy ever since the days when he was Chairman of the Planning Commission of the War Production Board in World War II.

I hope each witness can limit his opening remarks, let us say to 10 or 15 minutes. We will have some questions, and I am going to ask now that Mr. Adams proceed.

I might add just prior to that that there is a pertinent newspaper story on the economic page of the Washington Post of recent date that I would like to have included in the record at this point to buttress some of these opening remarks.

[The article referred to follows:]

[From the Washington Post, May 6, 1973]

NIXON FAILS TO STRENGTHEN FEEBLE PHASE III

(By Hobart Rowen)

So now we have not Phase IV, but merely Phase III plus one-eighth. after weeks of debate, President Nixon took a halting, limited, disappointing step to discourage some price boosts by the biggest companies.

It is a far cry from a freeze that would bar further price increases throughout the economy, or from a return to the tough prenotification requirements of Phase II, under which all companies with sales over $100 million had to tell the government in advance of any plan to raise prices.

The new system announced Wednesday requires companies with sales over $250 million whose overall weighted average price level rises to more than 1.5 percent over the Jan. 10 level to give 30 days notice to the Cost of Living Council. But this doesn't bar individual price hikes of substantially more than that, provided the average stays within the 1.5 percent margin.

As former Economic Council Chairman Arthur M. Okun observes, that's a "free ride" which works out to an annual rate of increase of about 5 percent—hardly compatible with a program whose overall goal is to limit inflation to a 2.5 percent rate by the end of the year.

Even as things stand, the tremendous surge in first-quarter profits makes one wonder whether half of the companies subject to regulations aren't violating the rules.

A Dow Jones survey of 655 companies (pretty well paralleling those now getting the 1.5 percent free ride) shows corporate profits up 27.8 percent in the first quarter compared with the first three months last year. And last year's profits after taxes were up 15.5 percent over 1971.

The Nixon progran is weak not only because it lacks specific, hard-nosed measures to control inflation but because of the obvious lack of enthusiasm for controls that is still pervasive in this administration.

It is still "as voluntary as it can be," the President said, adding: "and as mandatory as it has to be." The stress, as it has been before under the direction of free-market advocate George Shultz, is on "a responsible budget policy" to reduce inflationary pressures.

The dominant philosophy is to rely on the traditional dampening effects not only of a tight fiscal policy, but a restrictive monetary policy to reduce demand. There is a flurry of action of dubious significance to increase supplies both in food and non-food areas.

Controls are simply "the third element" in the anti-inflation program, a sort of fifth wheel, and clearly a distasteful exercise that is being tolerated because there is so much public and political backing for them.

It is this aura of contempt for the utility of wage and price controls that comes through the President's message and the additional comments of his key subordinates. "We should be mature enough to recognize that there is no instant remedy for this problem" (of sharp price increases), the President said in a patronizing way.

The fact is that the sharp price increases in February, March and April were triggered in part by the Jan. 11 lifting of Phase II controls. There is now a tendency to blame much of the rise in raw materials prices on the devaluation of the dollar in February. But it is not mentioned by Mr. Nixon that one of the elements triggering the devaluation was the loss of confidence in the dollar touched off by the shift to Phase III.

There is, of course, no "instant remedy" for inflation, but surely that doesn't mean the President is excused from constructing a carefully devised, long-range program that might have a chance for success.

The latest wholesale price index, for April, shows a jump of 1.3 percent for industrial commodities, on top of a 1.2 percent increase in March and 1.0 in February. That's an unbelievable 14 percent annual rate of increase for the three months, which will begin to show up in the consumer price index later on.

New York economist Pierre Rinfret expresses a fairly common view among economists when he says that "the new program is a continuation of a do-nothing policy reminiscent of 1969. They are merely hoping or praying that something will come along and bail them out of their mistakes."

Former Economic Council member and Harvard Prof. Otto Eckstein told this correspondent that "what they've done is to make a symbolic gesture to keep the impression alive that they're still concerned about prices. We should be grateful that they have put some limit on the ability of industry to raise prices while profits are soaring, but compared to what they could have done, they've done very little."

At the Federal Reserve Board—which will have to pursue a tighter monetary policy than it believes desirable in the absence of a strong wage-price control effort, officials still think that Phase III (and one-eighth) can be made viable if Treasury Secretary Shultz and John Dunlop at the Cost of Living Council take a tough, rather than permissive, line.

My conclusion is that, given the kind of wage-price program President Nixon has chosen to follow, he should ask John Dunlop to step aside in favor of Billy Graham.

Chairman HUMPHREY. Mr. Adams, please proceed.

STATEMENT OF WALTER ADAMS, PROFESSOR OF ECONOMICS, MICHIGAN STATE UNIVERSITY

Mr. ADAMS. Thank you, Mr. Chairman.

Mr. Chairman, members of the subcommittee, I appear here this morning at your invitation to discuss steel prices and how to control them in a period of inflationary pressures. The moment is opportune. Just last week, the Bureau of Labor Statistics reported the largest 1-month increase in wholesale prices since 1951. Incidentally, I recall that year with some nostalgia, because I served as economic counsel to the Senate Small Business Committee during the summer of 1951, and conducted a number of studies for Senator Humphrey's subcommittee. Then, as now, we were concerned with pricing practices in the steel industry.

THE RECORD OF STEEL PRICES

The U.S. steel industry is a classic, textbook oligopoly. Domestic producers do not compete among themselves in terms of price. It is simply not the custom of the industry. Instead of price competition, they follow a regime of strict price leadership and followership—more often than not in a monotonously upward direction.

Since the end of World War II, the industry's notorious policy of constant price escalation has contributed a prime stimulus to successive inflationary movements. Thus, between 1947 and 1951, according to the Council of Economic Advisers:

The average increase in the price of basic steel products was nine percent per year, twice the average increase of all wholesale prices. The unique behavior of steel prices was most pronounced in the mid-1950's. While the wholesale price index was falling an average of 0.9 percent annually from 1951 to 1955, the price index for steel was rising an average of 4.8 percent per year. From 1955 to 1958, steel prices were increasing 7.1 percent annually, or almost three times as fast as wholesale prices generally. No other major sector shows a similar record.

After a quiescent stage during the early 1960's, characterized by the moral suasion and "jawboning" of the Kennedy administration, steel prices resumed their upward movement in 1964—on a gradual selective product-by-product basis at first, and on a general across-the-board basis in 1969. The imposition of "voluntry" import quotas in January 1969 and the Nixon Administration's refusal to engage in Government-industry confrontations simply accelerated the trend.

The one factor which dampened the industry's enthusiasm for marching in lock-step toward constantly higher price levels was the burgeoning of import competition. Thus, between January 1960 and December 1968, a period of 9 years, the composite steel price index increased 4.1 points—0.45 points per year. Starting in January 1969, however, after the U.S. State Department had successfully persuaded the Europeans and Japanese to accept "voluntary" quotas on their sales to the United States—that is, to enter into an informal international steel cartel—imports were cut back drastically and the domestic steel prices resumed their pre-1960 climb. In the 4 years between January 1969 and December 1972, the steel price index rose 26.7 points—or 6.67 points per year. Put differently, steel prices increased at an annual rate 14 times greater—I think actually it is 15 times greater—since the import quotas went into effect than in the 9 years prior thereto. Through most of this period, the policy of price escalation was pursued in the face of recession, low volume, and the idleness of roughly 25 percent of the Nation's steel capacity. I have a table here entitled "Price Index, Iron and Steel"——

Chairman HUMPHREY. We will insert that in the record at this point.

Mr. ADAMS. Thank you very much, Senator.

[The table referred to follows:]

PRICE INDEX, IRON AND STEEL—(SELECTED DATES)

Month and year	1957-59=100	1967=100
January 1960	102.0	98.4
December 1968	106.1	102.4
December 1969	113.9	109.9
December 1970	120.7	116.5
December 1971	129.8	125.3
December 1972	134.2	129.5
January 1973	136.65	131.9
February 1973	137.79	133.0
March 1973	138.10	133.3

Source: Based on BLS, wholesale price index.

Mr. ADAMS. As if the import quotas—supplemented by "Buy American" regulations and assorted trade barriers—were not enough to insulate the steel industry from competition, President Nixon approved—and later withdrew—a temporary 10 percent surcharge on imports, including steel. In doing so, he perverted the "infant industry" argument for the benefit of lusty steel giants whose rambunctious excesses had wreaked havoc with past attempts at inflation control. With his arsenal of import restraints, he neutralized the perhaps most effective lid on steel pricing, while building up additional steam in an already overheated pressure cooker. These governmental actions also penalized such major steel consuming industries as automobiles, construction equipment, and agricultural implements which found it increasingly difficult to absorb the higher prices for an essential raw material while trying to maintain their competitiveness in domestic and foreign markets.

A longitudinal study of the structure, conduct, and performance of the American steel industry, I submit, yields some rather striking conclusions: Giantism in this industry is the result of massive mergers of the past; the dominant firms are neither big because they are efficient, nor efficient because they are big; their technological lethargy, especially during the 1950's, when they lagged in introducing the basic oxygen process, continuous casting, and direct reduction of steel, put them at a comparative disadvantage in world competition; their insensitive, extortionate, oligopolistic price policy displaced American steel from world markets and opened the U.S. market to erosion by imports and substitutes; and, finally, the mercantile protectionism of the Federal Government compounded the problems of the industry and the Nation's economy. It gave legitimacy and endurance to a cartel which could not survive without Government succor and support.

PUBLIC POLICY ALTERNATIVES

According to all reliable indicators, 1973 promises to be a banner year for the steel industry. A worldwide steel boom is in full swing, and the domestic industry is operating at nearly full capacity. Of the nine largest steel producers that have reported first-quarter earnings so far, the average increase in profits for the period was 67 percent, more than double the average increase in sales for the quarter.[1] Part of this spectacular increase in profits is attributable to the 4-percent price increase, in effect since January 1, on 45 percent of the industry's product mix—primarily a variety of heavy products. Yet, further price increases are in the offing. According to the trade press, the industry plans to increase the price on steel sheets—a large volume item——

Chairman HUMPHREY. Is that what they call flats?

Mr. ADAMS. Flat products, yes. By some 2½ to 3 percent about June 1, and market conditions are such that the steel oligopoly will be able to make this increase stick.

In this morning's Washington Post——

Chairman HUMPHREY. That is the one I was referring to.

Mr. ADAMS. I note the chairman of the board of United States Steel, Mr. Edgar B. Speer, told a news conference just yesterday that the Nation's largest steelmaker would soon seek a price increase for flat rolled steel products in the neighborhood of 6 percent.

Chairman HUMPHREY. Yes.

Mr. ADAMS. The prospects, therefore, are for more of the same—the steady price escalation which is a way of life in the American steel industry.

[1] Wall Street Journal, May 1, 1973.

There are three major public policy options, if efforts are to be made to stem these inflationary pressures: (1) Antitrust action; (2) direct controls; and (3) import competition.

(1) Antitrust action, consisting of a comprehensive dissolution-divorcement-divestiture program, is long overdue and eminently desirable to restore competitive structure, competitive conduct, and competitive performance in this somnolent oligopoly.

Chairman HUMPHREY. That is quite a phrase, "somnolent oligopoly."

Mr. ADAMS. It is eminently accurate and I assure you conservative, Senator.

Chairman HUMPHREY. I just want you to take a moment here just to define that in more precise terms so that my students when I go back to teaching, which could happen at any time in terms of the political situation——

Mr. ADAMS. Sleepy, lethargic, backward-looking, conservative.

Chairman HUMPHREY. That is enough.

Mr. ADAMS. The kind of people who do not run the bases daringly, Senator.

Chairman HUMPHREY. Yes, sir.

Mr. ADAMS. Realistically, however, this is a long-term remedy which cannot be counted upon to provide immediate relief. All that can be done in the short run is to insist on tough enforcement of the antimerger laws which would prevent any further concentration of power in an already overconcentrated industry.

(2) Direct controls: Namely, the reimposition of phase I or phase II of the Nixon game plan, is at best a temporary expedient—likely to prove disappointing in the long run. As our sad experience with this form of statecraft has demonstrated, regulation is a negative force for right conduct. A government commission can refuse to recommend a price increase, but it cannot compel an industry to lower production costs. It has no power to force regulated firms to spend money on new plants or scrap old plants. It cannot tell firms to increase expenditures on R. & D., or to be more progressive in invention and innovation. Even if a commission had a perfectly clear view of what potentially attainable cost reductions and correct conduct are, it lacks the authority to compel powerful firms to comply with its prescriptions. Regulated firms may be prevented from doing the wrong things, but they cannot be forced to do the right things in the public interest. In short, since the regulators lack the power to stop cost inflation, waste, and what economists call X-inefficiency, they cannot effectively cope with steady price inflation.

One marginal suggestion at this point: If phase II controls are to be reimposed, I think oligopoly firms should be precluded from applying for price increases as long as they operate in markets protected by tariffs and/or voluntary or mandatory import quotas. Indeed, in times of shortage we might not only think of suspending tariffs and quotas but we might actually contemplate negative tariffs, to stimulate an increase in supply.

I think we have noticed the disastrous results of oil import quotas, beef import quotas, cheese import quotas, and so on.

(3) Import competition is probably the most effective short-run measure for curbing inflation—and the major steel companies are fully

aware of it. Ever since import competition began to erode their insulated market in the 1960's, the major companies have demanded protectionist privileges. After invoking the archaic Antidumping Act of 1921 and suffering successive defeats before the Tariff Commission, they demanded revisions of the law which would enable them to stifle foreign competition. When the Congress refused to revise the antidumping statute, they demanded temporary tariff protection. When Congress also turned down this form of protection, they demanded mandatory quotas. And now, even though voluntary quotas have been in effect since January 1, 1969, they are still pressing for the kind of quota legislation embodied in the Burke-Hartke bill. In this drive, incidentally, the industry offers startlingly contradictory arguments in support of its demand for quotas. Thus, in October 1967, Mr. John P. Roche, president of the American Iron and Steel Institute, told the Senate Finance Committee that quotas were necessary because of the chronic excess capacity in the world steel industry:

> It has been estimated that steel-making capacity abroad now exceeds demand by more than 55 million tons. Countries which formerly relied on imports for their steel requirements have tended more and more to develop their own steel industries and to protect them against imported steel. Home markets of some long-established steel producers have grown less rapidly than expected. These producers have, therefore, taken increasingly to invading the markets of other producers—especially that of the United States.

Joseph P. Malony of the United Steel Workers presented parallel testimony to the Finance Committee.

Contrast that position, Mr. Chairman, with the industry's current rationale for protectionism. By 1980, says Father William Hogan, a sympathetic observer of the industry and a consistent advocate of import quotas, the annual steel demand will require a worldwide capacity of 1.1 billion raw tons as compared to today's capacity of only 780 million tons. "Blazes, that's a short fall, with new and replacement needs, of 600 million tons," he says.[1] What was considered only a few short years ago a chronic world steel surplus has suddenly become an endemic world steel shortage—and the way to cure it, so runs the argument, is by higher prices and higher profits which would make additional investment in steel capacity attractive. This, in turn, would require—almost as a sine qua non—a normalization of world trade in steel, meaning strict regulation of steel imports and the sterilization of their impact on domestic steel prices.

Such a policy, as I see it, would be an invitation to national disaster. Unlike the American steel industry, the leading steel producers of the world are subject either to a strong import discipline or a strong export discipline or both. Again, I have prepared some tables here which document the percentage of a domestic market accounted for by imports in such countries as Germany, France, Italy, Benelux, and Japan, and with the exception of Japan, you find that all of these imports as a percent of domestic consumption are much higher than they are in the United States. There is a separate table on the United States.

You will also find that as far as exports are concerned, these countries are subject to a serious export discipline given the large percentages of their domestic production which go into world markets and, therefore, have to compete.

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[1] Forbes, Apr. 15, 1973.

I can elaborate on that later.

Chairman HUMPHREY. We will make these tables a part of the record at this point in your statement.

Mr. ADAMS. Yes. Both of these tables. Thank you.

[The tables referred to follow:]

STEEL SHIPMENTS, IMPORTS, AND EXPORTS FOR THE UNITED STATES, 1960–72

[Thousands of net tons]

Year	Shipments	Imports	Imports as a percent of apparent consumption	Exports	Exports as a percent of shipments
1960	71,149	3,578	5.0	3,224	4.5
1961	66,126	3,321	4.9	2,228	3.3
1952	70,552	4,306	5.9	2,274	3.2
1963	75,555	5,665	7.2	2,556	3.3
1964	84,945	6,711	7.6	3,735	4.4
1965	92,666	10,749	10.7	2,837	3.1
1966	89,995	11,166	11.3	2,027	2.2
1967	83,897	11,924	12.7	1,971	2.3
1968	91,856	18,462	17.1	2,499	2.7
1969	93,877	14,615	14.2	5,597	6.0
1970	90,798	13,997	14.4	7,460	8.2
1971	87,038	18,930	18.4	3,155	3.6
1972	91,805	17,681	16.6	2,873	3.1

Source: Annual Statistical Report, American Iron and Steel Institute, various years.

STEEL SHIPMENTS, IMPORTS, AND EXPORTS FOR SELECTED COUNTRIES, 1969–71

[Thousands of metric tons]

Year	Shipments	Imports	Imports as a percent of apparent consumption	Exports	Exports as a percent of shipments
Germany					
1969	38,976	8,072	21.5	9,568	24.5
1970	37,938	8,059	21.5	8,565	22.6
1971	30,807	8,638	28.9	9,540	31.0
France					
1969	17,822	5,959	32.6	5,478	30.7
1970	18,248	6,520	35.0	6,157	33.7
1971	18,354	5,732	32.9	6,661	36.3
Italy					
1969	14,374	3,489	20.8	1,055	7.3
1970	14,143	4,395	25.2	1,078	7.6
1971	14,691	3,520	22.1	2,265	15.4
Benelux					
1969	19,042	4,168	48.0	14,534	76.3
1970	18,562	4,391	51.8	14,475	78.0
1971	18,581	4,296	52.4	14,686	79.0
Japan					
1969	58,253	129.1	.3	16,006	27.5
1970	65,363	268.3	.6	17,981	27.5
1971	63,192			24,178	38.3

Source: European and Japanese statistical yearbooks and reports, various years.

Mr. ADAMS. These countries are subject to constant exogenous pressures which force them to behave competitively, aggressively, and efficiently. Unlike their American confreres, they cannot afford the luxury of leading the quiet life and still hope to survive.

A nation's industrial power, I submit, is not the product of governmental permissiveness and governmental coddling. The end of that road is marked "Penn Central" and "Lockheed." Industrial power is the fruit of the constant spur for efficiency and technological progress which is best provided in a competitive environment.

Thank you, Mr. Chairman.

Chairman HUMPHREY. I think that if it is agreeable with you, we will have each of you make your opening statement and then I can come back with some cross examination. I have marked up your testimony as we have gone along on this one, Mr. Adams, so I can come back with what I hope are timely and relevant observations.

Our next witness is Mr. Lanzillotti and we welcome you.

Mr. Lanzillotti, please proceed.

STATEMENT OF ROBERT F. LANZILLOTTI, PROFESSOR OF ECONOMICS AND DEAN, COLLEGE OF BUSINESS ADMINISTRATION, UNIVERSITY OF FLORIDA

Mr. LANZILLOTTI. In past years I have appeared jointly with and also have had to debate my former colleague Professor Adams. Following him is a difficult proposition. It reminds me of a story that may be appropriate.

It seems as though Ringling Brothers were looking for a lion tamer and the search narrowed down to just two candidates. One was a very attractive blonde and the other was a male. The manager asked which of the two wished to go in first and the girl said she did.

She went in and she snapped her whip very smartly and the lion jumped up on the platform, stared her squarely in the eye and then jumped down and began snatching off her clothing, licking her hand, and generally behaving in a rather disgraceful manner.

The manager turned to the male lion tamer and said, that was quite some performance. Do you think you can do as well? He said you bet. Just get that damn lion out of there and I will prove it to you. [Laughter.]

Chairman HUMPHREY. That is a great contribution to the economic philosophy of our competitive instinct.

Mr. LANZILLOTTI. Well, Mr. Chairman, it is an honor to be invited back to testify before this committee on the continuing problem of inflation and the policy issues that face the Congress and the economic stabilization program. My views on the nature of the inflation problem are essentially unchanged from my testimony before the full committee in February, although I believe the short-run policy dilemma clearly has become more acute.

In February, I cautioned that "We are unquestionably entering the most difficult stage of the current inflationary process. Demand pressures will continue with, not replace, cost-push pressures." I think events of the past few months have confirmed this diagnosis and they have complicated the policy dilemma the Nation faces, especially as it pertains to the role of direct wage and price controls.

The inflation statistics that we have been reading about are both startling and disturbing, as are listed in table 1 attached to this statement. From February to March alone, wholesale prices increased by 2.2 percent and retail prices by 0.8 percent. Of greater concern I believe is the acceleration that has taken place both in the wholesale price index and consumer price index since December 1972. Principal attention has focused on the continued surge in food prices, but since December there also has been an acceleration in the prices of industrial goods. For example, in the 3 months ending March 1973, wholesale industrial commodity prices increased at an annual rate of 10.3 percent compared to a 2 percent annual rate in the 3 months ending December 1972. Moreover, at the time I wrote this, and now confirmed, industrial prices rose by 1.4 percent from March to April and I believe that turns out to be 1.3 percent on a seasonally adjusted basis. Similar rises are evident in the other components of the WPI and the CPI as shown in table 1. I will not bother to go into those.

Chairman HUMPHREY. We will include that table in the record at this point.

[The table referred to follows:]

TABLE 1.—CHANGES IN WHOLESALE AND RETAIL PRICE INDEXES AND COMPONENTS, 1972–73

Index	Percentage change for 3 months ending: [1]			
	June 1972	September 1972	December 1972	March 1972
I. WPI: All items	4.9	6.7	9.6	21.5
A. Industrial commodities	4.9	3.2	2.0	10.3
B. Farm products (including processed foods and feeds)	4.8	17.4	30.1	53.1
C. Consumer foods	2.7	10.0	15.8	45.0
D. Consumer finished goods	2.5	6.7	5.9	21.7
E. Consumer goods (excluding food)	2.5	3.9	–.3	7.5
II. CPI: All items	2.2	4.6	3.2	8.8
A. Commodities	2.0	5.4	2.3	12.3
B. Commodities less food	2.7	4.1	1.0	3.4
C. Services (not seasonally adjusted)	3.1	3.0	3.9	3.6
D. All items less food	3.2	3.5	2.5	3.2
E. Nondurable commodities	.7	5.7	3.3	16.8
F. Apparel less footwear	.3	2.3	4.6	3.3
G. Services (less medical care, not seasonally adjusted)	3.4	3.1	3.6	3.6
H. Insurance and finance	4.6	2.8	2.8	–.5
I. Utilities and public transportation	3.9	3.2	3.2	2.9

[1] Seasonally—adjusted, compounded annual rates.

Source: Bureau of Labor Statistics.

Mr. LANZILLOTTI. All right, sir.

These statistics are clear enough, but they provide only limited insight to the causes and characteristics of the current surge in inflation, and alone I think are an ambiguous guide to policy. More particularly, the recent advance in the inflation rate does not represent a broad cross-sectional surge of wage-price increases, which is important in deciding where we go from here in the use of wage and price controls and what is the proper course of economic policy in 1973.

It is my understanding, sir, that the subcommittee wishes to concentrate today on the behavior of nonfood prices. I accept that. Before turning to that area, however, I do wish to stress that the large increases in food prices over the past few months will continue to contribute to the inflationary process even after the current rises abate, that is, whether we are talking about the prices falling off earlier or late this year or even later. And as a consequence, I believe they are of special significance for purposes of economic stabilization policy in 1973. This will be due to legitimate demands for wage and salary adjustments to maintain real income positions.

Thus, the major challenge for current stabilization policy is to prevent the food price surge from triggering another wage-price spiral later in 1973 and 1974.

In this connection, I believe it is generally agreed that the most serious problem in the food area is the rise in meat prices. What is usually not made clear is that the rise in meat prices lies in unwise Government policies designed to limit production, and to increase the prices, of feed grains. In simplest terms, when feed grains are short, their prices rise and farmers reduce livestock production. Hence, the official policy of keeping farm prices high by paying farmers for not producing as much as they could must be blamed in my opinion, for this part of the inflation.

In all candor, I should note that the Price Commission found no magic solution to the rising food price problem during phase II, although very early in 1972 we urged the Secretary of Agriculture to modify the planned acreage set-asides, with a singular lack of success.

In the nonfood sector, many separate forces lie behind the surge of commodity price increases, including: (1) The effects of the second U.S. devaluation in February; (2) the uncertainty about the current structure of phase 3 controls and where they are going; (3) anticipations of another freeze, price rollbacks, and tougher controls; and (4) various "catchup" increases from the relaxation of phase 2 controls in January, for example, lumber; (5) the implementation of the auto price increases which had been postponed by the Price Commission late in 1972; and (6) I think we must recognize a general rise in aggregate demand reflected in the sharp increases in consumer spending, capital outlays by business, and Government expenditures, all of which make it easier for price increases to stick.

Since many of these influences affecting the recent surge in prices are largely transitional, their pressure on price is not likely to persist. In the case of some price increases, however, for example, paper, textile products, machinery and equipment, to cite a few, serious questions can be raised about the efficacy of phase III controls, since these are not areas in which rising raw material prices are in evidence.

In short, Senator, the U.S. inflation problem, in my opinion, has become more complicated than the situation prior to August 1971. Because of this, policy prescriptions, at least for the short run, is neither simple nor is it clear-cut. Part of the reason is that the momentum gained in reaching price and wage stability under phase II has been lost, and there is a reappearance of the kind of crisis atmosphere that prevailed during the early summer of 1971. This calls for firm action on economic policy to correct what appears to me to have been a kind of policy drift in the past few months.

I remain convinced that the fundamentals of long-run price stabilization lie in the prudent use of monetary policy and fiscal policy. However, in the short run care is required in the use of these policies, especially monetary policy, so that there is not an overreaction to the current crisis with overly restrictive monetary policy, possibly throwing the economy into a recession. Also, I believe the President's recommended budget of approximately $269 billion for fiscal year 1974 should provide fiscal restraint for the remainder of calendar 1973 and early calendar 1974, although in my opinion, both monetary and fiscal policy were too expensive this past year.

Thus, the current dilemma is not only the proper mix of these traditional policy instruments in 1973, but whether wage and price controls should be relaxed, tightened, left unchanged, or abolished altogether. The argument for abolishing controls rests on the premise that the surge in prices at wholesale and retail is largely a bulge phenomenon. The opposing view is that while a bulge problem has developed, the rises in the WPI and CPI are not all of that nature, and even if we are dealing largely with a bulge problem, it nonetheless is likely to trigger higher wage demands in 1973, which, in turn, can lead to further wage-cost push in 1973 and 1974.

From the standpoint of deciding on a safe policy course, we should examine the probable effects of the bulge hypothesis if controls are (*a*) abolished or (*b*) continued, alternatively assuming the hypothesis turns out to be correct or incorrect.

If the bulge assumption should be correct, either continuing or abolishing controls would not make much difference for price stabilization, although controls could lead to some market distortions. However, it is my belief if demand is expected to ease, or supplies increase, as we are advised and as implied in the bulge hypothesis, then distortions from controls would be minimized.

If the bulge hypothesis turns out to be incorrect, however, abolishing controls altogether and simply riding out the price rises implies acceptance of another click on the inflation ratchet for 1973 and beyond. Alternatively, if controls are maintained, on the assumption that the bulge hypothesis is incorrect, then this policy can help attenuate wage-price increases.

In short, Senator, the point I am making is that controls are still needed for the short term to prevent the bulge from causing larger problems, and it may be required for the long term if the rise in prices is more than a bulge phenomenon. This is the basic rationale in my opinion, for continuing controls at the present time.

I do not have this morning a particular set of economic policy changes that I am confident will take us out of the current inflation. However, I believe the mix requires some direct controls. Also, there are some lessons we can learn from errors of the past few years, especially in the agricultural policy area, as I have noted previously. And if you are interested we can go into that in more detail.

But aside from the inflation problem in the food sector, I see no easy solution to the problems in the industrial sector. At this juncture my views can be summarized in a few short statements:

(1) I do not favor a general wage-price freeze for the current situation, as some have proposed. The circumstances are quite different from those preceding the freeze of 1971 and it is doubtful in my opinion, that another freeze would accomplish anything constructive.

(2) At the same time, I do not favor a policy of relying exclusively on monetary and fiscal policy to take us out of this crisis, since I do not expect that this policy mix will be any more effective today than it was between 1969 and 1971.

(3) Thus, I am not in favor of dropping controls altogether. As I stated here in February, I still regard Government intervention in the processes of wage and price determination as generally undesirable from an economic standpoint, but such actions still are necessary for the near term.

(4) Other actions such as agricultural policy reforms and policies to make markets more competitive, as Professor Adams has pointed out, will help over the long run, but will not alleviate the current problem.

(5) In the area of price controls, some tightening is called for. The prenotification requirement that existed under phase II should be reinstated for companies in the tier I category so that the Cost of Living Council can be aware of price increases and their justification. I notice that since I wrote this there has been an announcement about prenotification by firms with $250 million or more in sales.

Chairman HUMPHREY. Yes.

Mr. LANZILLOTTI. But this new prenotification requirement, in my view, will not have much restraint in it because of the reasons which you have pointed out in the introduction, sir.

There are no price caps and even with caps under phase 2 of 6, 8, 10, percent, still afford conglomerate firms a wide latitude in terms of raising prices on a weighted average basis, and I think that still exists.

Additionally, I would favor tightening the standard for price increases to limit cost passthroughs to direct cost increases rather than total cost increases. That is an old issue with me, sir, and every time I have an opportunity to mention it I do mention it. I do think——

Chairman HUMPHREY. Could you spell that out in a little more detail for us, Mr. Lanzillotti?

Mr. LANZILLOTTI. Well, in brief, it boils down to this. The regulations that we had under phase II inadvertently provided an incentive for firms to pad their costs or increase their costs because the allowed percentage increase in prices was a direct function of the increase in total costs.

Now, my rudimentary, elementary economics told me that firms priced on the basis of marginal costs and if that is the case, we should be permitting firms to increase their prices on the basis of changes in total costs, that is, marginal costs, or better just direct cost changes—labor and materials—rather than including all cost changes. In this way we would minimize the cost passthroughs. We would not recognize for pricing purposes increases in other costs but, rather, we would recognize for pricing purposes only changes in direct labor and material costs, sir.

For example, if we under the system that we had—if a firm had an increase in total costs of 10 percent and they were——

Chairman HUMPHREY. You mean, total costs of the operation of the——

Mr. LANZILLOTTI. From 1970 to 1971 or 1971 to 1972, for their total costs of producing steel. When it came to determining allowable price increases, after deducting a productivity factor, say, of 3 percent, then the remainder, 7 percent, was allowed as the increase that could be permitted in prices.

Chairman HUMPHREY. Right.

Mr. LANZILLOTTI. In other words, the net total cost increase in percentage terms became the allowable percentage increase in price.

Chairman HUMPHREY. Now, what would be your direct cost relationship?

Mr. LANZILLOTTI. Well, your direct costs would go up by less than that, you see. Especially if costs are constant, that is, unit costs are constant or falling, you would expect, then, that the percentages change in direct costs would be less, and at least you would not recognize some of these other——

Chairman HUMPHREY. How does that happen? I am just a layman here. How does the direct cost become less than the total cost?

Mr. LANZILLOTTI. Well, if you have a firm that has been operating at less than full capacity, as they have over 1971–72, as they increase their production, their per unit costs fall. They flatten out. If their per unit cost is falling, that must be the increased cost of producing more units is falling also. So what I would recognize is not the aggregate increase in all costs but only the change in the per unit cost and that would be due to increases in direct labor and materials cost and not a change in all costs.

Chairman HUMPHREY. I get you.

Mr. LANZILLOTTI. Now, as it turned out, this particular regulation was sort of counterproductive because it worked against the desire to have firms become more productivity-minded. To the extent that you recognize their full cost increases for pricing purposes, you encourage them to pad their costs deliberately or not. It operated something like an excess profits tax. Excess profits tax had the effect of discouraging firms from reducing costs and actually had the opposite effect, encouraging them to incur higher costs. This is related, I think, to one of the points that Professor Adams is making.

Well, finally, I have a couple of other comments.

(6) Some agency of government shoud be on guard to insure that the shortage situation that is emerging in gasoline does not produce adverse effects on the competitive structure of retail markets. This may require some sort of program of gasoline allocations by major refiners to all customers, all retailers, in order to prevent independents from being pushed to the wall due to the shortages in some areas. I note that some efforts along these lines are under consideration, and believe they deserve strong support.

(7) In regard to the wage standard, I think it is going to be difficult to enforce the 5.5 percent basic standard, 7/10ths for fringe benefits, in the wake of this very large jump in food prices. Therefore. I believe some consideration should be given to a policy of a temporary tax credit to certain individual taxpayers—this would be in the lower income brackets—to make up for the loss in purchasing power due to the price rises since December. This would permit enforcement of the 5.5 percent standard on wage adjustments, and at the same time help minimize the ratchet effect from extra "catchup" wage increases that seem imminent in 1973 bargaining.

In summary, I think it is regrettable that relative real income positions that were reached under phase II have been altered by events since January, undermining confidence in the efficacy of phase III controls. And as I listened to Professor Adams, in controls altogether. Catchup actions by business and labor are necessary and proper, but these need to be carefully contained for the near term by wage-price restraints to minimize the possibility of a recurrence of the 1971 crisis. Finally, I believe high-level presentation of a candid analysis of the current economic situation, outlining the nature of the problem and the mix of economic medicine is required.

This, I believe, will help restore public confidence in economic policy generally.

Thank you, sir.

Chairman HUMPHREY. Thank you very, very much, Mr. Lanzillotti. We will come back to you in just a little while.

Now we will have our third witness this morning, Mr. Robert Nathan.

Bob, just proceed and then we will go to the questioning.

STATEMENT OF ROBERT R. NATHAN, ROBERT NATHAN ASSOCIATES, WASHINGTON, D.C.

Mr. NATHAN. Thank you, Mr. Chairman.

First, let me say I would like to just summarize my prepared statement.

Chairman HUMPHREY. The prepared statement will be included in the record in its full text.

Mr. NATHAN. Thank you.

Second, I would like to express the appreciation as a citizen to you for highlighting the fact that inflation is not just in food and that there is an industrial and nonfood problem.

Third, I would emphasize, Mr. Chairman, that what has been happening is of crisis proportions and this involves and requires serious and unusual actions.

Let me say that I feel very strongly, Mr. Chairman, that the timing of the shift from phase II to phase III was about as bad an economic policy as one could conceive by evil design.

I think that January was about as bad a timing as one could imagine, despite the fact that a week or two ago the Chairman of the Council of Economic Advisers made a statement in New York—and I happen to have a clipping here from the Washington Post of Saturday, April 21, giving some quotations from Herbert Stein's statement—that would be worth putting into the record, Mr. Chairman.

Chairman HUMPHREY. Please read them into the record.

Mr. NATHAN [reading]: "Mr. Stein indicates that there were two obstacles to continuation of controls or phase II. He says the most serious was that which could be summed up in the question 'If not now, when?' "

Stein goes on to say that: "If we agree with the basic proposition that the end of controls at some time is both desirable and necessary, then this question is inescapable. There was no future condition reliably in sight which seemed more propitious for a move than the conditions we were in."

I suggest, Mr. Chairman, that the exact opposite was true. If one looks back to November and December, farm prices rose 10 percent in those 2 months, or an annual rate of over 100 percent. Everyone knew that substantial and significant wage negotiations were imminent in 1973, and if for no other than these two reasons it seemed to me that it would have been desirable to maintain phase II for at least some limited period of time to overcome the prospects of the kind of acceleration in inflation which has occurred.

Now, what actually has happened is only part of the story because up to now what we have had is not just the very major upward move in farm prices and then retail consumer food prices, but we are now having the first, and I am sure not final, impact of the inflationary implication of devaluation. The two devaluations, of course, mean that prices of imports rise whereas the prices of export goods become more attractive abroad. And I am certain that in the months ahead we will see further price rise in imports under the devaluations. This comes at an unfortunate time in terms of accelerating the inflationary process, so I agree with Professor Adams that I would loosen up rather than tighten up on imports because prices of many of the imported commodities, especially raw materials, will continue to be attractive even after the devaluations, relative to prices of domestically produced goods.

But the main theme I would like to present, Mr. Chairman, is that we moved from phase II to phase III before the spiral of inflation was broken. That, I think, is a very critical point, that we had made progress during phase II in many areas in reducing the rate of inflation, but we were nowhere near a 2 or 1½ or anywhere near a 1 percent rate of increase in prices, which I would hope would continue to be our national goal. Before the spiral was broken we really went off these controls into something much weaker. While I do not like controls over the long run. Mr. Chairman, it seems to me that as long as we had them, we should have kept them on for a period of time until we felt the spiral was broken and the inflation expectations were pretty much behind us.

What concerns me is reading George Schultz' statements and Herb Stein's in a degree, I am fearful that we are going to find the administration going back to its 1970 solution; namely, a recession. Unfortunately I do not think that the administration's economists have learned their lessons from 1970 and 1971 because that recession did not solve the inflation problem. We had the freeze and then the controls; namely, phase II, after the recession had gotten well underway and we were pretty much near a trough. So we had both the recession and inflation and it is my conviction, Mr. Chairman, that if the administration policies continue in the direction in which I think they seem to be going, or I expect them to go, then I think we are again going to have that strange combination of a recession and rising unemployment and further inflation. Heaven help us if that does happen.

Now, let me just read, if I may, Mr. Chairman, just some figures from the wholesale price press release which was issued last Thursday. There is table No. 4, which is identified as "Seasonally Adjusted Rates of Change in the WPI and Major Components Before and During the Economic Stabilization Program That Began in August 1971." I am going to read from two columns. Both of these columns present average annual rates of price increase in the wholesale price index. They give us the average annual rate in the 14 months of phase II, and the average annual rates in the 3 months of phase III.

All wholesale commodities, annual rate of increase in phase II, 6.9 percent. Annual rate of increase in phase III, 21.2 percent, more than three times as much.

Now, the real key, I think, lies here in industrial commodities. The average annual rate of increase in industrial commodities in phase II was 3.5 percent, and phase III, 14.8 percent. And that is over four times as much.

Let us look at consumer finished goods excluding foods, and that is at wholesale. During phase II the annual rate of increase was 2.3 percent and during phase III, 12.8 percent, more than five times as much.

Chairman HUMPHREY. Wait a minute now. Let me get those figures again, Mr. Nathan. You said consumer finished goods.

Mr. NATHAN. Excluding foods. That is the very last line.

Chairman HUMPHREY. Oh, I got you. Yes. I see. Thank you.

Mr. NATHAN. The very last line—I just want to get this food item out of the way because there is an illusion that has been perpetrated that all the inflation has been in food, and now just belatedly we are recognizing that isn't so—I just note that excluding food, consumer-finished goods at wholesale have increased in phase III at five times as fast a rate as in phase II.

Chairman HUMPHREY. I want at this point to just note that in every hearing that I have attended at the JEC, Joint Economic Committee, I have emphasized the very point you are making, not to minimize the food price increases but to try to alert or at least remind Mr. Stein and others who have testified before us that hidden behind this dramatic food rise, food cost rise, were these nonfood items and we are going into every one of them. Now we are on the industrial price index. We are going to go into the housing, for example. We see each one of these kind of moving in on us. It is like shadows in the night, so to speak, just coming over us, but the tendency was to concentrate the public's attention, and it was very easy to do so, on food prices because people go to the marketplace every day or at least every week and those prices are so evident.

But it is these prices that have been indicated this morning on steel, prices on other items, finished products in the industrial sector, that sort of were not really creeping up. They were rushing up. But we were in a sense precluded from observation by the drama or the excitement over food prices.

Mr. NATHAN. Well, regrettably, Senator, I think that what has happened in a dramatic way at the supermarkets is going to happen in nonfood prices, too. You cannot have this kind of a situation at wholesale for very long without its reflecting itself at retail and that is what is going to happen. The housewife who has been beside herself concerning meat and other food prices now is going to see it in industrial prices, industrial commodities, manufactured goods, and this is regrettable.

I think one of the problems, Mr. Chairman, derives from a kind of a self-delusion that takes place. I can best describe the way I think the administration's economists look at economic developments as using binoculars. When they see a little piece of good news they look through the magnifying end and everything is wonderful, but when they see some big bad news, they turn the binoculars around and it is very hard to see the picture because you really make it de minimis. This goes on over and over and I think we are engaging in a kind of self-delusion through this process.

Let me turn, if I may, to where we go from here. I think the most serious problem, Mr. Chairman, lies in the fact that we have got this inflation spiral going upward again. Mr. Lanzillotti mentioned the facts about wages. I do not know what labor is going to do but I find it very hard to conceive of a labor leader staying as a leader in the face of these tremendous increases in consumer prices and in prospective further increases and this 27 percent increase in profits in the first quarter—I do not know whether profits are too high absolutely but this rate of increase is certainly too high—I cannot understand how a labor leader could possibly maintain the support of his members in the face of this kind of movement and taking anything like a 5½-percent increase. I think you are absolutely right, Mr. Lanzillotti, that this is out of the question.

Now, once you begin to imbed into your wage settlements these huge rises in the cost of living attributable to food and attributable to nonfood prices then we are off on the rising spiral again. I regard that as quite serious because in the longer run it is my feeling that labor suffers and gets it in the neck and they are among the worst victims of inflation. But there is not going to be much they can do about it now because I do not see how they can stand back and let these prices run and take a 5½-percent wage settlement. I do not believe they are going to and I think they are going to full escalation rather than the partial escalation they have had up to now and that is going to add to inflation.

Well, the big questions are what do we do about it? I certainly agree with both Mr. Adams and Mr. Lanzillotti that overall fiscal and monetary policies of a constructive nature are essential. It is silly to say otherwise. We must prevent overheating in the economy, although I must say that 5-percent unemployment does not indicate to me that we have aggregate overheating at the present time.

Chairman HUMPHREY. I know I should add here to what I said earlier but just a quickie here.

You know, Members of Congress, most of us, are not experts in these matters. We are sort of general practitioners. We are observers of the economic and political scene and hopefully we develop some sensitivity.

I travel a good deal as you gentlemen know, and I try to interest myself in a variety of subject matter and surely at the base of all of it is the economic development in our country and in the world.

Why is it that we continue to have this high unemployment rate? Five percent used to be called high. We have been now conditioned into believing it is rather normal. I mean, it is interesting how you can get yourselves conditioned into believing something is normal. In other words, if you have a headache all the time you really do not realize how good it is not to have one. It is normal.

As a pharmacist I saw many people who used to come into the store who sort of had a kind of general sickness and if they did not get much worse they thought they were well, but they never were. They just got accustomed to it.

How come we have Germany and Japan and France and the Netherlands, countries like that, that are highly industrialized—Belgium—that have lower rates of unemployment than we do? They seem to get people hired. In fact, they have been importing them.

I have talked with Chancellor Brandt. I have talked with the finance minister, Schmidt, in the Federal Republic. They import one-half million people into Germany to do their work over and above their domestic labor force. How come they get that unemployment rate down and we cannot?

Mr. NATHAN. I think part, if I may, Senator——

Chairman HUMPHREY. We are supposed to have this economy, you know, just going gung-ho like gangbusters.

Mr. NATHAN. Part of it, I think, is a measurement problem. I do think we measure unemployment in a way to indicate a larger level than many others do. But also, I think there is an element of lack of mobility in our economy relative to other economies.

For instance, I think our pension systems, our private pension systems, have a sense of insanity about them in terms of tying the employees. We do not have the kind of mobility and the movement of the pension reserves and this is just indicative of a problem.

Of course, I do think, Senator, that we do have a degree of affluence and level of living relative to these European countries that makes people a little more relaxed with a higher level of unemployment. I think it is a waste but there is something to that.

Chairman HUMPHREY. Yes.

Mr. NATHAN. But nonetheless, I think the economy is far from being overheated at this stage. The rate of increase in output is very rapid and I do not think that can be maintained. But one has to be careful in distinguishing between the level of activity which does reflect overheating and the rate of increase which could lead to that. Some slowdown in the rate of increase of activity may be justified at this time.

Let me just summarize in one word and say this: In my judgment, while fiscal and monetary restraints have some element of need, even there, by the way, the administration's policies leave much to be desired. I do not agree with the President at all that the most serious crisis facing the American people is the taxation one and that we have got a tax level that is beyond what can be possibly endured. I do not understand how a President in one year's budget message can brag about a $22 billion cut in individual income taxes in 1973, which is what was in the 1973 budget message in January 1972, and then come out and say that tax burdens are unbearable. And if we wanted fiscal policy maybe that is one of the——

Chairman HUMPHREY. That is a lot of political poppycock and horseradish.

Mr. NATHAN. Let me just say one word, if I may, Mr. Chairman. I do not like controls but in my judgment, we are at a crisis in terms of inflation and I think that unless we break this and break this quickly, we are on a rising spiral and I think we will have given up the fight against inflation and we will be lucky to come back down to 3½- or 4-percent rate of increase after a time. Once you begin to move in a direction, that spiral is not easy to reverse.

While I agree generally with Professor Adams that controls are at best a temporary expediency, I think we need a temporary expediency now and I would go even so far as break this thing quickly and try to even roll it back some. But I think we ought to drop the controls completely unless we are going to make them tough. I would favor a tougher control setup. We have made a very tragic mistake and we ought to recoup that mistake.

I would favor going for a month or two to a freeze. I know it is tough. It was tough before, but we are in a real inflation crisis. If we have very firm control policies for perhaps a year or 9 months, then we may be able to loosen up a lot, but as it is now, things are so bad that we might just as well quit kidding ourselves and either go for much tougher controls or just drop it and let nature take its course and heaven help us if we follow that route.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Nathan follows:]

PREPARED STATEMENT OF ROBERT R. NATHAN

The recent sharp acceleration in industrial prices at the wholesale level points toward continued serious inflation for consumers. Prices at wholesale do have an impact on retail prices after some lag. That is precisely why precipitous skyrocketing first of farm product prices and now of wholesale industrial prices must be a source of deep alarm.

From 1966 to 1970 all wholesale prices increased about 2.5 percent per year and the rise in industrial commodities was less than 3 percent annually. Since then the upward pace tended to quicken, but it was not until 1972 when the increase in wholesale prices really broke loose. The figures now reveal that late in 1972 and throughout the early months of 1973 the lid was blown off the general inflation and we seem to be back on a worsening inflation spiral with a vengence.

In April industrial commodities in the wholesale price index were 9 percent higher on an annual basis than six months earlier, but in the last three months the yearly rate of rise was nearly 15 percent. The wholesale price index of finished consumer goods increased at a rate of over 20 percent in the last three months. The inflation in consumer goods, excluding food, rose at an annual rate of nearly 13 percent in the last quarter. The food price index declined fractionally in April but the total price picture is a dismal one.

The shift from Phase II to Phase III in January was timed about as badly as a wild inflationist would seek. The Chairman of the Council of Economic Advisers recently said that since it would be necessary at some date to move from Phase II to Phase III he concluded that January was as propitious a time as any. One need only have looked at two known critical facts to conclude otherwise. Prices of farm products had risen 10 percent at wholesale in November and December 1972 and it was obvious they would rise much more. Also, everyone knew that critical wage negotiations were coming up in the spring and summer of 1973. These two known facts were good reasons for not decontrolling or weakening controls in January of 1973. In fact, there was practically no reason for such a move at that time. The excuse that distortions were resulting from controls has not yet been explained in even the slightest degree. The decision was a dreadful and costly mistake.

I testified before the Joint Economic Committee in November 1972 and I expressed my horror over the possibility of a major mistaken policy decision of removing controls too soon. Now we see the folly of weakening controls in January. We have just seen a patchwork effort of trying to apply a bandaid to a severed artery. It is quite clear that the fight against inflation has been largely abandoned by the Administration. It is equally evident that the only meaningful effort to bring inflation under control will be through curtailing overall economic activity.

Apparently the Administration economists did not learn a lesson from their experiences of 1970 and 1971 when the planned and costly recession failed to really bring the inflationary spiral to a halt. They are on the brink of programming another recession which will also prove to be a failure in achieving relative price stability.

The freeze in August 1971 and the subsequent controls imposed in November as Phase II did serve in some degree to unwind the spiral—although not adequately. Regrettably, the weak and wobbly Phase III was introduced before the spiral was really broken. Now it is quite clear that we are in a new spiral.

I do not believe any serious economist would contend that the 40 percent annual rate of increase in wholesale farm prices in the last six months will continue. Nor is it likely that the recent annual rate of increase in wholesale industrial commodity prices of nearly 15 percent will accelerate or long continue. However, there is every reason to expect that inflation in 1973 will be much worse than in 1972 and that the prospect of getting down to the President's promised 2½ percent annual rate of inflation is about as likely as the proverbial snowball in hot locations.

It is interesting to note that in three months of Phase III the annual rate of increase in wholesale prices of all commodities was over three times the rate in Phase II; of industrial commodities over four times; and of consumer finished goods, excluding foods, it was over five times. This is a stormy picture from any view. It seems as though the Administration economists use both ends of strong binoculars in their economic analyses. When there is a slight improvement in price stability they look through the magnifying end of the binoculars and statements on progress are greatly exaggerated. On the other hand, when there is really bad news the officials turn their binoculars around and look through the other end, belittling the adverse trends. It seems that there is an element of self-delusion in this process as well as deception.

The probabilities are that the domestic inflationary consequences of two dollar devaluations have by no means been fully reflected in our prices. Devaluations mean that domestic prices of imported goods in the United States tend to increase.

Many of the raw materials as well as components and finished products that come into the United States are selling at higher prices. Further, the devaluation will intensify foreign demand for U.S. exports and if there now were a tendency for overheating in selected sectors of the economy, the rapidly rising export demands in those industries in which domestic demands are rising rapidly could feed the fires of inflation. Looking at the overall picture, however, the continuation of the 5 percent rate of unemployment hardly indicates that aggregate demand is excessive and that the economy generally is overheated. There is no basis for concluding that the way to fight further inflation now is to slow the economic expansion and to increase the rate of unemployment. That policy would be a costly failure.

In the coming months there are going to be some very important wage negotiations. Workers cannot be expected to sit back and watch consumer prices skyrocket and still exercise great restraint in making demands for higher wages. Excessive wage increases will be regrettable from the workers' as well as the country's point of view because labor will be among the severest victims of further inflation. Yet I do not see how the union leaders can be expected to exercise restraint when the government makes foolish policy mistakes and when profits are rising at a phenomenal rate. Maybe profits are not too high but the rate of rise in profits is too high. Sadly, the spiral of inflation is mounting and labor will suffer and the economy will be weakened.

No one likes controls, but we would have been much better off had Phase II been administered more tightly and continued for several more months. At least it would have gotten us through a period of very sharp food price increases with minimum damage. It might have delayed the second devaluation which in tour would have kept import prices from rising so much. Finally, and most important of all, it woulud have provided the basis for more moderate wage settlements in 1973.

The real question now is whether effective controls can be restored. It is not a very pleasant choice to restore tougher controls, but in the longer run we will be much better off to have a freeze for a time—preferably retroactive for a limited period—and then move to a new tough Phase II for perhaps as long as a year, rather than do practically nothing. It would be much more difficult than it was the first time around, but the alternative of a new spiral of inflation which will be costly and damaging will bring even more painful economic ailments. Worse still would be another recession undertaken by those who still refuse to recognize the processes involved in an inflation spiral and who delude themselves into thinking that a recession will restore price stability. Of course we must prevent overheating when it threatens, but we must break the spiral by direct and drastic means.

The choices are difficult but it is better to move firmly now than to sit idly and become enmeshed in the spiral. If we do not act quickly the value of the dollar will shrink and shrink. Perhaps we will have to resign ourselves to the final use of the present dollar—namely, as premium stamps. If the inflation doesn't slow down we can probably use the present currency as S&S Green Trading Stamps commemorating Messrs. Shultz and Stein for their role in the sharp drop in the value of the dollar.

Chairman HUMPHREY. Gentlemen, I want to thank you very much for your observations. I also should inform you that every member of the committee will receive a copy of your testimony. I will also take the liberty of inserting the testimony such as you have given us today in the prepared statements in the Congressional Record for broader review.

I must say that the tension of the times has not lent itself at the moment in view of some developments in Government to a sensible consideration of economic policy. We are so involved with all of the expenses that are taking place today on the political scene that a rational approach or constructive, thoughtful approach to economic policy seems to have gained a very low priority, even though these problems keep moving in on us.

The other thing that I would just like to call to the attention of you gentlemen—you are professionals in the economic field—is the general observation that I get when I am home and traveling about the country visiting with the ordinary consumer, not just the consumer in the supermarket but the consumer of lumber and of paint and of repairs, et cetera, that goes into the daily activities of farmers, of housewives, of people who come home and try to take care of their little house, piece of property, or their automobile.

I have people tell me time after time that they do not believe these Cost of Living Index figures at all, and these are pretty intelligent people. I go home to the city of Minneapolis. I talk with people that are going to fix up their garage, for example. This time of the year everybody is out repairing and fixing up.

I just want any of you to go to a hardware store and buy a rake and see what has happened to the price of that as compared to a year ago. Just go buy yourself a bucket of paint. I was going to have our home out there at the lake repainted and I could not believe what had happened to the cost of paint.

Go buy yourself some turpentine, paint thinner. I mean, these are not items that are in the Cost of Living Index every day. I realize that. But somewhere along the line you have got to paint the garage, you know. Somewhere along the line you have to put on a new lock or a new hinge and every one of these items has gone up and up.

Not long ago I had the experience of taking a couple of my grandchildren out to do some shopping before Easter to fix them up with some shoes and a few things. I could not believe it. Of course, my wife has been telling me this has been going on for a long time but it is quite a shock for a father or grandfather to see what in the world has happened to the price of little things like socks, not stockings, socks, for little children.

Now, this is what the working family puts up with all the time, and we have these discount stores out our way. We call them target stores, and so forth. It does not make any difference whether you have got a discount or not. Still the prices are way up, and in Washington we still get these figures about small percentage increases, but to the average person out there living on that paycheck, maybe getting $3 an hour—a lot of our people get less than $3 an hour. For many of them, $3 an hour, 40 hours a week, that is $120. By the time you get your deductions, social security, it practically means nothing.

You go into that grocery store, what you call the grocery store, supermarket, it is not just the food items you come out with but the supermarket today has everything from steel wool to cosmetics to some drug items, that is, pharmaceuticals. You buy your Bufferin or aspirin there, and you buy your hair spray, buy whatever you want to buy. These things have all gone up even with the most highly competitive practices in the supermarket and supermarkets are highly competitive if there is any area of our economy that really represents competition.

Now, how do we make the American people believe that the Government is not stacking the figures? They think the Government is all loused up anyhow, and they have had good reason to think so even more so of late, but I have really got to tell you that I have had hundreds of people write to me and many more talk to me saying that they do not believe at all what comes out of the Labor Department on the Cost of Living Index. They say all you have got to do, Mr. Humphrey, is go shopping with me. All those figures you give me—I was out giving a talk here the other night to a citizen's group. You know, they have what we call citizens leagues. I was talking about some of these economics and they laugh at you. They say what you are saying is nothing compared to what is happening. They say you are just talking to us about what those smart people down there in Washington give to you. Come with me and walk around here and see what you have to pay. And it is just unbelievable.

Here again, is where there is lack of faith and trust in Government action, Government word, Government policy. When you tell them what Mr. Stein or Mr. Shultz says, and I do not speak of them disparagingly but if I get up and talk to them about that, they think it is a comedy sketch I am going through. Either that or I am so stupid I do not know what is going on or I am deliberately trying to deceive them. That is a fact.

Just take your car in once to have what we call a motor tuneup as compared to what it was 2 years ago and just see the difference in costs. Take your lawnmower in and have the blades replaced. These are things that happen every day at the American family level and I can tell you they have gone up and the income of these people is really, you know—I mean, I have got young people in my family and I ask them how they are getting along, man and wife both working and barely making it, barely making it with no extras, no foreign travel, no big vacations, none of this. You know, up our way we figure if you have got a rowboat or a canoe you are doing pretty good. You do not expect to get a yacht. And it is just outrageous the price increases that we are having. The food is one thing and that has, of course, shocked many people, but the thing that they are worried about is the other ones that seem to be just getting out of hand and this is particularly true on repairs, not just the labor costs. I am not talking just the labor costs. Most of us do our own repairs. Go buy some sparkplugs.

Mr. Adams. Well, Senator, if I may say so, one of the tragic mistakes made in our economic policy is an excessive reliance on so-called monetary and fiscal policy to achieve stability. Since 1946 in the Employment Act we have committed ourselves to using monetary and fiscal policy to stabilize the economy. But I think the validity of monetary and fiscal policy is based on an assumption, an assumption essentially that we are dealing with a competitive economy.

I submit to you that that assumption is simply not accurate. It is not realistic. It does not conform to the facts of life.

Now, what does that mean? It means that we are facing an increasingly difficult trade off between full employment and price stability. We can achieve price stability by the use of monetary and fiscal policy but at the price of an intolerable level of unemployment, or we can have full employment but at the intolerable cost of excessive inflation.

Now, it seems to me that sooner or later government policymakers have to face up to the structural imperfections in our economy. In other words, if monetary and fiscal policy are to work, we have to establish the competitive preconditions on which the effectiveness of that policy is based.

Now, the examples are numerous, Senator. If you take the case of oil, we are talking about a terrible energy crisis, a shortage in the supply of oil, and yet this country has had oil import quotas which artificially restrict the potentially available supply and, therefore, raise the price of domestic oil for—since 1963, is it?

Mr. NATHAN. Before that, I think.

Mr. ADAMS. Since 1957 we have had mandatory oil import controls.

Now, the President has been very reluctant in giving way on that. He has increased the quota allowance of oil that may come in. Those oil import quotas should be done away with altogether because if there is a shortage of supply, we ought to be willing to accept supply wherever it is attainable, and the only way to get adequate supplies is by importing more oil from abroad.

Now, I am not naive, Senator. I know that there is a national security argument that is offered in support of the oil quotas, but let me point out that the national security argument is being misused. If, indeed, it is the objective and the interest of national security to give the United States a reliable supply of domestic oil, what we ought to be doing in conserving the oil available in the United States for times of emergency. We ought to import oil from those areas which are most likely to fall into the hands of a potential enemy in times of conflict.

Now, what does that mean? If we are rational about national security, we ought to import as much oil as we can from the Middle East as long as the getting is good. We ought to import as much as we can from Latin America as long as the getting is good. We ought then to turn to Canada, and at the very last we ought to use up our own oil supply.

So the national security argument, it seems to me, is being perverted in the current discussion because the national security would militate toward a freer importation rather than a more restricted importation of oil.

Chairman HUMPHREY. How do you meet the balance-of-payments deficit problem?

Mr. ADAMS. Well, the balance of payments, of course, is an extremely complicated issue as you well know, but it cuts both ways. Let me give you an example.

Petroleum is not only used for direct consumption in the form of gasoline, heating oil, and so on, but petroleum is also a feedstock, a raw material, for the chemical industry, for petrochemicals. How can our chemical companies—and I am talking about biggies now, like DuPont and Allied Chemical and Dow Chemical, and so on—how can they compete effectively in the international markets of the world with the Japanese and the Germans who have no import quotas, who are able to buy these petroleum feedstocks at a much lower cost than our chemical companies? And how can these companies then turn around and compete with these low-cost producers in the international markets of the world? And, you see, this is one area where labor costs hardly enter into the situation at all. You cannot blame the high price of petrochemicals in the United States on labor. It is the high cost of the raw material.

Why is the raw material price high? Because of the artificial import restrictions which we impose on ourselves. We are fighting a battle in the international markets of the world with one arm tied behind our back.

Now, this does not make any sense. The last time I looked at the situation I think our chemical companies were earning something—is it a billion dollars in international trade? This is a favorable balance, you see.

Chairman HUMPHREY. Yes.

Mr. ADAMS. Similarly, the President belatedly recognized that if meat prices are high in the United States, one thing to do is to relax the import quotas on beef. The same is true in steel.

You see, the shortages we are now facing, I submit to you, Senator, are structurally conditioned by government policy, government policy designed artificially to raise the price of domestic oligopolies in order to insulate them from foreign competition. They do not have any domestic competition and now the government is helping to insulate them from foreign competition.

This is madness if we are interested in price stability. And monetary and fiscal policy alone cannot do the trick, nor can direct controls in the form of phase II, with due respect to the noble efforts made by such people as Mr. Lanzillotti in trying to make phase II an effective control mechanism.

Mr. NATHAN. I think, Mr. Chairman, the balance-of-payment problem, if used as it is being used, is going to make our balance-of-payments situation worse and worse. We have got to be more and more competitive and to the extent that we are protective, frankly, we are going to be less competitive and this is one of our serious problems.

I think we have got to take a hard look at our industry. I agree with Walter Adams that we have become less and less vigorously competitive and I would strongly urge, Mr. Chairman, that it is about time somebody comes along with a new and tough TNEC, Temporary National Economic Commission of the thirties, which took a very hard look at a lot of our industries and what was going on, and I suspect that when one—I am sure one would find today an awful lot more monopolistic and oligopolistic tendencies in fixing administrative arrangements and the like and if this goes on, we are not going to protect our balance of payments through protectionism. I think it will get worse and worse. I think we have got to look upward. And the tragedy is that structural deficiencies and obstacles regrettably are always passed over because they take time. Everybody says you cannot correct it in a hurry, so they forget about it. But we must not——

Mr. ADAMS. But, Mr. Nathan, I think you can correct it by simply eliminating those governmental restraints——

Mr. NATHAN. I agree.

Mr. Adams [continuing]. Which undergird the private efforts at monopolization and restriction.

In 1955 I wrote a book with Horace Gray which was entitled "Monopoly in America, the Government as Promoter." And the conclusion of that book in one sentence is the old Jeffersonian maxim, the Government that governs least governs best. That is, if the Government would withhold those actions, refrain from those actions which support monopoly and create monopoly, we would have much more competition than we now have. We would have more—the competition that would be feasible and possible in the absence of governmental restraints.

Chairman Humphrey. But, Mr. Adams, in the steel industry you have presented to us a—I hate to use the phrase "classic example" but I do not know any other one that really describes it, of the kind of oligopoly that we have been taught or that we have been informed about in theoretical economics or in academic economic studies. You also have a situation where you have the management on the one hand and the labor force on the other in common cause. Therefore, tremendous political pressure is brought to bear upon the Congress of the United States or the President or the Cabinet, political parties, to take what they think is remedial action for protection of jobs, for protection of the market.

I come from a State in which there is a large amount of iron ore. There was until they took it all out of the ground, I should say. Now we have taconite. And I find it very difficult, for example, for myself to not support the Burke-Hartke bill, even though I do not support it, but the political pressures on me are very heavy and just between us, I do not get elected by just economists, and, therefore, I have to think in terms of what appears to be the attitudes of the people that I am privileged to represent, at least in part. So it is a tough one. It is a toughie.

Now, I happen to think that the industry you have selected for analysis is one that really needs the kind of inward look that you have spoken of. We had just to show you from the sublime to the ridiculous, the packinghouse industry in the United States was as inefficient. I believe unbelievably inefficient. Scandalously so. And now there have been some improvements in it. The steel industry in the United States has made some improvements in the last decade or so in terms of its technology but it is still far away from what they have in Japan and Germany and, therefore, it is not as efficient. But put yourself over on this side of the table for a while.

Mr. Adams. If I were running for office what would I tell the folks back home?

Chairman Humphrey. And what would you do once you get elected?

Mr. Adams. Well, even before I got elected, I would point out—and, Senator, I should say that I have no political ambitions——

Chairman Humphrey. Well, that immediately makes you suspect. [Laughter.]

Mr. Adams. I know. But, Senator, if we proceed with the current policy of protectionism, the fate of the workingman in the steel industry will be the same as the fate of the workingman in the railroad industry. Government coddling, Government permissiveness, Government protectionism have helped the railroad executives ruin the railroad industry and inevitably, therefore, the workers employed by the railroad industry.

May I invite your attention to one of the tables I submitted, the one that is entitled "Steel Shipments, Imports and Exports."

If you look at the situation of Benelux—take Belgium as a prototype. Here is a country that exports more than 75 percent of its steel output. Now, in order to do so, it has to be competitive in world markets. This imposes a discipline on the Belgian steel industry to be constantly—become constantly more efficient. And to the extent that it is efficient, to the extent that it is cost competitive, to that extent it is price competitive, and, therefore, successful in world markets.

Now, you might say, well, that is easy for them to do because they can engage in discriminatory pricing and dumping. They can sell their surplus steel abroad at a lower price because they have a protected home market.

Well, then you turn to the import situation, still on this table, and you find that imports as a percent of apparent consumption, that is, domestic consumption, you find out that imports take up anywhere from 48 to 52 percent of the domestic Belgian market.

Now, this shows that it is not a protected home market, that the Belgians have to be competitive at home as well as abroad, and I submit to you, Senator, if the Belgians can do it, anything a Belgian can do, an American can do. I am enough of a chauvinist to believe in that basic proposition. But the American steel industry by contrast, if you go down——

Chairman HUMPHREY. By the way, why do not our financial pages show this kind of material? I have been very interested in what has been happening in the steel industry for a long time by the very nature of my constituency and I never see this. I have heard all this poppycock argument, you know, about the—that we have—that these other markets are protected, and ours is not; therefore, we must have the quotas, we must have the controls, the Belgians are the dumpers and they make sure that nothing happens to their market, et cetera. I have read that time after time. Most of us do not—most of the American people do not take courses in economics from Mr. Adams. They read the financial page if they read anything or they read the daily news page.

Mr. ADAMS. Well, Senator, you have just put your finger on the vital problem. If more of them were in my classroom, you see, economic literacy, education, and, therefore, the salvation of the Nation might be advanced, if I may put that modestly.

Well, if you look at the U.S. table by contrast, we are screaming about the fact that imports, steel imports, have reached anywhere from 14 to 18 percent of domestic consumption and we consider that an excessive percentage. Look at our export figures. We do not have to meet the discipline of an export market either. So you have a situation where there is no domestic competition in the steel industry because of the structure of the industry. The industry does not have to export and, therefore, meet the competition in world markets. And it screams about the minimal impact that imports have on the domestic market and comes to the Government hat in hand to bail the industry out saying this is necessary in order to protect our profits and to save jobs in the industry.

Let me say this to you, Senator, if I may. I have often reflected on the alleged power that labor unions have in the American economy and I have come to the conclusion that most of the power they supposedly have is an illusory power, for this reason. Unions can bargain over wages and fringes and conditions, and so on, but they have no influence over the basic policies that determine the livelihood of their members because these are reserved for managerial prerogatives.

Now, in my own State the United Automobile Workers is certainly a powerful union, but it has no say-so when it comes to General Motors making a decision about the pricing of automobiles, the design of the product, the location of its plants, et cetera, et cetera. All it is these managerial decisions which determine whether a man shall be employed in a Detroit factory or whether his job eventually shall be exported to Australia or to England or to Germany.

Mr. LANZILLOTTI. You are not saying, Walt, that you want them to have those prerogatives, are you?

Mr. ADAMS. That is a separate question. I simply point out that it is the managerial decisionmaking of powerful oligopolists dominating our economy which not only determines the fate, the profit position, of the companies concerned but also of the workers employed by those companies.

CHAIRMAN HUMPHREY. Yes.

Mr. ADAMS. Now, an industry like steel is a classic example of where defective, unenlightened, misguided, call it what you will, management decisions have not only brought the industry into difficult times but has also resulted in the loss of jobs to the extent that there has been a loss of jobs of the people employed by that industry, and bailing them out periodically is only going to make the problem worse rather than better.

So, Senator, I cannot speak for the economics profession generally but I am one economist who is not totally devoid of the milk of human kindness and concern for the working people of America. When I make these tough suggestions about competition, I think they are of benefit to the industry concerned, to the national economic policy, and to the laboring people of this country.

Chairman HUMPHREY. Mr. Lanzillotti, you made a statement this morning that intrigued me and aroused my interest. You stated: "That very early in 1972 the Price Commission"—I think you said "we"—you were on the Price Commission then—"urged the Secretary of Agriculture to modify the planned acreage set-asides with a singular lack of success."I believe that is an accurate quote. Are you then saying that the grain shortage that we now experience was foreseen within the administration early last year but that proposals to do something about it were overruled? And I might ask why were they overruled?

Mr. LANZILLOTTI. Well, I do not know what was perceived by whom but I do know that our own views of the agricultural problem insofar as meat prices were concerned, and the outlooks presented to the Price Commission by various agricultural analysts, indicated that the answers to the meat price problem certainly lay on the supply side, and naturally we turned to the question as to whether Government policies were exacerbating the level of supplies in any way. It was fairly clear that we were still following policies that were based on the premise of a surplus which I believe is a throwback to the thirties, and we have pursued that policy. I believe also the Agricultural Act of 1970 was based on the notion that we still had tremendous surplus stocks of grain.

Chairman HUMPHREY. Well, did we not?

Mr. LANZILLOTTI. To my knowledge, no.

Chairman HUMPHREY. Oh, my friend. The fact is that we did. Now, I happen to think that the Department was wrong in not permitting grazing, for example, on some of this land. I think it may have gone too far in the set-aside program. It has been my judgment—as a matter of fact, in the latter part, last half of 1972, they were out making payments on set-aside land like it was going to go out of style. In fact, the Secretary of Agriculture said they were spending money like a drunken sailor. That was for politics, no doubt about that, for rural America, setting aside all of this vast acreage.

Now, of course, they have changed entirely and they are going to open up 45 million acres. But just so that we might get the facts straight, we did have a billion 300 million bushels of wheat on hand. That is quite a lot of wheat. If you are a farmer that is a terrible price depressant and we did have millions of tons of feed grains on hand.

Mr. LANZILLOTTI. It is a depressant but——

Chairman HUMPHREY. We did have in early 1971 hogs at about $21 a hundredweight and you cannot produce a hog at $21 a hundredweight. I have been, of course, one of those persons—I do not think my farmers in Minnesota owe you a subsidy. I do not think they ought to produce for you or me or anybody else at less than cost and they were doing that in large areas. For example, the average price of corn was selling at $1.02, $1.01, parity price for corn at about $2.10. Why should they get less, half of what parity is? Parity for wheat is $3.50. They are still only getting a little over $2.

We got so accustomed to having farmers produce so cheaply that it was just like the hotel managers got used to having people work in the hotels for less than minimum wages. I will never forget when we established the minimum wage law to include laundry and hotel workers, people screamed bloody murder in laundries and hotels. They said you are going to raise the cost of the room. You are going to raise the cost of shirts. I said well, why not? Why should a hotel worker get paid 90 cents an hour? I mean, why should they not get a couple of bucks an hour?

Mr. LANZILLOTTI. Senator, I believe you misunderstood the point I was making. First, the stocks are surplus only if you consider they are going to be thrown on the market all at once. My point was, given the rate of consumption of beef in this country and the rate of consumption abroad, internationally, that there was really a shortage of meat internationally and that we should not worsen the situation by holding to a policy that assumed that there was a glut.

Now, I do not want to appear insensitive to the farmer.

Chairman HUMPHREY. The thing I am getting at is you did have such evidence at least that you thought was verifiable.

Mr. LANZILLOTTI. I would say that I had evidence which to me as an economist suggested that if we were looking beyond the immediate period in which we found ourselves, that the answer lay in doing something about the set-asides.

Chairman HUMPHREY. Right.

Mr. LANZILLOTTI. And it seemed to me that this is true with other policies. I think that we are seeing some proposed changes, and we have, which is a tribute to the Secretary. There has been a proposed change in that policy. Also, in regards to lumber, allowable cuts, where we have a peculiar policy—in my view at least we have had—that the allowable cut of lumber makes no allowance for current or future prices in the lumber and wood products field. That seems to me to be rather curious, that we ought to be looking at the futures market to determine whether we should increase the allowable cuts from Federal forest lands and the allowable sales rather than being guided purely by management, forest management practices.

But the point I want to make on the grains and meat prices is really the point that Professor Adams was making. The farmers, I think, are cursed by their efficiency in a sense and the great technological improvements which have come as a result of rather large investments by the American taxpayer.

Now, I do not want to visit recession or depression on your farmers or indeed my farmers, because we have farmers in Florida who have something to be concerned about, too.

The point is this. Do you improve the economic position of farmers with the kind of policies that we have followed in agriculture over the years, that is, the price support program which has certain discriminations in it insofar as it singles out only six so-called basics? Are there better ways of taking care of the low-income farmer?

In other words, I believe that you may want to help a person financially because he is not well off but not because he is a farmer as such.

Finally, these particular programs have not helped the small farmer. I suppose that every study that has been conducted of agricultural policy has proved one thing, that the small farmer, the Jeffersonian ideal of the small farmer, is not helped because he does not produce enough. These policies do not help him. They help the large, more corporate farm.

Chairman HUMPHREY. That is an economic theory that is not supported by observable fact. I think maybe I am as knowledgeable in agriculture as you are in your general field of economics.

Mr. LANZILLOTTI. Take it on, Senator. Let us go at it.

Chairman HUMPHREY. I want to talk about the small farm. I want to talk about a 400-acre farm in Minnesota.

Mr. LANZILLOTTI. Are you talking about those subject to price supports—you are talking about dairy farming, I take it.

Chairman HUMPHREY. Well, they are small farmers. I am talking about feed grain farmers, wheat farmers, talking about dairy farmers. I am not talking about those 2- and 5-acre ones you are talking about.

Mr. LANZILLOTTI. What we are talking about is most farmers who presumably are the beneficiaries of a price support program.

Chairman HUMPHREY. Right.

Mr. LANZILLOTTI. For basic commodities.

Chairman HUMPHREY. Maybe you and I have got to go at this at another time but——

Mr. LANZILLOTTI. I do have on my record 13 years of residence in the great wheat country of the northwest and it was my observation and my experience with the small wheat growers in that area that they did not grow enough wheat, no matter where you put the price supports, that they were going to be benefited by the price support program. The point is not that they were not benefiting, but rather the way that you could improve their economic position was to give them direct payments rather than to mess up the——

Chairman HUMPHREY. I have supported income supplements. I have felt this——

Mr. LANZILLOTTI. I am not attacking it.

Mr. ADAMS. This is the essential point, is it not, the difference between price supports and income support?

Chairman HUMPHREY. Yes, sir.

Mr. ADAMS. So it is not a question of desirabilities of helping the small farmer, but the question of how best to accomplish that objective without imposing the kind of rigid controls which seem to be so difficult to reverse or to adapt to current conditions that you get when you fiddle with price supports as distinct from income supports. Would you not agree?

Chairman HUMPHREY. I think I had better get back to nonfood items.

Mr. LANZILLOTTI. We can get on less sensitive ground.

Chairman HUMPHREY. I would love to visit with you on that and I know you have lots to offer on it. I have my points of view. I certainly do not disagree with you that much of the farm program has been primarily beneficial to that small percentage of extra large producers. But that is the problem we have in the country in everything. Just large producers.

I will give you an example. I was just home. My mother passed away. We still have a little family business. There are only two independent pharmacists in the entire Beadle County of South Dakota, out on the Plains. We are one of them and the other fellow is going out of business. We are close to it. Why is that? They have all been taken over by the big chains and big discount houses. As a matter of fact, our competition is not related to the drug business at all. It is Jewel Tea. They did not know what else to do with some of their money, so they got into the drug business. Sort of like Penn Central. They do not want to run railroads. They run bingo and real estate and finally, they keep the name Penn Central because they have got to have some historical heritage to railroading. So there is no way you can bail out Penn Central because Penn Central has ceased to be just a railroad. I mean, it is a conglomerate.

Mr. LANZILLOTTI. But at the retail level I think you would agree, Senator, we are benefiting from mass merchandising.

Chairman HUMPHREY. Yes. I think that is basically true in terms of some people. I would like to—I have had strong attitudes about what happens in the consumer market once you have gobbled up all the independents. Let us get to this one right now on the gasoline industry. Do you think the consumer will be benefited when they have done away with all of the independents?

Mr. LANZILLOTTI. Well, I am concerned about that, as I indicated in my statement. I am concerned about it not because I believe that the affiliates or the company owned retail stations are more efficient than the independents. I am concerned about it because in a period of shortage I think it would be natural, profit—maximizing policy, for the major refiners, which usually divide their supplies of gasoline between their own station and the independents, to serve their own.

Chairman HUMPHREY. Which is exactly what they are doing.

Mr. LANZILLOTTI. Well, I think that is a normal; you would expect that. I think that this situation is not a problem that has arisen because of acquisitions and mergers. This is a problem that arises because of the shortage of petroleum. So that my comments there were not to allow this particular development to become the aegis under which these independent fellows are driven to the wall.

Chairman HUMPHREY. And the other point that was brought out here in the hearings the other day is the independent has been responsible for keeping price competition in the gasoline business and we are driving him out. There are 200 of them gone now in my State. The last time we were there it was a hundred. Just flushing them out.

Mr. LANZILLOTTI. I think they will be back, even though I do not want to——

Chairman HUMPHREY. Oh, my God. They will be back but they will go to the bottom.

Mr. LANZILLOTTI. Some of them will be back when they get supplies. Entry into retail gas sales is not that costly, not that difficult. I would rather not see them forced to the wall, but it is not a capital intensive kind of activity and I would expect that if these independents are driven to the wall and we get back to more normal supplies that they will come back in. They may not come back in in the same numbers, but they will come back the same way as they have been coming in. You see in retail gas stations all sorts of new devices are always coming up. When I was living in California years ago there were the roller skating attendants, and now you pump your own gas and even have credit card computers you can shove cards into. So I am not frightened that we will have no entry of the cutrate gas station in the future. I would just prefer if we can avoid driving these independents to the wall under this situation that we do that.

Chairman HUMPHREY. Since you were on the Price Commission, I have a quesion here. An estimated 90 percent of all gasoline service stations including franchise stations are not actually owned by the 23 major oil companies now under mandatory controls. Similar situations prevail with distributors in other industries. Do you think that the controls limited to the large companies will be adequate to protect consumers in this period of shortage?

Mr. LANZILLOTTI. I do not know, but I hope if they are not that something will be done to make sure they are guaranteed a supply of gasoline or at least if there is going to be a limited supply as appears to be the case in some localities, that the independents will be assured at least of a proportionate reduction to the company-owned or company-affiliated stations. In other words, there has to be some measure to assure they get supply and they are not just faced with a complete drying up of a supply of gasoline.

Chairman HUMPHREY. Let me just ask kind of a final question here. The whole business of monetary policy has been injected into this discussion and with an informative tone to it. How likely do you think it is that we will have a credit crunch with tightened monetary policy, followed by a recession?

Mr. Nathan, you were referring to that.

Mr. NATHAN. Well, one of the problems that poses is what is Arthur Burns going to do? Arthur Burns, I think, is one of the ablest of the administration economists but also he is one of the most politically sensitive. I do not necessarily say that in a negative way but Mr. Burns is not going to be the father of a recession if he can help it and I think he feels strongly on that—this is my own personal view, I am not expressing his view—I have not talked to him recently. He may feel he has been taken, because he is very much concerned about excessive reliance on monetary policy as a way to handle this inflationary pressure.

The inflation now underway, especially in the nonagricultural area, is so intense and of such magnitudes that I think it is going to take—if you go the monetary-fiscal route at this stage—it is going to take a tremendous turn on that wrench in closing down on the valve. And I suspect that could very well turn on a recession and Mr. Burns is going to resist it, in my judgment. I think he feels the fiscal policy and control decisions have been wrong.

You know, after all, here is President Nixon, who probably hates deficits more than any President in history who has had the biggest peacetime deficits in all history by a tremendous margin. A rise of $100 billion in debt since he went into office. And to have a deficit, you know, Mr. Shultz is bragging now it is going to be $20 billion instead of $25 billion, with inflation running the way it is, is not something to be so proud about.

There are all kinds of internal elements in the fiscal picture. The way they are handling it is very bad but I think Mr. Burns is going to resist tightening up unduly because he does not want to be identified as the father of Nixon's second recession. And yet, he is very much concerned about the inflation, I am certain, as all of us are, and unless they do something on the control side, I myself feel that we are just going to go ahead and have worse inflation, more devaluations, more trouble, more sufferers. I do not see the monetary side cutting it off and I do not think it will be effective.

Mr. LANZILLOTTI. Putting it differently, I think that the deficit in the current fiscal year is pretty well set. I do not believe you are going to alter that very much. And for 1974, fiscal, I do not think that is going to be altered very much unless we have a much greater bonus in terms of tax revenues than now appears to be the case.

So putting it differently, if you go the monetary route, in order to contain the inflation, the amount of restraint that you are going to have to put on the money supply would in fact bring about the kind of crunch that you are talking about.

Now, it is true that the Federal Reserve has reduced the rate of growth from about 8 percent toward the end of 1972 to down about 2 percent, I believe, currently. That is one of the problems that we have had with monetary policy over the years, that it is a policy of too much ease at one time in retrospect—I am not saying I have perfect foresight here—and then too much restraint at other times and this kind of very extreme tightening and loosening is not the kind of instrument that alone can do this job. I think that is what we are really saying here this morning, that alone it cannot do the job. And my forecast would be along the lines of what Mr. Nathan has said here, that I think Arthur Burns recognizes the usefulness of other instruments and he has urged the use of other instruments. So I feel that he will not rely exclusively on monetary policy to bring about the kind of restraint on inflation that is needed.

Chairman HUMPHREY. I have got a whole fistful of questions here and our time has run out on us. I am terribly sorry because—many of these questions have been answered in your direct testimony.

You may recall this announcement by the President with a good deal of fanfare 2 months ago, around that time, that there were going to be substantial releases of stockpiles, strategic materials from stockpiles. Are you aware of any major sales out of that and if so, has it had any stabilizing effect?

Mr. LANZILLOTTI. Well, I am not aware of specific sales. I hope they do not do it all at once. I do not think it would be wise to dump these on the market, much as we were talking about on the grain situation. But my understanding is they are releasing some of the aluminum stocks, are they not?

Mr. NATHAN. I have seen no evidence of it. They said they were. I assume it will be done very secretly.

Chairman HUMPHREY. Well, have they not already announced a program of an 18-year disposal of the aluminum stockpile?

Mr. LANZILLOTTI. It will be slow.

Chairman HUMPHREY. But that would run sort of in contradiction to any kind of larger disposal for the immediate future, would it not?

Mr. ADAMS. It is the kind of instrument that should be used to correct the structural imperfections that we have talked about earlier. The way to bring prices down is either by reducing demand or by increasing supply.

Chairman HUMPHREY. Right.

Mr. ADAMS. And this seems to be a rational process of increasing the available supply on the market and, therefore, tending to reduce the price.

Chairman HUMPHREY. The thing that always bothers me, I get these big headline stories about it but never see much happen afterwards. Maybe it is just faulty reporting.

Mr. LANZILLOTTI. I think as Mr. Nathan pointed out—I do not think there will be a big fanfare on the amount of the sales that are being made from these stocks. I think this should be done that way.

Mr. NATHAN. But I think the Senator is raising a question of credibility and there are a few precedents which justify that question, and what worries me is it will be secret, as I think it has to be, but also the first time somebody screams I suspect maybe it will stop. That is one of the difficulties. So we will never know whether this is a meaningful effort that is going to bear fruit.

Mr. LANZILLOTTI. But I do not think you should expect that those stocks that are released are going to be released in such quantities as to actually cause a drop in the price. I think what they are going to be used for is to moderate the increases.

Chairman HUMPHREY. Yes. Sort of a brake.

Well, we might want to submit some questions to you some time for your free time to kind of——

Mr. LANZILLOTTI. Professor Adams will be glad to answer all those questions.

Chairman HUMPHREY. In the meantime, I want to express my personal thanks for your attendance and your testimony and your great help to the country. Thank you very much.

Mr. NATHAN. Thank you for the chance.

Chairman HUMPHREY. The subcommittee is adjourned.

[Whereupon, at 12:15 p.m., the subcommittee adjourned, subject to the call of the Chair.]

THE COST OF LIVING

TUESDAY, MAY 22, 1973

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON CONSUMER ECONOMICS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 12:40 p.m., in room 4221, Dirksen Senate Office Building, Hon. Hubert H. Humphrey (chairman of the subcommittee) presiding.

Present: Senator Humphrey.

Also present: Jerry J. Jasinowski, professional staff member; and Michael J. Runde, administrative assistant.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. First, may I express my thanks and appreciation to our witnesses for your willingness to accommodate us by coming here at this hour rather than to proceed as we originally planned at the 10:30 hour.

I had Foreign Relations Committee this morning on the markup of a very important bill, the military assistance legislation, highly controversial, to say the least, and it was necessary to be there.

We never can plan ahead.

These meetings are somewhat unpredictable insofar as the Senate and House schedules are concerned.

I have a brief opening statement which I will quickly run through, then we will proceed with our witnesses.

Mr. Cochran will lead off, I believe, and then Mr. Kristof and Mr. Krusell; is that right?

And then Mr. Scheuer. That is the way we will proceed, in that order.

In the Housing and Urban Development Act of 1968, the Congress reaffirmed the national housing policy that it had adopted in 1949; the realization as soon as possible of a goal of a decent home and suitable living environment for every American family.

Unfortunately, that goal remains unachieved, and the President has abandoned, temporarily at least, efforts to achieve it.

The housing needs of the country are huge. The 1970 census of housing revealed that there were still 4.7 million year round housing units lacking adequate plumbing. Another 4.5 million units were overcrowded. Even these figures vastly underestimate our true needs, however, because there are additional millions of dilapidated old homes that have plumbing and are not overcrowded.

The subcommittee's primary concern, however, is how to meet these acute housing needs in the current inflationary environment. The median price for new homes sold this February was $30,000, 13 percent higher than a year ago and well beyond the reach of the average family in this country.

I might note and digress here for a minute, in Minnesota they said a home for a family of four, a man, wife and two children, for our kind of climate and our kind of needs and for what we call moderate- or lower-middle income would be about $38,000. We have little higher building costs because of the temperatures that we have to endure in the wintertime.

This outrageously high cost is, of course, related to the rapid price inflation the country has experienced in three major components of housing.

First, the wholesale price of lumber has advanced 30 percent in the last year, which has increased the price of the average new home about $1,200 and possibly more than that.

Second, land prices for FHA new homes are on the average increasing about 17 percent a year.

Third, high interest rates greatly increase the homeowner's cost of purchasing a home. As it now stands, the financing of a house costs as much as the entire house, that is as much as the land, the construction, the labor, and so on. At present interest rates, which have on the average been a couple of percentage points higher in the last 4 years than throughout the sixties, about one-half of all American families cannot afford to buy a home, and the extra cost due to higher interest rates to those who can afford to buy, is tremendous.

Two percentage points in the interest rates increase the typical family's mortgage interest payment by $28 a month, $336 a year, or $8,400 over the life of a 25-year loan.

In the face of these housing cost problems the administration has developed no policy, and in fact, it has acted to make the situation worse. The moratoriums on Federal housing subsidies, water and sewer grants, and some community development programs are aggravating what was already a desperate housing supply situation for many low- and moderate-income families.

The Consumer Price Index released today shows the lack of administration anti-inflation policy. The overall Consumer Price Index is up six-tenths of 1 percent, or an annual average of 7.2.

In the 6-year period ending in April, consumer prices increased at a seasonably adjusted annual rate of 6.6 percent.

I might add that these figures are about double what we were told by the administration witnesses in January and February, double what was determined to be the annual average for 1973.

And the inflation is accelerating in the housing area. The overall price of housing has jumped 1.2 percent in the last 3 months alone; and if you calculated that, of course, on a 12-month basis, it speaks for itself.

Today we are fortunate, of course, to have this panel of four distinguished witnesses who are experts in the housing field, and without any further ado, and taking your time, I am going to ask Mr. Cochran to proceed, and then we will just move down the line.

Mr. Cochran, you have prepared a statement, do you?

Mr. COCHRAN. Yes; and if you would put that in the record, Mr. Chairman, I will try to highlight it and save your time and the other witnesses' time.

Chairman HUMPHREY. I will place it in the record at the end of your oral statement.

Might I also say to the witnesses that what we try to do after these hearings is to excerpt from the testimony the more important points that you make, and then I put that into the Congressional Record with some statement, so that we get a broader distribution of what your commentary may be.

So, proceed.

STATEMENT OF CLAY COCHRAN, EXECUTIVE DIRECTOR, RURAL HOUSING ALLIANCE, ACCOMPANIED BY GEORGE RUCKER, RESEARCH DIRECTOR

Mr. COCHRAN. Mr. Chairman, my name is Clay Cochran, executive director, Rural Housing Alliance.

I have with me to answer any difficult questions George Rucker, our research director.

We are here to congratulate you, among other things, for holding hearings with the stress on consumers, because, as spokesmen for the rural and small-town point of view on housing needs and programs, we make the following points:

Virtually any way you can define it, housing needs are greatest in nonmetropolitan America.

The housing programs have served these areas least adequately, and the current moratorium hits them hardest.

In our continuing evaluation of housing needs and of the various programs supposedly designed to meet these needs, we, like others, keep coming back to the question of commitment.

Let me touch briefly on some of the supporting points with which I am sure you are familiar: Something like 60 percent of the substandard housing measured in the way in which we usually measure it is outside the standard metropolitan areas.

When you add crowding and income considerations, that figure drops somewhat, but any way you measure it, that one-third of the people who live in small towns and rural areas have the greatest need and the programs are least well designed to serve them.

We have been critical since the numerical housing goals were first established of their inadequacy, and as we point out in the prepared statement, in terms of estimates of housing formation, estimates of losses from inventory, and the absence of any allowance for the elimination of crowding, it now becomes increasingly evident that the goals have been inadequate all along.

We keep insisting that there is a responsibility for not just meeting some theoretical goal, but for trying to bring the cost of adequate housing within the reach of people. We seem to be getting further that achievement as you indicated in your opening statement.

In any case, we believe that at least that 30 to 40 percent of the production is going to have to be subsidized in the years ahead, not the 23 percent which is the official figure.

So far as we know, no administration has made any effort to allocate that goal as between urban and rural areas except statistically.

We would suggest that with nearly half the Nation's poor and nearly 60 percent of its worst housing, nonmetropolitan areas should get at least a third of the total production and 40 percent of the subsidized portion if we are serious about meeting human needs.

Chairman HUMPHREY. Of course, the President through the OMB, Office of Management and Budget, canceled out our subsidized rural housing for lower income and lower middle income groups.

By the way, I have examined into that program in my home State of Minnesota, and it was a phenomenal success. That is the Farmers' Home Administration Housing subsidized rural housing. Many of the farmers that got that housing were able within 2 to 3 to 4 years to get on conventional rates, yon know. conventional housing loans, lifted themselves out of the area where they were eligible for subsidized housing, but in the meantime got themselves a good home, and it is a pity that that program was stopped. It was just taking hold.

I met with people from all over the country on that program.

Go ahead, Mr. Cochran.

Mr. COCHRAN. I guess it was in the second year of the Nixon administration they wiped out part of the Farmers Home Program—the above-moderate income program—and we couldn't get a soul to protest except us. Ultimately they wiped out the part that was designed to serve the lower income groups except that small part we managed to salvage a while ago, the self-help housing program. That is about 1,000 houses a year at best, hardly likely to revolutionize the situation in rural areas.

We indicate in the prepared statement—it is not general common knowledge—that the Nixon moratorium strikes much more sharply at small-town and rural areas because they depend largely on the farmers home subsidy programs and the pipeline for farmers home is practically nonexistent.

The HUD programs have considerable pipeline, but the farmers home programs are going to be nearly dead by the 30th of June as far as the subsidized ones are concerned.

Among other things, the Nixon moratorium is wiping out a lot of small contractors out there who, lured, in effect, by those programs, expanded or went into business and now find themselves cut off at the pocket without any recourse.

The effect of the cutback on housing production will be to further increase the pressure on housing costs, and the fact that the moratorium is on subsidized programs means that the pressure will be greatest on those lesat able to afford it.

Chairman HUMPHREY. And that pressure raises the cost of existing housing.

We are seeing this all over the country that, as you cut back on moderate and low-income housing in particular, what housing remains becomes that much more of a prize, so to speak, at a premium, and these prices go up and up and up, and leave the families of lower income stranded.

Mr. COCHRAN. Now if you come along and add a fat housing allowance program to it, watch what happens to prices without any production.

We make the point again and again that is not that the Federal Government doesn't spend a great deal of money subsidizing housing in this country.

Most of it goes to people with incomes of $10,000 or more. And given the way income is maldistributed in our society by providing housing assistance as a partial offset to more basic income redistribution is going to be expensive. We have got to quit trying to do it cheap.

On the other hand, costs can be reduced significantly, and the burden distributed more equitably if we will abandon some of the myths and shibboleths that currently hamper us.

We touch on the need of capital budget. You know, Senator Humphrey, 25 years ago in the public development of water resources how desperately we struggled to prove that building a dam was an investment and not like buying whiskey for an admiral, but we never have gotten that into the Federal accounting system, and one of these days we are going to have what we have been referring to as a truth-in-accounting law, so that we can distinguish between an investment and an expenditure.

Chairman HUMPHREY. I spent many years trying to pass something like that in Congress.

I think I will start up again. I want to remind myself on that. We will get together with you on that.

Mr. COCHRAN. There is a recent report by Senator Proxmire's subcommittee indicating how heavily the taxpayer has to pay for these subsidized interest programs instead of using Government credit directly for an investment program, and this was what came up when the interest credit program was established.

Our proposal for a Norwegian plan of direct loans went down the drain because Lyndon Johnson objected to the budgetary impact of it, so we were saddled with this enormously expensive program of subsidizing the private bankers.

Most people think that there is plenty of land in the rural areas, and building sites are not a problem, but the costs there are just as serious and frequently the task of securing land for use is greater. Here again, we run into moratoriums on water and sewer lines, and property taxes—we find in trying to do something for lower income people the high level of taxes on homes is overwhelming.

A couple of years ago in New Jersey it was apparent that even if you gave a man a modest house which at that time would have cost $15,000—now it is probably $20—he had a tax bill of $750 on it, so that a low-income person couldn't afford a house even if you gave it to him.

And if we are going to lower costs of housing to low-income consumers or moderate-income consumers, something has got to be done about the burden of taxes. There are obvious devices for making that tax more progressive. I won't try to go into that but taxes are a major impediment to moderate- and low-income people in getting a house, and it is a major cost insofar as the Federal Government has to subsidize what is essentially a tax shelter.

On maintenance and repair, the Cost Index is rising faster than others. One thing we feel pretty grim about in rural areas is a tendency to place stress on mobile homes. The current upsurge of interest in mobile homes strikes us as an exaggerated form of the desire to cut initial cost at the price of long-range durability and life cost.

In terms of the quality of the housing involved, we would argue that mobile homes are not even the bargain in initial costs they appear to be, but instead are a means of redefining standards at a lower level without admitting that we are doing so. There is nothing cheap about a mobile home except maybe the original acquisition cost.

Chairman HUMPHREY. That happens to be about the only homes that some people think that they can afford to buy.

I know out where I live in Wright County, in Minnesota, about 40 miles west of Minneapolis, a little community just 3 miles away from our home, called Montrose, they are putting in a huge mobile home park, and there is another one down the road about another mile that looks very nice. They have landscaped it well, and they have water and sewer, and so on.

But this is the—I stopped by there to see—I sort of like to kibbitz, and see what they are doing, and how they are coming along, and I ask them questions as to why the park, why the mobile homes.

They said, this is the—the people I talked to that are buying these homes and renting them, some of them, by the way, said this is the only thing we can afford.

Mr. COCHRAN. Right.

Well, here again we get into the lack of stress from the standpoint of the consumer, and in some cases the taxpayer, in dealing with these problems because it has become so apparent to us in terms of the mobile home or even a shell home, meeting the needs of small families in rural areas, even Farmers Home, which has been the principal agent out there, is so sales oriented, so realtor-investor oriented, that we can't get them to build modest houses for small families which would be expandable later.

Farmers Home Administration wants a two- or three-bedroom house so that in case they have to foreclose or run into other difficulties it is immediately resalable, disregarding the fact that there are a great many people who can't afford that size house, don't want that size house, can't afford to pay utilities on that size house.

The family would be a lot better off with a modest, small home, but it might not be, Farmers Home Administration thinks, immediately resalable.

This policy and practice are in disregard of both the cost to the taxpayer and the needs of the consumer, the utilization of resources, an inflexibility there which springs in part from the Congress which has always policed Farmers Home pretty hard on its repayment record and and made it boast of so high a repayment record that it was obvious they weren't doing the job right, you know, 1 percent losses.

So we are all to blame on this, but it still comes back to the fact that the needs of the taxpayer and the consumer tend to be overlooked in terms of a kind of a rigid formula that runs to copying traditional practices in real estate. We would like to see a fresh look taken at that whole problem of giving the consumer a good solid minimum house no bigger than he needs and quit trying to make him be the consumer of property that he can neither afford, doesn't require and which the taxpayers are not willing to subsidize in any case.

Last point is: We would like to direct the attention of the committee to the Emergency Rural Housing Administration bill, which was cosponsored last session by about a dozen Senators, which is an attempt to give the people in rural areas a voice in what is happening to their housing.

The public housing program never flourished in rural areas for many reasons, but among other things it was dependent on local government.

In your Scandinavian-oriented, more democratic parts of the country, Senator Humphrey, maybe this wasn't a great problem, but in a lot of areas of the country it was serious. We would like to take a leaf out of the history books on REA and establish some housing delivery institutions out there which, by the use of a rural credit bank, can really divide the country into areas and set out to meet the needs of all the people there, beginning with the lowest income people, and try to establish some institutions out there which are responsive to the people, controlled by the people they serve, and guided by the Congress through administrative channels.

Chairman HUMPHREY. I have introduced a bill for a rural development bank which has some of the features that you are speaking of that would provide the capital that is necessary for long-term loans at low rates of interest, subsidized rates of interest, in areas where there is economic and social need, and also more conventional loans in areas that are capable of meeting their payments.

It is an interesting thing. We never have any problem about this in foreign aid or military assistance.

I just came away from a committee where even those of us that are reforming the military assistance program, you know, really cracking down on it, we still come around to where there are concessional loans, and there are grant programs, concessional loans and semiconcessional loans, and then you have the Government credits which are at interest rates which are less than commercial interest rates.

So we do that if you buy a tank or if you buy a plane. We have got several windows that you can finance it through.

If you are real poor, we will give it to you, and show you how to run it, and send some people out to demonstrate it for you.

If you have got a little bit, if you are not too poor, we have got a program that says for the first couple of years you will not pay any interest at all. For the next 3 years, you will pay 3 percent interest.

Wouldn't a farmer like that?

Then if you are coming along fairly good, what you might call low-middle-income country, we have got a program for you that if you want to buy planes or tanks or guns, you can buy it out of the Department of Defense at interest rates that are less than—it is a blend between commercial rates and subsidized interest rates, so it runs about 6 percent.

Then if you have got cash sales, we make another deal for you, and then if you really go and you are quite affluent and you can buy in the commerical market, you have to pay the going rates for money.

But we had all of these varieties of financing which we have had for years on economic developments overseas, on military assistance overseas; but when it comes to providing for a well or a sewer or a house or anything that relates to our people back home, we say, well, now, we have got to put that in the marketplace. We have got to abide by the standards of the marketplace here and let the interest rates go jumping right out of the sky.

That is, if you have got the downpayment that you need for these programs, particularly in housing.

I gather what you are talking about here on the REA concept is a direct Government loan type of program at a low rate of interest with the institutional organization in the rural area to handle that type of a housing loan.

Mr. COCHRAN. Right.

It is the idea of trying to build some institutions out there which are responsive to the people out there, to really build a housing delivery system. As bad as things are in the cities, they are organized to take advantage of some programs.

The cities created most of the housing programs. That is one reason they don't work in the rural areas. They were created at the insistence of people in the cities.

We think you have to begin to make a distinction because we know that a program may work fairly well in the larger cities with their rich resources and their capacity to support public housing authorities, metropolitan area authorities.

In the rural areas we not only need credits and grants, but we need some institutions out there responsive to the people which can deliver housing and administer it so that it doesn't become ghetto housing. Small towns and rural areas are a part of the country, and the people who live there should have a voice in the way housing is handled.

Thank you.

Chairman HUMPHREY. Very good, Mr. Cochran.

We will come back to question you later.

[The prepared statement of Mr. Cochran follows:]

PREPARED STATEMENT OF CLAY COCHRAN

Mr. Chairman, Members of the Subcommittee; my name is Clay Cochran and I am the Executive Director of the Rural Housing Alliance, a private, nonprofit organization which has been working for the past half-dozen years to increase public understanding of the nature and extent of housing need in rural and small town America. We appreciate your invitation to appear before you and congratulate you on the decision to hold these hearings. In our judgment, one of the things which our various housing programs most needs is more attention to the consumer aspects.

As spokesmen for the rural and small town point of view on housing need and programs, we would make the following points, virtually any way you define it, housing need is *greatest* in nonmetropolitan America; the housing programs which we have had have served those areas *least* adequately; and the current moratorium on Federal housing assistance hits those areas *hardest*. In our own continuing evaluation of housing needs and of the various programs supposedly designed to meet those needs, we—like many others—keep coming back to the question of commitment. Quantitatively, we are apparently less committed to the goal of eliminating housing need than we are to the goal of spending as little money as possible; qualitatively, we are apparently less committed to the needs of people, to the consumers, than we are to the shibboleths of the market mechanism and the interests of bankers and builders.

Let me expand a bit on each of those points.

Measuring substandard housing

The traditional, very restrictive, standard of housing adequacy—that on which the numerical goals adopted by Congress in 1968 were predicated—requires only that a house not be dilapidated and that it have certain basic plumbing facilities. While the Census Bureau has not yet published its own detailed estimates of substandard housing based on the 1970 Census, we have prepared some preliminary ones which indicate that more than 4 million households were in substandard units and that nearly 60 percent of those were outside of Standard Metropolitan

Statistical Areas, although only 30 percent of the nation's people live outside SMSAs.[1] Put another way, the chances that a rural or small town family is living in substandard housing is more than three times as great as for a metropolitan family.

Crowding

As it has become increasingly clear that our traditional definition of substandard is too limited, we have frequently added another measure of adequacy—crowding. The 1970 figures showed that another 4 million-plus households lived in housing that was not substandard but that provided less than one room per person. This, as would be expected, is more prevalent in urban areas than in rural areas, but the difference is not really that great. (Inside SMSAs, 7 percent of the occupied housing is standard but crowded; outside SMSAs, it is 6 percent.) When you use both measures, it still remains true that a rural or small town family is almost twice as likely to be living in housing which is substandard, overcrowded, or both as is a metropolitan family.

Cost

We are still, however, ignoring the cost of housing. The Bureau of Labor Statistics estimates for its most modest budget that a family of four requires nearly $7,000 income for a decent standard of living, including adequate housing. More than 30 percent of American families have incomes below that level and can be assumed—by and large—either to be living in less than adequate housing, or to be paying such a large part of their income for adequate housing that they have to sacrifice other elements in their standard of living. In nonmetropolitan areas, the budget requirement is somewhat less, according to the BLS, but at the same time, incomes are a whole lot less and the result is that nearly 40 percent of those families lack the income required for the BLS's "lower budget." Once more, the incidence of inadequate incomes is 40 percent higher in rural and small town America than in metropolitan areas.

As I said initially: "Virtually any way you define it, housing need is *greatest* in nonmetropolitan America." Now, let's take a look at the adequacy of the Federal response to housing need.

Housing goals too low

Estimates prepared by HUD in 1967 and adopted by Congress as part of the 1968 Act were to the effect that we could meet our goal of "a decent home and a suitable living environment for every American family" if we produced 26 million new and rehabilitated housing units in the next 10 years, bringing 6 million of those within reach of low- and moderate-income families by means of housing assistance or subsidies. The current reassessment of Federal housing policy reportedly includes a new look at those numerical goals. I submit that there are several reasons for believing that they were too low.

First, the projection of household formations now appear to have been 1 million or more too low—leading the Committee on Economic Trends of the United States Savings and Loan League to characterize it as "hopelessly inaccurate." Second, there seems every reason to conclude that the estimates of losses from the inventory of standard housing during the decade was also too low, again by a million or more. Third, the official goal (as we noted previously) was limited to the replacement of substandard units only—it made no allowance for the elimination of crowding. If our definition of a "decent home" means one that has sufficient space for the family as well, then the goal should be increased by yet another 2 million units. In short, it seems to us that the read need is likely to be 3 million starts and rehabilitations a year instead of 2.6 million, as postulated by the 1968 Act.

Even more obvious is the fact that the estimate of 6 million units to be subsidized for low- and moderate-income families is far too low. It would do little more than cover the number of households officially designated as in poverty.[2] If we are serious about bringing the *cost* of adequate housing within reach of every household, we should plan on subsidizing 30 perecnt to 40 percent of production, rather than 23 percent as is contemplated by the official goals. Leon Keyserling, the former Chairman of the Council of Economic Advisors, uses a figure of 10 million assisted starts (5 million for low-income households and 5 million for

[1] See Rural Housing Alliance. *OEO and Rural Housing*, Table 1.2, pp. 16–17.

[2] The official definition of poverty, we would emphasize, is a scandalously inadequate one, especially for housing. See *ibid.*, pp. 277–8.

moderate-income households),[3] and the National Housing Conference calls for a similar level of subsidized units.[4] We would suggest the still larger figure of 13 million subsidized starts and rehabilitations.[5]

Metro versus nonmetro need

As far as we know, there has never been an Administration effort to allocate the official goals as between urban and rural areas. We would suggest that, with nearly half of the nation's poor, and nearly 60 percent of its worst housing, nonmetropolitan areas should get at least a third of total production and 40 percent of the subsidized portion.[6] In fact, however, during the recent peak years of Fiscal '71–'72, nonmetropolitan areas received only 28 percent of total starts and only 31 percent of Federally assisted starts.[7] Even this is a relatively recent development and attributable to the dramatic expansion of the Farmers Home Administration program. Public housing was so urban-oriented for so long that as late as 1971, almost half the nation's counties containing nearly a fifth of its population had *no public housing program* at all, and almost 80 percent of the units under contract were in metropolitan areas.[8] Other HUD-assistance programs are even less effective in reaching rural areas and small towns. The most recent figures we have seen indicate that only 15 percent of Section 236 units have gone into nonmetropolitan areas,[9] and the record for Section 235 is probably worse. Little wonder, then, that Anthony Downs' evaluation of subsidy programs for the National Association of Homebuilders concluded that present housing subsidy programs were *least* effective "in meeting rural physical or financial housing needs." [10]

Nixon moratorium—more discrimination

Our third point is that the current moratorium hits low-income consumers in rural and small town areas the hardest. HUD Secretary Lynn and other Administration spokesmen continue to assure us at every opportunity that, despite the suspension of the programs, the level of subsidized housing starts this year will be about the same as last, because of all the units currently in "the pipeline." This may be true of the HUD programs—though, I notice that their projection has been cut back substantially in the last month [11]—but it is clearly *not* the case for the FmHA programs which account for much of the assisted housing in nonmetropolitan areas. In February, the first full month of the moratorium, FmHA made only about one-fifth as many subsidized initial loans for homeownership as it averaged in the first six months of the current fiscal year. As a result of the outcry—by us as well as others—the Administration eased up somewhat on the cut-off in Farmers Home subsidy programs, and in March the agency made more interest credit loans than the previous month. Nonetheless, the level is still less than half of that characteristic of the last six months of 1972, and will virtually cease completely on June 30, 1973. Unless the interest credit program is reinstated, we doubt that FmHA will achieve more than 20,000 subsidized starts this year—compared with three times that many last year!

Though the evidence is admittedly fragmentary and very much preliminary, it is possible that this differential impact of the moratorium is already beginning to show up in the housing starts figures. For the first quarter of this year, starts inside SMSAs were at a level 97.6 percent as high as in the first quarter of last year.

Starts *outside* SMSAs in the first quarter of this year were only 89.9 percent as high as in the first quarter of last year.

The result of this cutback on the housing consumer in rural areas and small towns is obvious. Something like a hundred thousand families this year alone will either stay in the inadequate housing they now occupy or else spend a good deal more than they can afford to get out of that inadequate housing. The cost

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[3] Leon Keyserling, *The Coming Crisis in Housing*, pp. 4–5 and 41.
[4] See Item 7, Chapter II, *1973 National Housing Conference Resolutions*.
[5] *OEO and Rural Housing*, pp. 29–31.
[6] This is not inconsistent with the allocation by *programs* made in the *Second Annual Report on National Housing Goals*, p. 27.
[7] *OEO and Rural Housing*, Table 1.6, p. 31.
[8] See Rural Housing Alliance and Housing Assistance Council, *Public Housing: Where It Is and Isn't*.
[9] See *1970 HUD Statistical Yearbook*, Table 174, p. 165. This table was apparently dropped in the next edition.
[10] Anthony Downs, *Federal Housing Subsidies: Their Nature and Effectiveness and What We Should Do About Them*, Summary Report, Chart 9, following p. 37.
[11] On March 20, Secretary Lynn told the House Banking Committee that we'd have about 274,000 HUD-subsidized starts this year; three weeks later, Acting Assistant Secretary Kingman was saying "about 265,000."

of housing in rural areas and small towns has been rising rapidly as it has elsewhere. The average price of a house financed by Farmers Home Administration has gone up by 40 percent in the last four years, while the actual size of that house was going down by 7 percent. The effect of the cutback in housing production will be to further increase the pressure on housing costs and the fact that the moratorium is on *subsidized* programs means that the pressure will be greatest on those least able to afford it.

Which brings us to the question of commitment. It says a great deal about this Administration—and perhaps about the country—that when the annual cost of direct Federal housing assistance to low-and moderate-income families approached the $2 billion level, the response was to suspend the programs and look for a "better" (which we suspect is spelled "c-h-e-a-p-e-r") way. Nothing is said, however, about the indirect subsidy to middle and upper-income homeowners which costs twice as much and which has been around for nearly six decades. If the Administration is really concerned about a housing program which is "inequitable wasteful, and ineffective"' they should take a look at the tax deduction allowed homeearners for mortgage interest and property taxes, which costs more than $4.7 billion a year—with 83 percent of that amount going to families with incomes of *more than $10,000* a year. One can certainly endorse the principle of encouraging homeownership and still raise the question: Is it necessary to give a family in the $50,000–$100,000 income level *ten times* as much encouragement as a family in the $7,000–$10,000 income bracket?

There are two points to be made: (1) Given the way in which income is maldistributed in our society, providing housing assistance as a partial offset to more basic income distribution is going to be an expensive proposition. If we are serious about that goal of "a decent home . . . for every American family," we've got to stop thinking we can get it on the cheap. (2) On the other hand, the cost can be reduced significantly and the burden of it distributed more equitably if we will abandon some of the myths and shibboleths that curently hamper us.

One of the most glaring of those myths is the one we call "budgetary impact," where we act as if there is no difference between buying a bomber and lending someone the money to buy a house. Aside from the differences in the social value of a decent house compared to a B–52, the loan for the house is going to be repaid—probably with substantial interest. It is an investment, not an expenditure, but you wouldn't know that from the Federal budget. As a result, we play the expensive game—as Senator Proxmire's Subcommittee on Economic Priorities has pointed out—of subsidizing private loans instead of saving a half-billion a year by utilizing direct Federal loans. That Subcommittee recommends direct credit for the Section 235 and 236 programs; we would suggest extending it to public housing as well. The apparently lower interest costs associated with public housing bonds are actually phoney—they are more than offset by the tax break provided to high-income investors. The Treasury has consistently pointed out that it loses more in Federal income taxes than State and local governments gain in interest savings from tax exempt bonds. One source estimates that the ratio is two-to-one [12]—which means the Federal government gives up $2 in income taxes for every $1 it saves in interest on public housing bonds.

We have begun with interest costs because that is generally the largest single component of continuing housing costs. Currently, however, the fastest rising element in the acquisition cost of housing is the price of land. NAHB reports that the cost per square foot of developed land has gone up by 75 percent in the last three years.[13]

One reason for this continuig upward spiral is that we not only allow for this private appropriation of values which are really socially generated—we encourage land speculation by taxing improvements more heavily than land, and by taxing speculation gain only half as heavily as non-speculative income. If we gave more attention to the needs of the users of land than to the owners and speculators in land, we could moderate the upward pressure in land prices, and perhaps secure more rational patterns of land use and development. If we weren't so afraid of direct government action on behalf of the general welfare, we might follow the lead of the Scandinavian countries which have a policy of public acquisition and continued ownership of land so as to retain a dominating influence on patterns of community development.

Land costs and our tax treatment of land play a major role in the continuing costs of housing as well—through the vehicle of the property tax. The latter,

[12] Philip Stern, *The Rape of the Taxpayer*, p. 66.
[13] *Journal of Homebuilding*, October 1972.

says NAHB, has gone up by 30 percent in the last three years.[14] It is increasingly becoming a barrier to lower-income homeownership. A recent tabulation by Farmers Home Administration[15] indicated that in thirteen states, the property taxes on its average rural housing loan was three-fourths as large as the annual payments on the loan itself, if it carried a maximum interest subsidy. In four of those states[16] the annual real estate taxes amounted to *more* than the payments would be on a loan carrying 1 percent interest. Clearly, a housing program that contemplates ownership for modest-income families must either subsidize their tax load as well as their interest costs—or seek a reform of the property tax structure which will make it progressive instead of regressive as it now is. We would prefer the latter alternative.

Other major elements in the continuing cost of housing are, of course, utilities and maintenance. The price index on maintenance and repairs has been going up even faster than property taxes in recent years and the current discussion of the energy crisis can hardly reassure us about the prospects for utility costs. Here too, a shift in the focus of our efforts from the producers to the consumers of housing is needed. We need to pay more attention to what *Progressive Architecture*, in its editorial this month, calls "life cost rather than first cost." Instead of an "Operation Breakthrough" to focus on cutting acquisition costs for the deeveloper, we need to focus on the techniques and materials which can reduce the long-run need for maintenance and repairs and which can reduce costs of heating and lighting. In rural areas we particularly need research on small scale water and sewer facilities which can reduce both the acquisition cost of the house and of that portion of the continuing utility costs.

The current upsurge of interest in mobile homes, I might add, strikes us as exaggerated form of the desire to cut initial costs at the price of long-range durability and "life cost." And, in terms of the quality of housing involved, we would argue that they are not even the bargain in initial costs that they appear to be, but instead are a means of redefining at a lower level without admitting that you are doing so.

On the other hand, it can also be argued that the standards which we apply to much of the housing we finance under our assistance programs are standards that are dictated by the interest of lenders rather than by the interest of consumers. We are convinced that the reason for the mobile home boom—and for the shell home boom in rural areas a decade earlier—is the refusal of builders to build or lenders (including Farmers Home Administration) to finance housing that might not be saleable or at least re-saleable to the middle-class.

We would estimate that at least one-third of those in the worst housing in nonmetropolitan areas are in 1- and 2-person households with incomes below $4,000 a year. Those people don't need a 3-bedroom house and are even less in a position to afford one. Yet 95 percent of the new houses financed by FmHA last year had at least 3 bedrooms. Surely, housing programs that were based on people's need rather than on the demands of the private real estate market could do a better job of meeting the requirements of those people—saving money both for them and for the taxpayers who assist them in the process.

One final point. The money necessary to bridge the gap between low incomes and the cost of adequate housing is the biggest element in solving the housing problem. But, especially in rural areas and small towns, it is not the only element. Those areas suffer from an institutional gap as well as an income gap. The Farmers Home Administration has served to bridge the credit gap—at least for those who can afford 1 percent interest financing—and it has served as a substitute for some of the private market institutions—at a significant saving to the consumer.[17] But even its structure is dependent on the existence of a housing delivery system, and that is all too frequently missing in the areas and for the people most in need of housing assistance.

We think the need again is for a program focused on the consumer and we think that the successful rural electrification program provides an obvious model. Just as that program utilized the people who had been left unserved by the private market to form cooperative agencies for the delivery of electricity, we think that the people whose housing needs have been left unmet

[14] *Ibid.*
[15] Farmers Home Administration, *Report of the Monthly Payment Task Force* (January 1973), Exhibit A, p. 25.
[16] New Jersey, New York, New Hampshire, and Rhode Island.
[17] On this, see the recent General Accounting Office study for Chairman Patman of the Housing Banking Committee, *Cost Differences of Purchasing Comparable Houses Through the Department of Housing & Urban Development and Agriculture.*

by the private market can form the basis for local rural housing associations which could function as housing delivery mechanisms. Just as the REA provided Federal financial resources and supervision to the rural electric cooperatives and in return demanded that they take on "area responsibility" and serve as responsible quasi-public agencies, we believe that rural housing associations could be made delegate agencies of a Federal housing program and furnished financial and technical assistance in return for an "area responsibility" commitment and an agreement to operate in accordance with national policies and standards. Just as the "farmer took a hand" in making rural electrification a reality, why not let the low- and moderate-income consumers of rural and smll town America take a hand in solving their housing needs? We believe the approach is well worth trying and that legislation like that which a dozen Senators cosponsored in the last Congress, for an Emergency Rural Housing Administration, would readily lend itself to the effort.

Thank you.

Chairman HUMPHREY. Mr. Kristof, you are the second witness. You are the director of the Division of Economics and Housing Finance of the New York State Urban Development Corp.; is that correct?

Mr. KRISTOF. Yes, Mr. Chairman.

Chairman HUMPHREY. We will place again in all instances the full testimony and text of the prepared statements of our witnesses in the record.

STATEMENT OF FRANK S. KRISTOF, DIRECTOR, DIVISION OF ECONOMICS AND HOUSING FINANCE, NEW YORK STATE URBAN DEVELOPMENT CORP.

Mr. KRISTOF. The New York State Urban Development Corp., Mr. Chairman, is a public development agency which has placed in construction 28,000 housing units under the FHA 236 program which I recently discovered, to my surprise, constitutes 7 percent of the 400,000 housing units placed under construction under this program.

So we are somewhat conversant with the way it works.

But first, I want to place into context some of the introductory figures that you so ably reeled off.

As a matter of act, you almost replicated some of my numbers.

Chairman HUMPHREY. Well, you now what do with them.

Mr. KRISTOF. My late 1967 estimates which were published in 1968, suggested that the Nation's substandard housing supply would decline from the 1960 figure of 11.4 million to about 6.9 million in 1970.

The actual figure seems to have come out at about 6.5 million. My estimate of substandard housing, Senator, includes roughly 2 million dilapidated housing units with all plumbing facilities which did not show up in the 1970 census because that concept was dropped from the census.

A second category of housing needs, crowding, as you indicated, has increased from 2.7 million in 1960, to 4.4 million in 1970. This increase, however, is not quite as bad as it sounds because the total supply of standard housing has slightly more than doubled. So, relatively speaking, the 4.4 million is a slightly smaller proportion of the 1970 standard housing supplied than the 2.7 is of the 1960 standard housing supply.

In the aggregate we may say that a total of about 11 million households in 1970 were in need of some kind of housing assistance, either to obtain standard housing or to uncrowd their presently crowded housing conditions.

This still means that 16 percent of all the households in 1970 required some type of assistance.

The distribution of this need, however, indicates that the situation in the central cities of this country has deteriorated relative to the rest of the country.

This, too, does not show up in our 1970 census statistics because the number of housing units in central cities that lack or share plumbing facilities dropped almost phenomenally from 2 million in 1960 to 748,000 in 1970, which is a drop from 10 percent of the Nation's—of the total housing supply in central cities to 3.4 percent.

Once again, however, there are indications that another three quarters of a million housing units in the central cities were dilapidated, even though they had all plumbing facilities compared with about 400,000 in 1960.

So this represents a sharp upward increase in dilapidated housing units with all plumbing facilities in these cities over the past decade.

Chairman HUMPHREY. Now, is that due to obsolescence, or is that due to improper care?

Mr. KRISTOF. It is due to a combination of things, Senator Humphrey. The first is the concentration of poverty groups in the cities who are totally unable to pay for standard housing. As a consequence, the housing in the areas in which these people live, either is undermaintained by their owners and thereby deteriorates or it falls vacant and is subject to vandalism and, ultimately, abandonment.

Both these phenomenon have occurred during the late 1960's in every major city in the country.

As a matter of fact, in our own New York City, we have estimated that 105,000 housing units were abandoned during the 1960's which constitutes slightly over 3 percent of the city's 1960 housing supply, during a period when the city's total new construction of housing totaled about 375,000 housing units over the decade.

When you take into account demolition of 165,000 units during the decade, you can see that the losses were at a rate that are beginning to creep up on total new production.

Chairman HUMPHREY. I want to be the Devil's advocate here for a minute, and give you the view of some people around the country that talk to me about housing.

They will say, for example, you can go to Europe and you can find housing in these cities that is 200 years old, 100 years old, and it is not modern, to be sure, but it is clean, the window sills are taken care of and the doors are taken care of. There is no litter around and, although the people are poor they take care of their housing and they don't tear it down. They don't break out the windows and tear off this and tear off that.

This is what I get when I am home.

I want you to know when I go out to talk to my Scandinavian friends around there, my Germanic friends, hard-working people, and I say: We have got to have housing subsidies, got to do this and that, many will say, listen, we grew up in a home that was worse than any of these homes you are talking about, and we took care of it.

They knew how to use a hammer, put a bolt on the door, didn't tear it off, or break out the windows.

How do you answer that?

Mr. KRISTOF. That is a hard question.

Chairman HUMPHREY. This is what an elected official is up against in an area where we don't have large numbers of ghetto residents.

These are rural people. I might say to you sometimes these rural houses look pretty bad out there. They are not too well taken care of, but this is the social prejudice, the social attitude that is articulated, and I just wondered how you handle that.

Mr. KRISTOF. Well, I think you put your finger on it when you mentioned that some of our poverty areas in the rural sections of the country are pretty sad looking.

Chairman HUMPHREY. They surely are.

Mr. KRISTOF. When I was with the Bureau of the Census, I made many a field trip, and I became quite familiar with rural poverty, and I assure you the status of rural poverty is even far worse than that in the central cities.

Chairman HUMPHREY. Except it is spread out rather than intensified.

Mr. KRISTOF. That is right. It is not quite as visible, but you must remember, and all our friends must remember, that in the past 50 years we have been steadily transfering the rural poverty of our Nation at a very, very rapid rate to the central cities of America.

You know that the black poverty element of our country was largely, as recently as the 1920's, a predominantly rural population.

Today the black poverty population is overwhelmingly a central city phenomenon of this country. This is due to the migration patterns we have experience in the United States. For the past half-century we have had a steady migration toward the central cities of the minority population, not only of our own country but from Puerto Rico, Mexico, and other Spanish-speaking areas.

Chairman HUMPHREY. And from our rural poverty, white Appalachia, for example.

Mr. KRISTOF. Absolutely.

So as a consequence, this problem is not a central city problem or a rural problem. It is a national problem. We are just getting new concentrations of poverty in more highly visible areas. Because of the reverse phenomenon, as the white middle-class population moves out of the central city, it leaves behind it older housing for these poorer populations that have migrated into the cities, who do not have the incomes to maintain that housing, and as one economic consequence we have deterioration of housing in the central cities.

This is a poverty phenomenon. It is not a housing phenomenon.

Chairman HUMPHREY. How do you handle it?

Mr. KRISTOF. It will take more, Senator, than a housing program to deal with it. I think the nearest major attempt at it was during the Model Cities program initiated in the 1966 Housing Act which conceived the problem as a total neighborhood problem. One must deal not only with housing and rehabilitation, but one must deal with the neighborhood services, the city services, to the population, and to these deprived areas, and also with the incomes of the families through employment, employment-improving procedures, as well as improved educational assistance programs to these deprived areas.

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So housing is just one facet of the problem.

The point is that we are trying to place upon housing a large burden of the whole poverty phenomenon which is, I think, totally unfair. But housing obviously is the most visible aspect of poverty. This is how we most quickly detect it and, of course, we try to deal with the housing portion of the problem. But until we attack the whole poverty problem we will not successfully deal with the housing situation in the central cities or otherwise.

My prepared statement, Senator Humphrey, deals with this subject in terms of recommendations for changes in the Federal housing programs. Very quickly, I want to say that I have approached the poverty phenomenon only partially in terms of proposed allocation of funds which I refer to as community development funds. These would go partially toward strengthening services for basically sound neighborhoods that we want to try at least to save.

We can't save neighborhoods that are pretty far down the drain, but we certainly can save those that are in the earlier stages of deterioration where we will lose tens of thousands of good housing units unless we take steps to save those neighborhoods. In this sense the housing rehabilitation proposals that I have incorporated in my prepared statement as well as the new construction proposals are designed both not only to add to the new housing supply, but to help save the existing housing supply.

Chairman HUMPHREY. Right.

So important.

Mr. KRISTOF. And finally, the family housing assistance program is designed to provide funds for subsidy payments to those low-income families that cannot today afford any standard housing they might occupy. Finally, I have roughly priced out the costs of taking a 1-year program over its 40-year life. A first-year $1½ billion program which would extend over 40 years, would total about $35 billion. About half of that $35 billion would be allocated to family assistance payments to permit low-income families who cannot afford standard housing to pay for either existing standard housing, rehabilitated standard housing or, in some cases, new standard housing provided under the subsidy programs.

That is a quick summation.

Chairman HUMPHREY. Well, I know the three parts of your program relating to the housing problem.

It also seems to me—take a welfare family, for example. One of the things we see so often is the welfare family is a renter. There is a rental allowance. I also thought that if you could work it into where a welfare family got a little something extra that went into direct payment of a home that is their own it would be better. I mean, there is no reason—we had a 100-percent housing loan program after 1946, Jim, 1947 the immediate period of World War II, and it had some abuses, to be sure, but it got a lot of people some housing, too.

But if we could take a welfare family and say to them, now, look, you are going to have a chance to own your home. This is an income maintenance program, and where you get so much money here as part of a payment for your income, and there is a segment of this that is for housing, and title to a piece of property.

I just feel that would have a tremendous social benefit, when people begin to feel it belongs to them, providing you also had this community development along with it, so that the area in which you live looks like it is also going to be worthy of attention.

I see, for example, in Southwest Washington—you are very familiar with this, Mr. Scheuer—because I know you had some developments there—but we have in some areas down there in Southeast and Southwest some of the neighborhoods—I mean, the breakdown of the neighborhoods' facilities, and it is just unpardonable that this should happen.

With a modest expenditure on the part of the community, on the part of the Government, a total program ought to be launched to see whether or not we couldn't make it really work, like you have listed out here—I notice you talk about here: "Used to augment neighborhood services such as garbage removal, street cleaning, removal of abandoned cars, filling potholes, repaving streets, repairing sidewalks, cleaning out garbage-filled lots, planting trees along sidewalks."

That is what a community ought to look like. Get rid of that junk. But instead of that, what we do is, we have a redevelopment program and we build some houses, and then the area around it, unless it is an upper middle- or middle-income group, if the social and cultural pattern hasn't lent itself to some preservation of the community, it continues to deteriorate.

I have been writing letters to the city government about that area of the city. I drive within 10 blocks of this Capitol through some of the worst possible conditions.

As a matter of fact, they have got the garbage disposal system down here within five blocks of the Capitol building, right down here on New Jersey Avenue SW., and you go through there, and there is litter all over the place and buildings broken down, old buildings, and by the way, not a single merchant shop outside of a liquor store, and a filling station, and one clothes-cleaning establishment for blocks.

There is one Safeway store right down by those high-income, middle-income apartments, down off Fourth and M Street SW. Not another grocery store for blocks for the low-income people, and we have got hundreds and hundreds of units of low-income housing that is very much broken down, very much obsolete and out of date, with streets that are in poor repair and garbage collection that is—well, it must be much less than the rest of us get.

There are areas down there that haven't had the debris picked up since 1965, because I have been going by the same places every year since 1965, and the same junk is in the back that was there in 1965.

Now how can you make—how do you get people to feel that they are living in a decent place, whether you call it public housing or whatever, if you live in an environment that is totally unconducive to good living.

I think that is what you are saying, community development.

Mr. KRISTOF. Precisely.

Chairman HUMPHREY. By gosh, I wish we could get the Congress to do something about this. This is a part of a person's income. If we could get this country to think about these community services as a part of the income—for the rich man, he buys it.

You know, I live over in Harbour Square. It is very expensive, I can tell you. We have got a good private police force, garbage pickup. Of course, we have got to pay for it, but for the lower middle-income person, his income is augmented by the quality of the community services he has, the playgrounds, the trees, garbage collection, condition of the streets, everything that is there.

His police service, fire protection, everything.

That is another part of his wage package. That is the public part of his wage package, and that is the part that I have said about this country that is privately rich and publicly poor.

Mr. KRISTOF. This probably has been one of the major deficiencies of our urban renewal programs historically.

Even though urban renewal programs have been very valuable in taking care of capital expenditures, the problem of expense budget expenditures, which is even more vital in many ways, has been totally overlooked.

As you pointed out for Washington, D.C., which obtains some of its financial assistance from the Congress, even Washington, D.C., is quite deficient in many respects.

Chairman HUMPHREY. Oh, my God, it is outrageous.

Listen, do you know there in that place—you did some development there, Mr. Scheuer, in that area. They didn't get a new building—we tried to get just ordinary services.

You can't just live in an apartment. You have got to be able to buy something somewhere; you can't just always think about getting in your car and driving 30 blocks to pick up your shirts or some essential services for your home. My Lord, you can't believe it. It took them years to agree to build a building down there, to put in some shops. We have got thousands of people living down there, and one lousy supermarket. Listen, you are better off going into Vietnam. It's safer. I mean, you know, the place is jampacked. Safeway does a good job down there but one store, one drugstore. Boy, would I like to have that one. And there are thousands of people living there, thousands of people. One liquor store. That must do a booming business, too. And after that, it is up for grabs. There is nothing.

Finally we are getting a building, finally—they started building that building 5 or 6 years ago. You can build the Pyramids faster than they are putting that building up down there.

Mr. KRISTOF. In that context, Senator Humphrey, our agency, as part of our planning for moderate rent 236 housing, takes responsibility for furnishing community facilities, day care centers and commercial facilities wherever they are required or needed in conjunction with the housing developments that we arrange to build.

They are part and parcel of the planning for any new housing developments, right in the building, if necessary, wherever it is feasible.

Chairman HUMPHREY. Well, how good is that?

I notice in your prepared statement, you say: "The concept of maximum income limits for 235 and 236 housing must be scrapped."

Just give me a little pitch on that because you know it. Administration has got a big fever about 235 and 236.

Mr. KRISTOF. The principle of that, Senator, is to separate the idea of production incentive programs from assistance to poor families.

The basic premise behind scrapping the income limits system is the following:

You would build housing in a neighborhood, the rents of which would be pitched to the ability of people in that neighborhood to pay for new housing.

In a low-income area such as Brownsville, in New York City, we must have maximum subsidy in order to provide new housing because the families in that area can't pay any more than $35 a room, which is something like $150 or $160, for a two-bedroom apartment. Even this rent reaches the upper income end of the families living in this neighborhood. But in better neighborhoods, where higher rents can be obtained, it is not necessary to provide maximum subsidies in order to market that housing.

Consequently, in better neighborhoods that can stand the $50- or $60-room limit, subsidy funds would be provided at the 2, 3, 4, or whatever interest rate is needed to achieve the marketable rent which gives you, of course, higher cost housing but nevertheless, still meets the income levels at which it can be readily marketed and, of course, this substantially reduces the amount of subsidy required per unit.

In other words, the principle of 236 program would be to produce the maximum amount of housing at the minimum Government subsidy because this new housing is not to be confused with housing for poor people. It is to be produced as a production incentive program at a minimum subsidy.

Then, through the family assistance program, you provide aid directly to poor families who can seek their housing in the open market, including existing as well as rehabilitated housing.

Chairman HUMPHREY. I see what you mean, yes.

Mr. KRISTOF. Thus you subsidize low-income families directly with assistance payments; meanwhile you stop giving excessive subsidies to produce new housing; you give the minimum subsidies necessary to market the housing.

Chairman HUMPHREY. And give the subsidy to the low-income family that needs to rent the housing?

Mr. KRISTOF. Precisely.

Chairman HUMPHREY. Why doesn't the Government have that much sense? I guess that is because of the way we have written this law?

Mr. KRISTOF. It is kind of a difficult concept that the way we have got the law is that only very low income people can move into this housing and then frequently they can't afford to pay for it and they wind up having to move out through evictions for nonpayment of rent.

This is the situation we have under our present 236 program.

Chairman HUMPHREY. All right. I will come back to you after a while.

I am fascinated by your study of this and I hope that somewhere along the line, some of you might give us some little indication of whether that housing program that we adopted, that passed in the Senate last year, the community development program, I believe it was, which didn't get through the House of Representatives, whether it had some of the features in it that you think would be helpful to us.

[The prepared statement of Mr. Kristof follows:]

Prepared Statement of Frank S. Kristof

Housing Needs of the 1970's

Analysis of the Nation's housing needs in the light of the 1970 Census results furnishes few surprises in terms of trends since 1950. My 1968 estimates projected that the Nation's substandard housing supply would decline from 1960's 11.4 million to 6.9 million in 1970.[1] The actual figure appears to have been about 6.5 million on a comparable basis.

A secondary category of housing need arises from insufficient living space for a given-sized family, or crowding, as the Census Bureau terms it, in standard housing units. This figure is measured by number of persons per room: If there are more persons in the household than there are rooms in the housing unit, the household is regarded as crowded (1.01 persons per room or more). Although this is a crude measure, it is a useful index in measuring changes over time. Crowding in standard housing has been a more intractable element of housing need than substandard housing which has improved at a rapid rate since 1950. The figure for crowded households has increased from 2.7 million to 4.4 million between 1950 and 1970 although it has declined relative to the total number of standard units which has more than doubled over this period.

In the aggregate, a total of some eleven million families may be defined as in need of housing assistance as of April 1970—four million fewer than in 1960. Although this defines substantial improvement since 1960 it still means that 16 percent of all households in 1970 required some kind of assistance to meet the nation's goal of a "decent home and suitable living environment for every American family."

The distribution of this aggregate housing need indicates that the situation in central cities of the U.S. has deteriorated relative to the rest of the nation. This does not show up in the 1970 Census figures because the number of housing units that lacked or shared plumbing facilities in 1970, numbered only 768,000 units compared with about 2 million in 1960, a decrease from 10 percent to 3.4 percent in the central cities. On the other hand, there are indications that perhaps another 750,000 housing units were dilapidated, with all plumbing facilities in these central cities compared with a figure of about 400,000 in 1960. If these estimates are accurate, it indicates that dilapidation and the associated deterioration that goes with it have increased markedly in the central cities relative to the rest of the nation's inventory.[2]

This development is not surprising in the light of the widely observed deterioration and abandonment of central city housing across the nation in the late 1960's. It is estimated that in New York City alone, more than 3% of its total housing inventory was lost to abandonment in the late 1960's while in other cities in the U.S., estimates reached as high as 6%. This is a logical concomitant of a central city phenomenon that I have elsewhere discussed to the effect that the nation's central cities problem was one of neighborhood deterioration where a full range of housing from almost new to extremely bad had been swept up in the abandonment process as a result of cumulative social and economic problems in minority neighborhoods of these cities.

Consequently, the quantity of housing adversely affected by this phenomenon far exceeds counts of housing units that lack plumbing facilities or are dilapidated in the central cities. Unless this fact is recognized and dealt with, we will see in the 1970's an accelerating rate of loss of good as well as poor housing in the cities. This phenomenon tends to perpetuate the scarity of good housing in the cities despite the almost universal outflow of white middle class residents from cities to suburbs. Unless new legislation from the Congress is prepared to deal with these facts, we will be avoiding the most serious aspects of the nation's housing difficulties.

I have dwelt on this problem at some length elsewhere but I repeat it here because of its relevance to the present discussion.[3] To come to grips with the

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[1] Frank S. Kristof, "Urban Housing Needs Through the 1980's", Report No. 10, The National Commission on Urban Problems, Washington, D.C., 1968, p. 6.

[2] The equivocal nature of this statement is attributable to the fact that the Census did not enumerate "dilapidation" (condition of housing unit) in 1970 and figures from the 1971 components of inventory change are not yet published.

[3] Frank S. Kristof, *The Role of State Housing Finance and Development Agencies in Future Federal Housing Programs;* paper presented at the American Real Estate and Urban Economics Association, Washington, D.C., May 18, 1973, pp. 7–19.

above described difficulties, we must reconsider the whole array of housing subsidy questions. For what purposes should such subsidies be used—to encourage housing production, to reduce housing costs for "housing poor" families, or both? What is the least expensive and most equitable way to accomplish the objective chosen?

To whom should subsidies go? And where?

The following comments necessarily will be conclusory since I have discussed elsewhere the analytic logic behind the proposals.[4] The basic redirection of Federal housing subsidy proposals would be directed at dividing expenditures in roughly three parts—not necessarily equal since different states and localities would have different requirements. The major categories would be (1) community development funds; (2) housing production subsidies; (3) family housing assistance payments.

1. *Community development funds* essentially would be the keystone of this three-pronged approach. In cities it largely would be conceived of as non-capital funds to provide financial support for neighborhood preservation and revitalization services. Since these are expense-budget funds a decision to commit them to a neighborhood or locality would involve a contracted time-period of 10 to 20 years while the required capital expenditures program in the form of rehabilitation or new construction was being carried out. Implicit in this procedure is the use of both housing production subsidy funds and family housing assistance payments. In such neighborhood preservation areas, community development fund expenditures would be used to augment neighborhood services such as garbage removal, street cleaning, removal of abandoned cars, filling potholes, repaving streets, repairing sidewalks, cleaning out garbage filled lots, planting trees along sidewalks, improving public health (and drug addiction) services and, probably most important, to employ young neighborhood school drop-outs and unemployeds whose chronic presence without gainful pursuits is a source of difficulty to themselves and their neighbors. The latter employment possibly could be linked with the neighborhood-required services through the medium either of public agencies or experienced private contractors who would undertake to provide both services and supervision of the neighborhood youths paid with public funds. If some of these suggestions sound familiar, they are; they represent basic and sound principles of the Model Cities program.

The second major type of area where community development funds would be used is in employment growth areas. There such funds could be used in two ways, as "infrastructure" capital funds and as "impact funds" to make up tax losses to the community connected with subsidized housing provided for moderate- and low-income families in such areas. Since growth areas normally supply a full complement of market-price sales and rental housing, all three types of basic funds would come into play to provide a leavening of moderate and low-income families who furnish low-paid service or blue-collar workers for such areas. Some elements of this approach have been proposed (or implemented) by the Urban Development Corporation in connection with its new town ventures in Lysander and Amherst townships in upstate New York. Again, the expense-budget type of funds would have to be contracted for some time-period.

2. *Housing production subsidies* could be handled in two ways. The first would be through the Federal approach. This requires significant overhaul of the Section 235 and 236 programs to introduce flexibility and responsiveness to local community needs. Earlier comments on the rigidities of the 236 program become relevant at this point and lead directly to a discussion of the financial principles of any housing subsidy program. A basic question raised in last year's (Fourth) *Annual Report on Housing Goals* is "whether a balanced housing strategy can be devised which stimulates sufficient housing production at low cost per unit, as well as provides increased assistance to more low income families than are currently being served."[5] The answer is a flat negative since the question inherently contains an internal inconsistency. A low subsidy per unit by definition means that the price or rent for such a unit is essentially near its market price; and the smaller the subsidy per unit becomes, the higher the rent or price that is required and the higher (in general) the income requirements of prospective bidders for the unit.

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[4] Cf. Frank S. Kristof, "Federal Housing Policies: Subsidized Production, Filtration and Objectives: Part I, *Land Economics*, November, 1972, pp. 309–320; also Part II, Land Economics, May, 1972, pp. 163–174, inclusive.

[5] *Op. cit.* p. 32.

Although a narrow subsidy cannot directly meet the objective of providing housing for low-income families, it could serve this function indirectly. To the extent that the supply side of the market is affected by inducing prospective developers to produce a unit that otherwise might not be built, low-income families are indirectly affected by the turnover process as illustrated by the Michigan Survey Research Center Study of 1967 which demonstrated that, for each new house or apartment placed on the market, an additional 2.5 families are able to make favorable housing adjustments through ensuing turnover. In this process, low-income families are serviced roughly in proportion to their occurrence in the population (although black low-income families were underrepresented in the chains of moves).[6]

An objection to such a shallow subsidy system arises where the market is producing sufficient housing to meet normal market demand and the intrusion of subsidized housing at a 15 to 25 percent discount may do little more than create additional vacancies among competing higher (market) priced units. Such an undesirable result can be mitigated by the step of imposing a relatively high (25 percent) rent-income ratio upon prospective occupants of the subsidized unit. Effectively, this would permit only households with more limited incomes (who normally would not quite be willing to pay the full market price) to bid for the subsidized housing. For example, if a 2-bedroom apartment that normally markets for $200 per month came on the market through subsidy at $160, what is the likelihood that a 25 percent rent-income ratio would effectively separate families who normally would bid for a $200 unit from entering the market for the same unit at $160? In the New York Metropolitan Area, the income distribution of families in the $150–$200 rent bracket shows that about two-thirds of the families in this rent category would not qualify for the $160 unit because of excessive income. Thus it is possible for a shallow subsidy to expand housing production beyond the volume that normally woudl be produced and also to serve families with lower incomes than those who normally would be in the market for this unit.

The foregoing discussion obliquely leads to the cardinal point of this discussion. A shallow subsidy system represents the only way that the largest possible volume of housing production can be generated with the minimum subsidy per unit. There are four requirements that are mandatory for such a system to function effectively:

1. The concept of maximum income limits for 235 and 236 housing must be scrapped.[7]

2. The only effective restrictions on income would be the 25 percent rent-income ratio used in the present Section 236 or the 20 percent ratio of mortgage (plus tax and insurance) payments to income of the current Section 235 program. Since only 18.7 percent of all families in metropolitan areas within the $5,000–$15,000 income range pay 25 percent or more for housing these are not inconsiderable restrictions.

3. Administrative relaxation of maximum mortgage limits must be permitted to prevent localities where costs of construction have increased materially from being precluded from participation in these programs.

4. In areas where new housing is being produced (e.g. suburban growth areas), the interest subsidy per unit for a given project should be determined at a point where rents are 15–25 percent below the market or price.

5. In inner city reconstruction areas, where the market is insufficiently strong to support new housing costs, rents will have to be lower, sometimes substantially lower. In such cases, the rule should be to set rents at the *highest level* at which marketability of the development can be assured which frequently will be at the 1-percent mortgage interest level. Rents nevertheless could range from a low of $35 up to $60 per room or even higher in better locations. In every instance, the objective is to provide no more interest subsidy than successful marketing requires.

The shallow subsidy system thus meets the housing production incentive objective of providing the most new housing for the minimum public outlays. The 25 percent rent-income ratio will tend to confine these subsidies to the lowest income families able and willing to pay the necessary basic rents. Elimination of income limits will improve long term marketability of developments

[6] J. B. Lansing, C. W. Clifton and J. N. Morgan, *New Homes and Poor People*, Survey Research Center, Institute for Social Research, University of Michigan, Ann Arbor, 1969.

[7] This requirement is the foundation-stone of a major overhaul of the Federal housing subsidy programs proposed by William J. White, Executive Director of the Massachusetts Housing Financing Agency which he terms the Single Subsidy Program.

and will encourage families to remain in this housing to the extent that their initial gap between the basic rent and the market rent is narrowed and reduces their potential liability for rent increases as their incomes increase. When a unit reaches market rents, the 25 percent rent-income ratio requirement is dropped.

In central city reconstruction areas, this approach further will have the interesting effect of providing new housing to the economically upward mobile segment of the community rather than to its lowest income groups. This will have an upgrading affect on the housing of such areas and will eliminate the historically debilitating effect of stamping slum reconstruction areas as the permanent preserve of new low-rent public housing available only to low-income families.

Other characteristics of a modified system would remain the same as those in the existing 235 and 236 programs. As incomes go up, payments will increase to maintain the 25 percent rent-income ratio (or 20 percent mortgage payment-to-income ratio). Conversely, as incomes decrease the payments may decrease (with the base rent as the floor). Since the subsidy is a shallow one, it is much more likely that rising incomes will close the gap between the subsidized and market rent of such developments much more quickly than could occur in the present 236 program where the market rent exceeds the base rent anywhere between 65 to 95 percent. This will, of course, reduce subsidy payments over time and will permit the Federal Government much more readily to undertake new obligations in subsequent years compared with the manner in which existing subsidy costs have been accumulating under the present programs.

To reiterate, the production subsidy program is exactly that—it is designed to extract the maxium volume of housing production for the lowest public outlays. It is neither low-rent nor necessarily moderate-rent housing. At times it may be only marginally (15–25 percent) below market-priced housing, particularly when built in reasonably good locations. But at all times it will require the recipient of subsidized housing to pay a price for it (relative to his income) that 80 percent of today's housing consumers (in the $5,000 to $15,000 income range) do not pay for housing. This discipline will tend to prevent this type of system from disrupting the market for new conventionally-financed housing.

The second approach to Federal financing of housing production would be through an annual lump-sum allocation of funds on a 40-year contractual basis to State and municipal-housing finance and development agencies similar to the present Sec. 235 and 236 commitments. There have been many intimations in recent years that the Administration would not be loathe to divest itself of detailed management of its housing subsidy programs. Presumably this would take the form of housing production, community development, and family rental assistance revenue sharing allocations that would be allocated to the States and individual communities under ground rules that would assure that these funds were reasonably allocated and reached the intended beneficiaries. Such a step also might shift to the States the burden of determining in detail what kind of housing programs the Federal funds would support to the extent that modification of existing or new housing programs are not legislated by Congress. For the purposes of this exposition, however, the recommendations as to what kind of housing legislation the States would require remain the same as those outlined in the foregoing discussion. There simply would be 50 (or fewer) State programs rather than a single national program.

3. *Family Housing Assistance Payments.* It is with these funds that allocations would be made to permit low-income "housing-poor" families to move from inadequate or substandard housing into satisfactory housing. These funds would permit low-income families to find housing in subsidized new or rehabilitated housing or in standard existing housing in the private market. Permitting family housing assistance payments in some aided new and rehabilitated rental housing would assist the marketing of this housing as well as improve the housing status of low-income families. Use of family assistance payments in the private market would be confined to housing surplus areas where owners of existing standard housing (in code compliance) are having difficulty obtaining tenants able to pay sufficient rents to properly maintain the properties. Families would seek out the apartments and strike their own bargain with the landlord. The housing assistance payments would make up the difference between what families could afford within their income and the market rent (within reasonable limits). It should be noted that family housing assistance payments are not to be confused with welfare since they essentially are low-income working families not eligible for welfare assistance.

On the other hand, the family housing assistance program, when combined with new or rehabilitated subsidized units, becomes the equivalent of low-rent public housing in terms of rents and incomes of families served. Implicit in the foregoing proposals is that construction of new low-rent public housing developments would be discontinued as an institutional practice.

Costs of a revised Federal Housing Subsidy System

On this subject one can do no more than offer some impressionistic estimates about the costs of a revised federal housing subsidy system based upon the principles embodied in the foregoing discussion. Such an attempt is made in Table 1, which shows the costs over 40 years of a one-year program. What instantly becomes apparent is, despite a relatively modest first-year subsidy costs of $1.4 billion, when the components of this aggregate are spun out over a 20-to 40-year life span, they aggregate $34.2 billion of Federal expenditures. Shocking as this may appear at first sight, we actually are talking about a sum that averages less than one billion dollars per year over the 40-year period—or a present value sum (discounted at 6 percent) of $15 billion—or less than one-quarter of the amount that our defense establishment would like to spend in the coming fiscal year. When looked at in this light, we could readily afford to replicate this program every year for the next seven years. At that time we would have reached an expenditure level (in constant dollars) of only $8.6 billion dollars annually which thereafter would start winding down since we should be in a position to cut back substantially on further new expenditures. And what would we have acomplished by that time?

TABLE 1.—ILLUSTRATION OF 40-YEAR BUDGETARY IMPACT OF 1ST-YEAR CONTRACTUAL OBLIGATION OF $1,445,000,000 FEDERALLY FINANCED HOUSING AND COMMUNITY DEVELOPMENT

[In millions of dollars]

	40-year total	Year												
		1	2	3	4	5	6	7	8	9	10	11–20	21–25	26–40
Total annual subsidies	34, 165	1, 445	1, 335	12, 02	1, 210	1, 200	1, 090	1, 070	1, 060	995	940	880	810	650
Community development funds [1]	3, 150	500	400	300	300	300	200	200	200	150	100	50	0	0
New rental construction subsidies:														
Central cities, 100,000 units at $1,500 [2]	4, 650	150	150	145	145	140	140	135	135	130	130	120	110	100
Suburban growth areas, 150,000 units at $600 [3]	1, 510	90	85	80	75	70	60	50	40	30	30	30	30	30
Home ownership subsidies (suburban-rural), 150,000 units at $700 [4]	3, 105	105	100	95	90	90	90	85	85	85	80	80	70	70
Rehabilitation subsidies, 300,000 units at $500 [5]	3, 750	150	150	150	150	150	150	150	150	150	150	150	150	0
Family rental assistance, 500,000 families at $900 [6]	18, 000	450	450	450	450	450	450	450	450	450	450	450	450	450

[1] Assumption of declining expenditures based upon inclusion of capital expenditures in early years and decreasing rate of service requirements as improvements are completed and community picks up normally required services.

[2] High rate of subsidy per unit based upon high construction costs and lower market rents obtainable in central city reconstruction areas. Elimination of income limits would permit per unit subsidy costs to decline over time.

[3] Based upon minimum estimated subsidy per unit required to provide housing at 15–25 percent below-market rates. Declining subsidy requirement include estimated rate of income (and rent) increases generated on basis of 25 percent rent-income ratio. Residual sum based upon assistance requirements for low-income occupants on family rental assistance payments.

[4] Decline in subsidy assistance based upon premise of increasing incomes of families tied to 20 percent mortgage-tax-insurance to income payments.

[5] Based upon 25-year 7 percent mortgage with 5.5 percent debt service subsidy. This average supports about $9,000 per unit for rehabilitation and limited refinancing costs.

[6] Based upon average rent assistance of $75 per month for low-income families in new and rehabilitated subsidized units or in standard existing housing.

1. About 700,000 new below-market housing units would have been constructed in redevelopment areas of central cities.

2. Slightly over one million aided new housing units would have been built in growth areas for families ranging from low incomes up to those not quite able to afford new market-priced housing. And to the extent that incomes of the latter increased, they would eventually pay the full market price. The community development funds would have contributed the necessary infrastructure for this housing and annual contributions to offset tax benefits accorded to the low-income family housing assistance occupants of this housing.

3. Another slightly over one million families would be occupying owned housing in suburban and rural areas at subsidized mortgage interest rates. These families under normal circumstances otherwise would not be in the new owner-occupied home market.

4. Slightly over two million housing units would be rehabilitated. Substantial financial assistance would be provided to support and restore the neighborhoods surrounding this housing (from Community Development Funds).

5. Finally, and most important, this program meets head-on the problem of low-income families. By the seventh year, 3½ million low-income families would be receiving rental assistance payments averaging $900 per family to take them out of substandard or unsuitable housing into standard code-complying housing A small proportion of their housing would be new, and the remainder would be either rehabilitated existing standard housing.

Only when we examine the 40-year aggregate expenditures do we fully appreciate the extent to which the housing subsidy system would be changed. Eighteen billion dollars, or slightly more than half the total expenditures, go to assist low-income families in the form of family housing assistance payments.

Turning to some of the more specific elements, under the shallow subsidy system, it is reasonable to hazard that the subsidy cost per unit in suburban growth areas need average no more than $600 per year (40 years). This subsidy is the only one with reasonable prospects of decreasing significantly over time. Given our proposed occupancy ground rules (no income limits and 25 percent rent-income ratios), the average for those developments should reach a hard core minimum level of $200 per unit within ten years—and this only to service low-income occupants who are recipients of family housing assistance payments. For central city reconstruction, however, the first-year subsidy requirement must average about $1,500 per unit (40 years) in order to bring rents down to marketable levels. The rehabilitation subsidy would average about $500 per unit per year (25 years). This will permit a debt service subsidy of 5.5 percent annually which supports an average of $9,000 per unit in rehabilitation costs.[8]

The financing of two programs—one existing and one new, have not been discussed in this paper more by omission rather than by commission. The Federal Urban Renewal program should continue to be funded. It has many useful accomplishments to its credit and though it could stand substantial administrative simplification, it remains a major assist in carrying out central city reconstruction activities. The second is the new towns program embodied in Title VII of the 1970 Housing Act. The foregoing suggestions preempt some of the activities of Title VII (as well as some of its terminology). They do not, however, do justice to this concept which has considerably more far-reaching implications. The principles of Title VII should be encouraged and financed. Both activities involve resources beyond those estimated in Table 1.

Chairman HUMPHREY. Now, our next witness is Mr. Krusell, executive director of the Greater Minneapolis Metropolitan Housing Corp. We sure want to thank you for coming today.

Mr. KRUSELL. Mr. Senator, I also have a prepared statement which I would like to have filed in the record which I believe you have.

Chairman HUMPHREY. Yes; we have it here and we will make it a part of the record.

[8] This fairly high average would support a modest amount of mortgage refinancing.

STATEMENT OF CHARLES R. KRUSELL, EXECUTIVE DIRECTOR, GREATER MINNEAPOLIS METROPOLITAN HOUSING CORP.

Mr. KRUSELL. I am going to focus my attention in summarizing my prepared statement on the housing for senior citizens and specifically my experiences in Minneapolis as executive director and also assistant executive director of the Minneapolis Housing and Redevelopment Authority.

At the present time, I am the executive director of the Greater Minneapolis Metropolitan Housing Corp., a nonprofit corporation financed by 14 Minneapolis corporations.

This corporation is involved in assisting nonprofit corporations in the Minneapolis area with their efforts to provide low- and moderate-income housing under the FHA sections 235 and 236 which, of course, have been canceled during the moratorium.

I am also the executive vice president of the Greater Minneapolis Chamber of Commerce, being appointed to that position on January 1 of this year.

My concern for the consumer of public housing is that during this period of time when Congress and the administration are reexamining the housing programs, the delivery system, the restructuring, is that some of the programs that do not work so well may be canceled as well as the programs that are working very well, and certainly the public housing program for the elderly is working very well.

It meets the test of providing decent, safe, and sanitary housing for very low-income people and this is a program that should be continued, and the purpose of my prepared statement is to set forth some of my concepts and answer some questions concerning the public housing program for the elderly.

As you know, Senator, in 1956, the Housing Act redefined a low-income family to include single elderly persons and this made it possible for Minneapolis and other cities to build public housing programs.

We in Minneapolis have more than 5,000 dwelling units for the elderly in 45 high rise elevator buildings, and as you know, these are virtually the only high rise elevator buildings we have in the city.

We have reached the point where our waiting list, which you also know was more than 3,000 for many years, has now decreased to less than 1,000, and we are able to house our poor elderly within a reasonable period of time.

I thought that it might be worthwhile just to answer a few questions that are frequently asked about the public housing program in general and specifically the elderly program.

One question that is frequently asked is: Is this program meeting the needs of low-income persons?

In Minneapolis, 85 percent of our occupants in the public housing elderly program are single. Their average incomes are $150 a month. The remaining 15 percent are couples with an average income of $220 a month.

I say in the prepared statement that we do not need a great vast amount of statistics to find that these people cannot afford decent, safe, and sanitary housing in the private market. In fact, these people can't afford 235 or 236 housing or 202 housing.

Second, is public housing contributing to the improvement of the community architecturally and esthetically?

We hear much about this type of thing negatively, and I quote from the Minneapolis Star's design and art critic, Peter Altman, in December of 1969, when he said, in an article entitled, "City's Housing for the Elderly Towers Is a Challenge to the Private Builders."

He went on to make a couple of comments about how this added to the skyline of the city.

Also I quote from Mr. Ralph Rapson as to the overall image that has been created by this program in Minneapolis.

Another question that is asked: Is the cost of public housing program prohibitive?

I think here I say that one of things that is really never spoken about is the capital that is being created.

As you know, Senator, many of the high rise elderly buildings that were built during the 1960's in Minneapolis are worth more money today on the private money market than they cost to build.

This is a little known fact in terms of the creation of capital in the public housing program.

What do the residents think of this program where we have 45 high rise elevator buildings where people are concentrated sometimes in units of 500 or more?

I give you some quotations here. As you know, Senator, the people in Minneapolis, not only the occupants but the general public, are highly in favor of this public housing program.

I go on to say who is eligible and I state some statistics.

The next question I ask is can the private sector without subsidy provide housing for these people?

What we did, Senator, in this case, is Mr. Knutson has just completed the elderly building on Hampton Avenue, which I am sure you are aware of.

Chairman HUMPHREY. Yes, downtown.

Mr. KRUSELL. We asked Mr. Knutson to convert the cost of this building from the public sector to the private sector using normal interim financing, mortgage financing, real estate taxes and other costs, and incidentally, these are small, about 250 square foot dwelling units.

He calculated that on a break-even basis these apartments would rent for $240 a month.

If we go back to the statistics of the elderly people, we are talking about, we can readily determine that these people simply cannot afford this sort of thing without the public housing program.

Another question that is frequently asked is: Is high density living for elderly desirable?

Our experience in density in the public housing for the elderly program is directly opposite to most experience in high density living.

We found when we put 200 or 300 units together we created a total community and where we had in some of the smaller buildings 40 or 50 units that we did not create, the same kinds of social community.

I think this experience is quite different than what the public housing has experienced generally across the country.

We also questioned, and as you remember in our first building, we combined the elderly with the families. People said that this would be great.

I am here to say that our experience is that the elderly don't want the children around really, and the children do not want the elderly. They want them on weekends and that sort of thing, but as a matter of fact, it just doesn't work that way.

Some statistics—even though in Minneapolis we have met the needs currently, we have about 55,000 elderly families and individuals who qualify for the public housing program in the State of Minnesota.

An additional 20,000 households will be eligible by 1980.

We have approximately 18,000 dwelling units in the State. It is quite evident that there is a substantial need.

And we are only touching about 10 percent of the elderly.

Chairman HUMPHREY. Just to interrupt there, I have noticed the difference in the public housing in Minneapolis and what I see, for example, in some of the large urban centers: Actually, you have four-plexes and duplexes.

I mean other than elderly public housing. You have what you might call low level walkup——

Mr. KRUSELL. Townhouses.

Chairman HUMPHREY [continuing]. Townhouses and very-well designed neighborhoods.

I have noticed out in southeast Minneapolis, of course, that is one that was put in, in the late 1950's, I believe.

Mr. KRUSELL. Yes.

Chairman HUMPHREY. But up in the Olson Boulevard area, where the old Summerfield Housing, on the other side of that street, you put in some very fine neighborhood homes in that area.

Have you found those to be highly acceptable or desirable for the tenants, the occupants?

Mr. KRUSELL. Yes. As with all family public housing, of course, it is the only standard housing that poor families can afford.

Now, I think the most successful public housing for family program redevelopment is that the Minneapolis Housing and Development Authority owns over 500 single family homes scattered throughout the city of Minneapolis, which they purchased on the open market, rehabilitated and made available to low income families with children.

Chairman HUMPHREY. Yes, I have seen those homes.

Mr. KRUSELL. This has been the most successful in my——

Chairman HUMPHREY. Interspersed throughout the entire city.

Mr. KRUSELL. I go on to state in the prepared statement that even with this vast program, we are only touching 10 percent of the elderly citizens of the city of Minneapolis, and that of the remaining 90 percent, many of them are eligible for the 236 program and the 202, which is not as deep a subsidy program, and we have relatively few of these because of the lack of funds and the moratorium, and we think that the 236 program, with its not as deep subsidy as the public housing program, that there is a substantial need in the city of Minneapolis because, as you know, we have some 70,000 elderly citizens in the city itself.

I go on to say finally that it is obvious that the moratorium has delayed meeting this need and I suppose if we were to convert the statistics of Minneapolis to the general statistics of the country, we would say that somewhere between 2 and 3 million dwelling units for these poor elderly persons are needed in the United States.

Now, I have, Mr. Chairman, just a brief statistical summary which I would like to present to the reporter for inclusion in the record as to a survey which was made by Senator Harrison A. Williams, Jr., of the Senate Special Committee on Aging, which was sent to housing authorities all over the country.

It speaks specifically in detail to the number of dwelling units nationally and in the State of New Jersey, that are being held up for the elderly in the public housing program and in the 202 and 236 programs specifically because of the moratorium.

[The statistical summary follows:]

Senator Harrison A. Williams, Jr., Chairman of the Subcommittee on Housing for the Elderly of the Senate Special Committee on Aging sent out 672 questionnaires to various public housing authorities and sponsors of housing projects specifically designed for the elderly. One questionnaire was sent to all the housing authorities in New Jersey and to the 87 largest housing authorities in the other States. A similar questionnaire was sent to each sponsor of a Section 202 housing project for the elderly and to each sponsor of a project that became part of the Section 202–236 conversion program. The following information was tabulated from the responses received:

I. All New Jersey housing authorities:	
A. Total sent	74
B. Total responses (69 percent)	51
C. Those responding reported the following:	
1. Units for the elderly:	
Under management	12,401
Under management	12,401
Annual contributions contract approved	1,845
Total units	15,583
2. Elderly on waiting lists (1.3 elderly persons on waiting lists for every occupied unit).	16,090
3. Units for the elderly frozen by moratorium	4,460
II. Largest public housing authorities outside New Jersey:	
A. Total sent	87
B. Total responses (77 percent)	67
C. Those responding reported the following:	
1. Units for the elderly:	
Under management	99,689
Under construction	11,589
Annual contributions contract approved	7,623
Total units	118,501
2. Elderly on waiting lists	95,360
3. Units for the elderly frozen by the moratorium	38,930
4. 46 authorities (69 percent of those responding) reported cutbacks in services resulting from administration policies.	
III. Sec. 202 and Sec. 202–236 conversion sponsors:	
A. Total sent	511
B. Total responses (59 percent)	303
C. Those responding reported the following:	
1. Units for the elderly under management	46,620
2. Elderly persons on waiting lists	44,577
3. Units for the elderly frozen by the moratorium	6,495
4. Sponsors of 144 projects indicated that their waiting lists were only a minimum number, that the demand was really much greater.	

IV. Combined totals of 188 public housing authorities:

A. Total sent	161
B. Total responses (73 percent)	118
C. Public housing units for the elderly:	
Under management	112,090
Under construction	12,926
Annual contributions contract approved	9,468
Total units	134,484
D. Elderly on waiting lists	111,450
E. Units for the elderly frozen by the moratorium	43,390

Chairman HUMPHREY. As the chairman of the subcommittee, of course, it lends a certain local character to the testimony that we are receiving, but I have been very much impressed with particularly the senior citizen housing. I have visited most of those units, most of those towers, and they are well done, well designed, well managed, and we have tied in a good transportation program now for them and—what about the facilities, the rest of the facilities for shopping, and so forth? Has that developed around these units?

Mr. KRUSELL. Well, in developing the criteria for site selection, when we first started out in the program, we have, as most public agencies do, 50,000 items that we evaluated, but in the final analysis we decided that shopping and bus transportation were the two major factors in location of the elderly.

In some cases, we had to compromise the shopping. In very few cases we compromised the public transportation.

We have had some development of small groceries and drugstores near the senior citizen buildings, but that is about the extent of it.

Chairman HUMPHREY. One of the problems that comes up that I heard about, was when the social security checks come, there is an increase in the rate of assault and robberies on the senior citizens in the towers. Is that true?

Mr. KRUSELL. I hadn't heard that specifically. It may be true.

Mr. KRISTOF. That is in New York City, Senator. You are in the wrong city.

Chairman HUMPHREY. No, no; it is happening at home.

When I was there recently, a group of people came to talk to me about this problem. And the reason they came to me is wondering whether or not social security couldn't stagger the flow of the checks: Instead of having them all come out, advance notice that all checks arrive on Tuesday, et cetera, the 7th day of the month, or—why not have them come filtering through, a number of days for a certain number of the citizenry?

Mr. KRISTOF. New York City's welfare department was forced recently to start that technique, Senator, for the very reason you indicated.

Mr. SCHAUER. As a matter of fact, there has been considerable pressure by welfare people to have the welfare agency send the checks directly to the bank, so they are deposited in that bank, so that they never have to go into the mail box of the recipient where they are going to be ripped off anyway.

Chairman HUMPHREY. We will come back to you, Mr. Krusell.

[The prepared statement of Mr. Krusell follows:]

PREPARED STATEMENT OF CHARLES R. KRUSELL

Mr. Chairman and members of the committee, I am privileged and honored to have this opportunity to testify before your Subcommittee on Consumer Economics on the subject of housing for the elderly in the country and the impact of the administration moratorium on housing for our senior citizens.

I am the executive director of the Greater Minneapolis Metropolitan Housing Corporation, a non-profit corporation financed by 14 Minneapolis corporations and created by them for the purpose of assisting and providing housing for low and moderate income families and individuals in the Greater Minneapolis Area. The corporation has been in existence for almost 2½ years and has been involved in many projects, primarily financed by FHA sections 235 and 236. Most of our corporation's efforts have been directed toward the housing of low and moderate income families, but have included some elderly dwelling units. I am also the executive vice president of the Greater Minneapolis Chamber of Commerce, being appointed to this position on January 1 of 1973. My testimony today, however, is based on my experience with the Minneapolis Housing and Redevelopment Authority from 1955 until 1970. During this period of time I was the Assistant Executive Director of that Authority and then executive director during the last 5 years.

The Congress of the United States and the administration during this moratorium period are considering new directions for the subsidized housing programs in this country and when we re-examine our efforts in the past and look toward the future we run the risk of changing those programs which have worked well together with those that have not been successful, and this certainly applies to the public housing program for the elderly which has been and continues to be a successful public housing program.

As you know, the Housing Act of 1956, which redefined a low income family to include single elderly persons, made possible the public housing program for the elderly as we know it today. In Minneapolis we examined our needs for housing low income elderly persons and in the late 1950's commenced a public housing program for the elderly which is today the largest public housing program for the elderly in the United States and possibly the entire world. We in Minneapolis have currently provided more than 5,000 dwelling units for low income elderly persons in the city and 45 high-rise elevator buildings. Our waiting lists, which for 10 years or more exceeded 3,000 applicants, have been decreased to less than 1,000—thus making it possible for us to house any low income elderly person or family within a reasonable period of time. This level of achievement should be a goal for every city in this country, large or small.

In examining our experience in Minneapolis, let me answer some of the questions frequently raised about public housing.

Is this program meeting the needs of low income persons and families? In Minneapolis the average income of single elderly occupants in our program is $150 per month. For couples the average income is $220 per month. We do not need a vast amount of statistics to demonstrate that these persons cannot afford decent safe and sanitary housing in the private housing market. They cannot afford section 235 or 236 housing. They cannot afford section 202 housing. Their incomes are not adequate to meet any standard housing requirements except through the public housing program.

Is public housing contributing to the improvement of the community architecturally and aesthetically? The Minneapolis Star's design and art critic, Peter Altman, in December, 1969, in an article entitled "City's housing for elderly Towers is challenge to private builders" said, among other things, "Unobtrusively but sensitively, the Minneapolis Housing and Redevelopment Authority (HRA), through its program of building low-rent apartments for the elderly, has probably done more than any other builder or developer in recent years to influence and improve the city's skyline." And in the same article he also said, and I quote, "The HRA's buildings must meet stringent budgetary restrictions and adhere to picky federal design and space regulations in order to qualify for the grants with which they are built. Such strait-jacket conditions would in most cases cause stereotyped, sterilized architecture."

"Minneapolis has worked with rare imagination within these limitations, however, to achieve buildings of tasteful, distinctive design," Mr. Ralf Rapson, head of the University of Minnesota school of architecture, said to me. "The public housing program for the elderly in Minneapolis has improved the cityscape of Minneapolis in a manner that will influence the rebuilding of this city for the next century."

Is the cost of the public housing program prohibitive? In answering this question we should bear in mind that our experience in Minneapolis is that many of the buildings of this program, built during the 1960's, have a greater value on the private market today than their cost. We must also recognize that in considering costs, that the construction of this housing provided thousands of jobs for many years in the construction industry in the City of Minneapolis. The costs of this program are amortized over a period of 40 years and considering the capital created in comparison to many other federal expenditures, it seems to me that this should continue to be a high priority program for the federal government.

What do the residents of this program think of it? In the following quotes from some of the residents speak for themselves. "I used to live in a rooming house, one block down there." Albert Wagner shoved his thumb over his shoulder in the direction of the rooming house. "I tell you, this is a lot better here. There was fighting, stealing, shooting and stuff. People always coming and going."

"Here, they don't allow that. Young people can't get in here. It's just for old people, and that's good."

Mrs. Irené Malmberg said: "No one would really have to be lonesome here. Now, I have enough outside interests so that I don't take part in much here. But when the time comes that I can't get out much, there'll be plenty for me to do here."

Who is eligible to live in these apartments? The definition of elderly is the same as the social security system. The income of a single person cannot exceed $3,400 per year. Married persons $4,200 per year. The assets cannot exceed $5,000 and the tenants pay 25% of their income in rents, which includes utilities.

Can the private sector, without subsidy, provide housing for these people? In an effort to evaluate this question, we asked a turnkey developer, The Knutson Company, which has recently completed a 300 unit public housing for the elderly program on Hennepin Avenue in Minneapolis, to convert the costs to the private sector, including normal interim financing, mortgage financing, real estate taxes, and other costs and he calculated that this building would rent for $240 per apartment per month as a breakeven investment for the private sector. It goes wthout saying that these persons cannot afford private housing and their only alternative is sub-standard housing in the private market.

Is high density living for the elderly desirable? Our experience in density in the public housing for the elderly program is directly opposite to most experience in high density living and concentrations for low income persons. We found that high-rise elevator buildings with 200 dwelling units were socially more acceptable to the elderly than smaller buildings with less dwelling units. The reason is simply that a large community of elderly provides a quality of life that reduces loneliness and provides for opportunities to participate as a neighborhood in functions that is not possible, where the elderly are scattered throughout single family neighborhoods or in low density development.

In view of the Minneapolis experience, is there a need in the State of Minnesota for additional public housing for the elderly? Recent statistics indicate that 55,000 elderly families and individuals qualify for occupancy in public housing for the elderly and an additional 20,000 households will become eligible for 1980. Today we have approximately 18,000 dwelling units in the public housing program for the elderly in the State of Minnesota. These facts indicate that the need is substantial in this State and that it will increase during the 1970's. The moratorium delays meeting this need.

The Minneapolis public housing program for the elderly is meeting the needs of approximately 10% of the elderly citizens of Minneapolis. The remaining 90% are not eligible or do not desire to be housed in this program. A substantial number of these elderly persons are eligible for the FHA subsidy programs for the elderly, which have also been discontinued under the moratorium. The relatively few FHA 236 buildings occupied have long waiting lists and the need from Minneapolis statistics is obvious.

The moratorium is obviously not affecting the poor elderly citizens of Minneapolis as dramatically as it is for other elderly citizens in this country because of the vast program already in existance in our City, but the moratorium is delaying meeting these needs for virtually millions of older Americans. Far more serious, in my opinion, is the fact that the public housing for the elderly program may be abandoned during the re-examination of the housing needs of this country. and I hope that this brief statement of my experiences in Minneapolis will indicate to your committee and the Congress of the United States, as well as the Administration, that the abandonment of this most worthwhile program should not be included in the restructuring of our housing programs or the delivery system for housing in this country.

The moratorium is obviously delaying the need to house the poor elderly citizens of this country and someone once said, "An important measurement of a society is how it provides for its elderly citizens."

Chairman HUMPHREY. Now I want to hear from Mr. Scheuer.

Thank you very much for coming to us today, Mr. Scheuer, to talk to us about housing.

STATEMENT OF JAMES H. SCHEUER, PRESIDENT, NATIONAL HOUSING CONFERENCE, INC.

Mr. SCHEUER. I am happy to be here. It is my first experience coming back on the Hill since I left your ranks and I am grateful for the opportunity.

Chairman HUMPHREY. We miss you.

Mr. SCHEUER. I miss you indeed very much.

These are very exciting days and it is frustrating not to be working among you.

I have valued your friendship and your counsel over the years and I hope very much to join your ranks again some day.

Because of the hour, I won't address myself to the material that I presented in my major presentation, which I take it will be printed in the body of the record.

Chairman HUMPHREY. Yes, indeed.

Mr. SCHEUER. But I will just discuss some of the subjects that have come up in the conversation with the other witnesses, that I think are very important.

First, as to the central problem that you faced us with, why does housing deteriorate physically—housing inhabited by low-income families. If we knew how to solve this one, we would be way ahead of the game and I think Frank Kristof is absolutely right in saying it is a whole congeries of things.

First, it is the absence of adequate public facilities and services, primarily those dealing with safety, law enforcement, and the knowledge that you are not going to be subject to violent personal attack.

But it is also the absence of basic city house-cleaning services, as Mr. Kristof suggested in his testimony; the junk, the abandoned cars, the filth in the streets, the lack of maintaining even a minimally civilized environment.

So that signal spreads. When the city, in effect, designates an area as a slum by denying it essential public services, it is a signal that everybody can read. The owner certainly reads it and he figures that if the city says it is a slum, and they are not going to maintain it, how can he pour money into it.

So he furthers the process by failing to give minimum repair and upkeep and maintenance.

So when the city labels it a slum and the owner labels it a slum, it shouldn't be puzzling to us that the tenants also label it a slum and further the procession by failing to keep it up and by allowing their kids to engage in unlimited vandalism.

Therefore, it is the absence of public services and of the social services that many of these tenants need who are engaged, as Frank Kristof described to us, in the process of migrating from the rural South to the urban North without sophisticated knowledge of urban ways. They need help, whether they go into a single-family home or simple frame house or into the much more complicated kind of living that we put them in when we put them into high-rise public housing buildings—a form of shelter that is often unsuited to their needs and which many of them don't like.

I am talking about consumers. We are spending $35,000 or $40,000 per public housing unit now for public housing that many consumers have an acute distaste for and feel that society is giving them a rooking by giving him housing that is inappropriate to their needs.

So we have got to get away from the feeling that we put all public housing families in high-rise structures.

It would be far simpler and far cheaper if we had a financing mechanism to make available the existing housing stock, such as the six-story semifireproofed jobs that have been built since 1901 under the new tenants law in New York City, all of which have exterior rooms. There are no dark interior windowless rooms. All of these apartments have three-fixture bathrooms.

They are decent, safe, and sanitary according to the minimum requirements of the 1948 Housing Act, but we don't have an adequate financing mechanism whereby this existing housing can be made available to families eligible for public housing at a fraction of the cost of the inappropriate new 25- or 30-story units that we are building for them.

We must deal with this combination of factors that Mr. Kristof mentioned, the absence of safety, the absence of city services, the absence of education services to the tenants, and the absence of rehabilitation financing, either for an owner or for a public housing tenant. If we could direct them toward existing shelter and say: Look, if you take care of it, give it some respect and care, invest in a little sweat equity, we are going to give you the wherewithal, materials and tools, to build up an equity to make this your own. We are going to enable you to convert this single family frame house but we want you to invest a little sweat equity in this.

Chairman HUMPHREY. By the way, in Duluth, Minn., there is a nonprofit housing deevlopment corporation that has proceeded to buy up these older homes and remodeled them and then sell them back and it has been a marvelous program. It has done a great job. They have gone into some of these areas—maybe you know about this, Mr. Krusell—in that area—but again the rehabilitation funds are also at a minmum and a total rehabilitation program for housing is really tokenism.

Mr. SCHEUER. We haven't in the last generation had—and this spans the administrations, this is not a partisan statement—a workable rehabilitation program and that is one of the major reasons we have this shameless phenomenon that Mr. Kristof described, the abandonment of 100,000 dwelling units in New York City. Those apartments that have been abandoned are the kind of apartments that I lived in right after I was married: that you would be happy, and I would be happy, to have our sons and daughters live in at the beginning of their married life when they assumed independence. It is, for the most part, perfectly decent, safe, and sanitary housing. And because we deny the owners or the occupants the rehabilitation financing tools to spend $2,000 or $3,000 or $4,000 per unit to make them modern and attractive, we see them abandoned and we are replacing them now with housing that costs $35,000 to $40,000 and that is less suited to the needs of those people.

And not only have we lost 100,000 dwelling units; it is more than that. What we have done is blighted whole neighborhoods. We have neighborhoods in New York that look like Rotterdam or Vietnam. We have destroyed environments of the city.

Block after block looks as if bombs hit it.

This is a qualitative cost that we are paying for the quality of life in New York City over and above the very real cost of losing 100,000 dwelling units that we are now replacing at 10 times what it would have cost for a modest investment in rehabilitating those units.

Chairman HUMPHREY. Well, why can't we get the Congress to do something about this?

You are talking my language. You know, I have been in areas of Chicago, Milwaukee, and other places, and seen these neighborhoods where people really want to live there, good housing, basically structurally good housing that needs modernization, upgrading, repair.

I remember when Franklin Roosevelt was President, the very first thing Dad and Mother did after he said, in his radio speeech: "If you are losing your home, let us know. We got a homeowners' loan not only to be able to save the house but repair it and fix it up."

I remember very distinctly putting on new storm windows and fixing up the sills and putting on a porch. This is the way Dad and Mother fixed up our home.

What happened to all that?

Mr. SCHEUER. We desperately need a rehabilitation program to help individual owners as well as apartment owners to change things.

First of all, the normal upgrading that you are talking about.

You talk about an energy crisis. If we have an energy crisis, wouldn't it pay our Government to provide a rehabilitation loan so that owners of existing housing could add insulation not only so they would save the cost of heating and air-conditioning every year, but our society wouldn't have to consume so much of this precious fuel.

Chairman HUMPHREY. Do you have legislative proposals on this, Mr. Scheuer?

Mr. SCHEUER. I would be happy to sit down with you or members of your staff——

Chairman HUMPHREY. I think this is something we have got to move on.

This area is absolutely essential and I would hope that we get the benefit of your counsel and advice.

Mr. SCHEUER. I would be more than happy to sit down with your staff. The second area in which the Federal Government is grossly deficient is in the area of basic safety. The Federal Government has put an arm on cities across this land to create overall master plans for the cities.

No city could get urban renewal unless it produced an overall master plan for its growth; that was a good idea.

But what is wrong with the Federal Government's saying to cities, you have a safety code; you have a fire code, but until you pass a security code that assures that builders in your cities are going to put on doors that can't be kicked open and doors that can't be opened with a little plastic credit card and windows that lock, particularly windows that let out on a fire escape, and fire escapes that don't let down into the ground so a delinquent kid can scramble up that fire escape and gain entry into the building; we are not going to give you Federal financing.

Now, one of the things I am most proud of in my congressional service was that I sponsored legislation that set up the National Institute of Criminal Justice, the research and development arm of the Justice Department, for the purpose of applying science and technology to law enforcement and safety.

They have produced a model security code for cities. It has been passed in Oakland, Calif. and in Los Angeles. Why shouldn't HUD bend a few arms among city officials, mayors, and legislators across the country, to get them to pass that model security code so that new housing that is built, both with Government assistance and without, at least provides housing that not only won't burn down and not only won't be a health hazard, but will provide minimum security.

Why doesn't HUD include these minimum security requirements in their own minimum property guidelines for builders?

The Federal Government has spent billions of dollars for housing, yet you see in St. Louis, for example, the planned destruction of a major portion of the Pruitt project because it isn't safe, and is considered an urban jungle. And the same situation prevails in New York City, in Jersey City, in Philadelphia, in Boston, in Chicago, in San Francisco, where important, responsible tenants groups and civic groups are bringing pressure to blow up or close down parts of existing public housing because the Federal Government hasn't had the sensitivity and intelligence to spend the minimum funds that are necessary to make that housing safe.

I am only talking about a simple adequate lock on a door. Why, in New York City until very recently the Public Housing Administration prohibited tenants from putting an extra lock on their door.

And, even today, they charge them a fine; they make them put up a substantial deposit, which for a person in public housing is a real hardship, when they at their own expense put an extra lock on the door because the Public Housing Authority says when you leave we are going to have to take that lock off.

The Federal Government should have put that lock in, in the first place.

The tenant, in public housing, shouldn't have to make the capital investment to make that housing secure. The Federal Government should make housing secure and then maybe we wouldn't have to wipe out millions of dollars worth of capital investment in brick, stone, and mortar simply because people are afraid to live in these buildings.

It is a disgrace and I say again this is a nonpartisan statement. The past administration was as much at fault as this one, and a a Member of Congress for 8 years, I suppose I have to take my share of the guilt too.

But until we provide communities that hang together in terms of public services and until we provide safety and security in these public housing communities as well as the rest of the city, our federally assisted public housing programs are going to be an exercise in waste, in futility, and frustration.

Now, let me get to one more point that I want to mention: That is the business of subsidy. Somehow or other, when it comes to a housing subsidy or a subsidy in social services to help a public housing family acclimatize to urban ways that they aren't used to, in terms of teaching them how to live in public housing, giving them a little remedial education and job services that they desperately need to be independent, providing a day care center for a mother so she can put her preschool kids there and be independent, and have the learning experience of being out in the world, productive and independent, those kinds of subsidies are outrageous to our Protestant puritanical New England ethic.

Yet we are subsidizing industry all over the place.

Penn Central comes to the Congress for a loan of hundreds of millions of dollars.

Lockheed comes to the Congress for hundreds of millions of dollars.

We don't consider those subsidies immoral. There isn't an industry in America that doesn't have a subsidy, whether it is transportation through direct subsidies or manufacturing through tariff barriers. But when we want to give a subsidy to create a comprehensive housing program that includes safety, that includes a decent environment, that includes the social services and facilities that cities have to offer to make housing viable, that includes the personal services for the family—whether it is education services, to help them live in a complicated urban society to which they are unused, or remedial education or job training, or, as I say, the most central expenditure of all, a day care service to help a mother with preschool kids become independent—those kinds of services, these kinds of subsidies all of a sudden, become offensive to our Protestant, New England ethic.

Chairman HUMPHREY. Could you make it ecumenical?

Mr. SCHEUER. Yes; or Judeo-Christian ethic, let us say. So I think we have a long way to go in educating the Congress and the American people that the cheapest investment that we can make is in creating the infrastructure of social services that basically are essential to make any community viable and if you didn't have it in Southwest, in your beautiful apartment, and if I didn't have it in Georgetown where I live, our communities would be a shambles, too.

Chairman HUMPHREY. Exactly, exactly.

Well, Mr. Scheuer, you have led the way around here in many things and, by the way, also in housing, and that is why we want to hear from you: You are going to testify before the Senate Banking and Currency Committee this year?

Mr. SCHEUER. Well, if I am invited.

I am testifying not as an ex-Congressman but as the president of the National Housing Conference, which is the largest organization in our country representing all elements of the housing community, all the way from the tenant organizations to the public housing, redevelopment agencies, the lenders, the builders, the financiers, the whole works, and I am very proud to be playing this role.

Chairman HUMPHREY. I want our staff to work with your people to take some of these ideas you have and start to put them in legislative language.

Now, I am not sure that we can make any progress this year, but we will get something to focus attention on.

It is a question again of upgrading what I call our housing legislation to get to the community aspect of it, the total infrastructure as you well put it, because I think that the bricks and mortar and the lumber and all is just not enough.

I like the suggestions which have come forth here today and going back again might I say to the rural areas, we have some of the same problems there on services as well, to rural America, as we have in the cities even though those services seem to be less intensive, the need of them less intensive.

Mr. SCHEUER. Yes; let me just add one more word.

Mr. Krusell very dramatically outlined for all of us the success of his senior citizen housing and this gives us a message.

I don't think anybody at this table—and I am sure that would include you, Senator—would justify every single one of the existing housing programs.

We all know that they have flaws. We all know that some of them could be improved. We all know the intellectual underpinnings of some of them haven't stood the test of time over a generation and a half.

So I don't object to the fact that the current administration wants to retreat to the mountaintop and have a good hard-nosed look at these housing programs and try and figure out which ones need building up and have worked very well and which ones of them have been a disaster and should be closed down if there are any and which ones of them should be changed, shifted, altered, modified.

What I do object to is the evident philosophy that we have to throw baby down the sink with the bath water.

To close down the senior citizen housing that Mr. Krusell has described to us is an outrage.

Nobody has any serious objections to the way the senior citizen housing program is working in our country today.

It is beautiful. And there are others.

We know that the public housing program has presented us with some flaws, some problems and need for changes.

We ought to have the brains to figure out how it can be altered, and enhanced so truly to meet the needs of the public housing constituency. And we have had a long discussion and a very intelligent one of how public housing can be fortified to be viable and economical in achieving its goals.

But we don't have to stop all of our public housing—we don't have to stop all of our housing programs, the good as well as the bad.

We ought to have the intelligence to say, "Well, let's continue for the next 12 months with things as they are and do our homework and come up with positive legislative proposals to continue the good ones and fortify them and do what is necessary for the ones that need improvement."

Thank you.

[The prepared statement of Mr. Scheuer follows:]

PREPARED STATEMENT OF JAMES H. SCHEUER

THE HOUSING AND RELATED NEEDS OF CENTRAL CITY CONSUMERS

On behalf of the National Housing Conference I want to thank you for the opportunity to appear before you to discuss the housing and related needs of central city consumers.

The National Housing Conference is a non-partisan national citizens' organization founded in 1931. Throughout its history, the Conference has been active in support of sound and forward looking Federal legislation on housing and community development. It is also among the over 70 organization members of the National Ad Hoc Housing Coalition.

At the outset let me state that the urban crisis is still with us, and the problems of our cities cannot be solved without substantial Federal assistance.

By 1970, despite a general decline in central city population, central cities accounted for 29 per cent of the Nations' population. And these people have real needs.

They are confronted with all the problems associated with obsolescence, high crime rates, overcrowded and inadequate housing, and deteriorating public services—police, fire, health, education and welfare costs are beyond the financial capacity of most cities today.

Despite these problems, central cities remain the strongest center of economic and cultural activity in metropolitan areas. The investment of infrastructure and utilities and the tens of billions of dollars of mortgages and bonds secured by central city residential and business properties and private utilities held by financial institutions cannot be duplicated or lost without serious repercussions to the national financial structure.

Those are the economic issues—and they are impressive. The personal issues of the needs of more than one-quarter of our citizens are equally compelling.

A recent study [1] indicated that residents of central cities today are a largely white, poor population, although the incidence of poverty among non-white is far higher.

In 1970, the population of the central cities included 1.7 million families, and a total of 9.25 million persons—including those not in families—with incomes below the poverty level.

The proportion of persons 65 years of age and over continues to be substantially higher in the central city than in the suburbs.

Over one million elderly families and individuals in central cities are paying more than 35 per cent of their income for rent.

Subsidized housing *is* needed for the poor and elderly. This is documented.

Slum housing *does* exist in central cities and it must be upgraded or eliminated.

High unemployment and underemployment mean that incomes are not high enough to pay the costs of new housing, nor pay rents sufficient to cover adequate maintenance of the existing housing stock; and many of those who can, leave the deteriorating central city behind them.

While we are accustomed to hearing pleas for housing the poor and the elderly in our cities, two recent trends have aggravated the need and enlarged the scope of our concern. These are the widening of the segment of our population which requires subsidized housing, and that of abandonment of sound units.

For years after World War II, middle income whites who found the costs and conditions of central city housing wanting moved out to the suburbs where they could get more housing and amenities for their dollar. The "bargain" suburbs are no longer within easy commuting distance, and more importantly the rising cost of housing has made an inexpensive home almost a thing of the past. Construction, labor, and materials costs, as well as land, financial, and tax costs, have been rising steadily. At the beginning of this decade, the rate of cost increases in housing was double the rate of increase in the total consumer Price Index. Housing had moved beyond the reach of more families.

In the mid-sixties, three out of every five Americans could afford to own their own home. With high interest rates, this ratio was reduced to two out of five in 1970. We are now heading towards a tight money situation and rates are beginning to creep up again.

While the housing crisis is most severely felt by low and moderate-income families, we now need a mechanism beyond market forces to provide housing for American families that are just above or below the median income level. Families are still moving out of the central cities in large numbers, but an ever-increasing number of both those who stay and those who leave are paying a disproportionate percentage of their income for housing.

The other factor which has served to complicate housing production projections is the recent phenomenon of abandonment of tens of thousands of sound dwelling units by central city residents. In city after city where the numerical need for

[1] *The Central City Problem and Urban Renewal Policy*—A study prepared by the Congressional Research Service, Library of Congress, for the Subcommittee on Housing and Urban Affairs, United States Senate.

additional housing was cited, entire neighborhoods and projects are being voluntarily vacated. Part of this is due to the high maintenance costs which cause landlords to walk away from their properties; most tenants leave because of the fear of continued occupancy in unsafe, unserviced neighborhoods.

While abandonment is primarily a market phenomenon, low-income public housing projects in many cities are showing the same characteristics.

There are at least ten housing projects in major cities in this country where the crime rate is higher than in New York City. Vandalism is rampant; mugging a daily occurrence, and vacancies are running from 45 to 85 per cent. Residents are calling for a closing or blowing up of parts of projects to bring them down to human scale. They are looking to achieve a sense of security and well-being. Cases can be cited in Newark, St. Louis, Jersey City, Chicago, San Francisco, Philadelphia, Boston, and New York—and there are more. This is shocking at a time when the supply of adequate housing is begging.

But shelter alone is not enough. It must offer security and safety to its occupants. Studies have shown that housing developments can be made safe, and I am personally committed to continue to point to the inadequacies in this area, and insist on the adoption of measures which would make housing secure and more livable. Much of this can be accomplished by the adoption of the Model Code of Minimum Security Guidelines developed by the Department of Justice's National Institute of Criminal Justice by city and State legislatures—or by making it part of FHA's minimum property standards.

Recent events have pointed to a lack of alarm and concern over the problems of the cities. Public housing referenda have gone begging in State after State. Federal programs have been cut back and the rage that should have shaken Washington was barely a whimper from the majority of our citizenry.

Perhaps the 36 per cent of our citizens in the suburbs together with 35 per cent in the non-metropolitan areas are tired of being concerned about the problems of the central city.

Yet the failure to deal with the problem of the central cities is a failure to deal with the problems of the Nation.

Decades ago, slums may have made up ten per cent of an urban area, but an urban area within the central cities' boundaries. Today, suburbs are faced in increasing numbers with rundown housing, high crime rates, overcrowding and rising costs. The "central city" problem is spreading beyond municipal lines. Overall, we need 4 million subsidized units in metropolitan areas. On the national scale, I believe that even Dr. Frank Kristof conservatively estimates a need for 10.4 million additional units.

We are, therefore, faced with a need for a continued high rate of housing production, at lower costs, and for a broader segment of Americans. Most importantly, we must provide these units so that they afford safety to their occupants and in areas where people want to live.

How can we satisfy these consumer demands, and what do they require in terms of responsible action?

For the most part, Federal programs enacted by various Administrations, of both Parties, have followed the evolution of problems as they were recognized. Indeed, in many cases, it was in the process of solving some of the problems that others surfaced.

Public housing came first to shelter our low-income families. Urban renewal, among other things, was a means of making available sites in inner cities at costs that were no longer prohibitive to housing; maintaining our neighborhoods and rehabilitating our housing stock were dealt with through the introduction of various Federal programs such as Section 312 rehabilitation loans and Section 117 concentrated code enforcement funds. And with the enactment of the Housing and Urban Development Act of 1968, through the use of Section 235 and 236 interest-reduction subsidies together with rent supplements, private industry was placing thousands of low and moderate-income housing units on the market at an astonishing rate.

Private industry was working hand-in-hand with the Federal Government and it was a marvelous successful partnership in terms of production and jobs. In the two fiscal years, 1971 and 1972, the Administration placed into production as many new housing units as had been started under the previous 35 years of Federal housing production efforts.

But it was soon realized that adding one program onto another year after year had given us a cumbersome vehicle with which to work, and the programs either despite of or because of their success were deemed too expensive. The result was the President's moratorium on housing and community development programs on January 5th of this year.

The good and the bad were thrown in together and the Administration impounded the funds and shut down the programs.

We don't argue that the programs need re-evaluation—although legislation had been introduced last year which dealt with that; we don't argue that the consumer needed protection—that too was supported in bills considered last year; and we don't even argue that there may be better and less expensive ways to provide housing for our Nation. But we do argue that the sudden curtailment of these programs will have severe repercussions on our people and our economy.

Housing production means more than just numbers of units. It means preserving the physical stock in our cities; it means jobs; it means materials; and it means caring for and by our citizens.

Because of the 18-month moratorium on new commitments for HUD housing assistance programs that began on January 5, 1973, and as reflected in the proposed fiscal year 1974 budget, HUD-assisted housing levels will be reduced by 50 per cent in FY 1973 and 93 per cent in FY 1974.

This reduction in the building of additional HUD-assisted housing will exacerbate the already inadequate supply of housing for those of low and moderate income. In addition, we are already feeling the effect on builders, workers, lenders, and sponsors who are looking for other work.

The most disastrous effects, however, will occur in FY 1975, starting the middle of next year. There is a substantial time lag, about 18 months, between project initiation and the start of construction.

The housing starts for fiscal years 1973 and 1974 will use up the pipeline of HUD-assisted projects previously initiated and committed. So by FY 1973, there will be virtually no pipeline of such previously committed projects—and much of the productive capacity will have been destroyed.

The effects of Presidential suspensions and impoundments go beyond the sharp decrease of sorely needed housing starts. The reductions of $27 billion in expenditures and 3 million man years in employment due to the lower program levels of HUD-assisted housing—in addition to the further impact of suspending or terminating community development programs and suspensions in social, health, and welfare programs—will contribute to the possibility of a recession occuring before the middle of next year as forecast by some leading economists. Those are but some of the highlights. To save time, I would like to include for the *Record* NHC's adopted resolutions relating to the President's impoundments, suspensions and terminations of housing and community development programs.

I mention FY 1975 specifically because the Administration's projected budget estimates make no provision for new housing subsidy funds, and any authorizations approved by Congress even early in calendar year 1974 would have little chance of being included in appropriations for FY 1975.

We must have the impounded funds released and adequate appropriations for these programs in FY 1974 at levels sufficient to insure the continuation of existing programs until such time as responsible alternatives are in effect.

Finally, a word about proposed new legislation—specifically the Administration's Better Communities Act. NHC shares Senator Sparkman's concern that "A community development bill without provision for housing subsidies would be a disservice to our communities and to our needy and ill-housed families."

The Administration's bill has no requirement for housing, even relocation housing, nor provisions for a community to borrow money at reasonable rates to carry out costly development programs such as urban renewal.

Moreover there is no built-in means for directing funds to be spent to meet national objectives.

I am confident that Congress will ultimately pass legislation which meets the needs of our consumer. However, in light of those needs as spelled out above, I would respectfully suggest that the Administration's Better Communities Act as proposed, is both inadequate and misnamed. We cannot have good communities without good housing. Moreover, we need housing now!

We do need to re-examine, re-evaluate and perhaps redefine our housing goals—and would welcome an opportunity to join with the Administration in this effort. But the Nation cannot afford to sit on its hands in the interim.

To best serve our citizens, we must:

(1) provide them with decent housing within their economic means in environments where they chose to live and can live safely;

(2) maintain and preserve our existing housing stock;

(3) continue those programs now which will prevent our inner cities from falling into disrepair;

(4) continue our commitments to our citizens through our existing, albeit imperfect, programs;

(5) look for ways to stop the spread of blight and thus preserve our Nation's resources through meaningful growth policies; and

(6) evolve a legislative program to promote truly better communities with adequate public facilities and services, housing choices, employment and educational opportunities where all Americans can live where they chose with security and pride.

I thank the Subcommittee for this opportunity to express our views.

Chairman HUMPHREY. Thank you, Mr. Scheuer. Gentlemen, I have just a few more minutes.

This is one of my more busy days.

In light of what has been really a panel presentation here, do you have any observation you would like to make?

Mr. COCHRAN. Mr. Chairman, in hurrying, at the beginning here, I failed to say that I have brought some material up for the subcommittee files here, which I think they will find useful.

One is our little rural indictment of the public housing because not much of it was out there.

One was a discussion of mobile homes and the rural poor. The other is the first volume of "OEO and Rural Housing" which OEO rejected because they didn't like our viewpoint, but we will give you an autographed copy.

And, last, our statement to Mr. Lynn on the task force studies which we submitted in good faith, whether or not it is considered in good faith or not.

Chairman HUMPHREY. I will ask the staff to go over that with me because I am very anxious to study it.

Here is what we always try to do after these hearings. We try to pull together a little synopsis of them and circulate them amongst all the members of our committee, knowing that everybody is busy, but pull out what we think is the more important material that you present.

Mr. COCHRAN. The only comment I would like to make in the brief time here, with reference to Mr. Scheuer and others, is that a lot of those people in urban areas who are "problems" wouldn't have been there if we had had a society as responsible and socially concerned as Mr. Scheuer suggests we should have.

I agree with you that it should be so.

Mr. SCHEUER. I agree with you completely.

If we hadn't just decimated the rural areas by neglect and a wrongheaded farm program which put emphasis on bigness instead of people, most of those people would have been happy in the country where they had enough sunshine and didn't bother the neighbors, and this is a part of what we keep pressing on this; that we just simply have got to quit being so parochial in this country.

You cannot neglect the housing needs of the small towns and rural areas for a generation without its affecting the rest of the country.

We are going to move ahead on this.

There are not enough of them to flood us any more. Well, there are enough people out there if the neglect continues on welfare, income, housing, community facilities, there are enough there to plague you for the rest of the century in addition to the problem you have got now and we need the Congress to take a look at these programs but to take a look not at just housing but at welfare and income distribution from the standpoint of this being one Nation and our interests being in people.

You can call them consumers if you want to, but to try to take a realistic approach to this thing and match the needs of the people with the programs.

The cities have some problems, the rural areas have others, but we are intelligent enough people to reckon with all of them if we quit squandering our money on imperialism and tax loopholes.

Chairman HUMPHREY. How do you view the rural housing cutoff; that is, the rural housing subsidy cutoff?

Mr. COCHRAN. The reference made by others here to the aging program. The Farmers Home Administration was not suspended because it was under fire. The only people critical of Farmers Home—and we were critical—were critical because we wanted more, not because what they were doing was particularly wrong. The administration's excuse? OMB says the rural moratorium was an afterthought.

The administration decided to cut back on the HUD programs. They suddenly remembered there was a rural housing program over in Agriculture and they just threw it into the pile.

It was not that it was under fire except as being inadequate.

In my prepared statement I point out there will be 100,000 families this year that won't get decent homes because of that silly cutoff on a program which was not really under attack.

Sure, there are some things that could be improved and we have been the loudest voice trying to get improvements but it is very bad in rural areas because it is going to shatter developments there that started under Mr. Kennedy and run right on through, developing a kind of infrastructure for dealing with housing.

Land development, water and sewer developments contractors who could do the work, the whole apparatus has been damaged by this suspension and some way we have to reverse this. As a matter of fact, we are filing a suit this week to try to throw that moratorium out.

Chairman HUMPHREY. Good for you.

Mr. COCHRAN. And then we can get back to the main task of convincing the Congress: "We never had enough, let's have more and let's tidy up the program where it is."

Chairman HUMPHREY. Mr. Krusell, do you have any comments?

Mr. KRUSELL. Yes, Senator. I would like to comment on two or three things just briefly other than the elderly.

In Minneapolis we had one of the largest rehabilitation programs in the country. We rehabilitated over 5,000 dwelling units most of which were single family homes, detached, in various neighborhoods throughout the city.

This was under the 312.3 percent, 20-year home improvements, and preserving the existing supply of housing we went through a real trial period.

We had to train our city inspectors all over on how you do this sort of thing and people are voluntarily improving their homes and we have really had that program underway to where we reached the point where Willard-Homewood, the Seward neighborhoods and a number of other neighborhoods, were coming into the housing program and saying we want this same thing to try to improve our programs.

And, of course, the moratorium has just wiped that whole start out and the whole training effort and the whole rehabilitation effort preserving the existing housing, threw it out.

. Second, on the 236 program, that program has in my mind almost all of the elements that are necessary to accomplish economic integration in rental housing. Probably the biggest problem is the bureaucracy built into the system which has been spoken to by others.

If I want to live in a 236 housing development on Franklin Avenue in Minneapolis, I am not permitted because my income is too high and this is a HUD regulation and it is a disaster.

The same thing applies in public housing where we have people whose incomes rise and.they want to stay there, but they are evicted because their incomes are too high.

The 236 program has tremendous opportunities in terms of economic integration.

Much has been said about housing allowances, and I think we have probably the best housing allowance program in operation in the country today in that section 23 and there are many lessons to be learned from that program which provides for protection to the tenants in the business of giving him some money to rent apartments and we have some experience in the welfare program and we know what happens when you give somebody a bull certificate or something like that without any control from their established point.

So I just want to make those three brief comments.

Chairman HUMPHREY. Very good.

You are going to have to be very short on the next one.

Mr. KRISTOF. Mr. Scheuer promised not to make any comments if I didn't.

I think everything that could be said has been said and when the staff examines our detailed documents, they will find them self-explanatory.

Chairman HUMPHREY. We are certainly going to do that. I want to thank you for the education.

Thank you very much. I will have to charge off now.

We will meet again tomorrow. The subcommittee is recessed.

[Whereupon, at 2:15 p.m., the subcommittee recessed, to reconvene at 10 a.m, May 23, 1973.]

THE COST OF LIVING

WEDNESDAY, MAY 23, 1973

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON CONSUMER ECONOMICS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:40 a.m., in room 4221, Dirksen Senate Office Building, Hon. Hubert H. Humphrey (chairman of the subcommittee) presiding.

Present: Senators Humphrey and Percy.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; William A. Cox, Lucy A. Falcone, and Courtenay M. Slater, professional staff members; Michael J. Runde, administrative assistant; Leslie J. Bander, minority economist; and George D. Krumbhaar, Jr., minority counsel.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. Mr. Stein and Mr. Dunlop, thank you very much for your patience. I had to be at the Committee on Post Office and Civil Service this morning on the matter of agricultural census and was somewhat delayed there.

I have an opening statement, and I shall not take the time to read it all because of the time factor here, but I think that we are all aware of the fact that the most recent Gallup Poll indicates that the American public recognizes that the high cost of living—or inflation, as they put it—is the No. 1 issue facing the Nation.

Every wage earner knows it costs more to feed, clothe, and house his family. And, despite the rosy predictions from the administration, every wage earner feels that the conditions are going to get worse, not better.

I indicated earlier in the full meeting of the Joint Economic Committee that I thought the lifting of phase II and moving to phase III was premature. And it seems to me that the lifting of those controls has unleashed a burst of inflation, a boom in profits, a bust for the working families of the Nation, and a run on the dollar.

The Nixon administration stabilization program has failed to stabilize anything, with the singular exception of wages. The failure of the administration's economic program is broader than just prices and wages. And I do not believe that we can any longer just feel that things are going to work their way out.

The headlines every day, if you have turned at least to the financial section, the economic section of the press, are very disturbing. Across the board—from the price of gold, to the balance of payments,

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to very severe stock market decline, to consumer confidence, to increasing interest rates—the economic policies of the administration have been spelling trouble and to some, disaster.

Well, let me outline chapter and verse of the dark days of the Nixon economic policy.

Yesterday, the "Consumer Price Index" showed prices advancing at the rate of 9.2 percent annually during the last 3 months, almost four times the administration's stated inflation control goal.

The average family grocery bill is now $208 above that of last year.

The median price for a new home is up more than $3,500 from a year ago. And only yesterday, by the way, we had hearings in this very room on the inflation and its effect on housing. Lumber costs are up 30 percent; wool products are up 40 percent; petroleum products are up 20 percent; and tires are up 10 percent, just to pick a few common items.

Still, the American people are being told by their Government that phase III is working. I agree. It is working against the American people.

Unemployment is still a shocking 5 percent with no prospect of getting back to full employment. I think the figure is somewhere in the field of 4,400,000 Americans who are jobless. It is estimated that another 2 million Americans are forced to work part-time. Hundreds of thousands of Americans are underemployed, and still more Americans are among the hidden employed—or the hidden unemployed, I should say.

Yet, the Nixon Administration proposes to close down the public employment program and impose guidelines on social service programs that will force more Americans off payrolls and on to welfare rolls.

Since August of 1971 we have had freezes, and phases, and propaganda, and promises, but we have not had a program to stabilize prices and put Americans back to work, except during the so-called phase II.

Full employment goals have been abandoned. And, like the general economy, the unemployed American worker has been left adrift for himself to be self-reliant.

The last year has been one of income retreat for the average working family. The average hourly earnings of blue collar workers, over 50 million workers, increased 5.4 percent. This is less than the wage standard established by the pay board, and prices increased over 6 percent.

I do not think there is any dispute over the fact that purchasing power, that the weekly paycheck is down. Actual buying power for the average working family is less today than it was a year ago, but the compensation of top corporate executives increased an average of 13.5 percent in 1972, and some corporate chiefs had salary increases of over 200 percent.

Yet, the productivity of the American worker increased 4.2 percent in 1972, and has continued upward this year. That productivity, regrettably, has not been translated into real gains for the workers, but it is translated into something else, the fourth day of darkness.

Booming profits and soaring profit margins for big corporations. Corporate profits are skyrocketing. No board, commission, or Cost of Living Council can contradict it, nor are they holding them down.

Before tax profits have jumped $11,600 million in the first quarter an adjusted annual rate of $113,100 million. That translates into after-tax profits of $61 billion, a full 23 percent ahead in the first quarter of 1972.

For individual industries it means, for example, an 85 percent increase in the profits of the steel industry, with steel prices going up; 70 percent increases in the profits of the paper industry; 65 percent increase in the profits for the building material industry; and a 45 percent increase in profits for the special machinery industry.

Now, the fifth part of the dark days is the balance of payments deficit—up to $10,200 million, $1,600 million more than last year in 1972.

Closely related to the balance of payments deficit is the sixth dark day, dollar devaluation. The dollar has been devalued two times since 1969, and each time it has cost the American people.

The dollar today is worth 77 cents compared to the base year of 1967. After the 1971 devaluation, the trade deficits trippled from $2.6 billion to $6.8 billion. Fortunately, there seems to be some turnaround, some improvements in our exports and situation.

And, a worsening of trade deficit plus speculation on the dollar—heavy speculation against American dollars with the participation, regrettably, of American multinational corporations acting against American economic interest—produced another devaluation in February of this year.

Seventh, the run on gold. The price of gold on the London market is over $110 an ounce. The gold price today is approximately 3 times the official exchange rate, causing the worth of the dollar to skid to record lows. And today, respected economists are publicly suggesting, and the daily fluctuating of the stock market is indicating, that the economic policies of the administration are leading the American people toward another devaluation of their dollar.

The eighth economic despair is the decline in the stock market—a Dow Jones average of over 1,000 plummetted to the 800's, indicating investor uncertainty and uneasiness with the stabilization program.

I might add that I remember when the market went up to over 1,000, the words that were uttered about how important this was, what a sign of confidence this was, and that things were better; but I have not heard much about it when it seems to be declining—6 points, 7 points, 10 points, 18 points in a day.

The ninth economic despair is high interest rates. The Nation is threatened by another credit crunch, tight monetary policy, and rising interest rates. The prime rate has increased to 7¼ percent, the 3-month Treasury bills have increased prime commercial paper has increased, finance and consumer credit rates have increased, and increases have occurred in business and residential mortgage loan rates.

Increasing interest rates add to cost and prices, and if past history is any guide, increasing interest rates will have an adverse effect on small and medium size businesses. And it surely is having its impact on housing.

The 10th economic day of despair is over $78 billion of deficit spending. More than one-fourth of the total debt of the United States has been added since 1969, and each year since 1969, the budget has been presented to the Congress with a deficit—a deficit that reflected slack in the economy, causing revenue shortfalls and gross economic mismanagement.

I understand that there is some better news in the projections for fiscal 1974, but I hope you will not mind if I say that I am a skeptic, because I have heard the better news projected earlier on other occasions.

The 11th day of economic despair is the most severe—the loss of consumer confidence in the economic policies of the administration. This loss of confidence is reflected at all levels of our economy—in an on again/off again controls, in the talk and nontalk about a tax increase. and the spectre of a possible recession.

Now, labor claims the economy is utterly lopsided; but Pierre Rinfret, once the Nixon administration's early economic advisor, calls the present economic policies, and I think I quote him accurately, "a joke." And he claims it is, "one of the funniest economic games played upon the American people."

Mr. Rinfret was quoted at length about 2 weeks ago or less in the American press.

Business Week says, "The administration has lost its grip on the economy."

And recent evidence from the Survey of Consumer Attitudes conducted by the Survey Research Center of the University of Michigan, reported on April 24:

> Rapidly rising food prices shattered consumer confidence and induced many people, with both high and low incomes, to become pessimistic. Because of the increase in living cost, the proportion of families saying that they are worse off than before and expecting to be worse off, increased substantially.
>
> Adverse news about inflation and the dollar have regenerated pessimism about the economy in general among both high-and low-income families. Half of all respondents said that they expected unemployment to increase during the next 12 months, up from 24 percent in August to September, 1972.

The American people are crying out for some sense of economic leadership, but the Government seems paralyzed by Watergate, that seems to have brought a halt to top policymaking; by economic advisers, regrettably, who seem frozen in their philosophic approach to the cost of living problem; by the inability of the administration to grasp the enormity of the economic barrier that has been created.

Mr. Stein and Mr. Dunlop, you are here to give us your suggestions.

I might add that we held hearings here just recently on the Industrial Price Index, so it is not just food that has been going up. This is something that we can say, well, this happened because of weather and because of shortages, et cetera, but we have other items that have been sharply going up. And there were hearings 2 weeks ago in the Joint Economic Committee, and the industrial products, the nonfood products, showed a very severe rise in price.

Mr. Stein, now, if you would introduce the people at the witness table so that we could have their names for the record; and then I welcome your statement.

There is a rule, may I say most respectfully, which was alluded to by the chairman of the Post Office and Civil Service Committee, that requires that the statements be given to the respective committees 24 hours in advance. I appreciate that sometimes it is difficult to do, but it helps us a great deal.

I asked yesterday if there was the testimony available to us, and it was not. I understand it came over last evening. What time, 5:45? Mr. Stein.

Mr. STEIN. Mr. Chairman, I would like to introduce Mr. Joel Popkin, who is a senior staff economist with the Council of Economic Advisers and Mr. Gary Seevers, who is special assistant to the chairman. Mr. Dunlop will introduce his assistant.

Mr. DUNLOP. Marvin Kosters of the staff of the Cost of Living Council.

Chairman HUMPHREY. Thank you very much.

Mr. STEIN. Mr. Chairman, with all due respect, may I say that I think what I have just heard is the most one-sided and misleading and dangerous description of the state of the American economy that I have ever heard, and I have been around here for a long time.

That is not what the state of the American economy is today. The American economy today is flourishing. We have, of course, the highest rate of total output we have ever had. In the last six quarters, rate of increase in real output was the highest that we have had in any six-quarter period. The real disposable per capita income of the American people is 6 percent higher than it was a year ago. That is what they have available for spending after adjustment for prices and after adjustment for taxes. And that is really the measure of their welfare.

The real per capita consumption of the American people in the first quarter of 1973 was very much higher than a year ago, and has been increasing at a very high rate.

We have increased total employment by 2.6 million in the past year.

Now, I would be derelict in my responsibility if I have to deny that there are problems.

Chairman HUMPHREY. Now, Mr. Stein, since you have taken the liberty to make rather extravagant statements about my comment, I would like to ask you just a couple of quick questions.

Did I give any statistical evidence that was not factual?

Mr. STEIN. I said this was——

Chairman HUMPHREY. Did I give any statistical evidence that was not factual?

Mr. STEIN. No, you did not.

Chairman HUMPHREY. Well, then, I talked then about facts, and the facts——

Mr. STEIN. Well, you talked about less than half the facts.

Chairman HUMPHREY. Do you deny that the stock market has had a precipitous decline?

Mr. STEIN. Well, I will not use an adjective. It has had a certain decline.

Chairman HUMPHREY. Well, will 200 points, 150 points indicate that it had a rather severe decline?

Mr. STEIN. It had a rather severe decline.

Chairman HUMPHREY. Would you deny that housing costs have gone up sharply?

Mr. STEIN. No; I do not.

Chairman HUMPHREY. Would you deny that the cost of living is going up about twice as much as you estimated in January?

Mr. STEIN. I do not deny these facts. I am saying that they are——

Chairman HUMPHREY. Well, then why do you say that my statement was intemperate and—how did you put it?

Mr. STEIN. I said it was one-sided.

Chairman HUMPHREY. No; that is not what you said.

Mr. STEIN. I said it was one-sided and dangerous.

Chairman HUMPHREY. Well, all it is, all it said was what the facts are. You do not deny that the dollar has been devalued; you do not deny that we have a deficit in our foreign trade, do you?

Mr. STEIN. What I say is that you have not given the important facts about the American economy.

Chairman HUMPHREY. Well, you are giving your side of the story, but I do not believe that you ought to take and make a statement about factual evidence that is evident from your own economic indicators and call it irresponsible.

Mr. STEIN. I do not think I used the word irresponsible. I said dangerous.

Chairman HUMPHREY. Or call it dangerous. It is not dangerous to say that the average workingman today, his paycheck buys less than it did a year ago. It is not dangerous to say that the cost of living has gone up more than his income. And it is not dangerous to say that gold is $110 an ounce. And it is not dangerous to say that we still have 5-percent unemployed. And it is not dangerous to say that the cost of living has gone up almost seven-tenths of 1 percent this last month.

And I resent the indication that it is dangerous to make those factual statements.

Mr. STEIN. I think it is dangerous to present those as the description of the state of the American economy.

Chairman HUMPHREY. Well, it is a description. Well, if you have got a wart on your nose, you have got a wart on your nose.

Mr. STEIN. Well, that was not what you said about the American economy. It does have a wart on its nose, but it is in very healthy shape.

Chairman HUMPHREY. Well, is that right? It is having a few heartbeats that are missing, its blood pressure is dropping.

Do you think Mr. Rinfret is dangerous in his comments?

Mr. STEIN. Yes; I do.

Chairman HUMPHREY. You have told him that, I am sure.

Mr. STEIN. Well, I have not talked to him.

Chairman HUMPHREY. Well, I suggest that you meet with him. I gather he was a former economic adviser to the President.

Mr. STEIN. I do not want to go into it about Mr. Rinfret.

Chairman HUMPHREY. Well, Mr. Rinfret is considered to be a rather responsible man. Do you think that Mr. Hobart Rowen is irresponsible or dangerous?

Mr. STEIN. Well, I would rather not go into these personalities.

Chairman HUMPHREY. Well, what do they say about the economy? What do they say about the control program, Mr. Stein?

Mr. STEIN. Can we discuss the facts about the economy without the biographies of Mr. Rinfret and Mr. Rowen and others? I will concede that there is a long list of such people who say that we are in a disastrous situation. I say that they are all wrong.

Chairman HUMPHREY. Now, Mr. Stein, I did not say that we were at a disaster situation. I pointed out what I said were the dark days, and they are difficult and dark days. I did not say the economy was grinding to a halt, and I do not want it to.

I said that I thought there had been a premature lifting of the controls. I said I thought that the policies which were being pursued were not accomplishing your stated objectives.

I gave statistical information that is factual and indisputable to support my observations, and I do not intend to let you say that I have uttered words that are dangerous. Because if they are dangerous, the facts speak for themselves.

Now we can get back to talking about your side of the picture, fine, but do not tell me that I have engaged in dangerous talk here, because frankly, I have not.

OK. Let's go on.

Mr. STEIN. Would you like me to give my statement? I have a brief statement. We are submitting a joint prepared statement for the record.

Chairman HUMPHREY. Yes, sir. Please proceed.

STATEMENT OF HON. HERBERT STEIN, VICE CHAIRMAN, COST OF LIVING COUNCIL, AND HON. JOHN T. DUNLOP, DIRECTOR, COST OF LIVING COUNCIL, ACCOMPANIED BY JOEL POPKIN, STAFF, COUNCIL OF ECONOMIC ADVISERS; GARY SEEVERS, SPECIAL ASSISTANT, COUNCIL OF ECONOMIC ADVISERS; AND MARVIN KOSTERS, STAFF, COST OF LIVING COUNCIL

Mr. STEIN. The country has experienced a great surge of inflation in the last 3 months. This urge of inflation raises serious questions about the possible rate of inflation in the future, and about the policies that may be necesary to control the inflation. To answer these questions it is necessary to ask first why we had the recent surge of inflation.

My basic view is that the rapid inflation recorded from January to April was largely the result of temporary forces and that the rate of inflation will not continue at this rapid pace, but will slow down considerably in the remainder of this year. I believe that this view is commonly shared by economic analysts and forecasters.

There were several reasons for the extraordinary inflation of the early part of 1973.

First, a large part of the price increase of early 1973 was accounted for by prices of farm products and foods. During this period the supply of food for domestic consumption was actually declining, a most unusual condition for the United States. The decline was caused mainly by bad weather at home and abroad.

At the same time consumers' incomes were rising rapidly as a result of large increases in employment, some increases in wage rates, increases in social security benefits, and other factors. The combination produced skyrocketing food prices.

Second, during the fourth quarter of 1972 and the first quarter of 1973, total production rose with great speed, at an annual rate of around 8 percent. While no one knows exactly where the level of potential output of the American economy as a whole lies, we were certainly approaching the neighborhood of potential.

Demand was rising at a pace which could not be matched by increased supplies within that short period of one or two quarters. In a number of industries production was running at capacity. Thus, significant parts of the nonfarm economy were experiencing classic demand-supply imbalance.

Third, the expansion in the United States was accompanied by a rapid expansion in the rest of the world. In the whole postwar period there is probably no other instance of so widespread a boom. This has contributed to raising the prices of American imports and exports and of the domestic products that competed with them.

Fourth, the devaluation of the dollar has raised the dollar prices of some imported products and has raised exports.

Fifth, at the beginning of this year many industrial prices were below the ceiling established under phase II and perpetuated with little change into phase III. Thus, there was a good deal of room for increasing prices without exceeding the standards of the price control system.

Sixth, the advent of phase III, while it did not significantly change the permissible prices, did allow permitted price increases in many cases to be put into effect with less delay than was involved in the phase II procedures.

Seventh, it may be that during March and April speculation about the possibility of a freeze caused some businesses to raise prices in anticipation. This is a plausible development although we have no direct evidence of it.

Most of these phenomena were, we believe, temporary.

The food outlook is critical. Despite the relatively low level of domestic food supply in the early part of the year, the total for 1973 is expected to exceed the total for 1972. On that basis the Department of Agriculture has estimated that retail food prices for the year 1973 would be about 9 percent higher than in 1972.

During the first 4 months of 1973, retail food prices were already 7.5 percent above the 1972 average. In April they were 10.5 percent above the 1972 average. The Department's forecast implies essentially no further rise on the average this year above the April level, although there will, of course, be month-to-month variations.

While we expect the economy to continue rising through 1973 and 1974, we do not expect the economy to be rising so rapidly as in the past two quarters. As a result, the pressure of demand on output will at least not be rising, even though the economy is operating at a higher level.

This development is fundamental to the forecast slowdown in the inflation rate. If GNP in money terms were to go on rising at the annual rate of 15 percent, as it did in the first quarter, nothing could prevent an acceleration of inflation. But there is every reason to believe that the rise of GNP will slow down.

Fiscal and monetary policy are both geared to achieve this result, and certain autonomous forces, such as the decline in new residential construction, point in the same direction.

The devaluation of the dollar in February presumably has already had most of its effect on the U.S. price level. The speedup in the introduction of price increases as a consequence of the elimination of prenotification requirements when phase 3 started was a one-time thing. In fact, with the restoration of prenotification in some cases, we should not only eliminate that initial speedup but even introduce some lag in the price-raising process. If there have been price increases in anticipation of a freeze, that probably also lies behind us.

The price control system will become more of a limitation on inflation as more and more firms run up against the permitted ceilings. The operation of the system and steps taken to increase its effectiveness are described in Dr. Dunlop's testimony.

For all of these reasons we look forward with confidence to a reduced rate of inflation later in 1973. The declines of the rate of increase of both wholesale and consumer prices in April are encouraging in this respect. Still, there is a long way to go, and while we are confident, it would be foolhardy to ignore the difficulties ahead. On the food side, we are dependent on supply conditions we do not entirely control. We have become increasingly aware of the influence that inflation in the rest of the world has on our own prices. Success of the anti-inflation program depends on cooperation from business and labor, and while performance so far has been good, we must recognize the uncertainties involved.

Most important, getting inflation under control depends upon discipline in fiscal and monetary policy which will slow down the expansion of demand. So the message we bring to you today is not one of complacency. We are not complacent, and Congress should not be. But neither should we give way to despair or anxiety. If we do as well as we can, we will do very well indeed in restoring reasonable price stability.

Thank you.

Chairman HUMPHREY. Mr. Dunlop, I think we will proceed with you, and then afterward we will come back to questioning.

Mr. DUNLOP. Well, thank you, Mr. Chairman.

I thought I would rather speak extemporaneously, summarizing some of the points and calling attention to certain central points that I wish to emphasize in the prepared statement which has been submitted jointly by Mr. Stein and myself.

I would like to try to give you a view of the operation of the Cost of Living Council's concern with prices and our analysis of where our major problems are, and what we have been doing about them.

From the very outset of phase 3 in January, we have been monitoring carefully a wide range of price areas. And, by the way, the word "monitoring" there to me, means not only following the indices, it means not only the reports which we received from companies, and now, more recently, the prenotification of price increases for certain companies, but also it means a series of informal meetings with chief executive officers and others in various industries. In the last month, for example, we have held sessions with over 52 companies in 7 or 8 major sectors in which we were concerned about price behavior.

Now, if you turn, Senator, to table 2 in the joint prepared statement, I think I can make the most important point I wish to leave in a way with you in that fashion. That table shows the contribution to changes in the wholesale price index of various sections. In other words, it seems to combine the amount of price increases in certain sectors, including industrial sectors, you will note, with the weight or the significance that that sector has in the index as a whole. And if you will note that, you will see that you can pick any number—I have chosen to pick the five most serious or the five most weighty areas of price consequence in the period since January. And those five are agriculture, lumber, petroleum products, nonferrous metals, and textiles.

Chairman HUMPHREY. What was the latter?

Mr. DUNLOP. Textiles.

And I would like to comment briefly about each of those sectors, what the source of the problem is, and what we are doing about it.

Chairman HUMPHREY. Very good.

Mr. DUNLOP. You will note that over half of the problem in the period January through April is from farm products and processed foods, and in the last quarter of 1972 you will note that 93 percent of the price consequences arose in the agricultural sector.

My selection of those sectors, Mr. Chairman, has been based on their weights. I did not just arbitrarily pick them. I picked the five most serious items in their impact upon the wholesale price picture. Let me emphasize that in each of these five areas the general policy which the Cost of Living Council has sought to follow might be summarized by taking three sets of managements.

First of all, we have the use of price controls, direct controls on prices. These may be mandatory controls, as is the case which was from the outset of January in foods and which subsequently were imposed on 23 oil companies. They may be prenotification arrangements, which now apply more broadly in companies. They may be margin-type control in some area under our general regulations.

Chairman HUMPHREY. May I ask on oil companies, you mentioned 23 companies, Mr. Dunlop. Is it not a fact that 9 out of 10 of the filling stations, however, are not under controls?

Mr. DUNLOP. Nine out of ten? A small proportion of the filling stations are directly owned by the so-called 23 major companies. That is correct.

Chairman HUMPHREY. And the other outlets are considered to be independents and are not really under the price control. We had fuel hearings with Assistant Secretary Simon and others here, and I believe that the controls on the 23 majors are 1½ percent across the board on all their total products.

Mr. DUNLOP. The others are under various kinds of margin controls. They are not under the 23, Special Order No. 1.

But my point, Mr. Chairman, is that in dealing with these five sectors or any others that we look upon, we are first of all interested in a variety of price control measures following the authorization of Congress. Second, I want to emphasize very strongly that in each of these areas, to the best of our ability at the moment, we are seeking to take a series of supply measures which are designed to increase supply in areas where price consequences are most serious. I shall describe one or two of those briefly when I am through.

Third, we are undertaking a vigorous enforcement program. For example, Mr. Chairman, I can advise you this morning that we have contacted, since those meat ceilings were put on, 23,808 firms to inspect their meat ceilings—22,618 are retail; 714 are wholesale; and 476 at the packer level.

And so, the third component of a program here is one on the price side, of vigorous pursuit of enforcement of our various regulations.

Chairman HUMPHREY. And what is your evaluation of the compliance with your controls in the meat section after that survey?

Mr. DUNLOP Well, I can——

Chairman HUMPHREY. This I thought was timely in your discussion.

Mr. DUNLOP. We asked our associates to give us a report yesterday evening about that. I asked them to break down possible violations, because they must be pursued according to law before one says they are violations. I am sure you are aware of that.

Chairman HUMPHREY. Yes.

Mr. DUNLOP. There are about 2,000 of those enterprises where we are concerned about posting violations; that is whether the signs are up properly and so forth.

Chairman HUMPHREY. Yes.

Mr. DUNLOP. But more importantly, there are 138 enterprises—wholesale, retail, packers combined—where we have been concerned about ceiling price violation, which I think you will agree with me is more substantive.

Those three ways, then—we are using price control, supply action, and enforcement.

Now, let me turn just briefly to one or two of these. You are, of course, very familiar with the agricultural picture and our agricultural measures. You will know that we have done a whole series of things to increase supply recently, including since I was last here, the cheese import matter, and since I was here also, the 60 million pounds of dry fat, nonfat milk.

I think the food area provides us with an important illustration of one of the limitations in the use of mandatory controls. I refer you particularly to the joint prepared statement where we say that the case of broilers is illustrative. Mandatory controls on processed broiler prices during phase II kept broiler prices down at a time when feed prices were rising significantly. To avoid producing at a loss, broiler producers planned for lower production levels and set fewer broilers for hatching. In addition, breeder flocks were reduced in anticipation of lower broiler production levels.

While broilers were exempted near the end of phase II, considerable time is required to reverse the broiler production trend and to increase the supply of this important, relatively low-cost meat product.

Chairman HUMPHREY. Now, the time factor there is approximately, on broilers, what would you say?

Mr. DUNLOP. Eight weeks for——

Chairman HUMPHREY. Eight to nine weeks.

Mr. DUNLOP. For a set. But when you are trying to build up your breeder flock, that takes further round of it.

Chairman HUMPHREY. We were aware that the broiler industry was in trouble when you saw Purina-Ralston and others getting out of broilers. They were losing money, basically because there was an oversupply of chickens; not so much only because feed prices had gone up that much, because they had not gone up quite that much, say I say most respectfully, up until around December. They started going up in December in 1972, November, December. The price of chickens was so low that they got out.

This, of course, is one of the variables that you have all the time in agriculture.

Mr. DUNLOP. They were so low then, but they are so high now.

Chairman HUMPHREY. Now, that is right.

Mr. DUNLOP. Well, the point I am trying to make, Mr. Chairman, is—I picked the illustration that I knew you would be very familiar with—that one must, in balancing the use of price controls and supply actions, be sensitive as to the impact which controls will have upon supply, because it is supply that we are particularly interested in.

Chairman HUMPHREY. The problem there was, was that there was no control on feed, yet you had control on the end product so to speak. Of course, one thing I have noticed is the price fluctuation in eggs, and that is one place where you cannot talk about the processing, the cost of processing, because that is all done by hand; and yet, those prices run up and down like a child's fever.

The brokers have little hand in the egg business. It does not have anything to do about the effort that a hen puts in to get out an egg, or the price of feed.

Mr. DUNLOP. Although I understand their productivity has increased markedly.

Chairman HUMPHREY. Yes.

Mr. DUNLOP. Now, if I might take up a little time with a second illustration, and I think, Mr. Chairman, because you mentioned it earlier, and it is one which I have personally spent a certain amount of time on, and that is lumber.

There again, I am anxious to leave you with is the view that the price controls in phase II, in my considered judgment and the judgments of a number of people, were in themselves an important impediment to supply at the end of 1972. That it is true, that in January those prices rose very greatly.

If you will turn to the charts, Mr. Chairman, at the very back of the joint prepared statement—charts 1 and 2—it will facilitate following the points I want to make.

You will see that chart 1 shows the rise in prices. By the way, it is clear that the rise in lumber prices is not of recent origin. It did not begin in 1972. You will see from the low of 1970 it went up all the way through the freeze period, through phase II, prices kept going up.

Now, when I came to this office in early January and looked at that lumber situation and consulted a number of people, it seemed to me that the most urgent matter was to address ourselves to the important supply considerations; and there it seemed to me there were essentially three things to be done, as I testified before the Senate Banking and Currency Committee.

And those three things were, one, to see if we could not negotiate an arrangement with the Japanese with respect to the peaking of their imports which had gone on in logs; second, to see if we could improve the sales for 1973, 1974, and 1975 from the forests, the national forests; and third, to try to improve the transportation arrangements with respect to boxcar usage and other ways to facilitate transportation.

Chairman HUMPHREY. Now, Mr. Dunlop, you opened up a Pandora's box of trouble when you mentioned transportation. Did you see the television perchance this morning, the Governor of Illinois at a 17-State conference on transportation that related to agricultural commodities?

Mr. DUNLOP. I did not.

Chairman HUMPHREY. Well, we have had all kinds of hearings here about this perennial problem of transportation. The first case before the ICC in 1887, in document 1, was the shortage of boxcars; and they have had about 10,000 since then of the same amount, same cases.

Might I add that the transportation problem on this is not related just to lumber. It is related to all of it.

Is it not a fact that there are two other points on lumber? No. 1, excessive exports.

Mr. DUNLOP. Well, I mentioned that first.

Chairman HUMPHREY. And why, tax, the tax laws; that when you process the lumber you are taxed in the country, you are taxed at corporate rates. When you export the lumber, you are taxed at capital gains rates.

Mr. DUNLOP. I have not followed that particular feature, Mr. Chairman. I will be happy to look it up.

Chairman HUMPHREY. There is a difference in the tax rate upon the export of logs than there is upon the lumber that is finished; and this is one of the factors that apparently has contributed to the volume of the lumber companies being willing to export rather than to process the logs.

Mr. DUNLOP. Well, Mr. Chairman, I think you were helping me make the point I want to make, that the lumber situation was a complicated set of problems, and that they could not be resolved by the simple use of mandatory controls on prices alone.

We held extensive hearings in addition, and finally, I am happy to say, we were able to persuade Japan, with the State Department's assistance, to moderate to a degree their imports.

Second, to moderate or to secure a commitment from the Forest Service as to the fact that in calendar 1973 they will sell 11.8 billion board feet. We are working very fruitfully, I think, with the Agriculture Department and Budget Bureau on resolving certain other issues to assure that there will be a long-term advance in the output.

The point of all this—and we reserve judgment about the further use of mandatory controls—is that from the prices that had reached their peak in February and as late as March, the trend of prices in that area has been down.

And I would attribute some of that downward trend not merely to their inherent volatility, but also to the impact of some of the measures that we have taken.

Chairman HUMPHREY. Have you given consideration to export controls on lumber? This, as you know, has been advanced a number of times. I wonder whether there have been any in-depth discussions about this and whether or not you had arrived at a definitive decision?

Mr. DUNLOP. Well, Mr. Chairman, I think the position that we have been taking is that we were going to try to arrange for an informal understanding on limitation and have achieved an understanding for the year, July 1, 1973, to June 30, 1974.

There is, I am aware, pending legislation in the Packwood bill and others relating to this program.

Now, I can draw these remarks which have gone on longer, Mr. Chairman, with your encouragement, than I had intended. The point is that both with respect to agriculture, lumber, petroleum, nonferrous metals, in four of the five leading areas where these price increase problems have been most severe since January, I want to leave you with a note that we have pursued carefully the effectiveness and use of price controls—not only the ones we have, but added uses of them.

We have most importantly been interested in stimulating supply actions, for I feel as an economist that where these prices have gone up most, supply actions are important.

I think I would be derelict if I did not point out to you that all five of those areas are areas of significant international trade. These are all international markets that are involved here, and very much show the impact of the world prosperity in Japan, Western Europe, which have had their impact on these prices.

And, finally, that we are also pursuing each of these areas with as vigorous an enforcement as I know how.

Chairman HUMPHREY. Might I get you back to charts 1 and 2 for a minute, please, on lumber, since this is an informal discussion on your part.

I notice chart 1 on the relationship of lumber prices to housing starts, you show a sharp increase in 1973 on softwood lumber, and a rather substantial drop in residential construction housing starts. Is that correct, on chart 1?

Mr. DUNLOP. Yes.

Chairman HUMPHREY. A very precipitous or fast movement up on the softwood lumber prices.

Mr. DUNLOP. Yes.

Chairman HUMPHREY. And a very sharp drop on the housing starts.

Now, chart 2 shows that plywood prices have been going down. Well, how do softwood prices go up and plywood prices come down, just to clarify it?

Mr. DUNLOP. Well, chart 2, I think, Mr. Chairman, shows three prices, western sheating, the average of 11 western species of softwood, and the plywood.

Chairman HUMPHREY. That is what I was concerned about. It shows that the price line—that is a solid price line here—it shows it coming down in the same period that the softwood lumber goes up on chart 1.

Mr. DUNLOP. Mr. Stein helped me by saying that the second chart is by weeks and goes much further than the first chart, which is essentially on a monthly basis.

Chairman HUMPHREY. Well, do you think that difference is——

Mr. DUNLOP. The second chart is very much more recent date, and as you will notice, that comes from random lengths, which is the principal trade payment.

Chairman HUMPHREY. Might I ask why are the softwood lumber prices continuing to go up in light of the measures that you have taken? I notice that they start going up—well, of course, they have been going up all the way along from the base period. They were up sharply in 1969 and have been going up again.

Mr. DUNLOP. On chart 2 you will see that on April 6, 11 softwood prices reached their peak at 190, and have been coming down since then.

If you asked the question why did they go up in January and February, my answer to that, I think, Mr. Chairman, is that essentially the U.S. level of prices was rising to the Canadian price. There had developed at the end of 1972 a marked discrepancy between Canadian prices and United States prices; and in January, February, and March ,they rose to their traditional comparable levels in the United States and Canada.

Chairman HUMPHREY. Thank you.

Mr. DUNLOP. Therefore, what I have sought to say, in concluding, is that to approach these areas of most serious price control we will continue to monitor in the ways we have mentioned.

We will continue to try to apply price ceilings where appropriate; prenotifications, various kinds of other margin controls, or direct controls; we will try supply actions which are very important; and we will follow up with enforcement measures.

Thank you, Mr. Chairman.

[The joint prepared statement of Mr. Stein and Mr. Dunlop follows:]

JOINT PREPARED STATEMENT OF HON. HERBERT STEIN AND HON. JOHN T. DUNLOP

Mr. Chairman, we are pleased to appear again before this Subcommittee to discuss recent price trends and to discuss policy actions that have been taken to restrain price increases and to increase supply.

INTRODUCTION

Market conditions in the economy have changed a great deal since the Economic Stabilization Program began more than a year and a half ago. Rapid growth in output and employment, particularly during the most recent half-year, have brought the economy much closer to full utilization of available resources.

Real output increased at an annual rate of about 8 percent in the most recent 2 quarters, after growing at a rate of more than 7 percent in the preceding year. This rapid growth in output was accompanied by a large increase in employment—more than 2.5 million civilian jobs were added during the past year.

The recent acceleration in the rate of expansion in output is also indicated by information concerning the hours of work. In spite of a secular downward trend in the work week, average weekly hours stood at 41.1, seasonally adjusted, for production workers in manufacturing during April of 1973. This was their highest level since November of 1966—a level which has been exceeded in only eleven months during the entire postwar period. Overtime hours in manufacturing averaged 4.1 hours seasonally adjusted in April—a level that has not been exceeded for this series. The combination of high average weekly hours and substantial overtime is evidence of employers working their employees extra hours to meet production demands.

Some additional room for expansion remains in some sectors and productive capacity will be enlarged through additional investment. In addition, subsequent increases in output are likely to be at a slower rate. Nevertheless, the sustained growth in output and particularly its rapid growth in recent months have strained current productive capacity in some important sectors. Industries such as autos, rubber, steel, petroleum production and refining, lumber, paper products, and man-made textiles have been recently producing at rates that could not easily be expanded. In addition, some industries such as machinery and equipment, machine tools and non-ferrous metals have recently had a significant recovery in output after a period of depressed demand.

The price trends that emerged in the first part of 1973 reflected the change in economic conditions that was occurring and to a lesser extent the modifications in the stabilization program that were made in recognition of changing economic conditions. Strong demand in both domestic and foreign markets resulted in more instances in which prices of a wide range of raw materials rose in response to recovery of demand in this country and abroad from previously depressed levels. In addition, the response of prices to strong demand could occur more quickly with relief from delays resulting from prenotification requirements, so that there was undoubtedly some bunching of price increases that would otherwise have occurred later. In addition, uncertainty about Congressional action concerning extension of the Economic Stabilization Act and widespread discussion of a freeze or price rollback also undoubtedly led to more rapid price increases.

As might be expected, the effect of these factors has been noticeable on the Wholesale Price Index. The price situation in the agricultural and petroleum producing sectors had a considerable impact on the Consumer Price Index as well.

RECENT BEHAVIOR OF WHOLESALE PRICES

Table 1 outlines price trends for the major commodity groups in the WPI for selected periods of time since the inception of the Economic Stabilization Program. Table 2 takes into account the relative importance of the commodity groups, and shows each group's contribution to the change in the WPI for the same periods of time as Table 1.

In the final twelve months of Phase II, wholesale prices increased by 7.1 percent. During that period, farm and food products increased at 16.7 percent, accounting for over 67 percent of the overall increase in the WPI. Industrial commodities prices, on the other hand, increased at a 3.5 percent annual rate.

During the most recent three months (ending in April), wholesale prices increased at a 21.2 percent annual rate. During the same period, industrial commodities prices increased more rapidly than previously, at a 14.8 percent annual rate, accounting for about half of the rise in the overall WPI.

The recent acceleration in industrial commodities prices was primarily the result of price increases in lumber and wood, fuels and power, metals and metal products, and textile products. Price increases in these four groups of industrial commodities accounted for approximately 79 percent of the increase in the industrial component of the WPI over the last three months.

While industrial commodities prices have accelerated in recent months, many of the current problem areas were also problems under Phase II. Farm and food products prices increased at a 43.4 percent annual rate during the three months prior to the introduction of Phase III, while they have increased at a 37.3 percent annual rate during the three months since Phase III began. Price increases in the industrial commodities sectors that are currently the biggest problem areas, also contributed a disproportionate share to the overall increase in the WPI during Phase II. In textile products and apparel, price increases accounted for 10 percent of the overall increase in the industrial component of the WPI during the last three months, which compares with a 15 percent contribution during previous three months and a 13 percent contribution to the overall increase from January 1972 to January 1973. In fuels and related products and power, price increases have accounted for 22 percent of the overall increase in the WPI industrials during the last three months, up from 20 percent in the preceding 3 months and 15 percent in the year ended January. 1973. Generally the same pattern prevailed in metals and lumber, where the contribution to the overall increase is up from the nevertheless disproportionate share contributed in the last 12 months of Phase II.

The recent acceleration of price increases in the Wholesale Price Index is the result of changing economic conditions, uneven growth, and several important factors that emerged and had a temporary impact on the WPI during the first quarter of 1973. These factors include strong international demand and the devaluation of the dollar, the fact that prices for some important items were below their base price levels, the worldwide shortage of fuel and energy resources, the continued rapid pace of housing construction, the rise in capacity utilization rates in some industries, and the farm situation. Discussion in the Congress of the imposition of a freeze also fostered more rapid price increases. The above diverse factors, when taken together, accounted for most of the recent acceleration in price increases. What can be attributed to the changeover from Phase II to Phase III on January 11, 1973, is the elimination of delays in effecting price increases because of the elimination of the prenotification requirement.

An analysis of the item indexes in the WPI, excluding raw agricultural products and imports, shows that in January of this year prices of 492 items were below those that prevailed during either May or June of 1970, or July or August of 1971. Prices on these dates can be used to obtain a good approximation of base prices under the stabilization program. The pattern of prices that were below base levels sheds some interesting light on the behavior of wholesale prices in the January–April 1973 period. The following table lists the number of items and their potential impact on the WPI if their prices were to increase to base levels.

POTENTIAL IMPACT ON THE WPI OF PRICES BELOW BASE PERIOD LEVELS AS OF JANUARY 1973[1]

Category	Number of items in category below base period price level	Potential impact on WPI if prices increase to base levels (percent)
All commodities	492	1.14
Processed foods and feeds	45	.16
Industrial	447	.96
Textiles and apparel	20	.04
Hides	1	0
Fuels	4	.03
Chemicals	76	.15
Rubber and plastics	35	.04
Lumber	4	0
Paper	11	.01
Metals	100	.40
Nonferrous	(56)	(.37)
Machinery	137	.23
Furniture	23	.02
Nonmetallic mineral products	2	0
Transportation equipment	6	.01
Miscellaneous products	28	.02

[1] The base period price level is defined as the price prevailing in either May or June 1970 or July or August 1971 whichever is higher. Detail does not add to total due to rounding.

If these prices were to be bid up to the base levels, the impact on the WPI would be in the neighborhood of 1.14 percentage points. From the table it can be seen that most of the potential "float" in the WPI at the beginning of the year existed in the industrial commodities sector of the WPI, the area that has most recently experienced an acceleration of price increases. Most of the potential impact originates in nonferrous metals, although chemicals and machinery are other sectors affected. If the prices of such items as primary nonferrous metals, refinery shapes, nonferrous scrap, mill shapes, secondary metal and alloy, and wire and cable moved upward to their base period levels, the direct impact on the WPI would be approximately 0.37 percentage points.

Phase III began at a time when many prices had considerable room to move upward within the rules of the controls program, since firms were free to raise prices to base period levels without prenotification or cost-justification requirements. In addition, many firms received authorization for price increases above base levels on the basis of increased costs, even though these price increases could not be put into effect because of market conditions. When market conditions changed significantly, many of these prices rose toward authorized levels. The available "float" in the WPI came down from the 492 items with a potential impact of 1.14 percent in January to 428 items with a potential impact of approximately 0.7 percent in March 1973, the latest figures available. The substantial price increases in nonferrous metals and machinery during April may have removed much of the remaining "float" below base prices. Thus, up to 1.0 percent of the increase in the WPI since January may have been a result of prices moving up to their base period levels. These price increases up to base levels were totally within the bounds allowed by the Economic Stabilization Program, and many firms had received authority for price increases above base levels.

The strong upswing in world economic activity has bid up the prices of a number of commodities that have experienced stronger than usual demand in international markets. These commodities include:

Nonferrous metals; lumber and wood products; textile, cotton and wool; leather, hides and skins; petroleum and petroleum products; machinery and equipment; feed grains; meat, poultry, fish.

Strong international demand fuels domestic rates of inflation in several ways. U.S. consumers must pay higher prices for imports of finished goods, intermediate products, and raw materials whose prices have been bid up by international demand. Stonger levels of world demand for U.S. produced goods place strains on domestic capacity, and reduce the supplies of the commodity available in our domestic markets.

PRICES IN MAJOR SECTORS

Price pressures in the various sectors of the economy were influenced by factors and conditions that were often specific to that sector of the economy. Consequently, measures that could be taken to restrain price increases and to improve price performance depended on the particular problem in the sector concerned. A number of sectors in which price increases contributed most to the recent rise in wholesale prices, as indicated in Table 2, are considered below and measures taken by the Cost of Living Council, often in concert with other Federal agencies and Departments, are discussed.

FARM AND FOOD PRICES

Wholesale prices of farm and food products increased quite rapidly in 1972, but they began increasing at a significantly accelerated rate in November. Much of the increase in these prices in late 1972 was concentrated in grains, livestock, eggs and oilseeds. During the first quarter of 1973 price impacts reflecting generally tight supplies and strong demand were felt over a much broader area. Most major farm product prices moved substantially higher, and farm and food prices rose at a 37.3 percent annual rate from January to April.

In April, wholesale farm product prices dipped below the previous month for the first time in five months. Declines in livestock and egg prices coupled with little change in oilseed prices were responsible for the slight easing. While this may not portend the beginning of a prolonged price slide, the April downturn did signal a moving away from the sharp price advances experienced earlier in the year. The Cost of Living Council's imposition of price ceilings on meat at processor, wholesale and retail levels together with evidence of consumer resistance to high red meat prices led to a reduction in livestock prices of 5.3 percent for the month.

Mandatory controls have been retained in the food processing and distribution sectors during Phase III. The operation of these mandatory controls must be monitored carefully to assure that they do not lead to adverse effects on supply. The case of broilers is illustrative. Mandatory controls on processed broiler prices during Phase II kept broiler prices down at a time when feed prices were rising significantly. To avoid producing at a loss, broiler producers planned for lower production levels and set fewer broilers for hatching. In addition, breeder flocks were reduced in anticipation of lower broiler production levels. While broilers were exempted near the end of Phase II, considerable time is required to reverse the broiler production trend, and to increase the supply of this important relatively low-cost meat product.

The Cost of Living Council, in cooperation with the U.S. Department of Agriculture, over the past several months has implemented a number of policies designed to encourage an expansion in farm output. This stimulus together with favorable farm prices should lead to increased supplies of livestock and crop commodities in the second half of 1973 providing weather is favorable. But it must be recognized that the achievement of advances in farm output is subject to such vagaries as weather. In addition a number of steps have been taken to increase supply through additional imports such as suspension of meat import quotas, reduction of tariff barriers for cheese, and a recent increase in the import quota for non-fat dry milk.

The most important steps taken relate to the farm program modifications to free nearly all of set-aside acreage for planting of 1973 crops. Recent USDA estimates point to an 8 percent larger winter wheat crop whose harvest is already underway. Also spring wheat plantings are indicated to be up 21 percent, and as a result should lead to a total wheat crop for 1973 13 percent larger than last year. However, a cold wet spring has delayed feed grain plantings somewhat, although dry weather in mid-May allowed farmers to start planting activities. The current outlook by USDA calls for a 9 percent increase in feed grain acreage and about a 15 percent increase in acreage planted to soybeans.

USDA expects some moderation in livestock prices in the second half of 1973 if pork production expands as expected. Though the level of hog slaughter will be about the same as a year ago for all of 1973, reductions in hog marketings during the first half of the year will be offset over the second half. Egg and milk production, however, are likely to continue trailing 1973 levels for the rest of the year. Reduced broiler output during the first half may be turned around later in the year if weather permits grain and soybean producers to expand plantings.

Wholesale prices of processed foods and feeds during January–April, 1973, rose 8.0 percent, about half the increase in farm product prices since the first of the year. The smaller increase in processed farm product prices reflects in part the continuation of controls on processor margins under the Phase III stabilization program. After a pronounced upsurge during the first quarter of 1973, processed foods and feed prices declined 1.1 percent in April. Lower prices for vegetable oils, manufactured animal feeds, and meat, poultry and fish were responsible for the April decline. Some slackening in consumer demand and the March 29 imposition of meat price ceilings resulted in a 1.2 percent decline in April prices for meat, poultry, and fish.

LUMBER

The major forces bringing about increased lumber prices during the Economic Stabilization Program were set in motion before the program began. The rise began in 1971 following a recovery in residential construction that began in 1970. Between 1970 and the first part of 1973, the pace of housing construction nearly doubled as indicated by information on housing starts (Chart 1). Because of the short period within which the rise in demand occurred no significant expansion of productive capacity and little substitution of other products was possible. In addition, Forest Service sales of softwood timber declined from 11.8 billion board feet in 1970 to 10.6 billion board feet in 1972 .

Prices in the lumber and wood products component increased by nearly 12 percent during 1972 in response to increased demand for housing construction. The Phase II controls, which were applied on a firm-by-firm basis, led to multiple prices in the market for similar products and there were unconfirmed reports of adverse effects on output and evasion of the controls. In addition, prices of lumber imported from Canada were higher than most domestic prices.

At the beginning of 1973, most firms entered a new fiscal year for profit margin measurement. In addition, an additional year was permitted for computing the base period profit margin under Phase III, raising base period profit margin limits for many firms. Softwood log exports, mainly to Japan, also increased dramatically in the first quarter of 1973 to 898 million board feet from 695 million board feet in the first quarter of 1972. In the early months of 1973, prices of lumber products for many firms rose toward higher levels prevailing for firms able to charge higher prices in Phase II and toward the levels of prices for lumber imported from Canada.

In response to the rapid rise in lumber prices in 1973, the Cost of Living Council initiated the following government actions:

(1) At CLC's request, Secretary Butz, as Counselor to the President on Natural Resources, established an interagency task force to insure that timber sales from the National Forests be increased from 10.8 to 11.8 billion board feet.

(2) Negotiations were commenced by the Special Assistant to the President with the Japanese government which resulted in an agreement to lower log purchases by eight percent when comparing the period July 1, 1973, to June 30, 1974, with FY 1972.

(3) At CLC request the Department of Transportation implemented several actions aimed at improving the utilization of scarce rail cars and their allocation between lumber and grain shipments. These actions, such as reducing free time at ports, increasing demurrage on domestic traffic and other orders penalizing shippers for excessively detaining equipment, resulted in a recently reported alleviation of rail car shortages.

(4) The CLC held public hearings on the feasibility and advisability of reimposing mandatory controls on the lumber and wood products industry. Testimony was received from industry leaders, lumber associations, environmental groups and consumer groups concerning proposed controls. An in-depth analysis of this testimony was thereafter conducted by the Cost of Living Council staff.

After reaching peak levels between March 31 and April 15, the prices of most high volume softwood lumber items have begun to decline in the six weeks since April 15 (Chart 2). While the decline in housing starts from a rate of 2.5 million units in February to 2.1 million in April may have contributed to a decline in demand pressures, these actions to increase domestic lumber supply have apparently restrained price increases by improving the balance of available supply and demand.

PETROLEUM PRODUCTS

In the area of petroleum, the Cost of Living Council has taken a series of steps to restrain inflationary price increases in this vital sector of the economy while, at the same time, administering price controls to encourage the necessary increase in supplies which this country must have.

The Council is aware that energy prices must be allowed to increase somewhat in the future in order to stimulate development of new energy reserves. At the same time, the Council's responsibility is to prevent significant inflationary price increases. There is a potential conflict between (1) allowing the energy industry price flexibility to attract the capital necessary for the development of additional energy resources and to tap higher cost sources on the one hand, and (2) preventing significant inflationary price increases on the other. The stabilization rules for the oil industry have been very carefully designed with these twin objectives in mind.

This Nation faces possible shortages of gasoline this summer. Gasoline, as well as other refinery products, and crude oil are said to be difficult to find anywhere in the world, and a voluntary allocation program has been initiated by the Administration to minimize the impact on possible spot shortages.

The potential for gasoline shortages this summer was brought to the attention of the Cost of Living Council in February, during our hearings on oil pricing policies. The primary purpose of those hearings was to determine whether heating oil price increases of about 1¢ per gallon were within the standards of the Economic Stabilization Program. While the focus of the hearings was on fuel prices where some shortages were emerging at that time, it was obvious that price levels could not be divorced from supply considerations.

There was a concensus at our hearings that, in addition to some shortages of home heating oil during the remainder of the winter, some spot shortages of gasoline might occur this summer. Also, we were told that for the long run there are potential shortages of distillates, generally, as well as gasoline and other products and crude oil, too. These shortages, instead of abating, would possibly become more acute.

At our hearings we were told that the root causes of these shortages were:

(1) Insufficient domestic crude oil production, although domestic producers are pumping proven reserves out of the ground as fast as possible; and

(2) Insufficient domestic refinery capacity, although what is available is generally running at, or near full capacity.

The Cost of Living Council recognized in this situation a tremendous potential for a marked and steady rise in prices for refinery products and crude oil, as consumers bid up prices in competition for a relatively limited short-run supply. In these circumstances, petroleum product prices could be expected to rise sharply to a degree that would neither be acceptable to the Nation nor be compatible with the standards and goals of the Economic Stabilization Program.

On March 6, therefore, the Cost of Living Council instituted special mandatory rules for major oil companies.

First, to be certain that increasing pressure for higher crude oil and petroleum product prices does not lead to inflationary price increases; and,

Second, to assure oil companies flexibility under Phase III to respond to market conditions in the United States and abroad in order to maintain adequate supplies of crude oil and petroleum products in this country.

The action affects the 24 companies which derive more than $250 million in annual revenues from the sale of covered items. These firms account for approximately 95 percent of industry gross sales of more than $80 billion.

The products covered by the special rules are: (1) petroleum products either manufactured or purchased for resale, and (2) crude oil, either produced or acquired domestically or imported for resale. The covered items accounnt for 76 percent of industry gross sales.

The special rule limits price increases for these products to a weighted annual average price increase of 1 percent above base price for the year beginning January 11, 1973. The Council determined that the companies covered by the order had incurred sufficient cost increases to justify a 1 percent weighted annual average price increase for covered items. Increases above that figure, up to 1.5 percent on a weighted annual average basis, must be supported by new cost justification, i.e., allowable costs incurred after March 6, 1973. Any increases above 1.5 percent over base also must be cost-justified and are subject to profit margin limitations and to prenotification rules of the Council. Companies in the oil industry not subject to Special Rule No. 1 are subject to the general Phase III standards.

On May 14 the Council published in the *Federal Register* a technical amendment to Special Rule No. 1. The Council indicated that this amendment would be forthcoming when Special Rule No. 1 was announced on March 6. The amendment clarified definitions under the Special Rule and deals primarily with accounting treatment of resale transactions and exchanges.

The reseller rule is not new. It is essentially an extension of the Phase II wholesale markup rules for wholesalers and retailers. The purpose of this amendment is to allow a wholesaler and retailer of covered products to pass through to consumers the increased costs which he has incurred and over which he has no control. The Council anticipates that this rule, while clearing up base price definition problems, will be significant in encouraging the importation of increased foreign crude oil and product supplies to help alleviate the very tight supply situation the Nation now faces.

The final section of this amendment defines the proper accounting treatment for exchanges of crude oil. For internal accounting purposes, exchanges are recorded by the companies as sales and purchases, although they are in fact barter transactions which net neither party any profit or revenues. Consequently, the Council determined that to the extent that crude oil exchanges are for equal dollar value, the additional book revenues derived as a result of a price increase(s) above base price for crude oil should not be included in a firm's total revenues when calculating its weighted annual average price increase.

It is important to point out that while we were developing the precepts of Special Rule No. 1, we were aware of the impending actions which the government recently took to increase petroleum supplies. The oil import program announced by the President in his Energy Message to Congress represents an important thrust to increase supply. Indeed, both programs—one dealing with price, the other with supply—were developed together, and the controls program is seen as operating in tandem with government efforts to increase the overall supplies of oil available in this country.

NONFERROUS METALS

The nonferrous metals industry is an industry of high fixed cost, and, as a result, capacity utilization is of paramount importance where price changes and profitability are concerned. Historically, whenever business turned downward, the major nonferrous metals producers have lowered prices in an attempt to induce enough demand to continue operating at profitable utilization rates. In a similar manner, whenever demand increased during general business recoveries, the producers of nonferrous metals have usually taken advantage of the favorable market situation and raised their prices.

The general drop in business activity during 1970 and 1971, coupled with growing excess capacity, exerted a strong downward influence on nonferrous metals prices. In the WPI, the prices in the nonferrous metals group dropped from apparent ceiling levels of 130.0 in May 1970 to 117.1 at the beginning of the freeze period in August 1971. On balance, the price of nonferrous metals has had almost no effect on the WPI during the "freeze" and Phase II periods. From August 1971 to December 1972 the price of nonferrous metals in the WPI increased by 0.3 percent to 117.4.

Within the nonferrous metals group, similar price trends were evident in a number of commodities.

Commodity	Highest of May 1970–August 1971	August 1971	December 1972	Augus 1971 to December 1972 change (percent)
Aluminum	116.2	100.6	96.1	−4.5
Copper	152.7	135.1	128.5	−4.9
Lead	117.9	101.8	108.9	+7.0
Tin	119.2	108.0	114.7	+6.2
Zinc	118.4	118.4	125.4	+5.9

Aluminum slab prices in December 1972 were approximately 24¢ per pound, 5¢ a pound below the base period price level of 29¢ per pound that existed during May 1970.

At 117.9, the WPI for the nonferrous metals group as a whole in January 1973 was 9.3 percent below the apparent ceiling price level of 130.0. Phase III began at a time when the allowable "float" in nonferrous prices up to their base levels could have a potential impact on the WPI of aproximately 0.37 percent before the rules of the Economic Stabilization Program became effective.

Because nonferrous metals producers in general were plagued by overcapacity problems and price competition from substitute commodities, demand and price pressure were slow to emerge in the nonferous sector during the present recovery. The weakness of market demand had prevented price increase during 1972. However, the rapid expansion of world wide demand in the last two quarters, coupled with the price effects of the present devaluation, the commodity speculation that preceded it and let to inventory accumulation, and the temporary slowdown in world copper production caused by labor troubles in several foreign plants all contributed to a very rapid expansion of demand for nonferrous metals. In addition, most nonferrous producers have experienced cost increase over the past year associated with pollution control, wage hikes, power costs, and poorer quality, unrefined ores. Many firms were able to obtain authority during Phase II for price increases above base levels on the basis of these cost increases. However, they often found that the market would not support prices up to base levels, so that price increases were not put into effect.

All the evidence indicates that nonferrous producers have recently taken advantage of the strength in demand and the available "float" in their price levels to increase prices. The level of nonferrous metals prices in the April WPI at 131.4 indicates that nonferrous producers as a whole are now over their base price level of 130.0. Furthermore, nonferrous metals prices have increased at a 54.6 percent annual rate during the last three months, contributing over 8.2 percent to the overall increase in the WPI for this period.

TEXTILES

Textiles, which is one of the most highly competitive industries in the American economy, has been experiencing rapid price increases over the past year as the result of a combination of several factors. The industry has been influenced by the cyclical upswing, the problems of raw materials shortages, and changes in consumer tastes.

In the year ending April 1973, wholesale prices for textile mill products climbed 12.5 percent, led by wool products which increased 39.6 percent, and man-made fibers and cotton products which increased by over 10 percent. These increases reflect higher levels of domestic and foreign demand, short supplies of natural fibers, and substitution toward increased usage of man-made fibers.

During 1972, the supplies of natural fibers were particularly short. The shortage of wool pushed the raw material price to 50 percent above its 1971 level. Raw cotton prices moved up 20 percent over 1971 levels as strong demand, foreign and domestic, reduced inventories and led to accumulation of unfilled orders. Shortages of synthetic fibers emerged during 1972 and continued into 1973. These supply problems were exacerbated by the small increase in fiber imports of only 7 percent in 1972, less than one-half the 1971 increase of 15 percent.

The textile industry has also experienced increased costs resulting from changes in technology and tastes. A shift toward knitted fabrics in 1972 increased investment requirements in the industry. However, consumer tastes swung somewhat away from the synthetic knitted fabrics late in the year after significant investments had been made in knitting equipment. Consequently, strong demand pressures are being experienced for the output of older, less efficient machinery while some new technology sits idle.

The prognosis for the textile industry during the remainder of 1973 is mixed. The industry is currently operating in excess of 95 percent of capacity overall, and operations at this level appear likely to continue for some time into the future. There is an expectation that wool prices have peaked and will be moving downward throughout the year. On the other hand, cotton prices are likely to be at or above 1972 levels due to reduced base acreage allotments for planting in 1973 and adverse weather problems.

The fact that manufacturers of synthetic fibers are also operating at high levels of capacity utilization indicates that little relief from cost pressures can be expected in this area. These domestic pressures, combined with high levels of world wide demand, suggest little relief in the short run from price pressures in textiles and apparel.

RELATION BETWEEN WHOLESALE AND CONSUMER PRICES

The Wholesale Price Index is a mixture of various goods—crude intermediate and finished, and food and nonfood commodities. Therefore, the impact and timing of the recent WPI increases on the CPI varies from commodity to commodity. The increases for food and petroleum products that accounted for more than half of the January–April increase in the WPI are passed through rather quickly. The slowing in the rate of increase of food prices that has occurred since the March WPI was published has already showed up to some extent in the behavior of food prices in the April CPI. Also, the WPI increase for petroleum products has been largely reflected in the fuel oil and gasoline components of the CPI. Wholesale price advances for most other crude and intermediate products have probably not yet been passed through to the same extent, but their impact is usually damped down considerably by the time it reaches the CPI.

After rising 3.7 percent in the last 12 months of Phase II, the Consumer Price Index advanced at a seasonally adjusted annual rate of 9.2 percent in the three months ending in April. The largest part of the acceleration was due to the behavior of food prices. Prices of nonfood commodities also accelerated with rising prices of gasoline and fuel oil making a substantial contribution. Services prices advanced slightly faster in the three months from January to April than in the 12 months preceding January of 1973.

As reported yesterday by the BLS, the slowdown in the rate of advance for food prices contributed to a lowering of the advance of the overall CPI to 0.6 percent in April, following increases of 0.9 percent in March and 0.7 percent in February.

OUTPUT AND PRICES IN OTHER DEVELOPED COUNTRIES

The strength of worldwide demand is reflected in growth of real GNP in OECD countries. From 1971 to 1972 this growth averaged 5.7 percent for all OECD countries. For the U.S., whose growth is reflected in the OECD average, real GNP rose 6.4 percent. Despite the fact that our growth rate was higher than the average, our inflation rate was lower. Our GNP deflator increased 3.0 percent from 1971 to 1972, compared with a rise of 4.8 percent for all OECD countries.

The pattern of lower rates of inflation in the U.S. as compared with other OECD countries had continued into 1973. A total CPI for OECD countries as a whole is currently available through February 1973. Comparisons of the behavior of this overall index with the U.S. CPI between the three months ending in November 1972 and the three months ending in February 1973 are given below.

PERCENT CHANGE TO 3 MONTHS ENDING IN FEBRUARY 1973 FROM 3 MONTHS ENDING NOVEMBER 1972 (SAAR)

	Total CPI	Food	All items less food
Total OECD	5.9	9.7	4.4
OECD Europe	6.9	8.4	6.4
United States	4.5	10.9	2.8

The U.S. rate of increase for nonfood commodities and services is considerably below those for other OECD countries as a whole. For food, our prices have shown a larger rise.

In Table 5, increases in the CPI are shown for the U.S. and five other major developed countries based on latest available OECD data. Again the overall rate and the rate for all items except food have been considerably lower in the U.S. than in the other five countries during the past year. In the latest three months, consumer price behavior in France, Canada and the United Kingdom has been better than that in the U.S. Price increases in France have slowed as a result of the elimination of value added taxes on certain commodities. In the United Kingdom most prices were frozen during the period. Canadian food prices did not rise quite as rapidly as those in the United States although nonfood items increased faster there than here.

TABLE 1.—PRICE TRENDS IN THE WHOLESALE PRICE INDEX

[Seasonally adjusted compound annual rates of change]

Commodity group	August 1971–January 1972	January 1972–January 1973	October 1972–January 1973	January 1973–April 1973
All commodities	2.6	7.1	13.5	21.2
Farm products, processed foods, and feeds	5.5	16.7	43.4	37.3
Farm products	8.6	22.4	58.5	54.2
Processed foods and feeds	4.7	13.0	34.7	26.1
Industrial commodities	1.4	3.5	3.4	14.8
Textile products and apparel	3.5	4.8	5.3	16.4
Hides, skins, leather, and related products	7.3	22.2	12.9	−1.7
Fuels and related products and power	3.4	5.3	6.8	33.2
Chemicals and allied products	−1.4	1.6	3.1	8.6
Rubber and plastics products	−.2	.5	1.8	4.1
Lumber and wood products	3.3	11.9	3.2	93.3
Pulp, paper, and allied products	.2	4.5	3.2	13.0
Metals and metal products	.2	3.5	4.6	15.5
Machinery and equipment	.4	2.1	1.0	6.6
Furniture and houshold durables	−.4	2.2	1.1	5.4
Nonmetallic mineral products	−1.2	3.1	−.6	5.1
Transportation equipment [1]	6.4	.6	4.3	2.8
Miscellaneous products	2.1	1.8	2.8	10.8

[1] Not seasonally adjusted.

TABLE 2.—CONTRIBUTIONS TO CHANGES IN THE WHOLESALE PRICE INDEX BY MAJOR COMMODITY GROUP

[Seasonally adjusted]

Commodity group	August 1971–January 1972	January 1972 [1]–January 1973	October 1972–January 1973	January 1973–April 1973
All commodities	100.0	100.0	100.0	100.0
Farm products, processed foods, and feeds	61.0	67.9	92.7	50.8
Farm products	38.5	36.7	50.4	29.7
Processed foods and feeds	31.1	31.5	44.2	21.2
Industrial commodities	38.3	35.1	17.9	49.7
Textile products and apparel	9.1	4.5	2.6	5.2
Hides, skins, leather, and related products	4.0	4.5	1.4	−.1
Fuels and related products and power	9.3	5.3	3.6	11.2
Chemicals and allied products	−2.9	1.2	1.2	2.2
Rubber and plastics products	−.2	.1	.3	.4
Lumber and wood products	3.8	5.1	.7	13.3
Pulp, paper, and allied products	.4	2.9	1.1	2.8
Metals and metal products	1.0	6.4	4.4	9.5
Machinery and equipment	1.8	3.5	.9	3.7
Furniture and household durables	−.5	1.0	.3	.8
Nonmetallic mineral products	−1.5	1.4	−.1	.8
Transportation equipment [1]	17.3	.6	2.2	.9
Miscellaneous products	1.9	.6	.5	1.2

[1] Not seasonally adjusted.

Note: Detail does not add total due to rounding.

TABLE 3.—PRICE TRENDS IN THE CONSUMER PRICE INDEX

[Seasonally adjusted compound annual rates of change]

Commodity group	August 1971–January 1972	January 1972–January 1973	October 1972–January 1973	January 1973–April 1973
All items	2.6	3.7	4.0	9.2
All items less food	2.6	2.7	2.2	5.1
Food, total	2.4	6.9	11.5	25.4
Food at home	2.7	7.6	14.0	29.4
Food away from home	3.2	4.4	4.9	8.3
Commodities	2.0	4.0	5.0	12.1
Durable	.8	2.2	0	5.1
Nondurable	2.2	4.6	6.7	15.5
Commodities less food	1.2	2.4	2.0	5.1
Nondurables less food	1.6	2.4	2.0	7.1
Services [1]	4.1	3.2	3.3	3.9
Rent [1]	3.6	3.4	4.1	5.0
Services less rent [1]	4.2	3.1	3.2	3.8
Medical care services	2.3	3.8	2.9	3.2

[1] Not seasonally adjusted

TABLE 4.—CONTRIBUTIONS TO CHANGES IN THE CONSUMER PRICE INDEX BY MAJOR COMMODITY GROUP

[Seasonally adjusted]

Commodity group	August 1971–January 1972	January 1972–January 1973 [1]	October 1972–January 1973	January 1973–April 1973
All items	100.0	100.0	100 0	100.0
All items less food	77.5	56.6	42.6	43.0
Food, total	20.8	41.9	63.5	62.1
Food at home	18.2	35.9	61.2	55.9
Food away from home	6.2	5.9	6.1	4.5
Commodities	48.1	67.6	78.2	82.3
Durable	5.1	9.9	0	9.2
Nondurable	38.8	57.1	76.9	77.3
Commodities less food	18.5	26.0	20.0	22.2
Nondurable less food	14.4	15.2	11.7	18.1
Services [1]	59.1	32.4	30.9	15.9
Rent [1]	7.0	4.6	5.2	2.8
Services less rent [1]	52.2	27.1	25.9	13.4
Medical care services	4.9	5.7	4.0	1.9

[1] Not seasonally adjusted.

Note: Detail does not add to total due to rounding.

TABLE 5.—PERCENT CHANGE IN CONSUMER PRICE INDEX AND MAJOR COMPONENTS FOR SELECTED RECENT PERIODS [1]

[Seasonally adjusted]

	All items		Food		All items except food	
	Latest 12 months	Latest 3 months	Latest 12 months	Latest 3 months	Latest 12 months	Latest 3 months
Canada	5.8	6.7	9.1	12.3	4.2	4.1
France	6.3	3.2	8.3	6.9	5.1	[2] .7
Germany	6.8	10.2	8.1	9.8	5.9	10.2
Japan	6.7	18.8	7.3	28.8	6.2	11.6
United Kingdom	7.9	7.8	9.4	16.9	6.8	[3] 1.5
United States	3.9	8.1	7.3	29.8	3.0	2.5

[1] Latest 12 months based on February 1972 to February 1973; Latest 3 months based on December 1972 to March 1973 at annual rate.
[2] Reflects the recent reduction in value-added taxes in France's anti-inflation program.
[3] Reflects the British standstill or freeze implemented in late 1972.

CHART 1

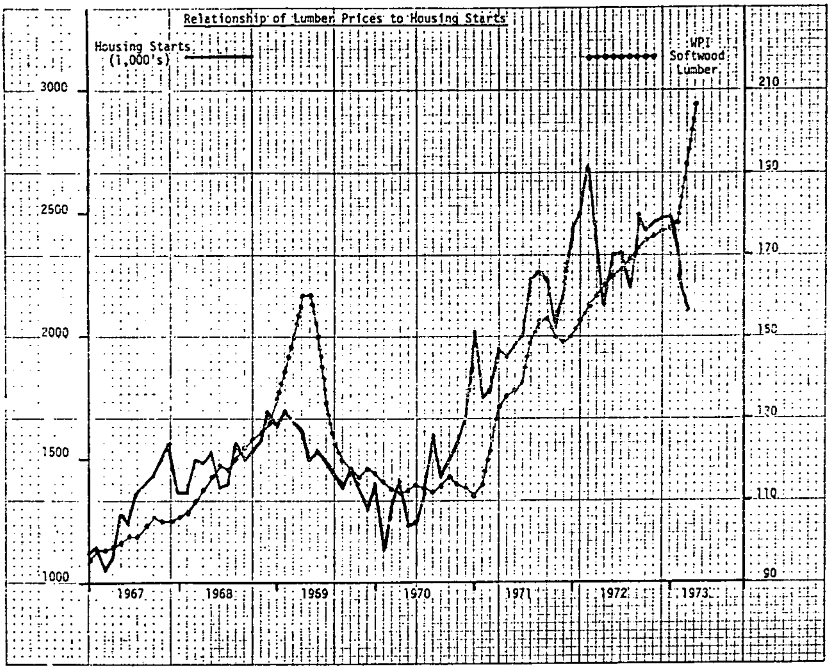
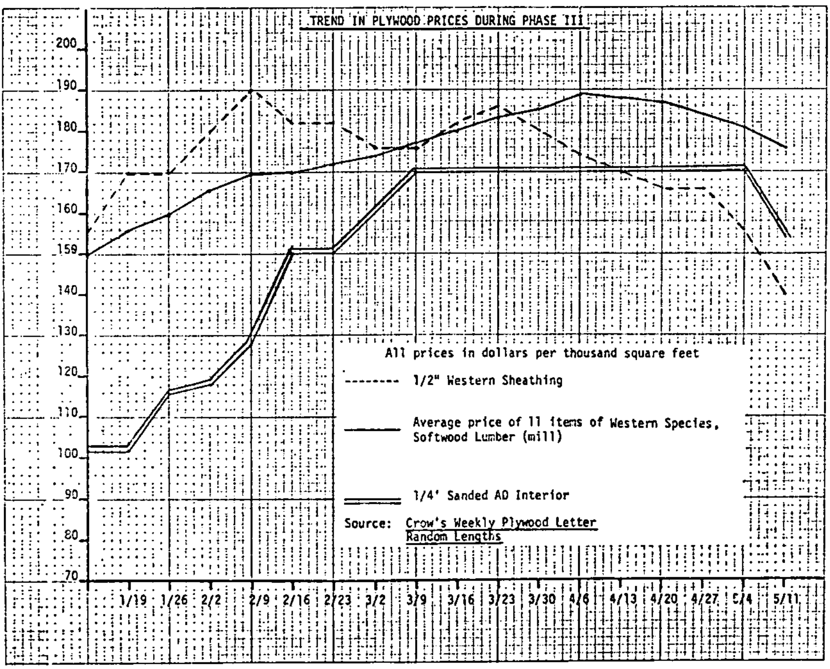


CHART 2



Chairman HUMPHREY. We have some questions. There are certain facts that are here for us to deal with. And I do not think any of us deny that the cost of living has gone up faster than had been predicted in the early discussions with any committee of the Congress or any public statement that was made by the Council of Economic Advisers or any agency of Government.

Is it not a fact, Mr. Stein, that the predicted cost of living or rate of inflation was a little over 3 percent, that was your goal?

Mr. STEIN. Our goal for the end of 1972 was around 3 percent. The goal we stated for the end of this year was around 2½ percent.

Chairman HUMPHREY. Around 2½ percent. Then it is running at about, the first 4—let's see—January, February, March, April—it is running at about a little over 9 percent, I believe?

Mr. STEIN. Well, in the 3 months ending in April it was at an annual rate of 9.2 percent.

Chairman HUMPHREY. Is it not 4 months ending in April—January, February, March, April?

Mr. STEIN. From January to April, that is, February, March, April, is 3 months, I think.

Chairman HUMPHREY. It is running at what?

Mr. STEIN. 9.2 percent.

Chairman HUMPHREY. We both are interested in the state of the economy. I recognize that international forces have a great effect upon matters, economic developments in our own country. I am not unaware of that.

But what disturbs me, to be frank about it, is the predictions that are made; and yet, the facts do not support the conclusions.

Now, Mr. Stein, what is it that you believe is going to turn this thing around so that your objective or your goal—quite obviously, I imagine you have abandoned the goal of 2 point what?

Mr. STEIN. 2.5 percent.

Chairman HUMPHREY. You do not really believe we can accomplish that at the end of the year, do you?

Mr. STEIN. That obviously looks more difficult than it did in January, but I would not say that it is an impossible goal. I think that what we have shown is that our ability to predict prices is not very good. We have known that for a long time, and I do not think that is an exclusive problem of ours. But in any case it is a fact.

We do believe, for reasons I have indicated, that there is very little rise of retail food prices ahead of us for the remainder of this year. The big fact about food price increases is that we have had a very big increase. We do not see very much more there.

And that, of course, has been the major element in the big price rise. But nonfood commodities rose at the rate of 3½ percent during the same period—January to April—in which the total rose at a 9.2-percent rate. We think there were some temporary forces in there.

Chairman HUMPHREY. You say the nonfood prices have been rising about 3½ percent? Is that industrial prices you are talking about?

Mr. STEIN. In the Consumer Price Index, nonfood commodities rose at a rate of 5.1. That is on a yearly basis. Nonfood prices rose in these 3 months at the rate of 5.1 percent.

Chairman HUMPHREY. That is correct. A little over 5 percent. And the Wholesale Price Index, isn't that even higher?

Mr. STEIN. Well, the Wholesale Price Index in those same 3 months rose at a rate of 21.2 percent.

Chairman HUMPHREY. Yes; so, Mr. Stein, Wholesale Price Index ultimately has a great impact on the ultimate retail price. I have been a retailer in my own little way. I mean, you cannot buy stuff at wholesale at higher prices and sell it at retail at lower prices without going broke.

Mr. STEIN. Well, it has to be explained that the relation between the wholesale prices and the retail prices varies a great deal from commodity to commodity. The relation is pretty close in the food sector. It is much less close in the other areas. One should remember, for one thing, that the "Consumer Price Index" includes a very large element of services which do not appear in the "Wholesale Price Index" at all.

In any case, there is a very large element of processing and distribution costs between the "Wholesale Price Index" and the "Consumer Price Index," so that we do not believe it is at all reasonable to extrapolate.

One could take other periods, if you look back, and find very big differences between the rates of increase of wholesale prices and retail prices over fairly substantial periods.

You have asked me why I think that the rate of inflation will diminish. We have recognized that the rate of inflation, of course, has been so far higher than we had expected. We have revised our estimate of a rate of inflation as measured by the GNP deflator for this year from an earlier estimate of 3 percent to a present estimate of 4 percent. I think this is a very commonly held figure.

But I did list in our joint prepared statement the reasons for thinking that the rate of inflation would subside, aside from the fact that we see a little evidence of it in April. First, with respect to food prices, I have already mentioned that we expect smaller increases later this year. Second, we believe that there were certain one-shot elements in the picture in the last 3 months, including the devaluation; the removal of the prenotification requirement for some categories of businesses, which were removed in phase III, and as I have indicated some price increases in anticipation of a freeze. Also the extraordinarily rapid pace of the expansion in the last 6 quarters we do not expect to be continued.

Furthermore, there is the further point which I made that we entered phase III with a lot of firms and a lot of prices below their permissible ceilings at that point. These prices, as they rise, have been approaching their ceilings. They will be limited by the controls. We also have, as you know, tightened the controls in certain respects. We have put the ceiling on meat prices, and we have restored the prenotification requirement for a variety of cases.

We will also be getting first reports on the performance of the large corporations in the early parts of this year and will be able to determine whether they have been in violation of the standards. This will provide a basis to order reductions, if that should seem to be appropriate.

Chairman HUMPHREY. I notice, Mr. Stein, from some of the information that staff has prepared here for me, that we have had in the last 3 months now—just to summarize it—consumer prices have gone up at 9 percent rate, about. We have indicated here that price increases have already taken place in wholesale. It is my judgment that many of those have not yet shown up in Consumer Price Index, in CPI.

Wholesale prices of consumer foods went up 10 percent in the first 4 months of this year. Now, that is not an annual rate. That is the actual increase in just 4 months. And retail food prices so far have gone up 8 percent. So there is obviously still more to come, just based on what has already happened to wholesale prices. Because, being someone brought up in a family of merchants, may I say you do not buy wholesale for more than you sell at retail, unless you want to be on welfare.

Then, for consumer commodities other than food, wholesale prices rose 3.1 percent in the first 4 months, at an annual rate of over 9 percent. At retail, these commodities other than food were up only 1.4. So there is still a big consumer price increase ahead, is there not? I mean, how do we relate these wholesale prices?

I think that your predictions of things easing off are going to be as wrong as some of the earlier predictions.

Mr. STEIN. There are two things that we said about that. I have not said that prices will not rise from here on. I have said that prices will rise less rapidly from here on than in the past.

Now, with respect to the past, from wholesale prices to retail prices, there is a good deal of processing margin and the distributive margin between the wholesale and the retail prices, which does not necessarily go up in proportion. If we look in the period of phase II, the total period of 14 months of phase II, the Wholesale Price Index rose by about twice as much as the Consumer Price Index, 6.9 against 3.6. The relations are very uneven. In 1970, the Consumer Price Index rose more than twice as much as the Wholesale Price Index. In 1971, before the freeze began, the Wholesale Price Index rose about 50 percent more than the Consumer Price Index. So this is not a one for one relationship.

Chairman HUMPHREY. No, but it is a trend relationship. I agree it is not a one for one, but you just cannot buy, for example, nonferrous metals at higher prices wholesale and then have it at lower prices retail. It just does not work.

Mr. STEIN. Well, people do not buy nonferrous metals at retail.

Chairman HUMPHREY. Well, I did not say retail.

Mr. STEIN. For most things, we have had a very sharp runup in prices at the most elementary level, at the crudest level, and these have a very low input into the prices of the finished product.

I have heard the Secretary of Agriculture say that the contribution of wheat to the cost of a loaf of bread is less than the cost of the wax paper wrapper. And I suppose he is correct; he would know that better than I would. So there is an awful lot between these raw material prices and the retail price.

Chairman HUMPHREY. Well, we will see. So far, I want to say that it seems to me that the Wholesale Price Index is one that you have to watch very carefully if you are going to make any sensible prediction about CPI.

Mr. STEIN. We certainly do garee with that. We do watch it very carefully, and it is Mr. Dunlop's business not only to watch it, but to lean on it.

Chairman HUMPHREY. Well, lean hard, Mr. Dunlop.

By the way, if you were to realize your goal, Mr. Stein, for this year, you put that goal now at—what did you say? At 4 percent?

Mr. STEIN. As measured by the FNP deflator, yes.

Chairman HUMPHREY. Would you not—you would have to have less than 3-percent inflation rate needed for the second half?

Mr. STEIN. No, that is not correct. I think the arithmetic is——

Chairman HUMPHREY. Well, let's see. You have already gone 4 months. That is a third.

Mr. STEIN. Well, we do not know—we only know the GNP deflator by quarters. We do not know it by months.

Chairman HUMPHREY. Well, you have gone a quarter, then.

Mr. STEIN. We have gone a quarter.

Chairman HUMPHREY. Okay. What is the rate for the quarter?

Mr. STEIN. 6.6 percent.

Chairman HUMPHREY. 6.6. Well, now, I am not very good in old or new math, but just kind of using the old math for awhile, do you really think that you are going to get the inflation rate down the second quarter to 4 percent?

Mr. STEIN. Well, I have said that we will probably have a fairly high figure in the second quarter because——

Chairman HUMPHREY. That is what I thought you had said.

Mr. STEIN. We will probably have a fairly high figure in the second quarter.

Chairman HUMPHREY. Do you think it will be less than it was in the first quarter?

Mr. STEIN. Yes.

Chairman HUMPHREY. Substantially?

Mr. STEIN. Well, significantly.

Chairman HUMPHREY. Would you like to define that, Mr. Stein?

Mr. STEIN. Significantly—significantly is a little less than substantially.

Chairman HUMPHREY. Well, what would you put that at? 6 percent the first quarter; what would you say the second quarter would look like?

Mr. STEIN. I would rather not give a specific figure for that.

Chairman HUMPHREY. But you said it would not be 4?

Mr. STEIN. No, I do not think it would be 4 in the second quarter.

Chairman HUMPHREY. So it would maybe be 5?

Mr. STEIN. Maybe.

Chairman HUMPHREY. Well, now, if you have 6 and 5 for the first two quarters, that is a half.

Mr. STEIN. Well, that is not the way you do this, because these are changes. You are measuring changes.

Chairman HUMPHREY. Well, ordinary folks would kind of figure it out that way. You know the cost of living applies to ordinary folks.

Mr. STEIN. You have some unordinary folks up there who can explain to you——

Chairman HUMPHREY. I know; they confuse me too. But I want to be able to talk about this to the folks I am going to see this weekend. I have 5 days at home to talk to the people about it.

Mr. STEIN. I would rather you have your own confusion than mine.

Chairman HUMPHREY. It is my confusion and yours, so that is why we are having problems.

Mr. STEIN. The problem is that you are measuring changes from the fourth quarter; when you say a 6.6 annual rate, that was a change from the fourth quarter. Then we measure the change from another quarter, whereas what we are looking for is what is the increase over the average of 1972, not over the fourth quarter. The arithmetic you are working with is going to give you an average increase over the fourth quarter of 1972, not over the year 1972.

Chairman HUMPHREY. Well, tell you what I will do, Mr. Stein. I will bet you the best dinner in town that you do not have a 4-percent rate as an average say at the end of the year. How would you like to take that on?

Mr. STEIN. I will take that on, because I cannot lose. I would love to have dinner with you anyway.

Chairman HUMPHREY. That will be a great idea. Maybe we can settle our problems. Well, I want to wish you well. I want to be able to lose this bet, I really do. I want to do this for the country. I know you are a man of frugality and prudence, and I want you to do your level best in your economic advice to the administration to get that down to 4.

As a matter of fact, I am sort of unhappy that you shimmied it up from where you were, down to 2.5, up to 4. That kind of bothered me.

Mr. STEIN. Well, now, Mr. Chairman, those are not the same numbers.

Chairman HUMPHREY. Well, you have this numbers game. There are laws against this numbers game.

Mr. STEIN. Well, it is all new to me. But anyway, I think there is this to be said, aside from the forecast, we are not happy with 4 percent, if that turns out to be the result. We would like it to be less. The problem that we continuously face is, how can we make it less.

We have spent a great deal of time on this problem despite some remarks about our being diverted by the Watergate and so on. Let me assure you that that is not——

Chairman HUMPHREY. I did not say you. I think it is fair that the whole process of government, including the Congress and all of us—I think this is a fact. I did not mean to make any other reference to it, except what everybody in the country knows, that this is where an awful lot of action—or inaction—is taking place.

Mr. STEIN. Well, the economic policymaking machinery of the administration has not been diverted by this thing. We are constantly involved in the question of how can we do this better? We went through a very major reexamination of all of this before we came out with the proposal with the changes in phase III, which were in early May.

So we welcome suggestions. But let me say this—anybody who thinks that he has some magic wand, a freeze or phase II, which resolves this problem, is kidding himself. I have just come back from a week in Paris at the OECD. We sat around the table. Everybody, practically, has more inflation than we have. Look at Iceland; they have been freezing things off and on—that is, prices—off and on, for years. They have an inflation rate over 15 percent. The Netherlands have tried over and over again various forms of economic policy, and now in despair, they look to other countries to solve the problem for them.

There is Israel, which is not in the OECD, but which has had a wage control policy for years and years, and now they have a 13-percent rate of inflation. So there is a lot to this problem. It is a hard problem.

Chairman HUMPHREY. I agree; maybe what we need to tell the people is the truth: Namely, that we are in for some trouble. My argument with you is not so much over the facts; it is over the way you interpret them. You have got more optimism than I have, and I have been accused around Congress of being a congential optimist.

You suggested that the wave of inflation that swept over the country in the winter is receding. You know, we get this rhetoric time after time that things are going to be just jolly, it is like that Dr. Coue—you remember that old fellow back in the 1920's, who said, "In every day and every way, everything gets better and better."

Do you not think what you are really saying to us—and I think we have to be braced with some of the solid facts, even if, in truth, we do not like it—namely, you have no assurance that food prices are really going to go down. I mean, let's face it, who can predict what the weather is going to do?

Mr. STEIN. Well, Mr. Chairman, I think if you look at my statement, you will find that I did not give you assurance. I said food prices would depend on supply conditions we do not entirely control, and so on.

Chairman HUMPHREY. And yet, when you get through with all these—you always have these hedges, but when you come down at the end, you say you are going to have a rate of 4 percent, which is substantially lower than you presently have it.

Mr. STEIN. Well, this is our best estimate. We recognize that there are uncertainties. It might turn out less.

Chairman HUMPHREY. Well, I am going to move over to Mr. Dunlop. He has to go. Is that correct?

Mr. STEIN. We both do.

Chairman HUMPHREY. Well, you have to stay around. We have to talk about this dinner a little more.

Mr. Dunlop, at a cursory review of your joint prepared statement, and of course, listening to your splendd oral statement, you made no mention of steel. Yet, pending steel price increases are obviously a very important item in controlling the cost of living and in the battle against inflation. What are you doing about controlling steel prices? I mean across the board, not just the selected ones. I mean, what are you doing about steel industry?

Mr. DUNLOP. Well, I did not, in that joint prepared statement Mr. Stein and I presented, comment on that, because I picked out those sectors to comment on which were highlighted by table 2 of the joint prepared statement.

Now, with respect to the steel situation, more generally, it has been carried in the press. The major steel companies have announced that they wish to put into effect a price increase of the order of 4.8 percent, in the case of a major producer, effective June 15 of this year. That company indicated—and virtually all the other companies subsequently indicated—that those adjustments could be made without prenotification to the Cost of Living Council under our existing rule.

I was in touch with them and said I did not know whether that was true or not. They had the numbers, I did not, and would they be so good as to present to us the figures, the cost justification numbers, and they voluntarily agreed to do so. In other words, they agreed to follow, though they claimed it was not necessary to do so, the prenotification arrangements which would have been in effect had their increases proposed to increase their total average prices by more than 1½ percent over their authorized base.

We are now in the process of analyzing those figures in a series of internal staff meetings. I hope I will have something to say about it in due course.

The fact to be remembered, Mr. Chairman, is that the steel companies, and particularly with respect to the particular products they had in mind, which constitute about 40 percent of the industry's products, by the way of strip sheets—as you know, they had not increased their prices on that product for 17 months, back in January 1971. Their position is that there is plenty of cost justification for that under our existing rules.

Whether that is true or not is precisely a matter which I wish to find out. I view an increase in the price of steel as a serious matter and want to take a very careful opportunity to scrutinize it.

Chairman HUMPHREY. Do you review the rate of profit of the company as it relates to the price increase?

Mr. DUNLOP. I certainly do. And the contention of the companies I'm sure is that their rate of profits are below the base period.

Chairman HUMPHREY. They must have had a high base period.

Mr. DUNLOP. I do not think so.

Chairman HUMPHREY. Profit statistics are rather good. I believe in profits. I just think if you are going to start having controls on people's wages, you have got to have some controls on people's earnings out of production.

Mr. DUNLOP. Well, I quite agree with you, Mr. Chairman, that if there are limitations on wages, there should be limitations on other factor prices as well.

May I just comment to you on the profit situation, Mr. Chairman? It seems to me that in the spirit of getting the economic facts out on the table, we would all do better in the public discussion of these matters if one could somehow break down the changes in profits into at least four separate factors that are at work in this picture, if I may say so.

First of all, the public's figures include both the domestic and foreign operations of companies.

Chairman HUMPHREY. Right.

Mr. DUNLOP. And the only part of those operations which are subject to price controls are the domestic operations. As we all know, there have been significant increases over any recent years in the number of those foreign operations. Point one.

Second, a significant element of those profits is the result of inventory profits in a period in which prices of raw materials have been going up very rapidly, and people have had inventories which were purchased at lower prices. One ought to take account of that situation. I am not saying you should ignore it. I am just saying one ought to know that the aggregate figures, such as you cited at the outset, was in part influenced by inventory.

The third element in the profit situation to be distinguished is that which arises from increases in volume. One of the important aspects of this last 3—6 months is the enormous increase in output toward capacity in many of these industries, some of those you mentioned, which had a great deal to do with the profit situation.

And finally, there is the matter which is particularly related to the subject of economic controls, those changes in profits which are the result of margin changes, in an attempt to change the gap between prices and costs.

In looking at the profit situation in any moment in time, changes over time, I feel, for one, that the public discussion of these matters is enhanced if one is able to translate those distinctions into appropriate numbers in given cases.

Chairman HUMPHREY. I do not deny that those are factors. I am simply saying that the profit picture at a time that a substantial rise in prices is requested in surely a relevant factor to be considered.

Now, will the Cost of Living Council hold any public hearings on this request for price increase in steel, since steel is such a vital industry?

Mr. DUNLOP. I had not decided on that matter, Mr. Chairman. Indeed, until I get the staff report—which I hope to have in a few days—I would not normally have considered that question. In some cases we have, as you know, held a number of hearings.

Chairman HUMPHREY. That is correct.

Mr. DUNLOP. As we did in oil, as we did in lumber, and as I have indicated—or our General Counsel has indicated—that we intend to do with respect to this question of the matter of what parts of the information furnished to us on our CL–2 form are proprietary and which should be made public. We decided, as you know—or the agency announced, we would be holding a hearing on that.

Chairman HUMPHREY. On the other hearings that you have held, have they been public?

Mr. DUNLOP. Oh, yes, of course.

Chairman HUMPHREY. Now, is it not desirable that the steel industry be treated—since it is such a vital industry—with the same kind of standard?

Mr. DUNLOP. Well, I would like to reserve judgment on that, Mr. Chairman. Sometimes that is appropriate. My view is that sometimes it may not be appropriate.

Chairman HUMPHREY. Does not the Stabilization Act require public hearings where there is a decision on an industry that is important?

Mr. DUNLOP. I do not think so.

Chairman HUMPHREY. I believe it does. I have been informed that section 207(c)——

Mr. DUNLOP. I will look at it.

Chairman HUMPHREY. While you are looking at it, will you publicly release the data submitted in the prenotification applications, since I believe that the Hathaway amendment, for the Economic Stabilization Act, requires it?

Mr. DUNLOP. Well, that is a very contentious matter, Mr. Chairman.

Chairman HUMPHREY. Well, I know it is contentious, but the law is there.

Mr. DUNLOP. Well, let me explain precisely what we have done. What we have done is to issue a rule and say we will invite comment on that rule from all interested parties. The due date on that, I believe, is at the end of the month.

Subsequent to those statements, we have said we will hold a hearing of comment of various people on that rule, and thereafter, make our final decision as to what the rule will be.

Chairman HUMPHREY. I appreciate that. I just wonder if the law did not supersede the rule.

Mr. DUNLOP. Well, the rule is supposed to be—and is, in our view—in accordance with the law.

Chairman HUMPHREY. Well, I voted for the Hathaway amendment, and I would like to believe that I knew what I was voting for. I believe that the Hathaway amendment required the release of the prenotification data, or the data in the prenotification application.

Mr. DUNLOP. Well, that is a matter which we are proceeding with on these hearings. Anyone who has views about that is perfectly free to express them to us.

Chairman HUMPHREY. Well, the Congressional Record has a substantial expression of view on that by the author of the amendment. One thing I have learned in government is it is very difficult for people who are authors of amendments to get people who apply the amendment to understand, apparently, what the author had in mind. I think that you ought to go back to paternity. The father of the amendment ought to at least know something about the child.

Anyway, it is just a practical suggestion. It is the difference between—you know—where a man stands is dependent upon, sometimes, where he sits. I have been over in that other branch of Government, and I have seen interpretations made—not under this administration, but other administrations—of laws that were passed, and I would say, "Why, that could not be. I remember when we passed that." Well, they have got a good legal counsel that says, "You just did not see, there was a flyspeck there instead of a dash, and flyspecks do not mean as much as dashes, you know." And they get an interpretation of it.

Now, the counsel is looking that over, and we will hope that you will be able to get Mr. Hathaway's interpretation of it.

Senator Percy, we are very pleased to see you here. Would you like to ask some questions?

Mr. Dunlop must go. What have you got? Five minutes? I know that Senator Percy may want to ask you a question.

Mr. DUNLOP. All right.

Chairman HUMPHREY. We do not want to keep you beyond your departure time.

Mr. DUNLOP. I understand, Mr. Chairman. But I have a meeting, please——

Senator PERCY. I am sorry that I could not get here earlier. We had other hearings this morning, and I had to be there for a quorum.

In the few questions that I have, I want you to understand I do not hold you totally and completely responsible as individuals for all price increases that we have had.

Mr. DUNLOP. Thank you.

Senator PERCY. I was somewhat shocked that we did move into phase III as precipitously as we did. My questions pertain mainly to the forecasts that you make as to what we can look forward to. But I would like a comment from you and give you an opportunity to put on the record a comment to offset the statement made by Piere Rinfret, who was, during the campaign, an outspoken supporter of the President and a supporter of many of the President's policies.

Yet he commented that phase III is "everybody taking care of himself and the hell with the rest of the United States." Do you want to interpret why he made that comment and your own comments on it?

Mr. STEIN. The name of Mr. Rinfret appeared earlier in this hearing, and I would rather not, in public, give my view.

Senator PERCY. Well, he made his in public, I understand.

Mr. STEIN. Well, I know, but I am a gentleman. But that is not an accurate description of phase III.

Phase III differs from phase II in certain limited, specific ways, some of which have been changed since phase III was adopted. We should make clear that the standards of permissible price and wage increases set forth for phase III are, with only very minor changes, the same standards that applied in phase II.

With respect to three major industries—food, construction, and health care—controls remain mandatory in exactly the same way as they were in phase II. We have, indeed, made the controls in the food industry more binding by the imposition of the ceilings on meat prices.

We have said from the beginning that the Government retained the authority to reestablish mandatory controls wherever that seemed appropriate, and we have since done that with respect to petroleum products. We have maintained constant surveillance over price increases and stand ready to order price increases rescinded where they significantly exceed the standards.

We have since restored the system of prenotification with respect to price increases in excess of the 1½ percent permitted standard. So it is a great mistake to regard phase III as a radical change from phase II.

I believe that very little of the change in price behavior which occurred this winter resulted from that change from phase II to phase III. By far the largest thing that happened had to do with food prices, and food prices were no less controlled under phase III. They were more controlled under phase III than under phase II. Another large part of the increase in prices had to do with prices of imports, which were not controlled in either phase II or phase III.

So to describe phase III in the way that it was described by Mr. Rinfret is only an invitation to people to disregard the system that we have established. No matter how mandatory the system is, we depend on the good faith of voluntary cooperation of the business and labor community, and we have had it by and large.

Senator PERCY. Mr. Stein, because Mr. Dunlop must leave, I would like to break in for just two quick questions for him.

In the President's May 2 release on prenotification, it was stated that the Cost of Living Council was being instructed to gather information on profit and profit margins, so that price rollbacks could be made where necessary. Would you care to say anything about any price rollbacks that you do intend to make?

Mr. DUNLOP. Yes.

Senator PERCY. What would the policy be?

Mr. DUNLOP. Well, we are monitoring the companies through the IRS. As I announced earlier this morning in our discussions here, we have had the IRS in the area of the meat ceilings alone monitor 23,808 different companies. We have, in that process, discovered some violations; papers of yesterday and today will carry cases of individual companies whose price increases we have found to be not in accordance with our standards and have asked them through appropriate legal channels, when necessary—most times, they are willing to do it, after discussions with them—to restore those prices to the limits required by our ceiling.

As I indicated, we would pursue that as a third of our price controls, our supply actions, and our enforcement. Those are the three links on which we hope to go after price controls to be confronted.

Senator PERCY. My interest in the National Commission on Productivity leads me to ask you what, specifically, can the National Commission on Productivity do to reduce inflation this year?

Mr. DUNLOP. Well, referring to our earlier discussion, productivity is a matter which the impacts are not always as short term as we would like. However, as you know, in the past we feel we have gotten an awful lot of help from the study they made in the food area. We think that their campaign with respect to the attempt to raise general levels of labor productivity, that are working on labor-management committees in particular sectors as that affects morale, labor, and performance. These are the ways in which we think that, by working hard in those areas, we can make not only a contribution in 1973, but also a longer run one, a permanent contribution to productivity.

Senator PERCY. Thank you very kindly. I appreciate your comments.

Chairman HUMPHREY. Mr. Stein, I have a few more questions for you.

Just one more thing before you have to leave. You know the President's second message looked at the total profit of companies, just across the board, not just compliance with the meat order.

Mr. DUNLOP. I certainly agree.

Chairman HUMPHREY. And I want my friend Mr. Koster, there, to take a good look at that section 207(c) and the public hearings that we need to have in steel, and the prenotification data for public release under the Hathaway amendment, because these are things that need to be complied with.

Mr. DUNLOP. Mr. Chairman, as I leave, I would like to call to your attention a published biweekly summary of all of our actions, including enforcement actions, which is the diary of economic stabilization programs. These figures contain the sort of data that you asked about. I certainly had no intention of limiting my responses to meat alone. These figures are readily available.

Thank you.

Senator PERCY. Mr. Stein, at the end of your comments, you mentioned the cooperation you anticipated from labor and have been receiving from organized labor. Do you anticipate this level of cooperation throughout the negotiations of the many major contracts throughout the year, and do you anticipate they will hopefully stay within your guidelines?

Mr. STEIN. Well, I am sorry that Mr. Dunlop left, because he is the world's leading authority on that question.

But, as I indicated, there are uncertainties. We recognize that labor organizations and labor people are sorely tried by the big increases in the cost of living that have occurred in the past 3 months. But so far the response to this has been moderate and, I would say, farsighted. I believe it has to be demonstrated—which I think we will be demonstrating—that the rate of increase of the Consumer Price Index is significantly diminishing, that what happened in those 3 months from January to April was quite uncharacteristic of future price prospects and that we will continue to get this cooperation.

Senator PERCY. In the joint prepared statement, there was a discussion of the large contribution to the increases in the price indexes that food products have made. Originally, you were estimating a leveling off of the short supply problem by late summer or early fall.

In the light of the fact that we have had—in my area of the country—very major natural disasters, a great many acres taken out of cultivation due to the floods in the Mississippi and the Missouri, do you have to adjust your assessment of when the supply problem will be improved?

Mr. STEIN. Well, of course, we have adjusted our assessment. What we have said and what I have said here is that we do expect, nevertheless and despite all this, a big increase in domestic food supply, after taking account of this fact. It has finally stopped raining, and people are out there planting the crops.

I would like to ask Mr. Seevers, who is an expert on this subject, to say a word about the agricultural supply situation.

Mr. SEEVERS. Weather certainly remains an uncertain element in the overall crop supply picture. However, the reports that we have had from the Department of Agriculture and their statistical gathering agencies are that the crops are going in quite rapidly. They still think that the total number of acres planted this year will be substantially up over last year. There may be a few cases, such as cotton, where the bad weather actually cuts into acreage, but those acres will probably instead be planted with soybeans. So while we are still not out of the woods on that, I think the prospects are more certain and brighter than they were 2 or 3 weeks ago.

Senator PERCY. I have viewed with alarm, Mr. Stein, some of the suggestions that have been made that we—because we are in short supply in some items here at home—put an absolute embargo or limitation on shipments abroad. The suggestion has been made we do this with meat, chickens, grain, and so forth.

To interrupt the normal flow of supply arbitrarily that way, customer-supply relationships that were built over a period of years, could be a very dangerous thing. But the suggestions have been made, and I would like very much to have your feeling on such proposals.

Mr. STEIN. Well, this is a matter that obviously arises, and people think about. I would share your reluctance to go in this direction and hope that it will not—and believe that it will not—be necessary. Nevertheless, I think it is one of the things that one cannot rule out under some circumstances.

We were talking earlier about the lumber problem, or the log problem, and we have worked out an arrangement with the Japanese to reduce their takings of logs, which is apparently not too difficult for them, which will provide some relief for us. So there may be something in this box. But I will agree with you that we ought to try not to export our inflation problem to others. We ought to try not to solve it at the expense of others, and paricularly not to solve it at the expense of the long-run development of agricultural markets, which is so important to us. So I myself would not be very happy to see us go in this direction.

Senator PERCY. Far better to increase log production?

Mr. STEIN. Well, we certainly are trying that.

Senator PERCY. I wonder if you could look ahead a few months on the wholesale and consumer price indexes. Can you give us some indications of what these price measures will look like in the next few months? Will either of them, or both, level off in the near future?

Mr. STEIN. We expect the rates of increase to be much lower in the remainder of this year than they have been so far. Of course, we start with a very high standard. That is, from January to April the consumer price index rose at the annual rate of 9.2 percent. So perhaps to say that we expect it to be much less than that is not saying a great deal. But I think that we will be getting down into the 3 percent neighborhood.

This is based in considerable measure on the expectation that we will have, on the average for the remainder of this year, very little increase in retail food prices; that some part of the increase in retail commodities other than food was temporary and very heavily influenced by the upsurge in petroleum products. So we do see a very significant decline there.

Now, with respect to the wholesale price index, again, farm products, and processed foods and feeds account for an enormous part of that increase. We expect that not only to subside, but not to contribute much more to the increase, so that we will have a much slower rate of increase of wholesale prices. I would not want to set a figure on that, but substantially lower than where we have been.

Senator PERCY. There is a remark in your joint prepared statement, Mr. Stein, that meat prices are expected to moderate in the latter half of the year. This would be a statement that would be welcomed by housewives, families of America, if by "moderate" you mean actually go down. Do you mean that, or do you mean that their increases will just moderate? What does that mean?

Mr. STEIN. Well, we would expect declines in some meat products, notably pork. We do expect a considerable increase in the supply of pork in the latter part of this year. This is an important element in the total meat picture. The total meat picture will be sensitive to that.

Senator PERCY. How do you look on beef? Do you expect beef prices to drop at all in the fall?

Mr. STEIN. Only slightly, is the advice of my expert. Of course, we do have ceilings on beef prices. We have ceilings on all red meat prices. We have said that we expect domestic food supplies in the United States to be higher in 1973 than in 1972.

Much of the expanded supplies will occur in the second half; on the meat side, this refers especially to pork.

Senator PERCY. I would think that your forecast on beef would check out with the check that the minority staff made this morning. They called a slaughterhouse in Hagerstown, Md., and I will just read from their notes: These people supply meat to the Washington area, and it does not look good from what they say. In more than one case, suppliers of cattle to the slaughterhouse have been complaining it costs just as much to buy feed calves to replace their herds as it does to supply animals for slaughter—selling their slaughter steers, that is.

In other words, farmers that are supplying animals for slaughter are making zero profit on selling steers for slaughter. The result has been a drying up of supplies.

Chairman HUMPHREY. Exactly.

Senator PERCY. So it just does not look as though there can be any really encouraging signs for lower beef, or substantially lower, or even moderately lower, beef prices for this fall, from at least that one check.

Is it worth doing further checking on that to determine at this stage what can be done to encourage more supply?

Mr. SEEVERS. Well, I think we do, in a sense, check that in that we obtain regular information on the situation, on how many cattle are being placed on feed and when, and at what weights. So we do have a pretty good reading on the flow of beef that will be coming to market.

But I think the point you made, that those feeding cattle are paying pretty high prices for the feeder stock, is certainly characteristic of the current beef situation. A lot of this has been associated with very large increases in the price of feeder stock. Because cattle prices are high does not necessarily mean that all cattle feeders are getting very large profits. I think that their profits are rather moderate, more or less average, as I understand the information that has been made available to me.

Senator PERCY. We would like to look back on two forecasts that have been made before. I would like to go back and take a look at those and see what validity they do have.

You testified on February 6, 1973, that "food prices at the farm will be no higher in December 1973 than they were in December 1972." Have you changed this forecast, and if so, what has caused that forecast to be changed in such a relatively short period of time that has intervened?

Mr. STEIN. We have not significantly changed that forecast. But there has been some increase in our expectation with respect to prices of farm products at the farm by the end of this year, partly as a result of adverse weather conditions which have affected supply.

We—or the Department of Agriculture—have successively raised the estimates of the increase in retail food prices from 1972 to 1973. After all, we did not foresee the long, continued rain.

Senator PERCY. And last February it was indicated by you that the rate of inflation at the end of this year would be 2½ percent or less. Do you stand by that, or want to modify it up or down?

Mr. STEIN. Well, again, I do not think it is likely to be below that number. I said earlier, in answer to questions from the chairman, that I think this is a possible number, although it is obviously more difficult to achieve than it appeared when we put this statement forward initially in January.

That was the goal we set for ourselves when we wrote our economic report and other documents in January. But I do not think we are going to be very far from that. Our great disappointment so far this year has been on the food side. As I have indicated, I believe that toward the end of this year we will be showing very little increase in food prices in retail. If that is the case, the consumer price index will not be very far from this 2½ percent number.

Senator PERCY. Well, I want to thank you very much indeed for your thoughtfulness in being here and your valuable testimony. It is always a pleasure to have your forecasts.

Many of the factors, we recognize, are well beyond your control. But it is extremely helpful to this committee to have your appearance before it.

Chairman HUMPHREY. Mr. Stein, we are going to wind this up, but I just have to go back over a couple of other items. It just seems to me that the importance of these hearings is to inform the committee and Congress and the public of what the realities are that we face and what is being done about them.

I think that we are not facing the realities. That is my judgment, and I am sure that all of us share some burden here and responsibility for facing up to these realities. But in answer to Senator Percy's question about food prices, predictions were way off, and I think that we ought to admit that they were off.

Mr. STEIN. Well, we do admit that.

Chairman HUMPHREY. And quite frankly, the cost of living has not gone up just because of food prices. Nonfood items, I have indicated earlier by factual evidence, have gone up far beyond any of your predictions. Is that not a fact?

Mr. STEIN. I agree with that, yes. I do not deny that.

Chairman HUMPHREY. Now, when you talk about the possibilities in the future, you said, for example, in your joint prepared statement—you are stressing, now, that the wholesale food prices declined in April. You said this did signal "a moving away from the sharp price advances experienced earlier in the year."

But I think we have to ask what has happened since April, because I believe that that statement of yours is misleading. In world commodity markets, prices of wheat, corn, soybeans, and oils—vegetable oils—all four of these are basic commodities—have hit new highs. That is, prices have exceeded the previous peaks of last winter or any other time this year. Soybeans cost three times what they did a year ago, and futures of soybeans are right out of the seed, you know. This is going to have a tremendous impact on meat prices.

It is going to have its impact in the Wholesale Price Index and the Consumer Price Index. The Tuesday stock market price index for foodstuffs rose more than 6 percent between April 17 and May 8. Now, that is not an annual rate; that is an actual increase—in just 3 weeks, more than 6 percent.

Now, what do these price developments of recent weeks portend for wholesale and retail prices in the future? And also take into consideration, Mr. Stein, the facts that we do not have control over—but transportation problems, the lack of fertilizer, the fact that the Michigan farmers and the Wisconsin farmers and some in Minnesota have been appealing to the Department of Transportation and to the oil section of the Department of Interior because we have no diesel fuel to put the plows into the fields.

What is it that gives you any indication that these food prices are going to be significantly, rather than substantially, lowered? You are depending entirely on what the Department of Agriculture tells you on supply.

Mr. STEIN. Well, of course, the outlook does depend on the supply outlook. With respect to the supply of food in the United States in

1973, this year's feed grain crop is one thing. We do observe the rate at which feed grains are being planted in the Midwest. We have up-to-date information on that, and as Mr. Seevers has said, we do see strong evidence that the total acreage planted will substantially exceed 1972 acreage. We do know——

Chairman HUMPHREY. That is true. There are about 45 million acres of additional plantings this year, so there is no secret about that. There is a tremendous increase in acreage.

Mr. STEIN. We do observe stock of cattle being fed. The beef that will be eaten this year is, I suppose, all in existence at this moment.

Chairman HUMPHREY. That is correct.

Mr. STEIN. And one can count it.

Chairman HUMPHREY. But the price—let me say again, soybeans are up 300 percent. Soybean meal is a basic component of the feed that is used for the finer beef that we like to have in our marketplace. These farmers, I can tell you—just as Senator Percy said, when you can bring in feeders, put in the feedlot, at about the same prices you sell for the one that has been fed to go out of the feedlot, farmers are going to be looking with great doubt at whether or not they want to go into this kind of business.

And then the second thing that I just have to emphasize to you is that, as you said here a while ago, the number of cattle that is going to be available this year is already there. That number, between now and September, October, and November, is not going to substantially increase.

Mr. STEIN. Yes; but we know about what it is.

Chairman HUMPHREY. Yes; and we know that the cost of feeding them is going up in astronomical—in geometric proportions, astronomically. It is really unbelieveable. Look at what is happening to milk cows. The number of milk cows today is fewer than it has been in any time in the last 10 years, and the milk cows—the census of cows is going down and down and down. The consumption of milk, the demand, is going up and up.

Now, why is the price—why are milk cows going down? Because, frankly, the farmer says he is not going to produce milk at the prices they got. And why should he? Why should he feed everybody in town at prices below what is the reasonable price for him? He does not run a welfare department. So the farmer says, I am getting out—I live in a dairy State.

Mr. STEIN. Well, you have the advantage over me there.

Chairman HUMPHREY. But the Government knows these things, Mr. Stein.

Mr. STEIN. Well, we are dependent on experts, as you suggest, primarily in the Department of Agriculture. And these are our views.

I would say beyond that, that if you have suggestions, or anybody else has, about how to make these prices rise less rapidly or how to get them down, we certainly will consider them seriously. We have taken what seemed to me very major and difficult steps, steps that I never thought I would see, that the Secretary of Agriculture agreed to in order to increase the supply of foods in this country. And we are prepared to move further if somebody has suggestions.

Chairman HUMPHREY. Well, by the way, we support—as a member of the committee, I have been an active proponent for years of expanded production of many of these commodities. I just happen to think that a farmer is entitled to a price so he is not driven off the farm. I am not saying that the price of milk is going to come down. I want to be open with this, with the press here and all. I think it is going to go up, and I do not think you are going to have any milk unless it does.

So what I am saying is, let's quit painting the rosy picture that is going to be. And you said here that the 2½ percent is still possible, but difficult. Now, Mr. Stein, now, that 2½ percent is not only not possible; that is a pipedream. And why do we not just simply say so and prepare the public for the things that are going to happen to them, rather than just pretending?

The price of beef is really not going to come down between now and September, Mr. Stein. There is not anybody in the Government that predicts it is going to come down. And there is not anybody that predicts that the price of milk is going to come down. None.

You know, I do not think that we have to kid the public. The public has been kidded long enough on a lot of things. We had people believing for years that these food prices that we had were normal food prices. They were not. I will say, in all defense of the Government itself—Secretary Butz and others who have spoken out—that the farmer has been subsidizing the city consumer for years. That is why they have left the farm in droves. They just go bankrupt, just like you brush flies off the side of a wall. Now they are beginning to get a fair price for their commodities, and of course, it increases the cost of living index.

All I am saying is that I believe that it is your duty and my duty—not just yours—to speak very frankly to the public. Now, there are some items that I think are controllable, more controllable than the food items, because of the variances of the uncontrollability of weather, supply, pestilence, disease, all of these things which affect agriculture production.

But you indicate, for example, that most of the other factors outside of food have been held under reasonably good restraint. The fact is that nonfood items have gone up substantially. And the fact is that industrial products have gone up substantially. And the fact is that steel prices are going up substantially.

I just think that somebody is either not doing his job to tell the public what is happening or not using the mechanisms of effective control to stop some of it.

Mr. Stein. Well, of course, we do tell the public what is happening. That is how you know what is happening.

Chairman Humphrey. But the analysis of it, I am talking about, that is what is important.

Mr. Stein. And we are giving our best view of what is going to happen in the remainder of this year. We are fully dedicated to trying to control these things in ways which are not counterproductive. I have explained that as fully as I think I can.

Chairman Humphrey. My basic argument with you, sir, is not in your professional competence—because I have a high regard for that. It is that there is a tendency to make predictions that just do not hold up.

Now, even the predictions in the GNP back in January, that is up $16 billion. On the deficit, the budget deficit, there has been a substantial change in the predictions on that. There is—I heard today, for example, that food prices are more controlled under phase III than they were before. There is only one thing that is controlled under phase III and that is meat.

Mr. STEIN. Well, that is a large part of food.

Chairman HUMPHREY. Yes, but that is not all of it by a long shot. And that was controlled after it got way up here.

Mr. STEIN. Well, I will be repeating myself. We did keep food prices under phase III under exactly the same controls as under phase II.

Chairman HUMPHREY. Yes.

Mr. STEIN. And then we added the ceiling on meat prices.

Chairman HUMPHREY. And that is correct; that is where you needed the substantially increased controls.

Mr. STEIN. And then we added the ceiling on meat prices.

Chairman HUMPHREY. Well, my whole argument about this whole kind of economic prognostication is that, in the past, nobody was willing to face up to the fact that the reason that people did not produce broilers is that you cannot produce them and go broke.

There are certain economic truths, namely, that you cannot produce below cost and stay in business. I am only asking for what I call fair and responsible prognostication.

Now, you have said now that you think that the inflation rate will be about 4 percent. Is that what you are now saying, that it will be?

Mr. STEIN. Yes.

Chairman HUMPHREY. And I have said that in order to get that, in light of what the testimony is, that for the first quarter it is up over 6; and you have said in your own speech or your own statement here just recently——

Mr. STEIN. I said that the second quarter will not be much lower.

Chairman HUMPHREY. Would not be much lower. So you have got two quarters that average out at about 6; and I am saying that in order to get it down to 4, that you are going to have to have it below 3 for the last two quarters.

Mr. STEIN. Well, that is a matter of arithmetic. I did not say that the change from the fourth quarter of 1972 to the fourth quarter of 1973 was going to be 4 percent. I mean, that is what you are measuring.

I said that the change from the average of 1972 to the average of 1973 was going to be around 4 percent. That is a different calculation. But anyway——

Chairman HUMPHREY. Well, I still say that that requires less than 3 in the second half, according to any economists that we have talked to.

Mr. STEIN. If so, I will look at it again.

Chairman HUMPHREY. There has been a great deal of talk—sometime earlier, about the possibility of some tax proposals. Mr. Stein, do you know of any tax proposals that are being considered by the administration? Mr. Rinfret, for example, had some suggestion that he made that he wanted to make to the President. But we have dismissed Mr. Rinfret here this morning.

Mr. STEIN. Well, we have submitted tax proposals to the Ways and Means Committee.

Chairman HUMPHREY. Tax reform proposals?

Mr. STEIN. Yes.

Chairman HUMPHREY. Well, what about any other tax proposals that relate to income, that relate to gross or net profits of corporations? Do you have any such proposals in mind? You so indicated that you might have back in the testimony in February—or was that April?

Mr. STEIN. I have a certain difficulty about this whole subject, because whenever I say I am considering something, we immediately get a story which indicates that the Government is about to do this, or that it has a certain degree of probability. I have decided that the best thing for me to do in those circumstances is just to say we are not considering it.

Chairman HUMPHREY. But you may be thinking it?

Mr. STEIN. Who knows?

Chairman HUMPHREY. You have heard a great deal of talk about recession. I am sure you read every economic journal that is worthy of your attention. When you look at even the more conservative economic journals, there has been considerable talk about a severe down-turn in the economy in the fourth quarter. What is your judgment, Mr. Stein, on that?

Mr. STEIN. Well, we do not foresee that. We see the rate of expansion declining, as we think it has to, and we think it is desirable that it should. We do not see that rate of expansion, of real expansion, declining below what we think is the normal growth rate of the economy. So that I do not think this would qualify as a recession. I think it qualifies as being the attainment of what we would like to see, the achievement of a high level of output, rising at approximately the long-run trend.

Chairman HUMPHREY. The thing that disturbs me about our economic picture is that if we get a down-turn—let us say for example that we agree that the GNP, maybe, is advancing at a faster rate, or the rate of growth is growing faster than you would like, it lends itself to inflationary results—if you use monetary policy to control that, which apparently is now being used—I think the money expansion is about 2 percent now?

Mr. STEIN. Well, that varies a great deal from month to month. But in the last 6 months it was about 5½ percent.

Chairman HUMPHREY. The last 6 months?

Mr. STEIN. Yes.

Chairman HUMPHREY. What has it been in the last month?

Mr. STEIN. Well, in the last month it was about 8 percent. Then we had some earlier months when it actually declined, but it has averaged out in the last 6 months at about one-half percent.

Chairman HUMPHREY. Well, if you tighten up on monetary policy, as, let us say, Federal Reserve does, does that not immediately throw people out of work? Is that not what happened last time that we used monetary policy to slow down the economy, which in turn threw people out on the street?

Mr. STEIN. Well, that depends on how much you do it. Of course, you can overdo it. But we should not adopt what seems to be the converse of that, which is unlimited expansion of money supply. We do need some moderate rate of monetary growth which is consistent with the expansion of the economy at a rate that puts more people to work, but not so fast as to blow us out of the water.

Chairman HUMPHREY. I think we agree with that. What I worry about is the mix, monetary/fiscal. And when we talk fiscal, we are not just talking budget; we are talking tax and controls. What is disturbing sometimes is to see the fluctuations that come, such as what many people believe—and I believe—was the premature move to phase III, which most European bankers believe was premature, to phase III.

There does not seem to be the kind of balance in these proposals, in this program, that would effectuate the most moderating influence on the economy.

Mr. STEIN. Well, I do not think that is right.

Chairman HUMPHREY. Well, we have a little disagreement there.

Mr. STEIN. I think we have a very judicious combination of measures, combining a program of fiscal restraint, operating primarily on the expenditure side, which we think is the proper side; moderation in monetary policy, and a comprehensive and forceful but not stultifying price/wage control system.

As I look around the world, I do not see such a balanced combination elsewhere. I see the British trying to do it all with controls, while pumping their economy up like mad. You see the Germans. We are criticized for being ideologically opposed to the controls, but the Germans will not think of it and are squeezing entirely on the fiscal and monetary side.

I think we have a well-balanced program, and we are having the best results in the world.

Chairman HUMPHREY. Well, thank you, Mr. Stein. We lost Mr. Dunlop here. We appreciate your coming over.

I will be collecting that dinner a little later.

Thank you. The subcommittee is adjourned.

[Whereupon, at 12:45 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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