1006

MONITORING INFLATION

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

NINETY-SIXTH CONGRESS

SECOND SESSION

PART 3

FEBRUARY 22, MARCH 25, APRIL 22, MAY 23, AND JUNE 24, 1980

[Hearing day of July 23, 1980, of this series, may be found in the hearings entitled "The 1980 Midyear Review of the Economy"]

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MONITORING INFLATION

FRIDAY, FEBRUARY 22, 1980

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 5110, Dirksen Senate Office Building, Hon. Henry S. Reuss (member of the committee) presiding.

Present: Representatives Reuss and Long; and Senator Javits.

Also present: John M. Albertine, executive director; William R. Buechner, Mayanne Karmin, and Paul M. Manchester, professional staff members; Betty R. Maddox, administrative assistant; Charles H. Bradford, minority counsel; and Carol A. Corcoran, minority professional staff member.

OPENING STATEMENT OF REPRESENTATIVE REUSS, PRESIDING

Representative REUSS. Good morning. The Joint Economic Committee will be in order for a discussion of some unhappy news. The Consumer Price Index rose 1.4 percent during January, faster than any month in 1979. This is terrible news for American consumers and American workers.

At an annual rate, January's price increases came to 18.2 percent. If there is another more disgraceful year in our country's economic history, we would like to be told about it. The average spendable weekly earnings of the married worker, as a result of these price increases—a married worker with three dependents—is now 7 percent below what it was 1 year ago.

The members of this committee were greatly disappointed at the lack of proposals from the administration for bringing inflation under control in this year's economic report of the President and the President's budget.

Although the independent Federal Reserve has in place an anti-inflationary monetary policy, there is no anti-inflationary fiscal policy. There is no anti-inflationary structural policy. There is no anti-inflationary gasoline conservation policy, and there is no anti-inflationary effective income policy.

The administration, as far as I can see, has abdicated its reponsibilities; I don't know what the reason for that is and what you're going to do about it.

Without objection, the press release entitled "The Consumer Price Index—January 1980" will be inserted in the hearing record at this point.

[The press release referred to follows:]

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United States Department of Labor
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Friday, February 22, 1980

THE CONSUMER PRICE INDEX--JANUARY 1980

The Consumer Price Index for All Urban Consumers (CPI-U) rose 1.4 percent before seasonal adjustment in January to 233.2 (1967=100), the Bureau of Labor Statistics of the U.S. Department of Labor announced today. The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) also increased 1.4 percent before seasonal adjustment in January to 233.3 (1967=100). The CPI-U was 13.9 percent higher and the CPI-W was 14.0 percent higher than in January 1979.

CPI for All Urban Consumers (CPI-U)--Seasonally Adjusted Changes

On a seasonally adjusted basis, the CPI for All Urban Consumers rose 1.4 percent in January. This compares with an increase of 1.2 percent in December and an average monthly increase of slightly more than 1.0 percent during 1979. All major components of the CPI, except for food, advanced sharply in January. The largest increase was in the transportation component, which advanced sharply, primarily due to a 7.4 percent increase in gasoline prices. The housing component continued to increase substantially reflecting higher household fuel and homeownership prices. On the other hand, the food and beverages index rose 0.1 percent in January, following a 1.4 percent rise in December.

Table A. Percent changes in CPI for All Urban Consumers (CPI-U)

Expenditure category	Seasonally adjusted								Unadjusted
	Changes from preceding month							Compound annual rate 3-mos. ended	12-mos. ended
	1979						1980		
	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Jan. '80	Jan. '80
All items	1.1	1.0	1.2	1.0	1.0	1.2	1.4	15.6	13.9
Food and beverages	.4	.1	1.0	.8	.7	1.4	.1	8.8	8.8
Housing	1.2	1.2	1.3	1.4	1.3	1.4	1.4	17.6	16.0
Apparel and upkeep	.2	.4	1.3	.3	.3	.6	.9	7.8	6.4
Transportation	1.8	1.6	1.3	.8	1.2	1.4	3.1	25.1	20.4
Medical care	.9	.8	.8	.9	.9	1.1	1.3	13.8	10.1
Entertainment	.7	.7	.5	.6	.5	.2	1.0	7.3	7.1
Other goods and services	.4	1.0	1.5	.2	.3	.7	1.1	8.8	8.3

(Data for CPI-U are shown in tables 1 through 3.)
Note: Seasonal adjustment factors have been recalculated to reflect developments during 1979. For this reason, some of the seasonally adjusted figures above and elsewhere in this release differ from those previously reported.

The sharp rise in gasoline prices accounted for almost three-fourths of the 3.1 percent increase in the transportation index in January. Prices for other petroleum products, such as motor oil and coolant, also rose substantially--2.4 percent--in January. Prices for new cars advanced 1.4 percent, compared with an increase of 0.2 percent in December. Used car prices rose 1.1 percent, following seasonal adjustment, the fourth consecutive increase following 7 months of declining prices. The index for public transportation continued to increase substantially but less than in November and December.

The 1.4 percent increase in the housing index continued the sharp upward trend evident throughout 1979. In January, home financing costs rose 3.6 percent, reflecting an increase of 3.0 percent in mortgage interest rates and 0.9 percent in house prices. The index for property insurance increased 1.5 percent. (The 12-month percent changes for five experimental measures of housing costs can be found at the end of this release.) In January, prices for household fuels rose 2.0 percent, following an 1.6 percent increase in December. Fuel oil prices rose 5.3 percent, compared with an average monthly increase of about 1.4 percent during the fourth quarter of 1979. The index for gas and electricity rose 0.8 percent in January.

The 0.1 percent increase in the January index for food and beverages was the smallest since last August. Prices for grocery store foods declined 0.2 percent, following seasonal adjustment, primarily due to sharp declines in prices for eggs and most fresh fruits and vegetables. Beef and pork prices increased, but by much less than in December. Poultry prices rose sharply for the third consecutive month. The index for cereal and bakery products rose 1.1 percent, following a 1.3 percent increase in December. Most other grocery store foods showed moderate increases in January. Prices of the other two components of the food and beverage index--restaurant meals and alcoholic beverages--rose 1.0 and 0.7 percent, respectively, in January.

The medical care index rose 1.3 percent in January, following a 1.1 percent increase in December. Professional services rose 1.3 percent as fees for physicians' services rose 1.4 percent and dental services advanced 1.3 percent. Charges for hospital rooms rose 0.9 percent. The index for medical care commodities rose 0.8 percent, about the same as in November and December.

The index for apparel and upkeep rose 0.9 percent in January, following seasonal adjustment, compared with 0.6 percent in December. Charges for apparel services rose 1.9 percent in January, following an 1.1 percent increase in December. Prices for women's and girls', and men's and boys' clothing and footwear rose moderately, after seasonal adjustment, while prices for infants' and toddlers' clothing declined.

The index for entertainment rose 1.0 percent in January, compared with an average monthly increase of 0.6 percent during 1979. Higher prices for entertainment commodities--reading materials, sporting goods and equipment, and toys, hobbies, and other entertainment goods--were primarily responsible for the increase.

The index for other goods and services rose 1.1 percent in January, largely due to a 2.6 percent increase in cigarette prices and a 1.4 percent increase in prices for school books and supplies.

CPI for Urban Wage Earners and Clerical Workers (CPI-W)--Seasonally Adjusted Changes

On a seasonally adjusted basis, the CPI for Urban Wage Earners and Clerical Workers rose 1.4 percent in January. This compares with a 1.2 percent increase in December and an average monthly increase of slightly more than 1.0 percent during 1979. All major components of the CPI advanced sharply in January, except for food. The largest increase was in the transportation component, which advanced sharply primarily due to a 7.2 percent increase in gasoline prices. The housing component continued to increase substantially, reflecting higher fuel and homeownership prices. On the other hand, the food and beverages index rose 0.2 percent in January, following a 1.4 percent rise in December.

The 3.1 percent rise in the transportation index was primarily due to the sharp rise in gasoline prices, which accounted for almost three-fourths of the increase. Prices for other petroleum products, such as motor oil and coolant, rose substantially--up 2.6 percent--in January. Prices for new cars advanced 1.4 percent, following no change in December. Used car prices rose 1.0 percent, following seasonal adjustment, the fourth consecutive increase. The index for public transportation continued to increase substantially, but less than in November and December.

The 1.5 percent increase in the housing index continued the sharp upward trend evident throughout 1979. In January, home financing costs rose 3.6 percent, reflecting an increase of 3.0 percent in mortgage interest rates and 0.9 percent in house prices. The index for property insurance increased 1.3 percent. In January, prices for household fuels rose 2.0 percent, following an 1.6 percent increase in December. Fuel oil prices rose 5.3 percent, compared with an average monthly increase of over 4.0 percent during 1979. The index for gas and electricity rose 0.8 percent in January.

The 0.2 percent increase in the January index for food and beverages was the smallest since last August. Prices for grocery store foods declined 0.2 percent, following seasonal adjustment, primarily due to sharp declines in prices for eggs and most fresh fruits and vegetables. Beef prices increased but by much less than in December while poultry prices rose sharply for the third consecutive month. Prices of the other two components of the food and beverage index--restaurant meals and alcoholic beverages--rose 1.1 and 0.6 percent, respectively, in January.

The medical care index rose 1.3 percent in January, following a 1.1 percent increase in December. Professional services rose 1.4 percent as fees for both physicians' services and dental services advanced 1.5 percent. Charges for hospital rooms rose 0.8 percent. The index for medical care commodities rose 0.6 percent, somewhat less than in November and December.

The index for apparel and upkeep rose 0.8 percent in January, following seasonal adjustment, compared with 0.5 percent in December. Charges for apparel services rose 1.6 percent in January. Prices for women's and girls' and men's and boys' clothing and footwear rose moderately, after seasonal adjustment, while prices for infants' and toddlers' clothing declined.

The index for entertainment rose 0.8 percent in January, compared with an average monthly increase of 0.5 percent during 1979. Higher prices for reading materials were primarily responsible for the increase.

The index for other goods and services rose 1.4 percent in January, largely due to a 2.8 percent increase in cigarette prices and a 1.4 percent increase in prices for school books and supplies.

Table B. Percent changes in CPI for Urban Wage Earners and Clerical Workers (CPI-W)

Expenditure category	Seasonally adjusted								Unadjusted
	Changes from preceding month							Compound annual rate 3-mos. ended Jan.'80	12-mos. ended Jan.'80
	1979						1980		
	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.		
All Items	1.1	1.0	1.1	1.0	1.0	1.2	1.4	15.7	14.0
Food and beverages	.5	.1	1.0	.8	.6	1.4	.2	9.2	8.9
Housing	1.2	1.3	1.3	1.4	1.2	1.3	1.5	17.4	16.2
Apparel and upkeep	.4	.3	1.0	.5	.1	.5	.8	6.1	5.4
Transportation	1.8	1.6	1.2	.7	1.3	1.5	3.1	25.9	20.4
Medical care	1.0	.9	.9	1.0	.8	1.1	1.3	13.2	10.7
Entertainment	.7	.3	.6	.7	.5	-.1	.8	4.9	6.5
Other goods and services	.5	1.1	1.1	.2	.3	.6	1.4	10.1	8.3

(Data for CPI-W are shown in tables 4 through 6.)

Technical Notes

Brief Explanation of the CPI

The Consumer Price Index (CPI) is a measure of the average change in prices over time in a fixed market basket of goods and services. Effective with the January 1978 index, the Bureau of Labor Statistics began publishing CPI's for two population groups: (1) a new CPI for All Urban Consumers (CPI-U) which covers approximately 80 percent of the total noninstitutional civilian population; and (2) a revised CPI for Urban Wage Earners and Clerical Workers (CPI-W) which represents about half the population covered by the CPI-U. The CPI-U includes, in addition to wage earners and clerical workers, groups which historically have been excluded from CPI coverage, such as professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, and retirees and others not in the labor force.

The CPI is based on prices of food, clothing, shelter, and fuels, transportation fares, charges for doctors' and dentists' services, drugs, and the other goods and services that people buy for day-to-day living. Prices are collected in 85 urban areas across the country from over 18,000 tenants, 18,000 housing units for property taxes, and about 24,000 establishments—grocery and department stores, hospitals, filling stations, and other types of stores and service establishments. All taxes directly associated with the purchase and use of items are included in the index. Prices of food, fuels, and a few other items are obtained every month in all 85 locations. Prices of most other commodities and services are collected every month in the five largest geographic areas and every other month in other areas. Prices of most goods and services are obtained by personal visits of the Bureau's trained representatives. Mail questionnaires are used to obtain public utility rates, some fuel prices, and certain other items.

In calculating the index, price changes for the various items in each location are averaged together with weights which represent their importance in the spending of the appropriate population group. Local data are then combined to obtain a U.S. city average. Separate indexes are also published for 28 local areas. Area indexes do not measure differences in the level of prices among cities; they only measure the average change in prices for each area since the base period.

The index measures price changes from a designated reference date—1967—which equals 100.0. An increase of 22 percent, for example, is shown as 122.0. This change can also be expressed in dollars as follows: The price of a base period "market basket" of goods and services in the CPI has risen from $10 in 1967 to $12.20.

For further details see the following: *The Consumer Price Index: Concepts and Content Over the Years*, Report 517, revised edition (Bureau of Labor Statistics, May 1978); *The Revision of the Consumer Price Index*, by W. John Layng, reprinted from the *Statistical Reporter*, February 1978, No. 78-5 (U.S. Dept. of Commerce), and *Revisions in the Medical Care Service Component of the Consumer Price Index*, by Daniel H. Ginsburg, *Monthly Labor Review*, August 1978.

A Note About Calculating Index Changes

Movements of the indexes from one month to another are usually expressed as percent changes rather than changes in index points because index point changes are affected by the level of the index in relation to its base period while percent changes are not. The example in the accompanying box illustrates the computation of index point and percent changes.

Percent changes for 3-month and 6-month periods are expressed as annual rates and are computed according to the standard formula for compound growth rates. These data indicate what the percent change would be if the current rate were maintained for a 12-month period.

Index Point Change

CPI	189.8
Less previous index	189.2
Equals index point change:	0.6

Percent Change

Index point difference	0.6
Divided by the previous index	189.2
Equals:	0.003
Results multiplied by one hundred	0.003x100
Equals percent change:	0.3

A Note on Seasonally Adjusted and Unadjusted Data

Because price data are used for different purposes by different groups, the Bureau of Labor Statistics publishes seasonally adjusted as well as unadjusted changes each month.

For analyzing general price trends in the economy, seasonally adjusted changes are usually preferred since they eliminate the effect of changes that normally occur at the same time and in about the same magnitude every year—such as price movements resulting from changing climatic conditions, production cycles, model changeovers, holidays, and sales.

The unadjusted data are of primary interest to consumers concerned about the prices they actually pay. Unadjusted data are also used extensively for escalation purposes. Many collective bargaining contract agreements and pension plans, for example, tie compensation changes to the Consumer Price Index unadjusted for seasonal variation.

Seasonal factors used in computing the seasonally adjusted indexes are derived by the X-11 Variant of the Census Method II Seasonal Adjustment Program. The updated seasonal data at the end of 1977 replaced data from 1967 through 1977. Subsequent annual updates will replace 5 years of seasonal data, e.g., data from 1974 through 1978 will be replaced at the end of 1978. The seasonal movement of all items and 35 other aggregations is derived by combining the seasonal movement of 45 selected components.

24 Hour CPI Mailgram Service

Consumer Price Index data now are available by mailgram within 24 hours of the CPI release. The new service is being offered by the Bureau of Labor Statistics through the National Technical Information Service of the U.S. Department of Commerce.

The CPI MAILGRAM service provides unadjusted and seasonally adjusted data both for the All Urban Consumers (CPI-U) and for the Urban Wage Earners and Clerical Workers (CPI-W) Indexes as shown on the CPI-U sample page below. The unadjusted data include the current month's index and the percent changes from 12 months ago and one month ago. The seasonally adjusted data are the percent changes from one month ago.

CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS (CPI-U): U.S. CITY AVERAGE (1967=100)

GROUP	UNADJ INDEX MAY 1979	UNADJUSTED % CHG FROM 12 MO AGO	UNADJUSTED % CHG FROM 1 MO AGO	S ADJ % CHG FROM 1 MO AGO
ALL ITEMS	216.1	10.8	1.2	1.1
ALL ITEMS(1957-59=100)	249.0	-	-	-
FOOD AND BEVERAGES	225.2	11.2	.6	.7
FOOD	226.3	11.6	.9	.7
FOOD AT HOME	233.6	11.8	.7	.8
CEREALS AND BAKERY PRODUCTS	216.2	8.8	.6	1.3
MEATS, POULTRY, FISH, AND EGGS	242.2	14.6	.9	.7
DAIRY PRODUCTS	223.6	11.1	.7	.5
FRUITS AND VEGETABLES	226.8	5.6	.1	- .2
FOOD AWAY FROM HOME	241.1	11.7	1.1	1.1
HOUSING	222.6	11.1	1.2	1.2
RENT, RESIDENTIAL	173.8	6.8	1.3	1.3
HOMEOWNERSHIP	225.9	15.6	1.3	1.2
FUEL AND OTHER UTILITIES	256.6	1.1	2.1	2.2
FUEL OIL, COAL, AND BOTTLED GAS	384.3	23.2	5.1	5.3
GAS (PIPED) AND ELECTRICITY	231.6	6.2	2.6	2.6
HOUSEHOLD FURNISHINGS AND OPERATION	189.2	7.5	.3	.4
APPAREL AND UPKEEP	166.1	3.9	.4	.3
TRANSPORTATION	237.7	13.6	2.4	1.8
NEW CARS	195.8	9.7	.9	1.1
USED CARS	225.6	11.3	2.7	- .5
GASOLINE	267.7	29.1	5.3	5.3
PUBLIC TRANSPORTATION	193.3	3.1	.4	.7
MEDICAL CARE	236.1	8.9	.5	.6
MEDICAL CARE SERVICES	254.6	9.6	.5	.6
ENTERTAINMENT	187.8	6.6	.7	.5
OTHER GOODS AND SERVICES	193.9	7.8	.6	.5
PERSONAL CARE 1/	193.9	7.5	.6	.6
COMMODITIES	205.5	10.9	1.2	.9
COMMODITIES LESS FOOD AND BEVERAGES	192.9	10.9	1.5	1.0
NONDURABLES LESS FOOD AND BEVERAGES	169.1	13.3	2.3	1.3
DURABLES	159.2	13.3	1.7	.5
SERVICES	269.5	13.3	1.1	1.2
ALL ITEMS LESS FOOD	262.8	13.9	1.3	1.4
ENERGY 1/	260.5	19.5	4.2	4.4
ALL ITEMS LESS FOOD AND ENERGY	194.1	9.5	.9	.9

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TABLE 1. Consumer Price Index for all urban consumers: U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Relative importance, December 1979	Unadjusted indexes Dec. 1979	Jan. 1980	Unadjusted percent change to Jan. 1980 from- Jan. 1979	Dec. 1979	Seasonally adjusted percent change from- Oct. to Nov.	Nov. to Dec.	Dec. to Jan.
Expenditure category								
All items	100.000	229.9	233.2	13.9	1.4	1.0	1.2	1.4
All items(1957-59=100)	-	267.8	271.2	-	-	-	-	-
Food and beverages	18.685	235.5	237.5	8.8	.8	.7	1.4	.1
Food	17.655	241.7	243.8	8.9	.8	.7	1.4	.0
Food at home	12.282	238.7	240.6	7.8	.8	.6	1.6	-.2
Cereals and bakery products 1/	1.518	231.6	234.2	11.5	1.1	.7	1.3	1.1
Meats, poultry, fish, and eggs	4.189	235.5	238.0	6.6	1.1	.6	3.3	.0
Dairy products	1.642	214.9	218.4	10.1	.7	.9	.2	.6
Fruits and vegetables	1.702	230.2	229.8	3.7	-.2	.0	.5	-3.9
Sugar and sweets 1/	.418	284.6	289.8	8.1	1.8	.0	.5	1.8
Fats and oils	.396	233.0	233.9	7.2	.4	.3	.4	.7
Nonalcoholic beverages	1.375	375.4	378.5	9.6	.8	1.4	.8	.3
Other prepared foods	1.013	217.4	218.8	9.3	.6	.4	.7	.6
Food away from home	5.454	253.4	256.1	11.3	1.1	.8	1.0	1.0
Alcoholic beverages	1.029	178.0	179.3	8.0	.7	.8	.6	.7
Housing	44.999	243.6	247.3	16.0	1.5	1.3	1.4	1.4
Shelter	30.918	259.4	264.0	18.5	1.8	1.7	1.6	1.7
Rent, residential 1/	5.273	182.9	184.1	8.1	.7	.4	.4	.7
Other rental costs	.734	249.9	251.1	13.5	2.5	1.2	1.2	1.6
Homeownership	24.904	284.9	292.5	21.1	2.0	2.0	1.8	1.9
Home purchase 1/	10.396	239.9	242.1	16.3	.9	1.7	1.1	.9
Financing, taxes, and insurance	10.902	348.3	359.8	30.1	3.3	2.8	2.8	3.0
Maintenance and repairs	3.606	268.3	270.6	10.4	.9	.8	1.1	.8
Maintenance and repair services	2.778	290.4	293.2	10.4	1.0	.8	1.1	.9
Maintenance and repair commodities 1/	.828	216.4	217.6	9.5	.5	.7	1.2	.5
Fuel and other utilities 1/	6.477	255.1	258.6	16.7	1.4	-.4	1.2	1.4
Fuels 1/	4.607	311.8	318.0	24.1	2.0	-1.1	1.6	2.0
Fuel oil, coal, and bottled gas 1/	1.214	488.0	514.0	62.5	5.3	1.4	2.2	5.3
Gas (piped) and electricity 1/	3.393	270.0	273.0	14.0	.8	-1.9	1.3	.8
Other utilities and public services 1/	1.870	161.9	161.5	1.6	-.2	1.4	.6	-.2
Household furnishings and operation	7.612	195.8	196.9	6.5	.6	.9	.5	.8
Housefurnishings	3.452	166.9	167.6	5.5	.4	.7	.4	.8
Housekeeping supplies 1/	1.859	229.2	231.1	7.0	.8	1.6	.4	.8
Housekeeping services 1/	2.015	258.1	260.0	8.5	.7	.8	.6	.7
Apparel and upkeep	5.108	172.0	171.0	6.4	-.7	.3	.6	.9
Apparel commodities	4.446	166.1	164.3	5.5	-1.1	.2	.6	.8
Men's and boys' apparel	1.396	165.4	162.8	3.4	-1.6	.2	.2	.5
Women's and girls' apparel	1.701	154.8	151.5	3.1	-2.0	.3	.6	.7
Infants' and toddlers' apparel 1/	.108	227.1	224.9	4.2	-1.0	.7	.4	-1.0
Footwear	.669	184.3	183.7	8.9	-.3	.6	.7	.6
Other apparel commodities 1/	.572	180.9	184.4	13.9	1.9	1.3	1.7	1.9
Apparel services 1/	.662	216.6	220.7	13.4	1.9	.8	1.1	1.9
Transportation	18.572	227.7	233.5	20.4	2.5	1.2	1.4	3.1
Private transportation	17.506	227.5	233.5	20.5	2.6	1.0	1.3	3.1
New cars	3.731	171.7	173.9	7.9	1.3	.6	.2	1.4
Used cars	2.838	198.2	197.2	1.9	-.5	.8	1.5	-.1
Gasoline	5.619	313.9	339.6	60.0	8.6	1.9	2.6	7.4
Maintenance and repair	1.473	252.6	255.1	10.3	1.0	.7	.8	.9
Other private transportation	3.845	207.5	209.8	9.6	1.1	.5	.7	1.1
Other private trans. commodities 1/	.712	185.4	188.4	13.8	1.5	.8	1.2	1.5
Other private trans. services	3.133	215.3	217.6	8.7	1.1	.5	.6	.9
Public transportation 1/	1.066	223.0	226.8	19.8	1.7	3.5	3.0	1.7
Medical care	4.817	250.7	253.9	10.1	1.3	.9	1.1	1.3
Medical care commodities	.802	159.2	160.5	7.9	.8	.7	.9	.8
Medical care services 1/	4.015	270.7	274.4	10.5	1.4	.9	1.2	1.4
Professional services 1/	1.911	235.9	238.9	9.0	1.3	.6	1.2	1.3
Other medical care services 1/	2.104	312.8	317.4	11.9	1.5	1.1	1.1	1.5
Entertainment	3.738	193.4	195.3	7.1	1.0	.5	.2	1.0
Entertainment commodities	2.219	195.2	197.6	8.2	1.2	.7	.5	1.2
Entertainment services 1/	1.523	191.1	192.5	5.6	.7	.4	-.2	.7
Other goods and services	4.081	204.0	206.3	8.3	1.1	.3	.7	1.1
Tobacco products 1/	1.080	192.1	194.7	7.5	2.4	.1	.3	2.4
Personal care 1/	1.632	203.0	204.2	8.1	.6	.6	1.0	.6
Toilet goods and personal care appliances 1/	.728	195.8	196.4	7.6	.3	.3	1.4	.3
Personal care services 1/	.905	210.0	211.6	8.4	.8	.7	.7	.8
Personal and educational expenses	1.369	224.6	226.3	9.1	.8	.3	.5	1.0
School books and supplies	.174	202.5	206.0	8.0	1.7	1.0	.7	1.4
Personal and educational services	1.195	229.9	231.4	9.3	.7	.2	.5	.9
Commodity and service group								
All items	100.000	229.9	233.2	13.9	1.4	1.0	1.2	1.4
Commodities	59.063	219.4	222.4	13.6	1.4	1.0	1.1	1.4
Food and beverages	18.685	235.5	237.5	8.8	.8	.7	1.4	.1
Commodities less food and beverages	40.379	208.8	212.0	15.8	1.5	1.1	1.1	2.1
Nondurables less food and beverages	17.115	219.0	224.6	23.2	2.6	1.8	1.4	3.4
Apparel commodities	4.446	166.1	164.3	5.5	-1.1	.2	.6	.8
Nondurables less food, beverages, and apparel	13.261	250.0	259.4	30.2	3.8	1.1	1.6	4.0
Durables	22.672	199.8	201.3	10.6	.8	1.4	1.0	1.1
Services	40.937	249.3	253.1	14.5	1.5	1.1	1.4	1.4
Rent, residential 1/	5.273	182.9	184.1	8.1	.7	.4	.4	.7
Household services less rent	21.692	289.2	295.1	19.2	2.0	1.4	1.9	1.8
Transportation services	5.673	224.2	226.8	11.0	1.2	1.0	1.1	1.1
Medical care services 1/	4.015	270.7	274.4	10.5	1.4	.9	1.2	1.4
Other services	4.285	207.1	209.0	8.4	.9	.5	.4	.9
Special indexes:								
All items less food	82.345	226.4	229.9	15.1	1.5	1.1	1.2	1.8
All items less shelter	69.090	220.6	223.4	12.0	1.3	.7	1.0	1.3
All items less mortgage interest costs	89.346	221.7	224.3	12.0	1.2	.9	1.0	1.2
All items less medical care	95.183	228.6	231.9	14.1	1.4	1.0	1.3	1.4
Commodities less food	41.408	207.2	210.4	15.7	1.5	1.1	1.1	2.0
Nondurables less food	18.736	215.2	220.5	22.3	2.5	.8	1.4	3.2
Nondurables less food and apparel	14.290	240.1	248.6	28.3	3.5	1.0	1.6	3.7
Nondurables	36.391	228.2	232.9	15.4	1.7	.8	1.3	1.7
Services less rent	35.664	261.6	266.1	15.5	1.7	1.2	1.5	1.5
Services less medical care	36.921	245.3	249.2	14.9	1.6	1.1	1.2	1.6
Energy	10.313	313.7	327.9	41.6	4.5	.9	2.3	4.6
All items less energy	89.687	223.6	225.9	11.3	1.0	1.0	1.2	1.1
All items less food and energy	72.032	218.1	220.6	12.0	1.1	1.1	1.2	1.3
Commodities less food and energy	34.488	192.6	193.7	9.2	.6	1.0	.9	1.2
Energy commodities	6.920	340.0	361.5	59.7	6.3	1.6	2.6	6.7
Services less energy	37.544	247.6	251.6	14.5	1.6	1.4	1.3	1.5
Purchasing power of the consumer dollar:								
1967=$1.00 1/	-	$.435	$.429	-12.3	-1.4	-.9	-1.1	-1.4
1957-59=$1.00 1/	-	.373	.369	-	-	-	-	-

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 2. Consumer Price Index for all urban consumers: Seasonally adjusted U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Seasonally adjusted indexes				Seasonally adjusted annual rate percent change for-					
					3 months ending in			6 months ending in		
	Oct. 1979	Nov. 1979	Dec. 1979	Jan. 1980	Apr. 1979	July 1979	Oct. 1979	Jan. 1980	July 1979	Jan. 1980
Expenditure category										
All items	-	-	-	-	13.1	13.3	13.4	15.6	13.2	14.5
Food and beverages	233.5	235.1	238.3	238.5	12.2	5.8	7.9	8.8	8.9	8.4
Food	239.8	241.4	244.8	244.8	12.4	5.8	7.9	8.6	9.1	8.2
Food at home	237.1	238.5	242.3	241.8	12.3	5.5	7.2	8.2	7.8	7.7
Cereals and bakery products 1/	227.0	228.7	231.6	234.2	8.9	10.9	13.1	13.3	9.9	13.2
Meats, poultry, fish, and eggs	231.5	232.8	240.5	240.6	28.0	-9.3	-5.0	16.7	7.8	5.3
Dairy products	213.2	215.2	215.7	217.1	10.7	11.3	10.6	7.5	11.0	9.0
Fruits and vegetables	239.0	239.1	240.1	231.0	-2.0	18.9	13.8	-12.7	8.0	-.3
Sugar and sweets 1/	283.1	283.2	284.6	289.8	9.3	7.8	5.4	9.8	8.5	7.6
Fats and oils	230.8	231.5	232.7	234.1	11.3	3.2	8.6	5.8	7.2	7.2
Nonalcoholic beverages	373.6	378.7	381.9	383.1	-4.6	5.1	30.1	10.6	.1	19.9
Other prepared foods	218.4	215.2	216.7	217.9	9.6	12.9	8.2	6.7	11.2	7.5
Food away from home	249.9	252.0	254.4	254.9	12.7	11.0	9.5	11.7	11.8	10.6
Alcoholic beverages	176.1	177.5	178.5	179.8	8.4	6.8	8.4	8.7	7.6	8.5
Housing	237.4	240.4	243.7	247.2	13.8	16.2	16.7	17.6	15.0	17.1
Shelter	251.0	255.3	259.4	263.7	16.4	16.1	19.8	21.8	16.3	20.8
Rent, residential 1/	181.4	182.1	182.9	184.1	4.1	9.4	13.1	6.1	6.7	9.5
Other rental costs	241.5	244.5	247.8	251.4	12.9	11.1	12.5	17.4	12.0	14.9
Homeownership	276.0	281.6	286.8	292.2	19.3	17.9	21.7	25.6	18.6	23.6
Home purchase 1/	233.4	237.3	239.9	242.1	14.8	17.0	17.5	15.8	15.9	16.8
Financing, taxes, and insurance	329.4	338.7	348.2	358.7	28.6	21.9	29.8	40.6	25.2	35.1
Maintenance and repairs	263.7	265.8	268.8	271.0	9.6	9.9	10.3	11.5	9.8	10.9
Maintenance and repair services	285.5	287.9	291.1	293.8	10.5	10.2	9.5	12.1	10.3	10.8
Maintenance and repair commodities 1/	212.5	216.0	216.6	217.6	6.4	8.8	13.0	10.0	7.6	11.5
Fuel and other utilities 1/	252.9	252.0	255.1	258.6	11.3	31.2	16.4	9.3	20.9	12.8
Fuels 1/	310.3	307.0	311.8	318.0	17.4	47.0	24.4	10.3	31.8	17.2
Fuel oil, coal, and bottled gas 1/	470.8	477.4	488.0	514.0	69.4	94.1	69.0	42.1	70.3	55.0
Gas (piped) and electricity 1/	272.5	267.3	270.8	273.0	10.0	35.2	12.7	.7	22.0	6.5
Other utilities and public services 1/	158.8	161.0	161.9	161.5	-.5	1.5	-1.5	7.0	.5	2.7
Household furnishings and operation	193.2	194.9	195.4	197.4	4.9	5.2	5.3	9.0	6.0	7.2
Housefurnishings	166.3	166.3	166.9	168.3	5.2	3.5	4.5	8.0	4.8	6.2
Housekeeping supplies 1/	228.8	228.3	229.2	231.1	7.2	4.8	4.6	11.7	6.0	8.1
Housekeeping services 1/	254.6	256.6	258.1	260.0	8.4	8.8	8.1	8.8	8.6	8.4
Apparel and upkeep	169.2	169.7	170.8	172.4	5.2	1.0	8.2	7.8	5.0	8.0
Apparel commodities	163.3	163.6	164.6	165.9	8.1	.0	7.4	6.5	4.0	7.0
Men's and boys' apparel	163.2	163.5	163.4	164.6	1.0	3.3	10.4	3.5	2.1	6.8
Women's and girls' apparel	152.1	151.6	152.5	153.5	12.4	-6.6	4.0	3.7	2.4	3.9
Infants' and toddlers' apparel 1/	224.8	226.3	227.1	224.9	9.2	-3.0	11.0	.2	2.9	5.5
Footwear	181.6	182.6	183.9	185.3	9.0	10.8	8.3	7.7	9.9	8.0
Other apparel commodities 1/	175.5	177.8	180.9	184.4	12.7	2.7	19.4	21.9	7.5	20.6
Apparel services 1/	212.5	214.2	216.6	220.7	15.6	8.0	13.9	16.4	10.7	15.1
Transportation	222.5	225.1	228.3	235.3	17.6	23.4	15.8	25.1	20.5	20.3
Private transportation	223.0	225.3	228.3	235.4	18.6	24.3	15.1	24.2	21.4	19.5
New cars	168.2	169.2	169.5	171.8	13.4	9.1	.7	8.8	11.2	4.7
Used cars	199.0	200.5	203.6	205.8	-.2	-3.7	-2.2	14.4	-2.0	5.8
Gasoline	392.1	397.7	415.7	439.0	56.2	82.4	45.0	58.6	68.8	51.6
Maintenance and repair	249.5	251.2	253.2	255.4	11.2	11.2	9.1	9.8	11.2	9.5
Other private transportation	208.4	209.5	208.9	209.1	8.7	11.6	10.9	9.5	9.1	10.2
Other private trans. commodities 1/	182.0	183.4	185.6	188.4	11.6	7.5	21.6	14.8	9.5	18.2
Other private trans. services	212.4	213.4	214.7	216.7	5.5	12.6	8.5	8.3	9.0	8.4
Public transportation 1/	209.1	216.5	228.0	229.8	5.6	9.1	26.7	38.4	7.6	32.4
Medical care	245.9	248.0	250.7	253.0	7.5	8.4	10.6	13.8	8.0	12.2
Medical care commodities	156.9	158.0	159.5	160.8	6.3	7.1	8.0	10.3	6.7	9.2
Medical care services 1/	265.3	267.6	270.7	273.4	8.0	8.8	10.9	14.4	8.4	12.7
Professional services 1/	231.6	233.0	235.9	238.9	6.9	8.7	7.2	13.2	7.8	10.2
Other medical care services 1/	306.2	309.5	312.8	317.4	8.6	8.8	14.8	15.5	8.7	15.1
Entertainment	192.3	193.3	193.7	195.7	7.9	6.2	7.2	7.3	7.0	7.2
Entertainment commodities	193.5	194.8	195.7	198.2	8.6	5.5	8.9	10.1	7.0	9.5
Entertainment services 1/	190.8	191.5	191.1	192.5	7.0	7.1	5.7	3.6	7.0	4.2
Other goods and services	191.3	192.3	193.7	195.9	7.3	5.5	11.2	10.8	6.4	10.9
Tobacco products 1/	191.3	191.5	192.1	196.7	7.0	1.5	10.0	11.8	4.2	10.9
Personal care 1/	199.8	200.9	203.0	204.2	8.3	7.9	7.1	9.1	8.1	8.1
Toilet goods and personal care appliances 1/	192.5	193.1	195.8	196.4	7.4	6.2	8.5	8.4	6.8	8.4
Personal care services 1/	207.0	208.5	210.0	211.6	8.9	9.3	6.2	9.2	9.1	7.7
Personal and educational expenses	220.9	221.6	222.7	225.0	6.4	5.7	17.7	7.6	6.0	12.5
School books and supplies	197.3	199.2	200.6	203.4	8.1	7.1	4.4	13.0	7.6	8.6
Personal and educational services	226.6	227.1	228.2	230.2	6.0	5.5	19.8	6.5	5.8	13.0
Commodity and service group										
All items	-	-	-	-	13.1	13.3	13.4	15.6	13.2	14.5
Commodities	215.8	217.9	220.4	223.5	13.9	12.8	12.4	15.1	13.3	13.7
Food and beverages	233.5	235.1	238.3	238.5	12.2	5.8	7.9	8.8	8.9	8.4
Commodities less food and beverages	204.4	206.8	208.8	213.2	14.7	16.0	14.7	18.8	15.3	16.5
Nondurables less food and beverages	213.8	215.6	218.6	226.0	21.1	26.9	20.2	24.9	24.0	22.5
Apparel commodities	163.3	163.6	164.6	165.9	8.1	.0	7.4	6.5	4.0	7.0
Nondurables less food, beverages, and apparel	243.8	246.8	250.4	260.4	27.7	37.0	26.5	30.1	32.3	28.3
Durables	195.7	198.8	200.3	202.5	9.5	9.3	9.1	14.8	9.4	11.8
Services	214.5	216.1	218.0	222.9	12.1	14.0	15.1	16.4	13.1	15.7
Rent, residential 1/	181.4	182.1	182.9	184.1	4.1	9.4	13.1	6.1	6.7	9.5
Household services less rent	280.0	284.0	289.4	294.7	17.2	18.6	18.3	22.7	19.0	20.5
Transportation services	219.2	221.5	224.8	228.4	8.8	11.9	11.7	13.8	9.3	12.8
Medical care services 1/	265.3	267.6	270.7	273.4	8.0	8.8	10.9	14.4	8.4	12.7
Other services	205.0	206.0	206.8	208.7	8.3	7.3	10.4	7.4	7.8	8.9
Special indexes:										
All items less food	221.3	223.7	226.4	230.4	13.4	14.9	14.8	17.5	14.2	16.1
All items less shelter	217.6	219.1	221.4	224.3	11.9	12.0	11.0	12.9	11.9	11.9
All items less mortgage interest costs	218.3	220.2	222.5	225.2	11.0	11.9	12.0	13.3	11.5	12.6
All items less medical care	224.1	226.3	229.2	232.5	13.6	13.9	13.7	15.9	13.5	14.8
Commodities less food	202.9	205.1	207.3	211.5	14.5	15.9	14.4	18.1	15.2	16.2
Nondurables less food	210.3	212.0	215.0	221.8	20.8	25.5	19.6	23.7	22.9	21.6
Nondurables less food and apparel	234.4	236.8	240.5	249.3	25.8	34.2	25.2	28.0	29.9	26.6
Nondurables	224.6	226.4	229.4	233.2	16.4	15.1	14.1	16.2	15.7	15.2
Services less rent	255.0	258.0	261.9	265.7	13.3	15.7	15.5	17.9	14.0	16.7
Services less medical care 1/	229.6	232.3	235.3	239.2	11.3	15.0	16.5	17.0	13.1	16.8
Energy	306.1	308.9	315.9	330.5	35.7	61.1	35.5	35.9	47.9	35.7
All items less energy	219.1	221.4	224.1	226.6	10.4	9.1	11.3	14.4	9.8	12.9
All items less food and energy	213.2	215.6	218.1	221.0	10.7	9.8	11.9	15.5	10.3	13.7
Commodities less food and energy	189.0	190.8	192.6	194.9	9.3	7.0	8.0	13.1	8.1	10.5
Energy commodities	327.7	332.8	341.4	364.4	58.1	83.7	48.0	52.9	69.4	50.4
Services less energy	241.2	244.5	247.8	251.4	12.2	12.2	15.4	18.0	12.2	16.7

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 3. Consumer Price Index for all urban consumers: Selected areas, all items index, 1967=100 unless otherwise noted

Area 1/	Pricing schedule 2/	Other index base	Indexes Oct. 1979	Nov. 1979	Dec. 1979	Jan. 1980	Percent change to Jan. 1980 from- Jan. 1979	Nov. 1979	Dec. 1979	Percent change to Dec. 1979 from- Dec. 1978	Oct. 1979	Nov. 1979
U.S. city average			225.4	227.5	229.9	233.2	13.9	2.5	1.4	13.3	2.0	1.1
Chicago, Ill.-Northwestern Ind.	M		221.8	225.9	228.4	230.3	15.3	1.9	.8	15.0	3.0	1.1
Detroit, Mich.	M		227.2	231.3	233.2	237.2	15.7	2.6	1.7	15.3	2.6	.8
L.A.-Long Beach, Anaheim, Calif.	M		221.8	224.2	228.0	232.6	16.5	3.7	2.0	15.7	2.8	1.7
N.Y., N.Y.-Northeastern N.J.	M		219.9	221.3	222.9	226.1	11.4	2.2	1.4	10.6	1.4	.7
Philadelphia, Pa.-N.J.	M		220.1	222.4	223.7	227.2	12.3	2.2	1.6	11.2	1.6	.6
Anchorage, Alaska	1	10/67	-	213.7	-	218.2	10.1	2.1	-	-	-	-
Baltimore, Md.	1		-	227.2	-	234.4	14.8	3.2	-	-	-	-
Boston, Mass.	1		-	222.7	-	227.3	12.7	2.1	-	-	-	-
Cincinnati, Ohio-Ky.-Ind.	1		-	233.4	-	239.5	13.4	2.6	-	-	-	-
Denver-Boulder, Colo.	1		-	245.9	-	247.3	14.4	.6	-	-	-	-
Miami, Fla.	1	11/77	-	119.4	-	123.3	13.2	3.3	-	-	-	-
Milwaukee, Wis.	1		-	229.8	-	236.4	17.8	2.9	-	-	-	-
Northeast Pennsylvania	1		-	220.0	-	224.4	12.1	2.0	-	-	-	-
Portland, Oreg.-Wash.	1		-	235.6	-	243.6	15.5	3.4	-	-	-	-
St. Louis, Mo.-Ill.	1		-	225.7	-	232.7	14.4	3.1	-	-	-	-
San Diego, Calif.	1		-	247.8	-	254.0	18.2	2.5	-	-	-	-
Seattle-Everett, Wash.	1		-	227.6	-	236.0	16.6	3.7	-	-	-	-
Washington, D.C.-Md.-Va.	1		-	225.4	-	231.9	11.1	2.9	-	-	-	-
Atlanta, Ga.	2		220.8	-	223.3	-	-	-	-	12.3	1.1	-
Buffalo, N.Y.	2		218.7	-	221.2	-	-	-	-	10.8	1.1	-
Cleveland, Ohio	2		224.7	-	232.5	-	-	-	-	13.0	3.5	-
Dallas-Fort Worth, Tex.	2		228.2	-	234.1	-	-	-	-	16.1	2.6	-
Honolulu, Hawaii	2		210.5	-	214.8	-	-	-	-	12.3	2.0	-
Houston, Tex.	2		244.2	-	248.7	-	-	-	-	13.2	1.8	-
Kansas City, Mo.-Kans.	2		229.9	-	233.7	-	-	-	-	17.6	1.7	-
Minneapolis-St.Paul, Minn.-Wis.	2		231.2	-	234.0	-	-	-	-	12.2	1.2	-
Pittsburgh, Pa.	2		226.0	-	229.2	-	-	-	-	11.7	1.4	-
San Francisco-Oakland, Calif.	2		221.5	-	230.2	-	-	-	-	14.6	3.9	-
Region 3/												
Northeast	2	12/77	118.7	-	120.6	-	-	-	-	11.8	1.6	-
North Central	2	12/77	122.6	-	125.1	-	-	-	-	13.7	2.0	-
South	2	12/77	121.6	-	123.8	-	-	-	-	12.8	1.8	-
West	2	12/77	121.9	-	125.1	-	-	-	-	15.4	2.6	-
Population size class 3/												
A-1	2	12/77	119.4	-	121.9	-	-	-	-	13.1	2.1	-
A-2	2	12/77	121.3	-	124.2	-	-	-	-	13.5	2.4	-
B	2	12/77	122.3	-	124.6	-	-	-	-	13.7	1.9	-
C	2	12/77	122.2	-	124.8	-	-	-	-	13.2	1.8	-
D	2	12/77	121.2	-	122.9	-	-	-	-	12.6	1.4	-
Region/population size class cross classification 3/												
Northeast/A	2	12/77	117.3	-	119.0	-	-	-	-	10.8	1.4	-
North Central/A	2	12/77	123.2	-	126.3	-	-	-	-	14.7	2.5	-
South/A	2	12/77	120.7	-	123.1	-	-	-	-	12.7	2.0	-
West/A	2	12/77	120.8	-	124.8	-	-	-	-	15.8	3.3	-
Northeast/B	2	12/77	120.2	-	122.2	-	-	-	-	12.8	1.7	-
North Central/B	2	12/77	122.3	-	124.6	-	-	-	-	13.1	1.9	-
South/B	2	12/77	122.4	-	124.6	-	-	-	-	13.2	1.8	-
West/B	2	12/77	123.6	-	126.6	-	-	-	-	15.7	2.4	-
Northeast/C	2	12/77	123.0	-	125.7	-	-	-	-	14.4	2.2	-
North Central/C	2	12/77	121.9	-	123.7	-	-	-	-	12.7	1.5	-
South/C	2	12/77	122.1	-	124.3	-	-	-	-	12.5	1.8	-
West/C	2	12/77	122.2	-	124.5	-	-	-	-	14.3	1.9	-
Northeast/D	2	12/77	119.2	-	121.8	-	-	-	-	12.6	2.2	-
North Central/D	2	12/77	122.0	-	123.0	-	-	-	-	12.0	.8	-
South/D	2	12/77	120.6	-	122.5	-	-	-	-	12.5	1.6	-
West/D	2	12/77	122.8	-	124.3	-	-	-	-	14.7	1.2	-

1/ Area is generally the Standard Metropolitan Statistical Area (SMSA), exclusive of farms. L.A.-Long Beach, Anaheim, Calif. is a combination of two SMSA's, and N.Y., N.Y.-Northeastern N.J. and Chicago, Ill.-Northwestern Ind. are the more extensive Standard Consolidated Areas. Area definitions are those established by the Office of Management and Budget in 1973, except for Denver-Boulder, Colo. which does not include Douglas County. Definitions do not include revisions made since 1973.

2/ Foods, fuels, and several other items priced every month in all areas; most other goods and services priced as indicated:
M - Every month.
1 - January, March, May, July, September, and November.
2 - February, April, June, August, October, and December.

3/ Regions are defined as the four Census regions.
The population size classes are aggregations of areas which have urban population as defined below:

A-1	More than 4,000,000.
A-2	1,250,000 to 4,000,000.
B	385,000 to 1,250,000.
C	75,000 to 385,000.
D	Less than 75,000.

Population size class A is the aggregation of population size classes A-1 and A-2.

NOTE: Price changes within areas are found in the Consumer Price Index; differences in living costs among areas are found in Family Budgets.

TABLE 4. Consumer Price Index for urban wage earners and clerical workers: U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Relative importance, December 1979	Unadjusted indexes Dec. 1979	Jan. 1980	Unadjusted percent change to Jan. 1980 from- Jan. 1979	Dec. 1979	Seasonally adjusted percent change from- Oct. to Nov.	Nov. to Dec	Dec. to Jan.
Expenditure category								
All items	100.000	230.0	233.3	18.0	1.4	1.0	1.2	1.4
All items(1957-59=100)	-	267.4	271.2	-	-	-	-	-
Food and beverages	20.353	225.7	227.8	8.9	.9	.6	1.4	.2
Food	19.237	241.8	244.0	9.0	.9	.6	1.4	.1
Food at home	13.427	238.5	240.1	7.7	.8	.6	1.6	-.2
Cereals and bakery products 1/	1.683	232.3	234.7	11.3	1.0	.8	1.1	1.0
Meats, poultry, fish, and eggs	4.693	225.1	227.5	6.4	1.0	.6	3.2	.0
Dairy products	1.810	217.6	218.9	10.2	.7	-.9	.2	.6
Fruits and vegetables	1.752	226.3	227.2	3.5	-.5	-.3	.7	-3.9
Sugar and sweets 1/	.487	284.1	285.6	8.2	1.9	-.1	.8	1.9
Fats and oils	.376	233.7	234.9	7.2	.5	.6	.4	.9
Nonalcoholic beverages	1.557	272.3	275.6	9.1	.9	1.5	.9	.6
Other prepared foods	1.129	217.2	219.1	9.6	.9	.5	.5	.7
Food away from home	5.810	255.1	258.0	11.9	1.1	.7	1.1	1.1
Alcoholic beverages	1.116	178.7	179.7	6.2	.6	.7	.7	.6
Housing	41.667	243.6	247.3	16.2	1.5	1.2	1.3	1.5
Shelter	28.038	290.4	295.1	18.9	1.8	1.8	1.6	1.7
Rent, residential 1/	6.982	182.7	183.9	8.0	.7	.4	.4	.7
Other rental costs	.502	244.4	251.1	13.5	2.7	1.3	1.2	1.9
Homeownership	22.553	288.7	294.6	21.7	2.0	2.1	1.8	1.9
Home purchase 1/	9.127	240.2	242.3	16.5	.9	1.8	1.1	.9
Financing, taxes, and insurance	10.163	351.6	363.4	30.8	3.4	2.9	2.7	3.0
Maintenance and repairs	3.254	268.3	271.9	11.2	1.1	.7	1.1	1.1
Maintenance and repair services	2.322	292.8	295.9	11.7	1.1	.7	1.2	1.0
Maintenance and repair commodities 1/	.931	215.8	218.4	10.1	1.2	.8	1.0	1.2
Fuel and other utilities 1/	4.373	255.7	259.2	16.9	1.4	-.4	1.3	1.4
Fuels 1/	4.584	311.8	318.1	29.1	2.0	-1.0	1.6	2.0
Fuel oil, coal, and bottled gas 1/	1.209	489.0	515.1	62.7	5.3	1.4	2.3	5.3
Gas (piped) and electricity 1/	3.375	270.7	273.0	19.0	.8	-1.9	1.3	.8
Other utilities and public services 1/	1.788	161.8	161.5	1.5	-.2	1.3	.6	-.2
Household furnishings and operation	7.256	193.9	194.9	6.2	.5	.7	.9	.7
Housefurnishings	4.231	185.9	186.5	5.0	.4	.4	.6	.7
Housekeeping supplies 1/	1.499	227.2	228.8	6.5	.7	1.3	.2	.7
Housekeeping services 1/	1.527	257.5	259.2	8.7	.7	.8	.6	.7
Apparel and upkeep	5.114	171.4	169.8	3.4	-.9	.1	.5	.8
Apparel commodities	4.489	165.7	163.6	4.6	-1.3	.1	.5	.7
Men's and boys' apparel	1.351	165.0	162.4	2.7	-1.6	.1	.2	.7
Women's and girls' apparel	1.719	153.5	149.9	1.8	-2.3	-.3	.3	.7
Infants' and toddlers' apparel 1/	.124	230.5	229.1	6.3	-.6	.0	.0	-.6
Footwear	.706	183.8	183.3	9.1	-.3	.6	.8	.7
Other apparel commodities 1/	.550	182.9	185.5	12.4	1.4	.6	1.7	1.4
Apparel services 1/	.625	213.4	214.9	11.7	1.0	.6	.7	1.6
Transportation	20.902	228.3	234.1	20.4	2.5	1.2	1.5	3.1
Private transportation	19.962	228.2	234.1	20.5	2.6	1.2	1.5	3.1
New cars	3.946	171.7	174.1	8.3	1.4	1.3	.0	1.4
Used cars	3.822	198.3	197.2	2.9	-.6	.8	1.6	1.0
Gasoline	6.429	315.4	325.9	60.3	3.3	1.8	2.7	7.2
Maintenance and repair	1.621	253.4	254.2	10.6	1.1	.7	1.1	.9
Other private transportation	4.364	208.4	210.6	9.7	1.1	.7	.8	1.0
Other private trans. commodities 1/	.794	184.1	188.0	11.8	1.9	1.3	1.8	1.9
Other private trans. services	3.550	216.3	218.7	9.2	1.1	.6	.7	1.0
Public transportation 1/	.940	219.7	221.9	16.2	1.0	3.2	2.4	1.3
Medical care	4.372	251.7	254.9	10.7	1.3	.8	1.1	1.3
Medical care commodities	.731	159.9	161.0	7.6	.7	.7	.9	.9
Medical care services 1/	3.641	271.8	275.6	11.1	1.4	.7	1.1	1.4
Professional services 1/	1.843	238.3	241.7	10.2	1.4	.4	1.0	1.4
Other medical care services 1/	1.798	313.0	317.3	12.6	1.4	1.1	1.2	1.4
Entertainment	3.556	2/192.3	193.9	6.5	.8	.5	-.1	.8
Entertainment commodities	2.248	192.4	194.2	6.8	.9	.5	.3	.9
Entertainment services 1/	1.308	2/193.0	194.4	6.0	.7	.4	-.7	.7
Other goods and services	4.035	203.0	204.0	8.3	.5	.2	.4	1.4
Tobacco products 1/	1.308	192.1	197.1	7.4	2.6	.1	.4	2.6
Personal care 1/	1.684	202.3	204.4	8.3	1.0	.6	.9	1.0
Toilet goods and personal care appliances 1/	.796	194.5	196.2	7.6	.9	.4	1.1	.9
Personal care services 1/	.888	210.2	212.7	9.0	1.2	.6	.8	1.2
Personal and educational expenses	1.046	224.8	226.2	8.9	.6	.4	.5	.8
School books and supplies	.156	208.0	209.8	8.6	.9	.9	.7	1.4
Personal and educational services	.890	229.7	230.6	8.9	.4	.3	.5	.7
Commodity and service group								
All items	100.000	230.0	233.3	18.0	1.4	1.0	1.2	1.4
Commodities	61.878	219.4	222.3	13.5	1.3	.9	1.2	1.5
Food and beverages	20.353	235.7	237.8	8.9	.9	.6	1.4	.2
Commodities less food and beverages	41.524	208.7	212.0	15.8	1.6	1.1	1.1	2.2
Nondurables less food and beverages	18.832	220.5	226.3	23.8	2.6	.7	1.4	3.4
Apparel commodities	4.489	165.7	163.6	4.6	-1.3	.1	.5	.7
Nondurables less food, beverages, and apparel	14.343	251.6	261.2	30.9	3.8	1.1	1.6	4.1
Durables	22.692	198.2	199.6	9.9	.7	1.2	1.0	1.0
Services	38.122	249.6	253.6	24.8	2.6	1.1	1.3	1.6
Rent, residential 1/	6.982	182.7	183.9	8.0	.7	.4	.4	.7
Household services less rent	19.677	291.1	297.2	20.0	2.1	1.4	1.9	1.9
Transportation services	4.311	229.0	229.6	11.2	1.2	1.0	1.0	1.0
Medical care services 1/	3.641	271.8	275.6	11.1	1.4	.7	1.1	1.4
Other services	3.711	3/207.4	209.3	8.1	.9	.4	.2	1.0
Special indexes:								
All items less food	80.783	226.4	230.0	15.2	1.4	1.1	1.2	1.5
All items less shelter	71.962	221.0	223.9	12.1	1.3	.7	1.1	1.3
All items less mortgage interest costs	91.812	222.8	224.7	12.1	1.2	.8	1.0	1.3
All items less medical care	95.628	228.5	231.8	14.1	1.4	1.0	1.2	1.5
Commodities less food	42.441	207.1	210.3	15.6	1.5	1.1	1.1	2.1
Nondurables less food	15.948	218.7	222.1	22.8	2.5	.8	1.4	3.2
Nondurables less food and apparel	15.459	241.5	250.2	31.6	3.6	1.0	1.9	3.8
Nondurables	34.185	229.0	232.9	15.6	1.7	.8	1.4	1.7
Services less rent	33.140	262.1	266.7	15.8	1.8	1.2	1.5	1.5
Services less medical care 1/	34.481	245.5	249.5	15.1	1.6	1.1	1.2	1.6
Energy	11.115	317.0	331.5	43.0	4.6	1.0	2.3	4.7
All items less energy	88.885	222.0	225.3	11.0	1.0	1.1	1.1	1.1
All items less food and energy	69.648	217.3	219.6	11.6	1.1	1.1	1.1	1.2
Commodities less food and energy	34.900	191.4	192.4	8.6	.5	.9	.8	1.0
Energy commodities	7.740	391.5	414.8	54.9	6.2	1.4	2.6	6.6
Services less energy	34.747	248.0	252.2	14.8	1.7	1.3	1.3	1.4
Purchasing power of the consumer dollar:								
1967=$1.00 1/	-	8.695	8.579	-12.3	-1.4	-.9	-.9	-1.4
1957-59=$1.00 1/	-	.374	.369	-	-	-	-	-

1/ Not seasonally adjusted.
2/ Revised. Revised 1979 annual average = 187.7
3/ Revised. Revised 1979 annual average = 189.0
4/ Revised.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 5. Consumer Price Index for urban wage earners and clerical workers: Seasonally adjusted U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Seasonally adjusted indexes				Seasonally adjusted annual rate percent change for-				
					3 months ending in			6 months ending in	
	Oct. 1979	Nov. 1979	Dec. 1979	Jan. 1980	Apr. 1979	July 1979	Oct. 1979	Jan. 1980	July 1979	Jan. 1980
Expenditure category										
All items	-	-	-	-	13.5	13.3	13.2	15.7	13.4	14.5
Food and beverages	233.7	235.2	238.5	238.9	13.0	5.4	7.9	9.2	9.1	8.5
Food	234.9	241.4	244.9	245.1	14.4	5.3	7.7	9.0	9.3	8.3
Food at home	236.5	238.0	241.8	241.3	12.3	3.2	6.9	8.4	7.6	7.6
Cereals and bakery products 1/	227.9	229.7	232.5	234.7	8.4	11.4	12.9	12.5	9.9	12.7
Meats, poultry, fish, and eggs	231.0	232.5	240.0	240.1	27.4	-9.6	-4.7	16.7	7.3	5.5
Dairy products	213.7	215.6	216.3	217.6	11.6	10.6	10.8	7.5	11.1	9.1
Fruits and vegetables	237.3	236.5	238.2	228.8	-2.2	10.8	14.1	-13.6	7.8	-.7
Sugar and sweets 1/	282.2	281.9	284.1	289.6	9.3	7.1	5.7	10.9	8.2	8.3
Fats and oils	230.7	232.1	233.0	235.1	9.4	3.8	7.8	7.8	6.6	7.8
Nonalcoholic beverages	369.4	375.1	378.6	380.2	-3.3	3.5	28.1	12.2	.1	19.0
Other prepared foods	214.5	215.6	210.7	218.2	9.4	13.2	8.9	7.1	11.2	4.0
Food away from home	251.6	253.4	256.2	259.0	15.3	10.7	9.4	12.3	13.0	10.8
Alcoholic beverages	176.8	178.0	179.2	180.2	8.9	6.7	9.1	7.9	7.8	8.5
Housing	237.5	240.4	243.6	247.2	14.2	16.2	17.1	17.4	15.2	17.2
Shelter	291.9	296.4	300.4	304.9	17.2	19.3	20.4	22.3	18.7	21.3
Rent, residential 1/	181.2	181.9	182.7	183.9	3.8	9.4	12.9	6.1	6.6	9.4
Other rental costs	241.0	244.1	247.0	251.6	12.1	10.8	12.7	18.8	11.4	15.7
Homeownership	277.7	283.5	288.7	294.3	20.6	23.2	22.4	26.1	19.4	24.3
Home purchase 1/	233.0	237.7	240.4	242.3	15.2	17.0	18.3	15.8	16.1	17.0
Financing, taxes, and insurance	332.5	342.2	351.6	362.3	29.3	32.2	31.2	41.0	25.7	36.0
Maintenance and repairs	284.5	286.4	289.4	292.3	13.0	9.9	9.8	12.3	11.4	11.0
Maintenance and repair services	288.1	290.0	293.5	296.5	14.8	10.7	9.2	12.2	12.7	10.7
Maintenance and repair commodities 1/	211.9	213.6	215.8	218.4	8.7	7.9	10.9	12.8	8.3	11.9
Fuel and other utilities 1/	253.4	252.4	255.7	259.2	11.5	31.8	16.1	9.5	21.2	12.8
Fuels 1/	310.1	306.9	311.8	318.1	17.2	47.5	23.9	10.7	31.5	17.1
Fuel oil, coal, and bottled gas 1/	471.7	478.2	489.0	515.1	49.9	94.2	49.3	42.2	70.6	55.2
Gas (piped) and electricity 1/	272.2	267.1	270.7	273.0	9.7	35.8	12.0	1.2	22.1	6.4
Other utilities and public services 1/	158.9	160.9	161.8	161.5	-.5	1.1	-1.2	6.7	.4	2.7
Household furnishings and operation	191.7	193.0	194.5	195.2	9.5	5.0	5.8	7.5	5.7	6.4
Housefurnishings	164.5	165.2	165.8	167.0	6.2	3.5	4.2	6.2	4.8	5.2
Housekeeping supplies 1/	223.9	226.7	227.2	228.8	9.1	4.9	5.9	9.0	5.5	7.5
Housekeeping services 1/	253.5	255.9	257.5	259.2	7.9	9.4	8.8	8.6	8.6	8.7
Apparel and upkeep	168.9	169.1	170.0	171.4	6.1	-.7	7.2	6.1	4.4	6.6
Apparel commodities	163.3	163.4	164.2	165.3	7.0	-.2	6.6	5.0	3.3	5.8
Men's and boys' apparel	163.2	163.4	163.8	164.0	1.0	5.1	2.7	2.0	3.0	2.4
Women's and girls' apparel	151.3	150.8	151.2	152.3	10.0	-8.1	3.2	2.7	.5	3.0
Infants' and toddlers' apparel 1/	228.7	228.7	230.5	229.1	12.4	-.2	12.8	.7	5.9	6.6
Footwear	180.9	181.9	183.3	184.8	11.6	9.5	7.2	8.4	10.6	7.8
Other apparel commodities 1/	178.7	179.8	182.9	185.5	7.0	1.4	26.8	16.1	8.2	21.3
Apparel services 1/	210.8	212.0	213.4	216.9	15.2	7.8	12.0	12.1	11.4	12.1
Transportation	222.9	225.8	229.1	234.1	17.6	23.0	15.1	25.9	20.6	20.4
Private transportation	223.2	225.9	229.1	234.3	18.3	24.9	14.7	25.8	21.2	20.0
New cars	167.8	169.6	169.9	172.0	13.5	9.9	-1.0	11.5	11.7	5.1
Used cars	199.0	200.5	203.7	205.8	.0	33.7	-2.2	19.4	-1.9	5.8
Gasoline	303.5	309.1	317.4	340.3	54.9	83.1	45.4	58.1	69.5	51.6
Maintenance and repair	249.9	251.6	254.3	256.5	11.3	11.0	9.3	11.0	11.2	10.1
Other private transportation	204.8	206.3	207.9	209.9	6.4	11.8	10.4	10.3	9.1	10.4
Other private trans. commodities 1/	181.6	183.9	186.4	188.0	8.1	7.2	17.6	14.9	7.6	16.2
Other private trans. services	213.0	214.3	215.7	217.8	6.2	12.8	8.7	9.3	9.4	9.0
Public transportation 1/	207.3	214.6	229.1	231.4	5.8	8.5	21.7	31.2	7.1	26.1
Medical care	247.2	249.1	251.8	255.0	8.6	9.5	11.8	13.2	9.1	12.5
Medical care commodities	157.7	158.8	160.3	161.3	6.6	7.8	6.9	9.4	7.2	8.2
Medical care services 1/	261.7	263.8	266.8	270.4	9.2	9.7	12.3	13.9	9.4	13.1
Professional services 1/	234.9	235.9	238.3	241.7	9.2	9.4	10.1	12.1	9.3	11.1
Other medical care services 1/	305.9	309.5	313.0	317.3	8.9	10.2	15.8	15.8	9.6	15.8
Entertainment	191.7	192.9	192.9	194.0	6.5	7.3	7.0	9.9	6.9	5.9
Entertainment commodities	191.1	192.1	192.6	194.4	7.0	6.2	6.8	7.1	6.4	9.9
Entertainment services 1/	193.5	194.3	193.0	194.4	6.0	8.9	7.3	1.9	7.4	4.6
Other goods and services	200.7	201.8	202.7	204.8	7.1	5.5	10.2	10.1	6.3	10.1
Tobacco products 1/	191.2	191.4	192.1	197.1	6.7	1.7	9.5	12.9	4.2	11.2
Personal care 1/	199.4	200.5	202.3	204.4	7.6	7.9	7.1	10.4	7.8	8.8
Toilet goods and personal care appliances 1/	191.6	192.4	194.5	196.2	8.6	4.1	7.7	10.0	6.3	8.8
Personal care services 1/	207.3	208.8	210.2	212.7	6.9	11.6	6.6	10.8	9.2	8.7
Personal and educational expenses	221.0	221.8	223.0	224.7	6.4	6.1	16.8	6.9	2.2	11.7
School books and supplies	200.8	202.7	204.1	206.9	8.4	7.6	5.8	12.7	8.0	9.2
Personal and educational services	226.2	226.8	228.0	229.5	6.0	5.7	18.7	6.0	5.9	12.2
Commodity and service group										
All items	-	-	-	-	13.5	13.3	13.2	15.7	13.4	14.5
Commodities	215.8	217.8	220.4	223.6	14.1	12.7	11.9	15.3	13.4	13.6
Food and beverages	233.7	235.2	238.5	238.9	13.0	5.4	7.9	9.2	9.1	8.5
Commodities less food and beverages	204.3	209.5	208.7	213.3	14.7	16.5	14.0	18.8	15.6	16.4
Nondurables less food and beverages	215.5	217.1	220.2	227.7	21.8	28.3	20.7	24.6	25.0	22.7
Apparel commodities	163.3	163.4	164.2	165.3	7.0	-.2	6.6	5.0	3.3	5.8
Nondurables less food, beverages, and apparel	245.4	248.0	251.9	262.2	28.1	38.3	27.1	30.3	33.1	28.7
Durables	194.6	196.9	198.8	200.8	9.5	8.6	8.0	13.4	9.1	10.6
Services	244.0	246.6	249.2	252.3	12.3	13.5	15.4	16.1	13.5	15.8
Rent, residential 1/	181.2	181.9	182.7	183.9	3.8	9.4	12.9	6.1	6.6	9.4
Household services less rent	281.0	285.8	291.3	296.8	18.3	19.2	19.2	23.1	18.7	21.1
Transportation services	229.3	231.7	233.8	237.4	7.4	11.8	10.5	10.0	9.6	11.7
Medical care services 1/	266.8	268.8	271.8	275.6	9.2	9.7	12.9	13.9	9.4	13.4
Other services	205.8	206.7	207.1	209.1	7.7	8.6	10.6	6.6	8.1	8.5
Special indexes:										
All items less food	221.4	222.8	226.4	230.6	13.4	15.6	14.6	17.7	14.5	16.1
All items less shelter	218.0	219.5	221.9	224.9	12.3	12.3	10.5	13.3	12.3	11.9
All items less mortgage interest costs	218.8	220.6	222.8	225.6	11.4	12.3	11.8	13.0	11.9	12.4
All items less medical care	224.1	226.3	229.1	232.6	13.6	13.6	13.3	16.1	13.6	14.7
Commodities less food	202.8	205.0	207.2	211.6	14.5	16.1	13.9	18.5	15.3	16.2
Nondurables less food	211.9	213.5	216.4	223.4	20.5	27.2	20.1	23.5	23.8	21.8
Nondurables less food and apparel	254.3	258.2	261.9	271.2	26.8	35.3	25.0	28.6	31.0	27.2
Nondurables	225.4	227.1	230.2	239.1	17.0	15.5	13.9	16.4	16.2	15.1
Services less rent	255.7	258.7	262.5	266.4	13.7	15.5	15.8	17.8	14.6	16.8
Services less medical care 1/	239.9	242.6	245.5	249.5	11.7	15.1	16.3	17.0	13.5	16.7
Energy	308.8	311.8	319.1	334.2	37.2	63.4	36.3	37.2	49.7	36.7
All items less energy	218.8	221.1	223.5	226.0	10.8	8.9	10.5	13.8	9.9	12.2
All items less food and energy	212.6	214.9	217.3	220.0	10.5	9.8	11.1	14.7	10.2	12.8
Commodities less food and energy	188.2	189.8	191.4	193.4	8.6	7.2	6.9	11.5	7.9	9.2
Energy commodities	328.9	331.1	342.5	365.7	54.7	84.4	47.8	52.8	70.0	50.3
Services less energy	241.8	245.0	248.3	251.9	12.6	12.8	15.8	17.8	12.7	16.8

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 6. Consumer Price Index for urban wage earners and clerical workers: Selected areas, all items index, 1967=100 unless otherwise noted

Area 1/	Pricing schedule 2/	Other index base	Indexes Oct. 1979	Nov. 1979	Dec. 1979	Jan. 1980	Percent change to Jan. 1980 from- Jan. 1979	Nov. 1979	Dec. 1979	Percent change to Dec. 1979 from- Dec. 1978	Oct. 1979	Nov. 1979
U.S. city average			225.6	227.6	230.0	233.3	14.0	2.5	1.4	13.4	2.0	1.1
Chicago, Ill.-Northwestern Ind.	M		221.7	225.6	227.8	229.9	15.1	1.9	.9	14.8	2.8	1.0
Detroit, Mich.	M		226.9	230.8	232.2	236.4	15.4	2.4	1.8	15.0	2.3	.6
L.A.-Long Beach, Anaheim, Calif.	M		224.0	225.8	229.9	235.0	17.7	4.1	2.2	16.7	2.6	1.8
N.Y., N.Y.-Northeastern N.J.	M		219.3	220.7	222.4	225.5	11.5	2.2	1.4	10.7	1.4	.8
Philadelphia, Pa.-N.J. 3/	M		221.3	223.8	224.6	228.0	11.8	1.9	1.5	11.0	1.5	.
Anchorage, Alaska	1	10/67	-	211.8	-	215.9	9.4	1.9	-	-	-	-
Baltimore, Md.	1		-	227.9	-	234.5	14.4	2.9	-	-	-	-
Boston, Mass.	1		-	222.5	-	226.9	13.1	2.0	-	-	-	-
Cincinnati, Ohio-Ky.-Ind.	1		-	235.6	-	241.0	13.5	2.3	-	-	-	-
Denver-Boulder, Colo.	1		-	248.6	-	250.9	15.1	.9	-	-	-	-
Miami, Fla.	1	11/77	-	120.5	-	124.9	14.4	3.7	-	-	-	-
Milwaukee, Wis.	1		-	232.5	-	240.8	19.4	3.6	-	-	-	-
Northeast Pennsylvania	1		-	221.1	-	225.8	11.7	2.1	-	-	-	-
Portland, Oreg.-Wash.	1		-	236.7	-	243.5	14.8	2.9	-	-	-	-
St. Louis, Mo.-Ill.	1		-	226.3	-	233.5	15.9	3.2	-	-	-	-
San Diego, Calif.	1		-	248.8	-	251.0	18.1	2.5	-	-	-	-
Seattle-Everett, Wash.	1		-	225.5	-	233.8	16.7	3.7	-	-	-	-
Washington, D.C.-Md.-Va.	1		-	226.7	-	233.0	11.3	2.8	-	-	-	-
Atlanta, Ga.	2		223.5	-	227.0	-	-	-	-	14.0	1.6	-
Buffalo, N.Y.	2		218.6	-	220.7	-	-	-	-	10.6	1.0	-
Cleveland, Ohio	2		225.5	-	233.2	-	-	-	-	13.2	3.4	-
Dallas-Fort Worth, Tex.	2		228.0	-	233.3	-	-	-	-	16.0	2.3	-
Honolulu, Hawaii	2		211.1	-	215.5	-	-	-	-	12.7	2.1	-
Houston, Tex.	2		241.8	-	246.0	-	-	-	-	12.7	1.7	-
Kansas City, Mo.-Kans.	2		227.9	-	232.4	-	-	-	-	16.8	2.0	-
Minneapolis-St. Paul, Minn.-Wis.	2		233.0	-	234.8	-	-	-	-	12.2	.8	-
Pittsburgh, Pa.	2		226.1	-	229.7	-	-	-	-	12.5	1.6	-
San Francisco-Oakland, Calif.	2		220.8	-	229.0	-	-	-	-	14.3	3.7	-
Region 4/												
Northeast	2	12/77	118.7	-	120.5	-	-	-	-	11.8	1.5	-
North Central	2	12/77	122.8	-	125.2	-	-	-	-	13.7	2.0	-
South	2	12/77	121.6	-	123.8	-	-	-	-	13.0	1.8	-
West	2	12/77	122.3	-	125.4	-	-	-	-	15.7	2.5	-
Population size class 5/												
A-1	2	12/77	119.6	-	122.0	-	-	-	-	13.2	2.0	-
A-2	2	12/77	121.5	-	124.2	-	-	-	-	13.6	2.2	-
B	2	12/77	122.5	-	124.8	-	-	-	-	13.8	1.9	-
C	2	12/77	122.1	-	124.3	-	-	-	-	13.2	1.8	-
D	2	12/77	121.4	-	123.1	-	-	-	-	12.5	1.4	-
Region/population size class cross classification 6/												
Northeast/A	2	12/77	117.3	-	118.9	-	-	-	-	10.9	1.4	-
North Central/A	2	12/77	123.3	-	126.3	-	-	-	-	14.7	2.4	-
South/A	2	12/77	121.2	-	123.5	-	-	-	-	13.1	1.9	-
West/A	2	12/77	121.1	-	124.7	-	-	-	-	16.1	3.0	-
Northeast/B	2	12/77	119.9	-	121.9	-	-	-	-	12.6	1.7	-
North Central/B	2	12/77	123.3	-	125.7	-	-	-	-	13.6	1.9	-
South/B	2	12/77	122.2	-	124.4	-	-	-	-	13.2	1.8	-
West/B	2	12/77	124.2	-	127.1	-	-	-	-	15.9	2.3	-
Northeast/C	2	12/77	123.0	-	125.5	-	-	-	-	14.2	2.0	-
North Central/C	2	12/77	121.2	-	123.0	-	-	-	-	12.2	1.5	-
South/C	2	12/77	122.2	-	124.3	-	-	-	-	13.0	1.7	-
West/C	2	12/77	122.6	-	125.1	-	-	-	-	14.2	2.0	-
Northeast/D	2	12/77	120.1	-	122.4	-	-	-	-	12.8	1.9	-
North Central/D	2	12/77	122.2	-	123.5	-	-	-	-	12.1	1.1	-
South/D	2	12/77	120.4	-	122.4	-	-	-	-	12.1	1.7	-
West/D	2	12/77	123.4	-	124.5	-	-	-	-	14.5	.9	-

1/ Area is generally the Standard Metropolitan Statistical Area (SMSA), exclusive of farms. L.A.-Long Beach, Anaheim, Calif. is a combination of two SMSA's, and N.Y., N.Y.-Northeastern N.J. and Chicago, Ill.-Northwestern Ind. are the more extensive Standard Consolidated Areas. Area definitions are those established by the Office of Management and Budget in 1973, except for Denver-Boulder, Colo. which does not include Douglas County. Definitions do not include revisions made since 1973.

2/ Foods, fuels, and several other items priced every month in all areas; most other goods and services priced as indicated:
M - Every month.
1 - January, March, May, July, September, and November.
2 - February, April, June, August, October, and December.

3/ Revised index for December 1979.

4/ Regions are defined as the four Census regions.

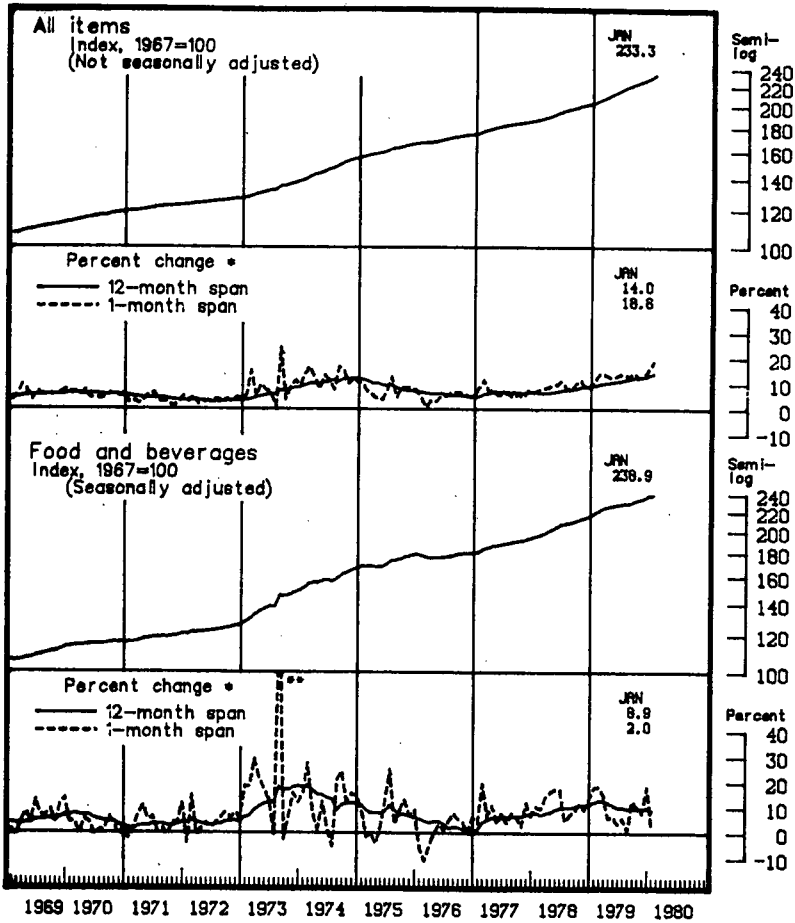
5/ The population size classes are aggregations of areas which have urban population as defined below:

A-1	More than 4,000,000.
A-2	1,250,000 to 4,000,000.
B	385,000 to 1,250,000.
C	75,000 to 385,000.
D	Less than 75,000.

Population size class A is the aggregation of population size classes A-1 and A-2.

NOTE: Price changes within areas are found in the Consumer Price Index; differences in living costs among areas are found in Family Budgets.

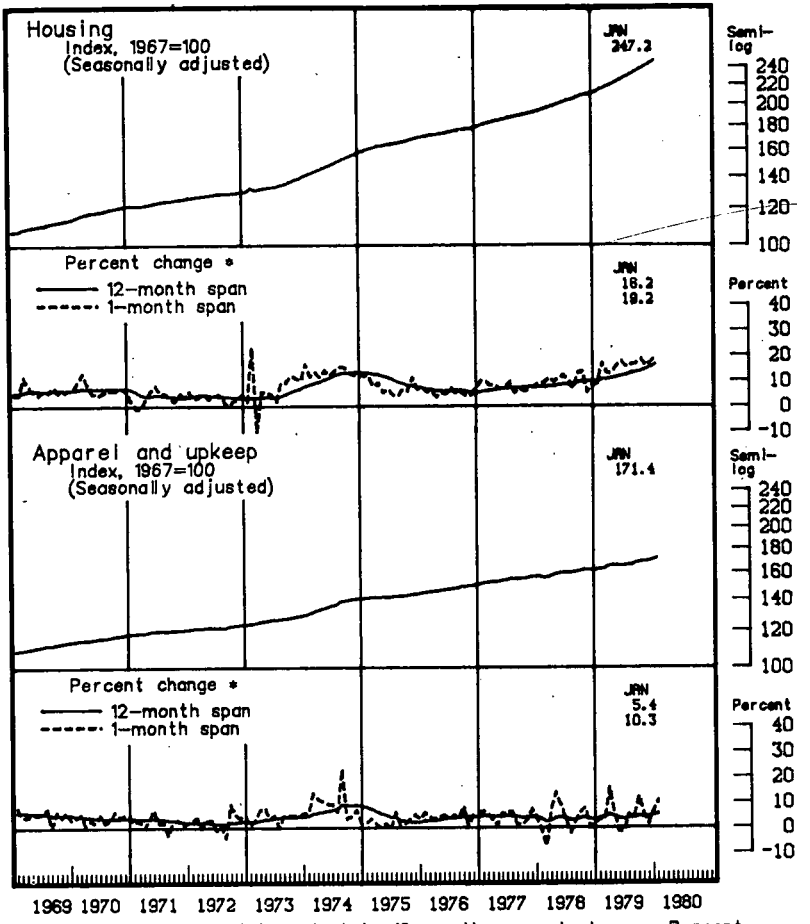
CHART 1: CPI–W: All items, food and beverages, 1969–80



* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

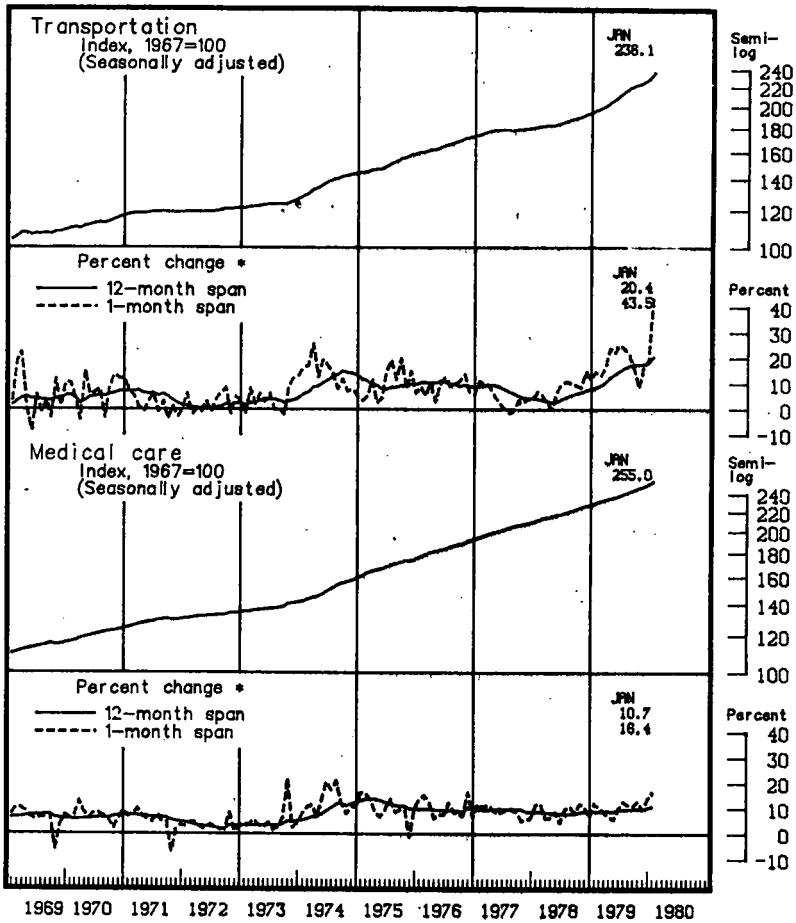
** August 1973 = 92 percent

CHART 2: CPI–W: Housing, apparel and upkeep, 1969–80



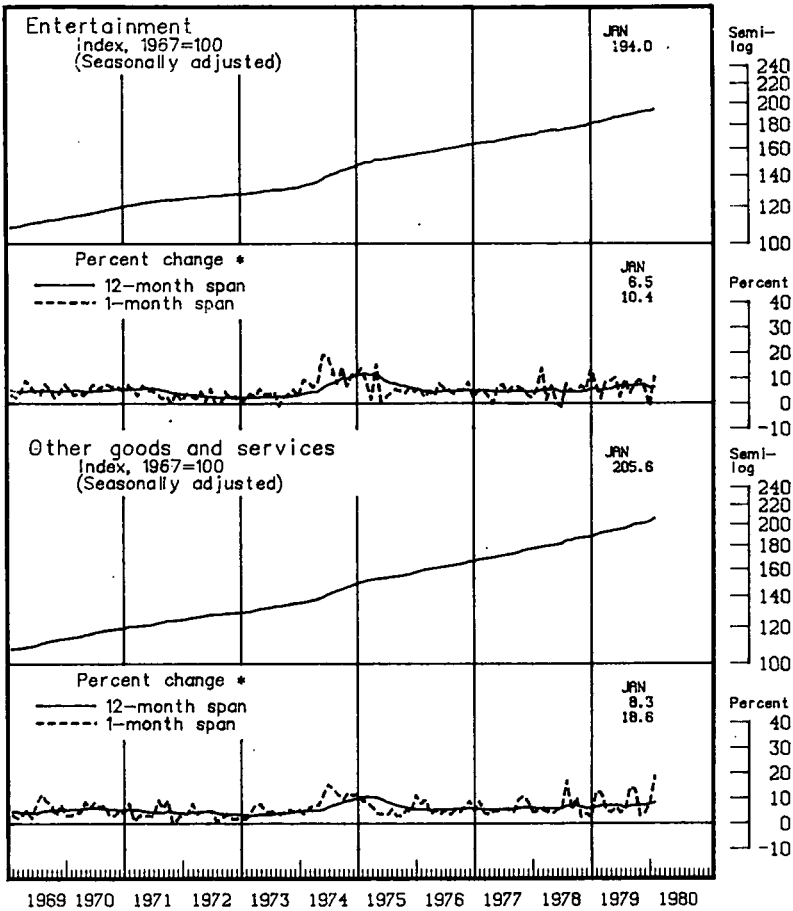
* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

CHART 3: CPI-W: Transportation and medical care, 1969-80



* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

CHART 4: CPI-W: Entertainment, other goods and services, 1969-80



* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

Table 1. Alternative HOMEOWNERSHIP COMPONENTS used in official CPI-U and in experimental measures: Percent change over 12 months

12 months ended	Official Consumer Price Index for All Urban Consumers (CPI-U)	Experimental measures of homeownership				
		Flow-of-services measures			Outlays measures	
		X-1 Rental equivalence using CPI rent	X-2 User cost using current interest cost	X-3 User cost using average interest cost	X-4 Outlays using current interest cost	X-5 Outlays using average interest cost
December:						
1968	7.6	2.8	11.1	8.0	11.0	6.0
1969	10.2	3.8	6.9	3.5	13.2	8.3
1970	10.2	4.5	4.3	1.7	12.6	10.1
1971	2.7	3.8	−12.1	−8.9	0.3	7.7
1972	4.1	3.5	2.4	3.3	4.8	6.2
1973	7.7	4.9	22.9	18.8	10.8	4.4
1974	13.3	5.4	16.8	12.9	14.9	9.1
1975	7.9	5.2	2.7	3.3	7.1	9.0
1976	3.8	5.5	−1.0	2.0	2.7	7.6
1977	9.2	6.5	2.5	0.4	10.4	9.0
1978	12.4	7.3	5.7	1.1	12.0	5.3
February 1979	13.5	7.1	10.8	7.4	13.7	5.7
March 1979	13.7	6.7	11.7	10.4	14.0	5.9
April	14.2	6.5	12.3	9.9	14.4	6.1
May 1979	14.6	6.8	13.9	11.3	14.9	6.4
June 1979	14.9	6.8	14.2	10.6	15.0	6.4
July 1979	15.2	7.1	16.7	11.7	15.3	6.8
August 1979	16.0	7.5	20.1	9.8	15.9	7.0
September 1979	16.1	7.6	18.3	13.2	16.4	7.5
October 1979	16.8	8.4	22.2	13.7	17.2	7.8
November 1979	18.3	8.1	24.5	15.1	19.0	7.9
December 1979	19.8	7.9	28.2	22.4	22.6	11.2
January 1980	21.1	8.1	30.7	22.9	24.4	11.7
Relative importance of homeownership component, December 1977 (all-items index=100)	22.8	14.3	11.4	10.0	10.0	8.7

Table 2. Official ALL-ITEMS CPI-U and EXPERIMENTAL MEASURES using alternative homeownership components: Percent change over 12 months

12 months ended	Official Consumer Price Index for All Urban Consumers (CPI-U)	Experimental measures using alternative homeownership components				
		Flow-of-services measures			Outlays measures	
		X-1 Rental equivalence using CPI rent	X-2 User cost using current interest costs	X-3 User cost using average interest costs	X-4 Outlays using current interest costs	X-5 Outlays using average interest costs
December:						
1968	4.7	3.9	4.9	4.6	4.7	4.2
1969	6.1	5.2	5.6	5.2	6.0	5.7
1970	5.5	4.5	4.5	4.2	5.2	4.9
1971	3.4	3.5	1.6	2.2	3.2	3.8
1972	3.4	3.3	3.2	3.3	3.4	3.5
1973	8.8	8.5	10.5	10.0	9.2	8.7
1974	12.2	11.1	12.6	12.1	12.3	11.8
1975	7.0	6.6	6.3	6.4	6.8	6.9
1976	4.8	5.1	4.3	4.7	4.8	5.2
1977	6.8	6.3	5.8	5.7	6.6	6.5
1978	9.0	8.0	7.8	7.4	8.5	7.8
February 1979	9.9	8.6	9.1	8.7	9.4	8.6
March 1979	10.2	8.8	9.4	9.2	9.6	8.9
April 1979	10.4	8.9	9.6	9.4	9.8	9.1
May 1979	10.8	9.2	10.1	9.7	10.1	9.3
June 1979	10.9	9.3	10.2	9.8	10.2	9.4
July 1979	11.3	9.7	10.9	10.3	10.7	9.9
August 1979	11.8	10.1	11.5	10.4	11.0	10.2
September 1979	12.1	10.4	11.7	11.1	11.4	10.6
October 1979	12.2	10.5	12.2	11.1	11.5	10.5
November 1979	12.6	10.5	12.5	11.3	11.8	10.6
December 1979	13.3	10.8	13.2	12.3	12.5	11.3
January 1980	13.9	11.2	13.9	12.8	13.1	11.5

Explanations of Homeownership Measures

Official CPI-U includes five components. (1) The weights for property taxes, property insurance, and home maintenance and repairs represent expenditures of all homeowers in the base period. The weights for house prices and contracted mortgage interest cost represent only those homeowners who actually purchased a home in the base period. Included are the total price paid for the home, and the total amount of interest expected to be paid over half the stated life of the mortgage. (2) Current monthly prices are used for each of these components.

Experimental Measure X-1: (1) The weight for this rental equivalence measure is the estimate of the rental value of all owner-occupied homes in the base period compiled from a specific question asked on the 1972-73 Consumer Expenditure Survey. This covers the entire stock of owned homes. (2) Prices used are the current rents collected for the residential rent component of the CPI. The CPI rent component is designed to represent changes in residential rents for all types of housing units, not just changes in rents for units that are typically owner occupied. The CPI rent component is, therefore, not appropriate for this measure.

Experimental Measure X-2: (1) The weight for this user cost method includes expenditures for mortgage interest, property taxes, property insurance, maintenance and repairs, the estimated base-period cost of homeowners' equity in their houses, and the offset to shelter costs resulting from the estimated appreciation of house values in the base period. This measure covers the entire stock of owned houses. To derive the weights for mortgage interest costs and equity costs, the total value of the housing stock in the base period was apportioned into its debt and equity components. The debt component equals the amount owed and the equity component is the amount owned, i.e., payments on principal plus appreciation from the time of purchase to the base period. Each component was subsequently multiplied by the average mortgage interest rate in the base period to determine its cost. (2) Prices used are current ones except for the appreciation term which uses a 5-year moving average of the changes in appreciation rates.

Experimental Measure X-3: (1) The weights are the same as in Experimental Measure X-2, except that mortgage interest costs are calculated as the total interest amount *paid out* by homeowners in the base period. As in X-1 and in X-2, this measure covers the entire homeowners population. (2) The prices for all components except mortgage interest costs and appreciation are current monthly prices. As in X-2, appreciation is represented by a 5-year moving average of the changes in house prices. However, X-3 uses past and current mortgage interest costs in a 15-year weighted moving average, which reflects the base period age distribution of mortgage loans.

Experimental Measure X-4: The weights for this outlays approach include expenditures actually made in the base period for property taxes, property insurance, maintenance and repairs. The weight for the mortgage interest term is calculated in the same manner as in X-2. However, no appreciation or equity terms are included. Not all homeowners are represented in this measure because those who made no mortgage debt payment in the base period are excluded. (2) The prices used for each of these items are current ones.

Experimental Measure X-5: (1) The weights for this outlays approach include, as in X-4, expenditures actually made in the base period for property taxes, property insurance, maintenance and repairs. The weight for the mortgage interest cost term is the same as for the X-3. No appreciation or equity elements are used. As in X-4, not all homeowners are represented in this measure because those who made no mortgage debt payment in the base period are excluded. (2) Current prices are used in X-5 except for mortgage interest which uses the 15-year moving average also used in the X-3.

Representative REUSS. Mr. Russell, we would now like to hear from you. Please proceed in your own manner.

STATEMENT OF R. ROBERT RUSSELL, DIRECTOR, COUNCIL ON WAGE AND PRICE STABILITY

Mr. RUSSELL. Thank you, Congressman.

I wish this were Fred Kahn's turn to present this monthly CPI testimony, because I have a feeling it's not going to be a whole lot of fun. I don't like to put a lot of emphasis on 1-month figures, but the 1.4-percent increase in the CPI this month, I fear, is not an aberration. I fear that it is consistent with an ominous trend that has been taking place over the last year.

Over this last year, if you will refer to my first table, the overall inflation rate has been fairly steady—in the 13- to 13½-percent range—not at all a good record. It has been fairly steady despite some considerable fluctuations in what we call the problem sectors. Whenever we get a good quarter in one of these problem sectors, we get a bad quarter in some other sector.

For example, in the fourth quarter we finally got a little relief in the fuel area, when the energy component of the CPI went up at a 13-percent annual rate as compared to the 50- and 70-percent annual rate it had been going up in earlier quarters, but as that happened, we had a worsening of the food situation, as food costs accelerated from a 4-percent annual rate in the third quarter to about 11 percent in the fourth quarter of 1979, and mortgage interest rates accelerated, thus pushing up at an increasingly higher rate the cost of purchasing a home.

So, basically these problem sectors have been fluctuating a bit, but on balance, the result has been bad.

What we have been lucky about thus far is that the explosion in energy prices that is afflicting the entire world economy has not yet been built into the industrial wage-price structure. During most of 1979, the underlying rate of inflation—the rate of inflation in the industrial and service core of the economy—was fairly steady at 7 to 7½ percent, despite the terrible adverse shocks we were receiving from abroad.

The objective of the incomes policy and the other policies of the administration has been to try to prevent this explosion in energy prices and interest rates and, to a certain extent, in food costs from getting built into the industrial wage-price structure.

At least through most of 1979, that was succeeding. However, the trend looks ominous, as we have been predicting all along, and it is beginning to appear that the underlying rate of inflation is starting to explode.

In the third quarter of 1979, the underlying rate of inflation—the last line in my first table—accelerated from 7 to 7½ percent. It had been running in earlier quarters to about 8 percent.

In the fourth quarter of 1979, the underlying rate of inflation accelerated to about 8½ percent, and in the first month of 1980, the underlying rate of inflation or the underlying inflation went up by about 0.8. This is at an annual rate of about 10 percent.

So what we have been fearing, namely, an acceleration in the underlying rate as these energy price increases get built into the price and wage behavior in the industrial sector of the economy, unfortunately, finally appears to be taking place.

I think that this is most graphically illustrated by the figure that I've drawn for you on the third page of the handout. This shows the underlying rate of inflation for the CPI and the underlying rate for the PPI, basically obtained by taking out the volatile indexes for food, housing, and energy.

The upward trend in the underlying rate is readily apparent from this picture for the CPI, and although the PPI underlying rate has a lot more noise in it—it fluctuates much more from quarter to quarter—you can see that it appears to be exploding as well. Further, as you know, the PPI for the last month was a veritable disaster, even after we take account of or adjust for the deleterious effects of the big increases in jewelry prices due to the soaring prices of silver and gold.

So, what we have been fearing all along is now happending. The underlying rate of inflation is now accelerating.

Curiously, however, this does not appear to reflect a worsening of the wage-price spiral, because wage increases are still amazingly well behaved. Wage increases actually decelerated last year compared to a year earlier. We attribute this in large part to the wage guidelines, and similarly we attribute the fairly steady underlying rate to the price standard in effect last year.

How long we can keep or prevent an explosion in wage increases as the cost of living continues to soar is problematical, to say the least. Moreover, as we look ahead, I'm afraid that I cannot be sanguine about what we see for at least the next few months and maybe for even longer periods of time ahead.

We can expect continued large increases in mortgage interest cost. There is a sign that the bubble has burst in home values, but home purchase costs continued to soar because of the rising mortgage interest rates due to the essential and necessary actions of the Federal Reserve and due to the fact that usury laws are being relaxed around the country.

It does not look like there's anything we can look forward to in the way of good news about energy over the next few months. Both the direct and the indirect effects of OPEC actions and the worldwide energy shortage will continue to push gasoline and home heating oil prices up at very rapid rates over the next few months.

Looking a little further ahead, we would hope that as the economy softens during this year, the Federal Reserve will be able to take its foot off the brakes a bit, and the interest rate can start to moderate. This should help us a lot in the home purchase component of the index.

Also there is some evidence of an emerging glut in petroleum products and crude oil that could cause a softening of that market later this year, so that we should get some relief from energy. However, in terms of the long run, the possibility of bringing this inflation under control, once these problem sectors become less of a problem, depends very much on how high the underlying rate of inflation is, because that is what we have to bring down with monetary and fiscal policy.

I think the last page of my handout will underscore the last point that I want to make, namely, the kind of pessimistic assessment of our long-term prospects for getting inflation under control through ordinary means.

That diagram shows increases in nominal hourly compensation over the past 4 years, and you can see that they have been reasonably well behaved. There is very little sign of acceleration.

At the same time, real hourly compensation has declined markedly because of the acceleration in the growth of the cost of living.

The reason for this can be seen in the productivity part of our program. You can see that there has been a steady decline in the rate of growth of productivity, even when the economy has been in the boom period when productivity normally grows at very, very rapid rates. This collapsing rate of productivity growth in our economy has pushed up unit labor cost, or cost per unit of labor output, even while wage rates were well behaved. As a result, the labor-cost pressure on prices has helped to accelerate the underlying rate of inflation. I would say that in the long run, getting inflation completely under control requires that something be done about the productivity collapse in the country.

The problem, of course, is that shortrun measures that would increase productivity growth through the provision of incentives to invest in productivity improving capital equipment would be inflationary, because they would help fuel the fires of aggregate demand. So we have a shortrun problem.

With that rather pessimistic assessment of the situation, let me answer questions.

[The tables and charts referred to follow:]

CONSUMER PRICE INDEX

(Seasonally adjusted, percentage changes)

	Dec. 1978 Relative Importance (%)	Fiscal Year 1978	First Program Year (PY) 3 months ended ... 1/ Dec.78	Mar.79	June 79	Sept.79	2nd PY Dec.79	Dec. 79 to 2/ Jan. 80
ALL ITEMS	(100.0)	8.3	8.5	13.0	13.4	13.2	13.5	1.4
Food	(18.2)	10.8	10.2	17.7	7.5	4.2	11.1	0.0
Food at Home	(12.6)	11.4	10.9	19.2	5.7	2.8	11.0	-0.2
Domestically Produced 3/	(10.4)	13.5	7.7	27.5	7.8	-2.1	7.0	-0.4
Imported 3/	(2.2)	2.5	5.1	8.6	6.9	15.5	7.6	1.0
Food away from Home	(5.5)	9.6	8.7	15.6	11.8	7.6	10.9	1.0
Housing (less fuel)	(40.1)	9.6	9.6	11.7	13.0	14.3	18.4	1.3
Home Purchase	(10.2)	10.1	14.3	10.8	15.5	16.5	20.8	0.9
Mortgage Interest Costs 3/	(7.3)	15.6	7.0	28.8	27.8	38.0	45.0	3.6
Rent	(5.5)	7.1	7.7	3.6	8.7	10.7	8.5	0.7
Energy 3/	(8.5)	7.0	5.8	24.6	70.0	49.1	12.9	4.6
Transportation 5/	(13.6)	5.8	8.2	9.1	8.2	7.8	10.4	1.8
Public Transportation	(1.0)	2.2	1.9	5.9	7.1	22.2	39.4	1.7
New Cars	(3.9)	8.8	1.0	12.8	12.7	6.9	-1.9	1.4
Apparel and Upkeep	(5.5)	3.6	2.3	8.7	1.5	7.7	4.8	0.9
Medical Care	(5.0)	7.9	10.8	9.4	7.7	9.9	13.3	1.3
Entertainment	(4.0)	5.1	9.1	8.9	5.5	7.2	5.8	1.0
Other Goods and Services	(4.3)	7.7	2.2	8.5	5.7	12.6	4.4	1.1
All Items less Energy 3/	(91.5)	8.5	7.7	11.6	10.6	10.0	12.1	1.1
All Items less Mortgage Interest Costs (MIC) 3/	(92.7)	7.7	6.7	11.3	14.2	11.3	9.6	1.2
All Items less Energy and MIC 3/	(84.2)	7.8	6.6	10.4	9.5	7.8	9.5	0.9
Underlying Rate 4/	(50.3)	6.1	7.2	7.5	7.4	7.9	8.6	0.8

1/ Seasonally adjusted, annual percentage rates of change.
2/ January changes are based on December 1979, relative importance weights and are not directly comparable to other figures in the table.
3/ Not seasonally adjusted.
4/ Consumer Price Index excluding the costs of home purchase, finance, taxes, and insurance; and food, energy, and used cars.
5/ Less gasoline.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics, and the Council on Wage and Price Stability.

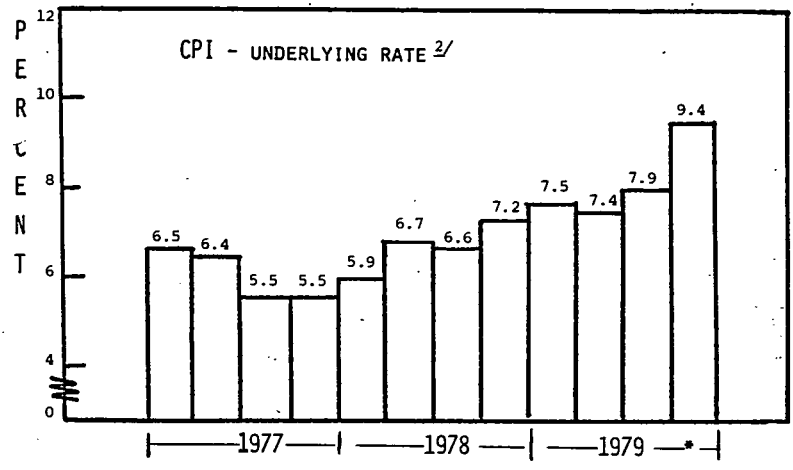
PRODUCER PRICE INDEX
(Seasonally adjusted, percentage change)

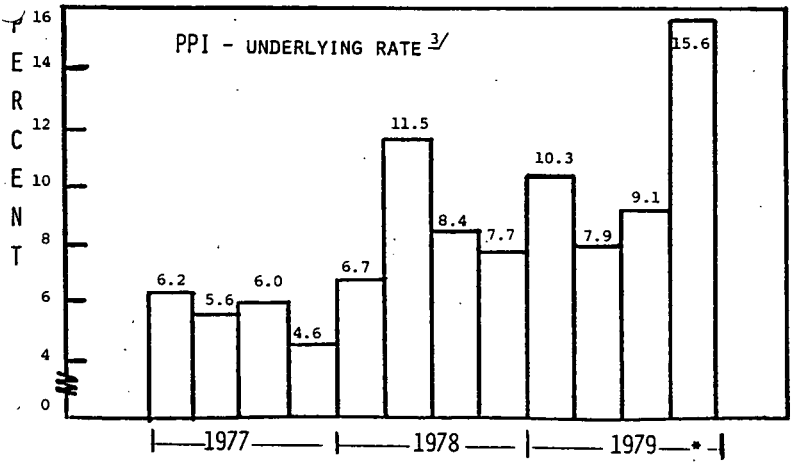
	Dec. 1978 Relative Importance (%)	Fiscal Year 1978	First Program Year (PY) 3 months ended ... Dec.78	Mar.79	June 79	Sept.79	2nd PY 1/ Dec.79	Dec. 79 to Jan. 80
FINISHED GOODS	(100.0)	8.4	10.3	13.9	7.9	16.1	12.9	1.6
Consumer Goods	(70.6)	8.4	11.5	15.3	7.1	20.7	14.0	1.6
Foods	(25.4)	10.2	14.6	18.0	-9.2	15.3	8.3	-0.8
Fuel and Energy	(6.4)	3.9	22.9	33.2	75.2	106.2	45.6	4.4
Other	(38.8)	8.1	7.7	10.3	7.9	9.1	10.5	2.4
Producer Goods	(29.4)	8.4	7.9	10.5	9.4	5.9	9.4	1.6
INTERMEDIATE GOODS	(100.0)	7.1	11.5	13.7	14.7	19.7	15.5	2.8
Food	(5.4)	16.5	15.8	5.9	2.8	24.8	1.4	-2.7
Fuel and Energy	(10.3)	2.4	12.6	15.1	52.8	71.1	37.1	4.7
Other	(84.3)	7.2	10.9	13.8	11.0	13.4	13.1	2.8
CRUDE MATERIALS	(100.0)	17.8	18.1	29.0	6.3	20.0	15.7	-0.9
Food	(58.5)	20.0	18.1	29.8	-4.5	16.4	5.7	-3.8
Fuel and Energy	(24.8)	13.5	12.1	21.7	35.4	50.7	36.1	3.0
Other	(16.7)	17.0	27.1	38.2	7.6	-7.1	20.1	2.4

1/ Annual rate of change.

SOURCE: Department of Labor, Bureau of Labor Statistics.

SELECTED MEASURES OF THE UNDERLYING RATE 1/





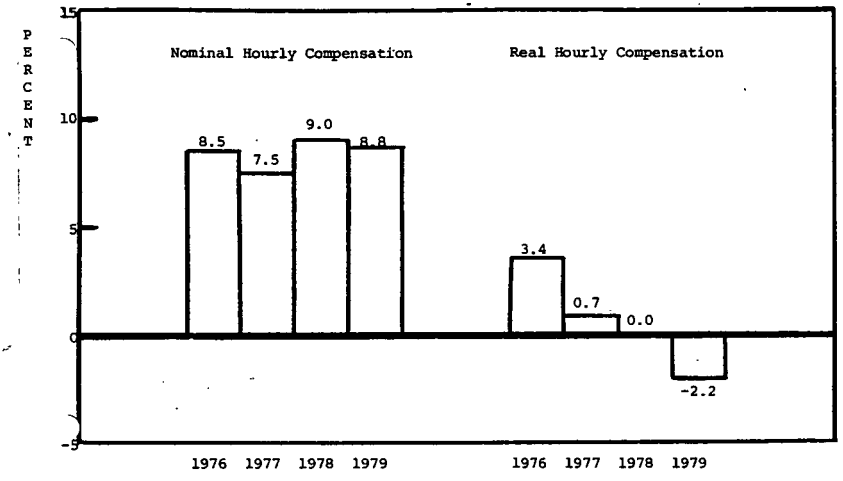
1/ Three-month percentage changes, seasonally adjusted annual rates.
2/ The Consumer Price Index excluding the costs of home purchase, finance, taxes, and insurance ; and food, energy and used cars.
3/ The Producer Price Index for finished consumer goods, excluding food and energy.

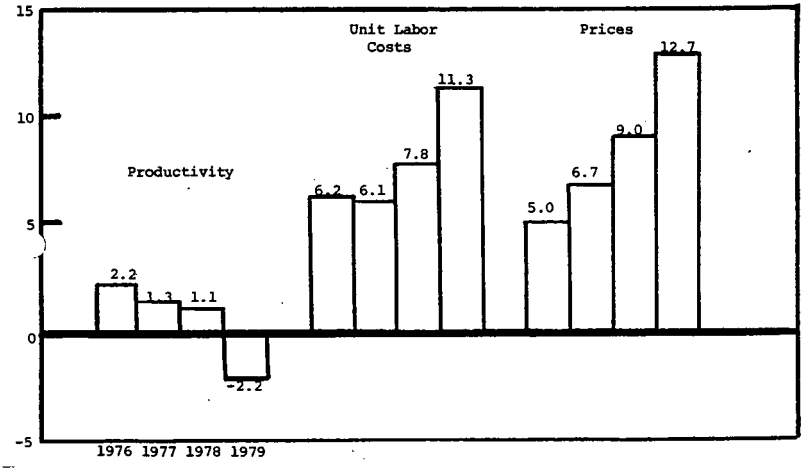
*/ Last bar present changes for the four months ending January 1980.

SOURCE: Department of Labor, Bureau of Labor Statistics.

PRICES, UNIT LABOR COSTS, AND PRODUCTIVITY

(Fourth-Quarter to Fourth-Quarter Percentage Changes)





Representative REUSS. Thank you very much.

Do you agree with my view that inflation in this country is out of control and that we are in a very perilous position?

Mr. RUSSELL. No; I don't think that it's out of control. The inflation rate in this country is not very different from the inflation rate that is being experienced around the world, due in large part to energy prices.

Representative REUSS. It is very different from that in Germany and Japan.

Mr. RUSSELL. That is——

Representative REUSS. It's 5 or 6 percent.

Mr. RUSSELL. The Japanese Consumer Price Index is starting to accelerate rapidly. Moreover, the thing to keep in mind is that in Japan, a highly service-oriented economy, the CPI goes up much less than their counterpart to our Producer Price Index. Their Producer Price Index has been going up at double digit rates, just as has ours, because of the energy price explosion, and there is evidence that their CPI is starting to explode as well.

For the OECD countries as a whole, the inflation rate recently has been up well into double digit levels, so this is not unique to the American experience by any means.

Now, you ask: Are we in danger?

Representative REUSS. Germany?

Mr. RUSSELL. In Germany the inflation rate has been relatively low, but they have the luxury of being able to induce recessions that are not costly to the German people because they export their unemployed, a luxury which we don't have, so they more effectively pursue restrictive fiscal policy that is without the same cost on workers as in this country.

Representative REUSS. The German Government denies what you just said. They deny that they export their unemployed back to Turkey and Spain, and I believe them.

Mr. RUSSELL. Well, when they had a recent recession, the data showed that 500,000 workers, alien workers, emigrated from Germany. That is equivalent, if you adjust for the relative size of the labor force, to 2 million workers, or 2 percentage points of unemployment in this country.

Representative REUSS. I think this is important. They did not export them. They did not deport them. The workers left voluntarily.

Mr. RUSSELL. That's right. I don't mean to imply that they deported them. I just mean that when a recession occurs, because of the large number of legal aliens in Germany and the ease with which they cross borders, they are the first to become unemployed and they cross back into their home countries; and hence the effect on the German people is not as great as a recession in this country.

Representative REUSS. But ever since the guest worker program started in Germany, 15 or 20 years ago, there has always been a considerable outmigration.

Mr. RUSSELL. That's right.

Representative REUSS. They may work in Dusseldorf and go back to Yugoslavia. I don't think we can laugh it off in this country by saying, "Oh well, the Germans, they can just export their guest workers." That isn't what they do.

Mr. RUSSELL. Well, I think——

Representative REUSS. The Germans control inflation; we don't.

Mr. RUSSELL. It's important to point out, when you're talking about controlling inflation, that the German deficit is a larger percentage of their GNP than ours. Their rate of growth in the money supply is faster than ours at this time. Sure, they came out of a recession not too long ago, but I don't think that we can blame this disparity on differences in fiscal and monetary policy in the two countries.

Representative REUSS. I emphatically don't. The Germans are running a deficit in terms of GNP, three times our own, which makes our structural performance that much more outrageous and inexcusable.

Mr. RUSSELL. I think another thing to keep in mind in these international comparisons is that I think the United States is especially hard hit by the energy crisis, because we are without doubt the most energy-intensive country in the world, except perhaps for Canada—and they are very comparable to us. So, when energy prices go up, it hits us especially hard.

Representative REUSS. True, and this is an important part of inflation; but, as the Secretary of Energy testified before this committee within the last couple of weeks, 40 percent of the gasoline consumed in this country is for discretionary, nonbusiness, nonessential, or non-get-to-work purposes and yet we don't ration gasoline. That I suggest is one of the big causes for the unconscionable inflation we're having.

Mr. RUSSELL. Well, we do ration gasoline through higher prices.

Representative REUSS. I call that inflation. We ration everything by price, the most outrageous prices in the country's peacetime history.

Mr. RUSSELL. But our gasoline prices, Congressman, are much lower than the gasoline prices in virtually every part of the world. So I think we need to get our gasoline prices up to an equilibrium level in order to induce the kind of conservation——

Representative REUSS. Well, that's what you think. I think we should not ration by the purse. I think we should see that essential driving needs are met by a gasoline rationing which assures adequate supplies for essential farming and business and getting-to-and-from-work purposes. And that is one of the many big differences between you of the administration and myself.

Mr. RUSSELL. I think we have asked for a standby rationing authority.

Representative REUSS. But that's a farce.

Mr. RUSSELL. Why is that?

Representative REUSS. Well, the program that was set up was unworkable, and Congress made it worse, if possible.

Mr. RUSSELL. All of these programs will be very onerous in terms of bureaucratic redtape. Any rationing scheme is bound to be difficult to administer, and that is one of the major problems.

Representative REUSS. Well, I have heard that one; but from an administration that wants to register everybody, I can't believe that it is all that onerous. I was around in World War II. I rationed gasoline. It worked fine. Look up the history.

I think the administration is copping out on its plain duty.

You are the Director of the Council on Wage and Price Stability. When did you last see the President?

Mr. RUSSELL. I last saw the President yesterday morning.

Representative REUSS. Did you tell him the news that you are telling us today?

Mr. RUSSELL. No, that was not the matter of discussion, but the President is aware of the disparity in the inflation problem. And you can be sure that the administration is again reexamining all of the reasonable options for intensifying the anti-inflation program.

Representative REUSS. Well, when yon next see him, convey the message that I have been trying to convey by every means, that until we get in place a structural anti-inflation program, a mandatory gasoline conservation program, a balanced budget fiscal policy, and a strong income policy, we are going to continue to have unconscionable inflation. We don't have such policies now.

Mr. Long.

Representative LONG. Thank you, Congressman.

Mr. Russell, let's explore the views, your views particularly, with respect to price controls and wage controls in view of this latest development.

As recently as last November you said, before this committee, in answer to the question whether you felt inflation could go as high as 15 percent in 1980, you said that you didn't anticipate that at all. Of course, as you said, 1 month does not make a year, but if we look at what is happening, and your own pessimism with respect to what is likely to happen the rest of this year, we're talking about something that is going to be substantially in excess of what it was in 1979.

Mr. RUSSELL. I think the underlying rate of inflation in 1980 will be worse than the underlying rate in 1979. In calendar year 1979 it was only around 8 percent, and I think that it is inevitably going to move up to something over 10 percent. I don't expect the problem sectors to be as bad this year, however. I can't believe the interest rates will rise again this year as rapidly as they did in 1979, because as we move into a recession, we can allow interest rates to at least level off and perhaps even decline.

I cannot see energy prices going up as much again this year as they did last. World inventories have been built up, and unless there is a major political crisis, crude oil prices should not go up again by 70 percent or more this year, and domestically we have large stocks of gasoline at home. Heating oil and refiner and distributor margins are way up. The situation is very different as we move into 1980 with respect to energy than it was in 1979. I don't expect that refinery and distributor margins will increase as much this year. Therefore, I think that those problem sectors will not be as bad—the overall rate of inflation will not be as high as it was last year, and it will not be over 13 percent.

Representative LONG. But at the same time, you yourself pointed out the danger of the wage control situation getting completely out of hand, because it has not kept pace with the price controls. Wouldn't that more than offset the result of reduced demand on the world markets for energy?

Mr. RUSSELL. No, I don't think it will, because we're talking about energy prices going up last year at 37 percent; commodity prices going up around 50, 60 percent; and crude oil prices going up 70, 80

percent. I don't see anything like that for 1980. The acceleration in the underlying rate that I'm talking about, while very bad, is still measured in terms of 2 or so percentage points. I see wages perhaps accelerating, but last year they went up only 8½ percent, including fringe benefits.

I think that it would take a much more poor performance than I expect for these wage increases to accelerate above 10 percent next year, so you're talking about 1½ percentage points of acceleration.

Representative LONG. You know, a few months after your predecessor, Mr. Bosworth, resigned from the job, he issued a statement calling for mandatory price and wage controls. Do you think you will do this after you retire?

Mr. RUSSELL. No, I don't think that I will.

Representative LONG. Are you prepared to do it now?

Mr. RUSSELL. No.

Representative LONG. Why not?

Mr. RUSSELL. Because I don't think that we ought to be stampeded by the recent bad turn of events into a program that will place the American economy in a straitjacket that would in the long run be inimical to the anti-inflation effort, because it would impair productivity growth, diminish incentives to invest, cause dislocations in markets, distortions in resource allocation, and create all kinds of inefficiencies that raise costs and actually in the long run contribute, therefore, to inflationary pressures.

I think that mandatory wage and price controls should only be used in cases of dire emergency, particularly in wartime.

Representative LONG. Did you read Otto Eckstein's recent statement where he says controls won't work except for a very brief period of time. But, he said, when you are drowning, a very brief time can look like nearly an eternity, and certainly a good thing.

Mr. RUSSELL. Although I don't agree with the position, I can understand the position that if we had the authority right now, one could imagine that it wouldn't be disastrous to have a short freeze in wages and prices just to try to break speculative expectations about price increases and behavior which reinforces those expectations.

However, the authority doesn't exist. If anybody in the Congress wants to present a bill granting the administration that authority, it would lead to a huge acceleration in the inflation rate through anticipatory wage and price increases, where everybody tried to get their base up.

So, I can't think of anything that would be more disastrous to the anti-inflation effort now than the introduction of a bill giving the administration authority to impose mandatory controls.

Representative LONG. You all have had 18 months or so administering the voluntary guidelines. How much more difficult do you think it would be to administer compulsory wage and price controls?

Mr. RUSSELL. I don't think the issue is so much whether they are voluntary or mandatory. You see, this issue is taken very seriously by the companies we monitor, and by the workers. What is difficult is to administer a system in which you actually try to control the millions, literally millions of prices that exist in the economy, as we did in the early 1970's. The voluntary standards that we now have have built

into them enough flexibility to adjust relative prices in response to changing demand and supply conditions. This can be monitored very adequately with a staff of our size but if you try to control every single price in the economy, as the Nixon administration did, you would need a huge bureaucracy of auditors.

Representative LONG. One more question. What has happened to the union-nonunion wage differential during this period of the wage-price guidelines? Have the unionized workers done a lot better than the nonunion workers?

Mr. RUSSELL. Yes, sir. Union workers have done better than nonunion workers by about one-half a percentage point, on average. However, I think the main discrepancy is not between the union workers and nonunion workers, but rather between workers in major powerful unions who are protected by cost-of-living adjustment clauses, and those who are nonuionized or who are in small unions that don't have these cost-of-living adjustment clauses.

Representative LONG. The communication workers, for example, being a good example of one that is strong and has built in cost-of-living increases.

Mr. RUSSELL. I think that is one. Obviously, steel, auto, rubber. Yes, they have done very well.

Unfortunately, we underestimated the inflation rate, and therefore underevaluated these cost-of-living clauses in contracts in our standards. So that even complying contracts allowed fairly large increases for these unions.

Representative LONG. If you had sole authority as to what ought to be done right now, what would you do? I mean, let's assume that you were for 1 day or 1 month the man who could set the whole policy with respect to getting this problem under control. You obviously don't favor mandatory controls. You obviously don't favor rationing. So, what would you do? Sit here and let it run on some more?

Mr. RUSSELL. No, sir. I think that most of the quick-fix cures are worse than the disease itself. My objective would be to bring the inflation under control gradually because that is the least painful way to do it. The only way to do it overnight is through a highly dislocative set of mandatory controls or through a deep recession.

I think we need to continue to hold to a tight fiscal and monetary policy. We need to stick to the incomes policies that we have, strengthening them, correcting the deficiencies wherever we can, so that we can gradually decelerate the inflation rate, particularly when these adverse shocks start going in our favor instead of the way they've been going over the last year.

Representative LONG. Thank you, Congressman Reuss.

Representative REUSS. Thank you.

Mr. Russell, you gave as your reason for opposing wage and price controls, a moment ago in response to a question by Mr. Long, that this would cause dislocations in the markets. Good Lord, aren't the markets already so dislocated that they squeak? Look at steel, where the American steel industry, unlike that of Germany and Japan, has refused or been unable to get into continuous casting production. Look at automobiles, where the American automobile industry has let the market for compact cars go overseas. Look at the railroads, which the

Interstate Commerce Commission has bludgeoned into bankruptcy, or to the verge of bankruptcy.

Look where you will, and you find markets that are already hideously dislocated. Isn't that so? Are you under the impression that we have a splendid Adam Smith free market system and that thus we shouldn't lay any hands on it?

Mr. RUSSELL. Well, let me answer the last question first. By no means do I subscribe to the school of thought that the Government should pursue a laissez faire policy and never intervene in markets. Markets often don't work, and where they don't work, the Government should intervene to correct the deficiencies.

However, I want to make a distinction between two things that I think may be being confused here. One is the declining state of an industry such as steel and maybe even autos, on the one hand, and the kind of dislocations that I am talking about and market chaos where items disappear from the shelf, long queues form at gas stations, or lumber. Remember, lumber prices were controlled in the Nixon administration. It was not sold domestically, but instead exported to Canada because exports were not controlled, and then we reimported the same lumber at very inflated prices because import prices couldn't be controlled.

Those are the kinds of market dislocations and chaos that mandatory controls on individual product prices cause.

Some industries will be declining, and some industries will be prospering in any economy. One might argue that the steel industry in this country should be declining. As a matter of fact, steel industries in most major industrialized countries are declining. There is a process of rationalization going on because steel is a highly labor-intensive industry; therefore, it makes sense that those countries that should have a comparative advantage are those in which labor is relatively cheap and capital is relatively expensive. That is why the Third World is prospering in terms of development of steel industries, whereas these industries in developed countries are declining, not just in the United States.

Representative REUSS. Well, again, I don't find it comforting to be told that, overall, the world needs less steel when I know perfectly well that the Japanese and the Germans are producing a great deal of steel, which we import or would like to import, because our own steel industry is structurally ineffective.

Let's get back to price-wage controls, however. My own view, is that just to put price-wage controls on top of our present nonpolicy would indeed be a disaster, but, what this country desperately needs is an across-the-board anti-inflationary policy of which the main bastion would be an attack on our ramshackle economic structure in steel and automobiles and half a hundred other things. Then, that main bastion should be fortified and accompanied by a number of bridging measures.

First, we need a strong fiscal policy; that is, a balanced budget. If we can't balance the budget in a year in which we are experiencing 18 or 20 percent inflation, I don't know when we can. We should balance it right now. Second, we need gasoline rationing to assure that people get at a reasonable price whatever gasoline they need for their essential purposes. For the rest, they can let the purse ration it.

We need also, in addition to a gasoline policy and a structural policy and a fiscal policy, a moderate monetary policy. The trouble with the present moderate monetary policy is that since it is the only game in town, it actually adds to the inflation in things like housing, and it actually deters the construction of capital goods, which are one good way of increasing productivity and fighting inflation. To put all the burden on the Federal Reserve is a terrible mistake. Their recent actions are just knocking the props out of the bond market and the stock market and everything else.

Finally, with those things in place, I think wage and price controls would make sense. I want to answer your cry that the trouble with wage and price controls is that while Congress is legislating them, people raise their wages and prices. Not if you have a rollback, as was done in World War II, very successfully. Then it doesn't do anyone any good to do a little profiteering while Congress is debating.

I don't intend to put in a wage and price control bill, because until and unless the administration gets an anti-inflationary policy in place, I think it would do more harm than good, but I certainly stand ready. I think Mr. Long would agree with me that if the administration will pull itself together and get itself an anti-inflationary policy and if it believes that wage-price controls are a necessary part of such a policy, Congress would respond very fast, indeed.

We did this in the early seventies, and until the power that we gave President Nixon was misused, it worked pretty well.

Representative LONG. In that regard, Mr. Russell, if we look at what has happened in the 4½ months since the Federal Reserve announced a fairly substantial restrictive monetary policy, we see consumer prices have risen during that period, and risen substantially, I guess even more than they did before the change in policy that came about in early October of last year.

Bearing in mind what Congressman Reuss is talking about, what conclusion can you draw from that? Can you draw any conclusion from it? Is it by itself, as Mr. Reuss is suggesting, perhaps doing even more harm than good? It certainly, if nothing else, is an unfair shifting of burdens across the economy to pursue a restrictive monetary policy while not, at the same time, having those things that are required to supplement and shore up such a policy.

Mr. RUSSELL. Yes, sir. The burden of shortrun economic stabilization has always fallen on the Federal Reserve because that's the way the system is structured. The Federal Reserve can change its policy overnight. The administration, however, can change fiscal policy only ponderously. Most changes in fiscal policy require legislation.

The legislative lag is very long. It has often been the case that a particular piece of fiscal policy legislation that was sent to the Hill was the right policy at the time, but by the time it was finally passed, it turned out to be the wrong policy.

So, fiscal policy can be a very cumbersome tool for shortrun stabilization. Nevertheless, in a period of inflation like this, this fiscal policy should be tight, and I submit that it is tight. The reason that the deficit for 1980 turns out to be bigger than originally anticipated, even though it is still a fairly small percent of GNP, is because of the projected recession. To a certain extent, the deficit is not completely under the control of the Government. When the economy moves into

a recession, transfer payments necessarily go way up and the deficit goes up, so there is actually an inverse relationship between inflation rates and the budget deficit.

As for your question, Congressman Long, it is the case that monetary policy is neither the sole determination of inflation rates, nor does it operate without a lag. Therefore, we can't predict exactly what will happen to prices depending upon what the Federal Reserve Bank did last month. It is widely acknowledged that there is a lag of 3 to 6 months in the effects of monetary policy. Therefore, in interpreting the data, we have to be careful that we take into account these lags.

Finally, let me add that, in terms of the fiscal policy, it is very difficult to cut the budget, particularly at a time of international crisis such as this, where defense expenditures are really the only part of the budget that is growing rapidly, except for transfer payments necessitated by an anticipated recession.

Representative LONG. Let's look hard and long and see if we can find any good news in this thing at all. The Producer Price Index last month was up 1.6 percent. The finished food prices during that same period dropped 0.8 percent. This was the largest monthly increase in the PPI in more than a year, but it was also the first significant reduction in food costs, I believe, since last summer.

What is greater here, the good news or the bad news?

Mr. RUSSELL. I think it is more bad news than it is good news. Even after we adjust for the volatile components of the Producer Price Index, we still find that it went up not 1.6 percent, but 2.4 percent last month, if you extract food and fuel and energy, because food was, as you say, good news.

The large part of that 2.4-percent increase can be traced directly to increases in the price of jewelry because of the soaring international prices of gold and silver. Even after you adjust for that, it appears that the increase in commodity prices, consumer prices, and prices of producer equipment and so forth, was almost across the board.

It is very hard to find anywhere in the components of last month's PPI any sign of moderation in the inflation rate.

Representative LONG. Thank you.

Representative REUSS. Mr. Russell, you were saying a moment ago in discussing the Federal Reserve with Representative Long—and I don't want to misquote you, so please straighten me out—I thought you were saying that, oh, you kind of have to leave the fight on inflation to the Federal Reserve in these early stages and that means that it is kind of tough on a few people, but that's the price you've got to pay. Was that what you were saying?

Mr. RUSSELL. No, sir. I was saying that the burden of very shortrun changes in stabilization policy necessarily falls on the Federal Reserve because they can make day-to-day changes in monetary policy, and that is simply not possible with respect to fiscal policy.

With respect to fiscal policy, you have to look a year ahead and try to set the right budget expenditures and tax levels in order to balance the economy, which I think is more important than balancing the budget.

I think the Federal Reserve can act and respond to daily turns of events that fiscal policy cannot.

Representative REUSS. Well, the Federal Reserve, to its credit, is not trying to fine tune, to respond to daily turns of events. Current monetary policy is consistent with the treaty worked out between the Federal Reserve and Congress, maintaining long-term moderating control over the aggregates. So, if the rest of the administration is relying on the Fed to do the fine tuning around here, you are relying on the wrong fellow.

Mr. RUSSELL. The Federal Reserve, of course, coordinates its activities with the administration, although it, of course, has the authority to act independently. It certainly is the case, Congressman Reuss, that over the past year there have been quite a few fine-tuning adjustments in monetary policy—I think all of them well advised.

Representative REUSS. One reason I am very serious about this conversation is that the inflation from which we are now suffering is not just a new thing or a 1-month blip on the radar screen. If you compare the economic indicators for January 1980 with those for 8 years ago, you find that both producer prices and consumer prices in this country have just about doubled. Here it is, and it's getting worse.

Mr. RUSSELL. I think this inflation started in 1965.

Representative REUSS. Yes. Getting back to what you said about fiscal policy, it started when L.B.J. tried to superimpose enormous military expenditures on top of a pretty good civilian budget. That produced classic too-much-money-chasing-too-few-goods inflation, which we have still not purged from our system.

I am very concerned that the administration's military economic policy is going to replay L.B.J.'s Vietnam mistakes. I don't see how we're going to have the kind of growth in the military budget the President wants, leaving to one side whether it's necessary, without repeating the late sixties. And if we do, we're going to end up strategically and militarily weaker after we have dribbled away all these billions on new weaponry and strike forces and drafts and this and that.

Mr. RUSSELL. I think there are a couple of major differences between now and 1965. In 1965, when President Johnson was escalating the Vietnam war expenditures by a sizable amount, the unemployment rate was down around 4 percent. He was also embarked upon a rather massive domestic program to build what he called the Great Society.

That is to be distinguished from the current policy in which the increased defense expenditures necessitated by international events are being complemented by a very austere domestic policy, no major new expenditure programs on the domestic front.

Another important difference between then and now is we already have inflation with us. It's often said that a restrictive fiscal policy is one in which you don't cut taxes because the fiscal drag caused by pushing people up into higher tax brackets as prices go up means that every few years or so, just to have a steady fiscal policy, we should have a tax cut. Hence, by not cutting taxes, you are in fact increasing the tax bite, and that itself is increasing the restrictiveness of the fiscal policy.

Representative REUSS. Well, don't relax too much, Mr. Russell, on the basis of those analogies.

You say that in the middle sixties: 1965, 1966, and 1967, we had something like 5 percent unemployment. Now we have 6.2 percent

unemployment and, therefore, there is greater opportunity to rev up the machine without causing inflation.

I don't purport to know the answer to that, but an awful lot of economic wiseacres are going around saying that the nature of unemployment has changed in that it has become more structural and that what used to be a comfortable 5-percent unemloyment is now an overfull, dangerously inflationary unemployment level.

I think that you have to take that into account.

On taxation, you say that the administration has not recommended a tax cut, and I am heartily in support of the President on that. Incidentally, I think that it would be a most useful thing if he would announce that he is going to veto the windfall profits tax outrage being perpetuated now by the House-Senate conference committees, which contains a $2 billion giveaway to coupon clippers; not to workers, but to people who earn dividends and interest.

I think it would be very salutary if he would tell us all that there's no use fooling around with this, that he is going to veto it.

Anyway, that was an aside.

LBJ actually raised taxes. There still was a terrible inflation.

Mr. RUSSELL. Not when he should have.

Representative REUSS. Not when he should have. Let me hasten to say, Congress was a party to the crime in a big way, but before he was through, he actually raised taxes.

There is no suggestion of raising taxes now even by me. So I'm just saying I don't think that one can just laugh off the sixties and say, oh, we learned our lesson then.

Perhaps you would help me with the following. Take the year 1979, since all of the figures are now in on that. I think the overall consumers' inflation rate was 13 point something?

Mr. RUSSELL. Yes; a little over 13.

Representative REUSS. How was that divided? Can you break it down? On your excellent table, I see something called Consumer Price Index, relative importance. All items, 100, so far, so good. Then it says, food, 18.2 percent; housing, 40.1 percent; energy, 8.5 percent; transportation, 13.6 percent; apparel, 5 percent; medical, 5; entertainment, 4; other goods, 4; presumably adding up to 100.

Mr. RUSSELL. Yes.

Representative REUSS. Can you clarify for me and for the citizenry and press what all that means? How do you weight them?

Mr. RUSSELL. You're asking what the weight means?

Representative REUSS. My question is very naive, but I have to ask it because I want to be sure I understand it.

Mr. RUSSELL. The weights are based upon the share of total consumer, or total expenditures of a typical or average urban consumer.

So what this says, then, is that an average urban consumer in the period that the rates were constructed, since December 1978, spent, for example, 18.2 percent of his or her income on food, and 40.1 percent on housing, 8.5 percent on energy, et cetera.

Representative REUSS. Where can I find what happened to those components in terms of prices in 1979? Is that lurking here?

Mr. RUSSELL. This table tells you quarter by quarter what happened.

Representative REUSS. Well, have you got it all together?

Mr. RUSSELL. I would be happy to send you a table that has all of that and can give you actually the share contribution to the inflation rate.

Representative REUSS. That is really what I'm interested in—doing one—would you be kind enough to send us that for inclusion in the record?

Second: Right now, and you're granted a wide dispensation for arithmetical errors, give us what the relative price increases were in 1979 in those items—food, housing, energy, transportation, apparel, medical care, entertainment, and other goods.

You have told us how much people spend—18 percent of their income on food and 40 percent on housing, and so on. How much have those items gone up?

Mr. RUSSELL. It will have to be very rough.

Representative REUSS. That is understood and that will be superseded by what you file with us.

Mr. RUSSELL. The most dramatic story, of course, is energy. A typical consumer spends 8½ percent of his income on energy. Energy prices went up 35 percent.

So if you multiply the 8½ times 35, you get something around, right around 3 percentage points. So that means that 3 percentage points of the total 13 percent increase can be attributed to energy.

What may be more interesting, a calculation that I've already done, is that of the 4-percentage point acceleration in the inflation rate in 1979 compared to 1978, over half was attributable to the acceleration in energy prices.

And the bulk of the rest was attributable to the accleration in mortgage interest rates. In fact, almost all, I would say three-fourths of the acceleration in the inflation rate last year can be attributed to higher mortgage interest rates, energy costs, and the rest of the economy did not accelerate that much.

Representative REUSS. Would you be good enough to run down in this rough manner the various items? Food; how much did that go up?

Mr. RUSSELL. Food prices went up right around 10 percent last year. That has a weight of roughly 20 percent. That means that you get about 2 percentage points of the total 13 attributable to food.

Representative REUSS. Housing?

Mr. RUSSELL. Housing went up overall about 20 percent last year. It has a weight of about 40 percent.

So that gives you almost half.

Representative REUSS. Well, forget about the weights on this go-round because you have given us those. Energy, you've said that that went up 35 percent.

How about transportation?

Mr. RUSSELL. Transportation went up around 8½ percent.

Representative REUSS. Apparel and upkeep?

Mr. RUSSELL. Apparel and upkeep went up around 5 or 6 percent. Medical care went up somewhere around 9½ percent.

Representative REUSS. Entertainment?

Mr. RUSSELL. Entertainment up around 8, 8½ percent.

Representative REUSS. Other goods and services?

Mr. RUSSELL. And other goods and services appears to have gone up somewhere around 11 percent.

Representative REUSS. And that covers the waterfront; doesn't it?

Mr. RUSSELL. Yes; that is exhaustive.

Representative REUSS. Well, that's very interesting and I'm grateful to you for making those guesses. And as I say, when you give us the actual, that will govern over your very helpful instant arithmetic here.

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

CONSUMER PRICE INDEX
December 1978 to December 1979

	Dec. 1979 Relative Importance %	Percentage Change	Contribution to Percentage Change
ALL ITEMS	(100.0)	13.3	13.3
Food	(17.7)	10.2	1.8
Food at Home	(12.2)	9.5	1.2
Domestically Produced	(10.0)	9.5	1.0
Imported	(2.2)	9.6	0.2
Food Away from Home	(5.5)	11.4	0.6
Housing (less fuel)	(40.4)	14.3	5.8
Home Purchase	(10.4)	15.8	1.6
Mortgage Interest Costs	(8.7)	34.7	3.0
Rent	(5.3)	7.9	0.4
Energy	(10.3)	37.4	3.8
Transportation	(13.0)	3.5	0.5
Public Transportation	(1.1)	17.9	0.2
New Cars	(3.7)	7.4	0.3
Apparel and Upkeep	(5.1)	5.5	0.3
Medical Care	(4.8)	10.1	0.5
Entertainment	(3.7)	6.9	0.2
Other Goods and Services	(4.1)	7.9	0.3
All Items less Energy	(89.7)	11.1	9.5
All Items less Mortgage Interest Costs (MIC)	(91.3)	11.6	10.3
All Items less Energy and MIC	(81.0)	7.9	6.5
Underlying Rate 1/	(47.8)	7.8	3.7

1/ Consumer Price Index exluding the costs of home purchase, furnace, taxes, and insurance; and food, energy, and used cars.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and the Council on Wage and Price Stability.

Representative REUSS. But a note from all of this that inflation in just about every item except apparel, is simply outrageous.

Mr. RUSSELL. It is high.

Representative REUSS. And therefore, it won't do, will it, for apologists to go around saying, this is all OPEC's fault.

Sure, OPEC is the villain of that 8.5 percent of the consumer market basket which goes to energy and should be pilloried for that. But we can't blame it all on OPEC, can we?

Mr. RUSSELL. Oh, by no means, Congressman, can we do that. However, I would like to point out that the 8½-percent weight on the energy components of the CPI certainly underestimates by a long shot the effect of big increases in the price of oil.

That is because there are lots of indirect effects that appear to particular components. Take, for example, transportation. You can see that it accelerated quite a bit throughout the year to about 10½ percent in the last quarter of 1979. It shows up in petrochemicals immediately, and indeed, it permeates the entire economy.

In order to get the full impact of an energy price increase, you have to double the basic increase or more in order to take into account all of these indirect effects.

Representative REUSS. That's well explained. I was just making the point which I think is really necessary to bear in mind, that we can't lull ourselves out of our own execrable performance here by shaking our fist at OPEC. They haven't helped. But God will not forgive us if we do nothing about that part of the problem which we cause ourselves. Wouldn't you agree?

Mr. RUSSELL. Yes; I would agree. We cannot blame this entire thing on OPEC.

Representative REUSS. Wouldn't we have been better off, the President and the Congress, if we had kept price controls on American oil, had rewarded liberally with subsidies those oil companies that were actually looking for more oil offshore, onshore, secondary process, tertiary process, low level wells, deep wells, sweet oil, sour oil, whatever, pay them whatever it needed to get them out there, but keep the controls on the rest and then cut down on our imports by rationing.

Mr. RUSSELL. No; I don't think that that is the route that I would have liked to have gone. It addresses only one side of the energy problem; namely, the supply side.

And it is not at all apparent that it will affect the supply side adequately because I'm not sure that the Government knows exactly what is the optimal amount of exploration that the oil companies should be engaged in and hence, I don't see how the Government would know exactly how much of a subsidy it would require.

Representative REUSS. It doesn't take much Government to know that when an oil company buys up a Montgomery Ward or Ringling Bros. circus, that doesn't bring in much new oil.

Mr. RUSSELL. Well, that's true.

Representative REUSS. You don't need to be a genius of an administrator to figure that you woudn't give them a subsidy for doing that.

Mr. RUSSELL. I think that this may be one of the very good reasons for capital being diverted away from exploration and production; namely, the years of controls on crude oil prices domestically.

And I think that it has suppressed exploration and production. Drilling has gone way up recently, I think, because the anticipation of the effects of decontrol——

Representative REUSS. No doubt. But I haven't suggested that we just press the price control on the oil industry and subsidize liberally those who are actually putting it into production and extraction.

Mr. RUSSELL. Well, let me finish my answer. I think that this addresses only one-half of the problem. The other half of the problem is conservation.

And I think that conservation requires that we have higher prices. The alternative you might suggest is low prices and some rationing scheme.

Representative REUSS. I did.

Mr. RUSSELL. I'm sorry. I think all that it does is disguise the fact that there are going to be price increases somehow. The resources have got to be allocated one way or the other, whether it's allocated by—whether the cost of a gallon of gasoline is only partly monetary and partly time waiting in lines, partly monetary and partly the cost of a coupon that they have to buy a gallon of gas, you know, on the white market, or whatever.

The price has in some sense got to rise to the equilibrium level, otherwise there is market chaos.

Representative REUSS. The profound difference between you and the administration, on the one hand, and me, and I think there are some others, is that you are leting OPEC do the allocating. OPEC decides on the prices of petroleum and we import 50 percent of ours and we then let domestic gas and domestic oil find their way to the OPEC levels.

So it is the gentlemen in the mattress covers who are doing the allocating here, which I don't think is a very good idea.

To make matters worse, by pure coincidence, the dollar happens to be the international currency. That enables Americans to squander unlimited amounts on imported oil because we print the money, the dollar, that it is purchased with.

And while, of course, the dollar takes somewhat of a pasting on international markets because of our horrendous trade deficit brought about by this situation, the dollar is nevertheless much higher than it would be if it weren't the international currency of the world.

And that unfortunate coincidence makes, I believe, your policy in large part responsible for the energy portion of the inflation from which we're suffering.

Mr. RUSSELL. Well, I think the price of oil will be going up no matter what the denomination of a barrel of oil is.

If they valued it in pounds, it would still be going up.

Representative REUSS. Sure, but not to the level that OPEC is forcing it up.

Mr. RUSSELL. Well, I would like to say, Congressman, that I disagree with you. I do think that the domestic price of crude oil should be the international price. And, first, because that is the cost of an incremental barrel of oil to the United States.

To pretend that it is lower is to deceive ourselves and to induce inefficiencies into our crude petroleum market.

Moreover, it is not the case that OPEC completely controls the price of a barrel of crude oil. This is evidenced, I think, by the fact that during the past year there was a crude oil shortage, despite a fairly sizable increase in production throughout the world, and the crude oil price increase was higher for non-OPEC countries than for OPEC countries.

And second, this is the primary reason the spot market prices were consistently above contract prices that were charged by the OPEC countries and other countries.

So OPEC can't be blamed for setting monopolistic pricing. The fact is there's a shortage of crude oil.

Representative REUSS. Well, the fact that the spot market prices are high in large part by reason of the fact that American appetities for discretionary gasoline are catered to and the fact that Americans can buy oil on the spot market with dollars that they print themselves, that gives us an inflationary predisposition, which has now brought us to our knees. And I think we can't be complacent about it and I think that we have got to think anew on this business.

And then I want to recognize Senator Javits. But on this business of "let the highest incremental price of the last barrel of oil govern."

Do you throw out the whole World War II experience of bulk line pricing? Then we said, look, in order to get an extra ton of copper out of the ground, we aren't going to raise the price of all the copper which is otherwise going to come out of the ground at a lower price. We will pay a higher price for that last incremental ton.

And that was done in zinc and lead and a dozen other scarce commodities.

What is wrong with that? Why do we have to hang ourselves with OPEC's rope?

Mr. RUSSELL. Well, the main thing, Congressman, is that the charge to users to oil or copper or whatever should be equal to the cost of an incremental unit. Otherwise, we will overuse that commodity. We will set the price too low.

Representative REUSS. Unless you ration, of course. Everything I've said, is dependent upon rationing. If you don't ration, then you substitute rationing by the purse to rationing by a queue.

Neither of those are any good. What you should do is ration fairly in a time when the failure to ration is ruining the country, by a method which has a proven track record; namely, rationing by coupon.

Mr. RUSSELL. Well, Congressman, if you ration by coupon, will you allow people to trade the coupons, or make everybody use only their own coupons?

Representative REUSS. That is a detail. But I will tell you what I would do. I would ration—well, one, I would have the President veto this outrageous windfall profits tax, bonanza bill, and tell Congress that we have flunked the test and reimpose price controls on domestic oil, set in place a big subsidy program so that any oil company that is willing actually to drill for new oil or go secondary or tertiary would be abundantly rewarded. Ration gasoline by coupon, not to sop up the entire 40 percent of what Secretary Duncan says is discretionary gasoline, but say half of that.

Give everyone a fair amount for either every driver or every car. You figure that out. And for business, agricultural, getting to and

from work purposes. Then I think we could, with a little exercise of decisionmaking, buoy up our gasohol industry, the ethanol alcohol industry, so that people could buy at market prices like $2 a gallon for pleasure purposes and why not a pretty good 10–90 or even 20–80 mix.

So I'm not at all sure that you would need to have a so-called white market in gas coupons.

And by laying on a rather gentle hand and not trying to save every last percentage joint of the 40 percent of our gasoline usage that we waste, I think it would be eminently workable and my experience with my constituents, contrary to the accepted wisdom, is that people would welcome some leadership and the notion that they are going to be guaranteed at a fair price the essential gasoline which they need.

Then for the rest, if you want to go snowmobiling or waterskiing or Sunday driving, buy the ethanol and mix it in.

So until something better comes along that would be what I would suggest. What's wrong with that?

Mr. RUSSELL. Congressman, the problem that I have with the rationing, the coupon rationing system, with no white market, is that the 40-percent discretionary driving figure that you cite is an average. And there is a big distribution about that average.

For many people, particularly the poor, they may be doing no discretionary driving at all; 100 percent, or close to it, of their gas usage is for essential purposes, particularly those who live in areas where they have to drive a long way to work.

So that, while that particular allocation of coupons to one person may be adequate, or more than adequate for their essential driving purposes, for another it may be less than adequate.

Representative REUSS. I thought you understood that I would require the employer to file a statement indicating the number of miles which his workers had to drive to get to and from work.

Since the hand that I think needs to be laid on would be rather light, I would not become upset about somebody getting a gallon or two more than was needed. But, a rationing system can take into account essential uses. It was done in World War II. We did it. And it worked pretty good.

Since we are allegedly in the moral equivalent of war, and since the American people, with leadership, would, in my judgment, welcome a guarantee that they were going to get enough at reasonable prices to meet their essential needs, to get them to and from work, I think that the refusal of the administration to consider this is a conout and I wish they would.

Senator Javits.

Senator JAVITS. Thank you, Congressman.

I might start by asking you whether you believe that the declaration of a national emergency in respect to the economy of the U.S. market——

Mr. RUSSELL. No, sir, I do not think that we are in that state.

Senator JAVITS. Why is it not? Why is it not with the inflation apparently out of hand? That is, this morning's figure says we are 1.4 percent up for the month, and no signs of receding whatever.

Mr. RUSSELL. I think this level of inflation is intolerably high, and it calls for a redoubling of our efforts to bring inflation under control,

it calls for a further search for additional policies to implement, and to bring it under control. It is not, however, what I would call a national emergency.

Other countries are living with inflation rates as high or higher, and don't consider it a national emergency. It is a worldwide phenomenon, and I don't think we should panic or be stampeded into some proposed cure which is worse than the disease.

Senator JAVITS. Well, do you consider the declaration of a national emergency, if there is one, a panic or a stampede?

Mr. RUSSELL. It depends upon what goes along with the declaration, I guess, what policies.

Senator JAVITS. We have had national emergencies declared before, haven't we, for a lot less reason?

Mr. RUSSELL. I don't know the history of it, Senator.

Senator JAVITS. In any case, you don't believe that one ought to be declared now?

Mr. RUSSELL. I guess I would have to know what the policies are to go along with the declaration.

Senator JAVITS. Well, let's look at the speech made by a man who suggested that this is that kind of an emergency, Henry Kaufman, a rather respected constituent of mine, a distinguished economist in the financial area of New York, and indeed highly recognized in the country.

He says we ought to have a national emergency and, for one, which I would like to ask you, that we ought to limit the creation of domestic credit, both by cutting the growth of bank credit, and imposing capital to asset or liability ratios for all major financial institutions.

Now, first, Mr. Russell, do we have the power to do that in the Federal establishment? We have regulation W, of course, for the banks.

Mr. RUSSELL. Of course, we can control the total amount of credit, the Federal Reserve has that power. More importanly, we do have the statutory authority to impose selective credit controls.

Senator JAVITS. Now, do you agree with him that this is something we ought to do?

Mr. RUSSELL. It depends upon what selective controls he is looking at. If you look at housing, I don't see any reason for selective controls there, because the housing market is already starting to slump.

You look at automobile loan credit, the automobile industry is starting to suffer, and I don't know what would be gained by imposing selective credit controls there.

I think if you look at revolving credit, credit cards and that sort of thing, there is authority to limit selectively that kind of credit. I think it is certainly worth looking at. I wouldn't be prepared to endorse it without further study.

Senator JAVITS. Well, Mr. Russell, I am worried, and I think many are worried about the fact that our prescriptions in Government appear to be designed to bring about a slump. If there isn't a slump, then it isn't a good prescription.

Why do we necessarily, as you have just said, and I think you know me very well, I have no desire to take issue, partisan or otherwise—I am just trying to explore ideas.

Why wouldn't a limitation on the creation of domestic credit be justified, either to avoid a slump, or to give a better competitive situa-

tion, put things on a safer level for business, rather than bring on a slump?

And that is true—for example, you say in credit cards, you think we need a slump, but in the others, there is a slump.

Haven't we got a mental fix now that everything we do should bring on this slump that we have all been anticipating, and if it won't bring on the slump, then it is not effective?

Mr. RUSSELL. As I said, I think these things deserve looking at, these selective things, credit controls.

But there is, I should say, considerable dispute among economists and financial experts about how much good that would do in really controlling consumer indebtedness and getting the savings rate up.

It is said that people look in terms of their total indebtedness, and if you restrict their credit in one area, they will simply increase it in another area. Or you can borrow from some other source for exactly the same purpose.

That is, money tends to be fairly fungible, and if you try to selectively put a plug in the dam in one place, it is just going to show up somewhere else.

This is a matter of contention, though, and I don't claim to know exactly what the answer to that is, and I think that are are some good points that can be made in favor of it.

As for deliberately inducing a depression, I would say that the kind of recession that is being anticipated for the next year is a mild one, it is nothing like the recession of 1975. That doesn't mean it is not painful, but of course, inflation is also painful.

And I think that a marked slowdown is called for to bring inflation under control, even if it means enduring slightly higher unemployment for 1 year or so with a rapid recovery in 1981, as is forecast.

Senator JAVITS. Can we say any more, Mr. Russell, in view of the gravely accelerating rate of this inflation, that we expect a mild recession?

Mr. RUSSELL. Yes.

Senator JAVITS. Doesn't this mean that the higher the inflation rate goes up, the more severe must be the recession if we are going to proceed along the lines that the administration is apparently designing?

Mr. RUSSELL. I think if you were trying to turn the inflation situation around overnight, as we did in 1975, with a 9-percent unemployment rate, that would be correct. You would need a very deep recession in order to do it.

That is not what is being attempted here. This is a gradual slowdown to create enough slack in labor and product markets throughout fiscal year 1980 to get things under control; to have a controlled recovery in 1981; and a gradual deceleration in prices thereafter. It is a gradual policy.

Senator JAVITS. But is it working out that way with the very markedly accelerating rates of inflation? The fact is, it seems to me that it is not.

Mr. RUSSELL. Well, it seems to be working out that, as it has been said, the administration can't even cause a recession. Keep in mind a recession was forecast by almost all private economists in 1978. Everybody was predicting one in 1979 and it didn't come about.

One of the reasons that inflation is so high is that the recession that has always been so imminent has yet to come, and I don't know of any forecasters that are now predicting an even deeper recession in 1980. Rather, if anything, the people are swinging the other way, and some forecasters are starting to wonder whether we are going to have a recession at all in 1980.

Senator JAVITS. Now, you speak as you do about declaring a national emergency in the economy—isn't it a fact that if you did, it would be much more likely to draw a response from the American people in two ways.

One: A willingness, for example, to effect some drastic control and limitation over the utilization of gasoline as Congressman Reuss has suggested.

Second: A willingness to make sacrifices to increase and improve productivity, and which is the real cancer in our system, and which we have—we are not excising at all. On the contrary, it is worse as of 1979 than it was in 1978.

So don't we need some national recognition that we are in very deep trouble in order to get the response of our people to the very measures which seem to be agreed on in order to bring about a correction?

Mr. RUSSELL. Well, Senator, I don't know whether the declaration of a national emergency per se would have that much impact on the American attitude.

I don't think that it has escaped their attention that the inflation situation is very serious and we need to redouble our efforts to do something about it.

I think what matters are the kinds of policies that we are using, whether we call it a national emergency or not. And I think that many of the suggestions of Mr. Kaufman, whom I myself respect, are not only worth considering, but in fact, have been under consideration within the administration.

So it is not as though he is suggesting anything terribly new to us.

Senator JAVITS. Another one of things he seeks to deal with here is the amount of the dollars that are sloshing around in the world, about an estimated $600 to $900 billion. All of that is due on demand, after all; that is its problem.

In connection with the United States, with the central of the U.S. dollar in the international monetary system—now what is your view on that?

Mr. RUSSELL. What is the recommendation?

Senator JAVITS. What his recommendation is: "Limiting the role of the dollar in international finance, or possibly even restricting access abroad of U.S. dollars."

That is, in a sense, in view of the fact that the other countries have been so slow in getting into any form of any basket of curriencies like the substitution account or any other basket of currencies, that the United States unilaterally should restrict to the dollar as a medium of international exchange.

Mr. RUSSELL. I don't know exactly how that could be done. I mean, the medium of exchange arises because people use it in transactions.

Senator JAVITS. It could be done by agreements with central banks which hold large amounts of dollars. The reason it isn't done is because it is felt that it would hurt the credit of the United States.

But the central banks hold huge amounts of dollars as their reserves, and agreement could be made with them to defer their presentations.

Now, all of that is theoretical, but that is what makes balance sheets. The fact is that they do have the right to present them for goods and hence they are an overhanging liability on demand.

If it were due at some deferred date, it would take the pressure off the dollar. So it is possible, but it would be a compromise of the dollar as the international unit upon which all these reserves depend, which we are carrying. And so the dollar is under pressure.

So he suggests—and that would be by agreement with other central banks, of course—it might even be by agreement with very large holders, who are private holders, who are not central banks.

For example, you may remember—although you are a very young man, and I am glad you are—that after World War I, we had plans which limited the degree to which dollars could be presented for goods, so that you worked it out over a period of time—the Dawes plan and so on. That is very possible with the Eurocurrency market.

Now, that is the nature, as I understand it, of Mr. Kaufman's suggestion. And I just wondered if you had any comments.

Mr. RUSSELL. No; I am not much of an expert in international finance. But it just occurs to me that the main things that cause runs on the dollar have little to do with what you say, as a medium of exchange.

And much more important is simply the state of the U.S. economy. If people expect a lot of inflation in the dollar relative to other currencies, you can expect runs on the dollars, whether or not it is used as a medium of exchange.

After all, there are runs in other countries that are not used as international mediums of exchange.

If he is suggesting that we kind of recant on what amount of legal obligations in terms of dollars abroad and their use to buy American goods, I can think of nothing that would damage the dollar in international markets more than even the suggestion that we would not honor dollars.

Senator JAVITS. I don't think he is suggesting that. I think what he is suggesting is some form of agreement which would by agreement limit the role of the dollar in international finance.

Mr. RUSSELL. I would have to see more of his plan before I could comment.

Senator JAVITS. I think that is fair.

And finally, I gather that in your answers to Congressman Reuss, you are not even for a temporary wage and price freeze.

Mr. RUSSELL. No; I am not.

Senator JAVITS. Now, is it the view of the administration that the measures which are now in force are really working out according to their plan, and that they will eventuate in an abatement of this galloping inflation in the course of this year?

Mr. RUSSELL. These measures were put into effect, Senator, without anticipating the very severe shocks to which the economy has been subjected. So in a sense, I would have to say that the inflation rate has been perhaps lower than I would have expected it to be in the face of the shocks that we have suffered, particularly from energy over the last year.

I would have expected wages to accelerate much more than they have. I would have expected industrial prices and service prices to accelerate much more than they have. In that sense, I think it is working.

But no anti-inflationary policy could have prevented the international increase in the price of oil. And a part of our international, economic policy inflates the cost of buying a home; there is no way around that.

Senator JAVITS. Of course, it is true, Mr. Russell, isn't it, that with a $2,000 billion economy plus annually, we could, if we were really producing and selling, absorb a $70 billion blow without reeling from it as as we seem to be doing now?

Isn't it true that where we are woefully troubled is on the supply side, both in terms of production and markets?

Mr. RUSSELL. I think there is a lot of truth to that, Senator. As you mentioned earlier, if productivity were growing at the rates that it has grown in the past, then we would have had a buffer that would have made this shock much less severe.

Senator JAVITS. Now, what is the administration doing to improve productivity? If you agree—again, without being challenging, because I have been on this wicket—as you know, I'm through it for years—but without being challenging, what is the administration doing to encourage productivity?

For example, there has been advocacy of incentive for savings by some kind of a tax incentive. There has been advocacy of, similarly, for equity, that is, the dividends. It is fairly modest, but nonetheless, it is an incentive.

There has been—people have sought to put into effect acceleration depreciation for new equipment, machinery, and even structures.

There has been suggestions for a new effort, as in wartime, World War II, for labor-management committees, to deal with noncollective bargaining issues which have a relation to productivity.

There have been suggestions for new ways of dealing with worker participation of business profits conditioned upon productivity.

And yet I believe—and correct me if I am wrong—that even in your Department, we have not cranked in in respect to wages, wage stabilization, a productivity factor as a reason why more will be allowed to a producing man or woman than it would otherwise—but it is kind of across the board.

And I am sure that I haven't named but half of what has been discussed. But give us your ideas as you see it, and as the administration sees it, upon that matter. If that is the central theme, what are we really doing about it?

Mr. RUSSELL. That's a fair question.

The administration is doing the following sorts of things: Through the recently created National Productivity Council, the interagency cabinet-level group is engaged in a number of the direct kinds of efforts by the Government that can improve productivity at the company level, including the setting up and the facilitation of labor-management committees.

And OMB has recently approved such a program on a fairly modest scale by the Government.

Senator JAVITS. Under $5 million. Isn't that pretty tragic, Mr. Russell?

Mr. RUSSELL. I don't think so.

Senator JAVITS. You don't?

Mr. RUSSELL. No.

Senator JAVITS. Really, in this economy, under $5 million for so great a venture.

Mr. RUSSELL. Let me tell you why.

I believe that these kinds of productivity-enhancing methods, if they work, will come primarily from the private sector itself. If in fact it is in the company's interest to set up a labor-management committee or some other kind of group system that improves productivity, they will do so, and there are companies out there selling these plans.

The private sector ought to be able to provide them if there is a demand for them, and there will be a demand for them if they are useful.

Nevertheless, I think that there is a lack of information. There is justification for a limited, not-too-expensive Government program at a pilot stage now, but perhaps to become bigger later.

But let me stress that I don't think that these kinds of direct methods are the best way that the Government can improve productivity.

I think that the most important roles that the Government has to play in the revitalizing of productivity growth are two.

First: I think subsidization of basic research and development is essential to productivity growth. And I have no doubt but that the collapse of the productivity growth rates over the past decade or so can be traced in large part to the fact that Government research and development expenditures leveled off in the late sixties and have essentially not increased until very recently since then.

The recent budget of the administration considerably increases the subsidization of basic research and development. This is something that the Government ought to be doing, because it is something that we can't expect the private sector to provide because the returns and the rewards for basic research accrue to society as a whole and not to individual companies. Of course, they should do the kind of applied research that can improve their own profits, particularly for the patentable inventions.

The second major thing that the Government should do is to provide the right economic environment to stimulate investment, which is, after all, the main engine of productivity growth.

It is no accident that during the periods that productivity has collapsed, the rate of growth of capital per worker in the United States has also collapsed, almost to a half of what it was in the sixties.

Now, what is the right economic environment? There are two things.

One: I think stable prices, so the causations runs both ways: High inflation rates usually mean variable inflation rates. That means a lot of uncertainty. Uncertainty dampens incentives to invest.

Therefore, getting inflation under control will in turn help to revive investment.

Finally: Tax policy is, as you say, a very important part of the economic environment that affects investment behavior. And I personally believe, and I think most people in the administration believe, that eventually we should enact some kind of accelerated depreciation allowance, tax credits, some kind of tax program that provides additional incentives to invest.

The problem is that to put these plans into effect right now would increase aggregate demand in the economy at a time when it would seriously exacerbate the inflation problem. So it would be disastrous to have a tax cut now, which we need in the long run, but in the short run would seriously impair our efforts to bring inflation under control. Eventually we will do that, though.

Senator JAVITS. I kind of slipped off the precipice. I was all with you when you said doing it now would increase demand.

Are you confusing that, or aren't you? That is an argumentative point, but aren't you confusing that with the tax cuts we've had, which are tax cuts that are consumption tax cuts.

You cut people's taxes, and their tax brackets, and they are able to buy more. But where we are talking about an incentive for a capital investment, how would we be increasing consumption there?

We are dealing, I gather, with industries, because of the nature of it, which are slack now.

Mr. RUSSELL. No, sir, I don't think I am confusing the two. I will make two points. The first is that to enact a business tax cut now that is carefully designed to increase investment rather than to simply provide windfall profits to the company would be valuable in the long run in increasing productivity but there is a lag in the beneficial effects outside your tax cut.

It would take awhile before the investment came to fruition after a long gestation period for such investment and we would get the benefits in later years.

In the short run it would be inflationary because it would add to investment demand, the demand of businesses for investment equipment. When you increase demand in tight markets this will increase the prices of business machinery of various kinds. This, in turn, will increase business cost and ultimately increase costs to consumers, so it does increase aggregate demand for investment not through consumption.

Senator JAVITS. Is it a tight market?

Mr. RUSSELL. Yes; I think the markets right now are really tight.

Senator JAVITS. In terms of goods into which capital would flow?

Mr. RUSSELL. Yes, sir. If you look at the Producer Price Index for this last month, what is ominous about it is that the increases in prices are across the board. Prices are going up very rapidly for things like pumps and compressors. Basic industrial and farm equipment prices are going up rapidly.

Senator JAVITS. Well, the reason being, of course, is that there has been no expansion of those facilities, and so that is what is needed. Maybe we need a new RFC.

Now you see, the big thing—if I may Congressman, and I really am so sorry for taking so long, but there is a point I would like to leave with you, Mr. Russell—you see you are leaving it to business. Now it may be that business may be interested only in gambling casinos because it is only Ball Manufacturing that is going up on the New York Stock Exchange. So does that mean that we have no food, no steel, no railroads, no airplanes because business isn't interested?

We have to have a better setup than that. We have to have some means in our Government for giving the people the necessary goods

and services even when business isn't interested. And of course we do and we will. And what I'm suggesting, Mr. Russell, is a little more guts by the administration. This is what it's all about.

If we have a bottleneck in goods and machinery as you say, and I take your word for it, and we know it is because it is atrophied in the sense that it has not kept pace with what ought to be the productive power of our country, then we have to do something about it governmentally. Even Lincoln said, and he was certainly a private enterpriser, that where the people cannot do something, or not do it as well, the Government has to do it.

I just leave you with that thought, sir, and I thank you very much for your very enlightened and enlightening answers. We are on the same track. I just am laying before you what seems to me to be holding us back. And really, if you put it in one word, it is boldness and risk-taking as a government, but sensibly and intelligently. And with all respect, Mr. Russell, I think the country is in the mood for it and we leaders are not supplying it.

Representative REUSS. That was one of the few Lincoln quotations which Lincoln really said. Well, I want to recapitulate and thank you again for a very forthright and helpful testimony.

Just so that the record can be clear, though I have said it about five times this morning, my idea of what this country ought to be doing is, overarchingly, Javits-Reuss, productivity, structure, restoration of markets, getting efficient, doing what the Germans and the Japanese have done. That is the overarching thing and we are flunking that miserably.

And then I believe, and here I may lose Javits, I believe you need, surrounding that, a sensible, controlled monetary policy. Actually, we've got one now, and if you accompanied that by an overall program, it would then make sense. A sensible, controlled fiscal policy, and by that I mean, in the next fiscal year, a balanced budget. It is about time we did it.

Third: We need gasoline rationing. If you had those things, I believe that we also should very seriously consider a wage-price freeze to act as the shock which would be needed to get rid of inflationary expectations.

That has always been my view. Without a broad program like that I agree with you that wage-price controls are worse than useless because they simply solidify and stratify the ramshackle economic structure on which they operate.

So I take it you would agree with my proposition that until there is a change in the administration economic policies, that it would not be wise for Congress to enact either standby or directly effective wage-price controls.

Mr. RUSSELL. I agree with your conclusion without necessarily agreeing with your assumptions.

Representative REUSS. And you disagree with my proposal for what needs to be done in order to get inflation under control—all of it, every chapter, every verse, every comma—or are there some parts of it that you would think kindly of?

Mr. RUSSELL. There are parts of it that I agree with and parts of it that I would not adopt as my policy right now.

Representative REUSS. What do you agree with?

Mr. RUSSELL. I agree that stringency in fiscal policy is needed. I think we are moving in that direction. The 1981 deficit will be very small—close to balanced.

Representative REUSS. Then why not balance it? If that is all true, which I doubt, why not balance it? It will make people feel good about the international dollar.

Mr. RUSSELL. Well, to me it's a symbolic value to go from almost balanced to balanced, but the substantive effect, I think, of going from the projected deficit in 1981 to an actual balance would be very small. So, with the increase in defense expenditures we have to keep in mind that balancing the budget means that every reduction in expenditures has a cost somewhere; some program gets cut. It's easy to say in general but when you talk about specific programs somebody's ox gets gored and it is a very hard exercise.

Representative REUSS. So you don't agree with my recommendation of a balanced budget?

Mr. RUSSELL. I think we should strive very hard to go to a balanced budget, perhaps even a budget surplus. I believe in a balanced economy, and as long as inflation and not unemployment is our major problem, we should be moving toward more fiscal stringency even if that means moving to a surplus.

Representative REUSS. We've been saying that for 10 years, however, with the following disastrous results on producer and consumer prices. Is there ever a better year in which to head for a balanced budget than one the first month of which was the scene of a 20-percent increase in producers' prices and an 18-percent increase in consumer's prices?

Mr. RUSSELL. Well, a balanced budget, as you know, Congressman, has effects not just on the price level but also on employment, and if we were to try to balance our budget in a year in which the projected unemployment rate is up around 7 or 8 percent and the projected deficit is $40 billion, then you are now converting a mild recession that is perhaps worth it to bring inflation under control to a very severe recession that would impose great hardships on American workers.

Representative REUSS. Yes. There again, there is such a deep gap between you and the administration and myself. You are still, if I may say so, talking in outworn Keynesianism—as if $16 billion on the Federal budget in Javits $2 trillion economy were all that different. I pray you give some thought to whether we wouldn't be better off paring that budget by $16 billion on both the expenditures and tax side and bringing it into balance. I think the effect upon American investment and productivity and the international position of the dollar would be very electric, and far from causing more unemployment it would achieve less.

But with that thought, and I know you have an open mind, thank you very much for your great contribution.

We now stand adjourned.

[Whereupon, at 11:45 a.m., the committee adjourned, subject to the call of the Chair.]

MONITORING INFLATION

TUESDAY, MARCH 25, 1980

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 10:15 a.m., in room 6226, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Present: Senator Bentsen and Representative Brown.

Also present: Keith B. Keener, Paul B. Manchester, and George R. Tyler, professional staff members; Betty Maddox, administrative assistant; Charles H. Bradford, minority counsel; and Stephen J. Entin, minority professional staff member.

OPENING STATEMENT OF SENATOR BENTSEN, CHAIRMAN

Senator BENTSEN. The hearing will come to order.

I would like to apologize for being late. I've been handling an amendment on the floor. I have looked every place I can for a silver lining, something in the way of a break, through these clouds, but I haven't been able to find it. I still see inflation continuing at an annual rate of 18.2 percent. The rate has been 14.1 percent over the last 12 months. Now, that is higher than for any similar period during the last 30 years.

We may see a break at some point in late spring, as the President's new anti-inflation program begins to take hold, but certainly not now. The plan wasn't in place in February, so it didn't have any effect on today's CPI numbers. And when we get the picture for March it will still be too early to see any effect of the President's anti-inflation program.

The fact is that there is really no quick fix for inflation. In reality, some of our problems today are worse than they might have been, as a result of earlier attempts to find a quick fix.

R. Robert Russell, Director of the Council on Wage and Price Stability, will be our first witness this morning and will review the latest data on inflation. Then we will hear the views of a panel of three expert witnesses on our current inflation and on the new policies for combating it. I will also be questioning all the witnesses on the accuracy of the Consumer Price Index. It is under serious reevaluation at this time; does it accurately reflect the true rate of inflation?

The cost of housing is factored in, for example, yet none of us buys a new house three or four times a year. It is critical, with all of the Federal programs we have which are tied to the Consumer Price Index,

that we take steps to assure that the CPI is a true measure of the actual cost of living.

Mr. Russell, you were recently quoted as saying that inflation has become so ingrained in the U.S. economy that it will persist at double digit levels throughout the decade of the eighties. Neither I, the Congress, nor the American people are going to tolerate that or be able to live with it. Such inflation would lead to social disruption and a real struggle in our country. I hope you can find some way to offer something better than a decade of continuing double digit inflation.

Without objection, the press release entitled "The Consumer Price Index—February 1980" will be inserted in the hearing record at this point.

[The press release referred to follows:]

News United States Department of Labor

Bureau of Labor Statistics Washington, D.C. 20212

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USDL-80-184
TRANSMISSION OF MATERIAL IN THIS RELEASE
IS EMBARGOED UNTIL 9:00 A.M. (EST)
Tuesday, March 25, 1980

THE CONSUMER PRICE INDEX—FEBRUARY 1980

The Consumer Price Index for All Urban Consumers (CPI-U) rose 1.4 percent before seasonal adjustment in February to 236.4 (1967=100), the Bureau of Labor Statistics of the U.S. Department of Labor announced today. The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) also increased 1.4 percent before seasonal adjustment in February to 236.5 (1967=100). The CPI-U was 14.1 percent higher and the CPI-W was 14.2 percent higher than in February 1979.

CPI for All Urban Consumers (CPI-U)—Seasonally Adjusted Changes

On a seasonally adjusted basis, the CPI for All Urban Consumers rose 1.4 percent in February, the same as in January. This compares with an average monthly increase of slightly more than 1.0 percent during 1979. All major components of the CPI, except food and apparel, rose 1.0 percent or more for the second consecutive month, with rising energy and homeownership costs accounting for over two-thirds of the February increase.

The transportation component registered the largest increase as gasoline prices rose 7.3 percent, following a 7.4 percent increase in January. The housing component also continued to increase substantially, primarily reflecting higher mortgage interest rates and prices for household fuels. The food and beverage index was unchanged in February, following a 0.1 percent increase in January.

Table A. Percent changes in CPI for All Urban Consumers (CPI-U)

Expenditure category	Seasonally adjusted							Unadjusted
	Changes from preceding month							Compound annual rate 3-mos. ended Feb. '80	12-mos. ended Feb. '80
	1979					1980			
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.		
All items	1.0	1.2	1.0	1.0	1.2	1.4	1.4	17.2	14.1
Food and beverages	.1	1.0	.8	.7	1.4	.1	0	5.9	7.3
Housing	1.2	1.3	1.4	1.3	1.4	1.4	1.4	18.3	16.2
Apparel and upkeep	.4	1.3	.3	.3	.6	.9	.6	9.3	6.5
Transportation	1.6	1.3	.8	1.2	1.4	3.1	2.8	33.6	22.5
Medical care	.8	.8	.9	.9	1.1	1.3	1.5	16.9	10.9
Entertainment	.7	.5	.6	.5	.2	1.0	1.2	10.3	8.0
Other goods and services	1.0	1.5	.2	.3	.7	1.1	1.0	11.5	8.4

(Data for CPI-U are shown in tables 1 through 3.)

The sharp rise in gasoline prices accounted for over four-fifths of the 2.8 percent increase in the transportation index in February. Prices for other petroleum products, such as motor oil and coolant, also rose substantially—2.5 percent--in February. Prices for new cars advanced 1.2 percent, following an increase of 1.4 percent in January. Used car prices declined 0.5 percent. Automobile finance charges continued to increase sharply —up 1.7 percent--and charges for automobile insurance rose 1.3 percent. The index for public transportation continued to increase substantially, but the rise was the smallest since last June.

The 1.4 percent increase in the housing index continued the sharp upward trend evident since early 1979. In February, home financing costs rose 2.9 percent, reflecting an increase of 2.2 percent in mortgage interest rates and 0.4 percent in house prices. The increase in house prices was the smallest since August 1978. The indexes for both property insurance and household maintenance and repairs increased 1.5 percent. (The 12-month percent changes for five experimental measures of housing costs can be found at the end of this release.) In February, prices for household fuels rose 2.9 percent. Fuel oil prices rose 5.1 percent, following a 5.3 percent increase in January, and the index for gas and electricity rose 2.1 percent.

The index for grocery store foods declined 0.4 percent in February, after seasonal adjustment, following a decline of 0.2 percent in January. The decrease was due primarily to sharp declines in the prices for fresh vegetables, pork, poultry, and eggs. These declines were partially offset by increases in most other grocery store foods. Prices for cereal and bakery products, sugar, and carbonated drinks continued to increase sharply. Prices of the other two components of the food and beverage index--restaurant meals and alcoholic beverages--rose 0.7 and 0.4 percent, respectively, in February.

The medical care index increased 1.5 percent in February continuing the acceleration evident during the past several months. Professional services rose 1.7 percent as fees for physicians' services rose 1.6 percent and dental services advanced 1.8 percent. Charges for hospital rooms also rose sharply, up 1.6 percent in February.

The index for apparel and upkeep rose 0.6 percent, following an increase of 0.9 percent in January. Prices for jewelry, luggage, and sewing materials combined rose 3.8 percent and accounted for over two thirds of the apparel increase. Increases in prices for precious metals and petroleum based materials were primarily responsible for the rise. Clothing prices were about unchanged on average in February. Apparel services continued to increase but not by as much as in January.

The index for entertainment rose 1.2 percent in February, following a 1.0 percent increase in the preceding month. Higher prices for sporting goods and equipment, and toys, hobbies, and other entertainment goods were primarily responsible for the increase.

The other goods and services component rose 1.0 percent in February, following an increase of 1.1 percent in January. The increase was largely due to higher prices for banking and personal care services.

CPI for Urban Wage Earners and Clerical Workers (CPI-W)—Seasonally Adjusted Changes

On a seasonally adjusted basis, the CPI for Urban Wage Earners and Clerical Workers rose 1.4 percent in February, the same as in January. This compares with an average monthly increase of slightly more than 1.0 percent during 1979. All major components of the CPI-W, except for food and apparel, rose 1.0 percent or more for the second consecutive month, with rising energy and homeownership costs accounting for over two-thirds of the February increase.

The transportation component registered the largest increase as gasoline prices rose 7.3 percent, following a 7.2 percent increase in January. The housing component also continued to increase substantially, primarily reflecting higher mortgage interest rates and costs for household fuels. The food and beverage index was unchanged in February, following a 0.2 percent increase in January.

The sharp rise in gasoline prices accounted for over four-fifths of the 2.8 percent increase in the transportation index in February. Prices for new cars advanced 1.2 percent, following an increase of 1.4 percent in January. Used car prices declined 0.5 percent. Automobile finance charges continued to increase sharply—up 1.5 percent—and automobile insurance rose 1.2 percent. The index for public transportation rose 0.9 percent in February, the smallest rise since last June.

The 1.4 percent increase in the housing index continued the sharp upward trend evident since early 1979. In February, home financing costs rose 2.9 percent, reflecting an increase of 2.3 percent in mortgage interest rates and 0.3 percent in house prices. The house price increase was the smallest since August 1978. The index for property insurance increased 1.5 percent in February, following a 1.3 percent increase in January. In February, prices for household fuels rose 2.8 percent. Fuel oil prices rose 5.2 percent, following a 5.3 percent increase in January, and the index for gas and electricity rose 2.0 percent.

The index for grocery store foods declined 0.3 percent in February, after seasonal adjustment, following a decline of 0.2 percent in January. The decrease was due primarily to a sharp decline in the prices for fresh vegetables, pork, poultry, and eggs. These declines were partially offset by increases in most other grocery store foods. Prices for cereal and bakery products, sugar, and carbonated drinks continued to increase sharply. Prices of the other two components of the food and beverage index—restaurant meals and alcoholic beverages—rose 0.5 and 0.7 percent, respectively, in February.

The medical care index increased 1.5 percent in February, continuing the acceleration evident during the past several months. Professional services rose 1.6 percent as fees for physicians' services rose 1.5 percent and dental services advanced 1.7 percent.

The index for apparel and upkeep rose 0.9 percent, following an increase of 0.8 percent in January. Prices for jewelry, luggage, and sewing materials rose 3.4 percent and accounted for over one-third of the apparel increase. Increases in prices for precious metals and petroleum based materials were primarily responsible for the increase. Prices for women's and girls' and infants' and toddlers' clothing also advanced in February. Charges for apparel services continued to increase but not by as much as in January.

The index for entertainment rose 1.2 percent in February, following a 0.8 percent increase in the preceding month. Higher prices for sporting goods and equipment, and toys, hobbies, and other entertainment goods were primarily responsible for the increase.

The other goods and services component rose 0.9 percent in February, compared with an increase of 1.4 percent in January. The February increase was largely due to a 3.1 percent increase in the index for personal expenses, primarily banking services.

Table B. Percent changes in CPI for Urban Wage Earners and Clerical Workers (CPI-W)

Expenditure category	Seasonally adjusted							Unadjusted
	Changes from preceding month						Compound annual rate 3-mos. ended Feb.'80	12-mos. ended Feb.'80
	1979					1980		
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	
All Items	1.0	1.1	1.0	1.0	1.2	1.4	1.4	17.3	14.2
Food and beverages	.1	1.0	.8	.6	1.4	.2	0	6.3	7.4
Housing	1.3	1.3	1.4	1.2	1.3	1.5	1.4	18.1	16.3
Apparel and upkeep	.3	1.0	.5	.1	.5	.8	.9	9.5	6.1
Transportation	1.6	1.2	.7	1.3	1.5	3.1	2.8	33.7	22.5
Medical care	.9	.9	1.0	.8	1.1	1.3	1.5	16.3	11.5
Entertainment	.3	.6	.7	.5	-.1	.8	1.2	7.9	7.6
Other goods and services	1.1	1.1	.2	.3	.6	1.4	.9	12.7	8.2

(Data for CPI-W are shown in tables 4 through 6.)

Technical Notes

Brief Explanation of the CPI

The Consumer Price Index (CPI) is a measure of the average change in prices over time in a fixed market basket of goods and services. Effective with the January 1978 index, the Bureau of Labor Statistics began publishing CPI's for two population groups: (1) a new CPI for All Urban Consumers (CPI-U) which covers approximately 80 percent of the total noninstitutional civilian population; and (2) a revised CPI for Urban Wage Earners and Clerical Workers (CPI-W) which represents about half the population covered by the CPI-U. The CPI-U includes, in addition to wage earners and clerical workers, groups which historically have been excluded from CPI coverage, such as professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, and retirees and others not in the labor force.

The CPI is based on prices of food, clothing, shelter, and fuels, transportation fares, charges for doctors' and dentists' services, drugs, and the other goods and services that people buy for day-to-day living. Prices are collected in 85 urban areas across the country from over 18,000 tenants, 18,000 housing units for property taxes, and about 24,000 establishments—grocery and department stores, hospitals, filling stations, and other types of stores and service establishments. All taxes directly associated with the purchase and use of items are included in the index. Prices of food, fuels, and a few other items are obtained every month in all 85 locations. Prices of most other commodities and services are collected every month in the five largest geographic areas and every other month in other areas. Prices of most goods and services are obtained by personal visits of the Bureau's trained representatives. Mail questionnaires are used to obtain public utility rates, some fuel prices, and certain other items.

In calculating the index, price changes for the various items in each location are averaged together with weights which represent their importance in the spending of the appropriate population group. Local data are then combined to obtain a U.S. city average. Separate indexes are also published for 28 local areas. Area indexes do not measure differences in the level of prices among cities; they only measure the average change in prices for each area since the base period.

The index measures price changes from a designated reference date—1967—which equals 100.0. An increase of 22 percent, for example, is shown as 122.0. This change can also be expressed in dollars as follows: The price of a base period "market basket" of goods and services in the CPI has risen from $10 in 1967 to $12.20.

For further details see the following: *The Consumer Price Index: Concepts and Content Over the Years*, Report 517, revised edition (Bureau of Labor Statistics, May 1978); *The Revision of the Consumer Price Index*, by W. John Layng, reprinted from the *Statistical Reporter*, February 1978, No. 78-5 (U.S. Dept. of Commerce), and *Revisions in the Medical Care Service Component of the Consumer Price Index*, by Daniel H. Ginsburg, *Monthly Labor Review*, August 1978.

A Note About Calculating Index Changes

Movements of the indexes from one month to another are usually expressed as percent changes rather than changes in index points because index point changes are affected by the level of the index in relation to its base period while percent changes are not. The example in the accompanying box illustrates the computation of index point and percent changes.

Percent changes for 3-month and 6-month periods are expressed as annual rates and are computed according to the standard formula for compound growth rates. These data indicate what the percent change would be if the current rate were maintained for a 12-month period.

Index Point Change	
CPI	189.8
Less previous index	189.2
Equals index point change:	0.6
Percent Change	
Index point difference	0.6
Divided by the previous index	189.2
Equals:	0.003
Results multiplied by one hundred	0.003x100
Equals percent change:	0.3

A Note on Seasonally Adjusted and Unadjusted Data

Because price data are used for different purposes by different groups, the Bureau of Labor Statistics publishes seasonally adjusted as well as unadjusted changes each month.

For analyzing general price trends in the economy, seasonally adjusted changes are usually preferred since they eliminate the effect of changes that normally occur at the same time and in about the same magnitude every year—such as price movements resulting from changing climatic conditions, production cycles, model changeovers, holidays, and sales.

The unadjusted data are of primary interest to consumers concerned about the prices they acutally pay. Unadjusted data are also used extensively for escalation purposes. Many collective bargaining contract agreements and pension plans, for example, tie compensation changes to the Consumer Price Index unadjusted for seasonal variation.

Seasonal factors used in computing the seasonally adjusted indexes are derived by the X-11 Variant of the Census Method II Seasonal Adjustment Program. The updated seasonal data at the end of 1977 replaced data from 1967 through 1977. Subsequent annual updates will replace 5 years of seasonal data, e.g., data from 1974 through 1978 will be replaced at the end of 1978. The seasonal movement of all items and 35 other aggregations is derived by combining the seasonal movement of 45 selected components.

24 Hour CPI Mailgram Service

Consumer Price Index data now are available by mailgram within 24 hours of the CPI release. The new service is being offered by the Bureau of Labor Statistics through the National Technical Information Service of the U.S. Department of Commerce.

The CPI MAILGRAM service provides unadjusted and seasonally adjusted data both for the All Urban Consumers (CPI-U) and for the Urban Wage Earners and Clerical Workers (CPI-W) indexes as shown on the CPI-U sample page below. The unadjusted data include the current month's index and the percent changes from 12 months ago and one month ago. The seasonally adjusted data are the percent changes from one month ago.

CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS (CPI-U): U.S. CITY AVERAGE (1967=100)

GROUP	UNADJ INDEX MAY 1979	UNADJUSTED PER CHG FROM 12 MO AGO	UNADJUSTED PER CHG FROM 1 MO AGO	S ADJ PER CHG FROM 1 MO AGO
ALL ITEMS	214.1	10.8	1.2	1.1
ALL ITEMS(1957-59=100)	249.9	-	-	-
FOOD AND BEVERAGES	228.2	11.2	.5	.7
FOOD	234.3	11.4	.9	.7
FOOD AT HOME	233.6	11.3	.7	.5
CEREALS AND BAKERY PRODUCTS	218.2	9.9	.8	1.0
MEATS, POULTRY, FISH, AND EGGS	262.2	19.6	.9	.1
DAIRY PRODUCTS	233.8	11.7	.7	.8
FRUITS AND VEGETABLES	226.8	3.6	.1	-.2
FOOD AWAY FROM HOME	241.1	11.7	1.1	1.1
HOUSING	222.4	11.3	1.2	1.2
RENT, RESIDENTIAL	171.8	6.8	1.3	1.3
HOMEOWNERSHIP	254.9	14.6	1.3	1.3
FUEL AND OTHER UTILITIES	292.2	7.7	2.1	2.2
FUEL OIL, COAL, AND BOTTLED GAS	366.3	23.2	6.1	6.3
GAS (PIPED) AND ELECTRICITY	251.6	8.2	2.6	2.6
HOUSEHOLD FURNISHINGS AND OPERATION	189.2	7.5	.3	.4
APPAREL AND UPKEEP	166.1	3.9	.4	.3
TRANSPORTATION	227.7	13.6	2.4	1.8
NEW CARS	183.8	8.7	.9	1.1
USED CARS	225.6	11.3	5.7	5.5
GASOLINE	257.7	29.1	5.3	5.9
PUBLIC TRANSPORTATION	193.3	3.1	.4	.7
MEDICAL CARE	236.3	8.9	.5	.6
MEDICAL CARE SERVICES	254.6	9.6	.5	.6
ENTERTAINMENT	187.8	6.6	.7	.5
OTHER GOODS AND SERVICES	193.9	7.5	.4	.5
PERSONAL CARE 1/	193.9	7.5	.6	.6
COMMODITIES	225.6	10.9	1.2	.8
COMMODITIES LESS FOOD AND BEVERAGES	192.9	10.3	1.5	1.0
NONDURABLES LESS FOOD AND BEVERAGES	195.7	12.0	2.0	1.9
DURABLES	189.2	13.0	1.1	.9
SERVICES	229.5	10.3	1.1	1.3
ALL ITEMS LESS FOOD	205.9	10.5	1.3	1.2
ENERGY 1/	260.8	19.8	4.2	4.2
ALL ITEMS LESS FOOD AND ENERGY	204.1	9.3	.9	.9

1/ NOT SEASONALLY ADJUSTED.

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TABLE 1. Consumer Price Index for all urban consumers: U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Relative importance, December 1979	Unadjusted indexes Jan. 1980	Feb. 1980	Unadjusted percent change to Feb. 1980 from- Feb. 1979	Jan. 1980	Seasonally adjusted percent change from- Nov. to Dec.	Dec. to Jan.	Jan. to Feb.
Expenditure category								
All items	100.000	233.2	236.4	14.1	1.4	1.2	1.4	1.4
All items(1957-59=100)	-	271.2	274.9	-	-	-	-	-
Food and beverages	18.685	237.5	238.6	7.3	.5	1.4	.1	.0
Food	17.655	243.8	244.9	7.3	.5	1.4	.0	.0
Food at home	12.202	240.6	241.3	5.8	.3	1.4	-.2	-.4
Cereals and bakery products 1/	1.918	234.2	236.8	11.6	1.1	1.3	1.1	1.1
Meats, poultry, fish, and eggs	4.189	238.0	236.2	1.7	-.8	3.3	.0	-1.8
Dairy products	1.642	218.4	219.5	9.4	.5	.2	.6	.6
Fruits and vegetables	1.702	229.8	228.3	.8	-.7	.5	-3.9	-2.3
Sugar and sweets 1/	.418	289.8	297.5	10.1	2.7	.5	1.8	2.7
Fats and oils	.346	233.9	235.9	7.6	.9	.4	.7	1.6
Nonalcoholic beverages	1.375	378.5	384.5	10.6	1.6	.8	.3	1.1
Other prepared foods	1.013	218.8	221.6	9.9	1.4	.7	.6	1.3
Food away from home	5.454	256.1	258.3	10.7	.9	1.0	1.0	.7
Alcoholic beverages	1.029	179.3	180.4	7.6	.6	.6	.7	.4
Housing	44.999	247.3	250.5	16.2	1.3	1.4	1.4	1.4
Shelter	30.910	264.0	267.2	18.3	1.2	1.6	1.7	1.4
Rent, residential 1/	5.273	184.1	185.6	8.5	.8	.4	.7	.8
Other rental costs	.734	251.1	255.7	13.7	1.8	1.2	1.6	1.9
Homeownership	24.904	292.5	296.3	20.6	1.3	1.8	1.9	1.5
Home purchase 1/	10.396	242.1	243.0	15.2	.4	1.1	.9	.4
Financing, taxes, and insurance	10.902	359.8	367.7	29.7	2.2	2.8	3.0	2.6
Maintenance and repairs	3.606	270.6	273.7	11.3	1.1	1.1	.8	1.5
Maintenance and repair services	2.778	293.2	297.1	11.8	1.3	1.1	.9	1.7
Maintenance and repair commodities 1/	.828	217.6	218.9	9.5	.6	1.2	.5	.6
Fuel and other utilities 1/	6.477	258.6	263.8	18.1	2.0	1.2	1.4	2.0
Fuels 1/	4.607	318.0	327.1	26.1	2.9	1.6	2.0	2.9
Fuel oil, coal, and bottled gas 1/	1.214	514.0	539.1	65.3	4.9	2.2	3.3	4.9
Gas (piped) and electricity 1/	3.393	273.0	278.8	15.6	2.1	1.3	.6	2.1
Other utilities and public services 1/	1.870	161.3	161.3	1.4	-.1	.6	-.2	-.1
Household furnishings and operation	7.612	196.9	199.0	7.0	1.1	.5	.8	.9
Housefurnishings	4.139	167.6	169.3	5.8	1.0	.4	.8	.8
Housekeeping supplies 1/	1.459	231.3	233.0	8.3	1.7	.4	.8	1.7
Housekeeping services 1/	2.015	260.0	261.6	8.4	.6	.6	.7	.6
Apparel and upkeep	5.107	171.0	171.9	6.5	.5	.6	.9	.6
Apparel commodities	4.446	164.3	165.1	5.6	.5	.6	.8	.5
Men's and boys' apparel	1.396	162.8	162.7	3.8	-.1	.2	.5	-.2
Women's and girls' apparel	1.701	151.5	151.1	2.3	-.3	.6	.7	.3
Infants' and toddlers' apparel 1/	.108	224.9	226.6	6.0	.8	.4	-1.0	.8
Footwear	.669	183.7	184.6	9.3	.5	.7	.6	.5
Other apparel commodities 1/	.572	184.4	191.4	16.1	3.8	1.7	1.9	3.8
Apparel services 1/	.662	220.7	222.9	13.0	1.0	1.1	1.9	1.0
Transportation	18.572	233.5	239.6	22.5	2.6	1.4	3.1	2.6
Private transportation	17.906	233.5	239.8	22.7	2.7	1.3	3.1	2.9
New cars	3.731	173.9	175.3	8.0	.8	.2	1.4	1.2
Used cars	2.838	197.2	195.3	1.0	-1.0	1.5	1.1	-.5
Gasoline	5.619	334.6	357.6	67.9	6.9	2.6	7.4	7.3
Maintenance and repair	1.473	255.1	258.2	10.4	1.2	.8	.9	.9
Other private transportation	3.845	209.8	212.6	10.4	1.3	.7	1.1	1.1
Other private trans. commodities 1/	.712	188.4	191.2	13.9	1.5	1.2	1.5	1.5
Other private trans. services	3.133	217.6	220.4	9.7	1.3	.6	.9	1.0
Public transportation 1/	1.066	226.8	229.5	20.3	1.2	3.0	1.7	1.2
Medical care	4.817	253.9	257.9	10.9	1.6	1.1	1.3	1.5
Medical care commodities	.802	160.5	162.1	8.0	1.0	.9	.8	.9
Medical care services 1/	4.015	274.4	279.0	11.4	1.7	1.2	1.4	1.7
Professional services 1/	1.911	238.9	242.9	10.1	1.7	1.2	1.3	1.7
Other medical care services 1/	2.104	317.4	322.7	12.7	1.7	1.1	1.5	1.7
Entertainment	5.738	195.3	197.8	8.0	1.3	.2	1.0	1.2
Entertainment commodities	2.214	197.6	200.4	8.9	1.4	.5	1.3	1.3
Entertainment services 1/	1.523	192.5	194.5	6.6	1.0	-.2	.7	1.0
Other goods and services	4.081	206.3	208.1	8.4	.9	.7	1.1	1.0
Tobacco products 1/	1.080	196.7	198.1	7.0	.7	.3	2.4	.7
Personal care 1/	1.632	204.2	206.5	8.5	1.1	1.0	.6	1.1
Toilet goods and personal care appliances 1/	.728	196.4	198.6	7.8	1.1	1.4	.3	1.1
Personal care services 1/	.904	211.6	214.2	9.1	1.2	.7	.8	1.2
Personal and educational expenses	1.369	226.3	228.0	9.7	.8	.5	1.0	.9
School books and supplies	.174	206.0	206.5	8.0	.2	.7	1.4	.6
Personal and educational services	1.195	231.4	233.3	10.0	.8	.5	.9	1.0
Commodity and service group								
All items	100.000	233.2	236.4	14.1	1.4	1.2	1.4	1.4
Commodities	59.063	222.4	225.2	13.6	1.3	1.1	1.4	1.2
Food and beverages	18.685	237.5	238.6	7.3	.5	1.4	.1	.0
Commodities less food and beverages	40.379	212.0	215.5	16.6	1.7	1.1	2.1	1.7
Nondurables less food and beverages	17.706	224.6	231.8	25.8	3.2	1.4	3.4	3.1
Apparel commodities	4.446	164.3	165.1	5.6	.5	.6	.8	.5
Nondurables less food, beverages, and apparel	13.261	259.4	270.1	33.8	4.1	1.6	4.0	4.0
Durables	22.672	201.3	202.1	10.1	.4	1.0	1.1	.5
Services	40.937	253.1	256.8	15.0	1.5	1.4	1.4	1.5
Rent, residential 1/	5.273	184.1	185.6	8.5	.8	.4	.7	.8
Household services less rent	11.692	293.1	300.2	19.6	1.7	1.9	1.8	2.0
Transportation services	5.673	226.8	229.6	11.7	1.2	1.1	1.1	1.0
Medical care services 1/	4.015	274.4	279.0	11.4	1.7	1.2	1.4	1.7
Other services	4.285	209.0	211.1	9.0	1.0	.4	.9	1.1
Special indexes:								
All items less food	82.345	229.9	233.5	15.7	1.6	1.2	1.8	1.6
All items less shelter	69.090	223.4	226.6	12.4	1.4	1.0	1.3	1.3
All items less mortgage interest costs	91.346	224.3	227.1	12.3	1.2	1.0	1.2	1.1
All items less medical care	95.183	231.9	235.0	14.4	1.3	1.3	1.4	1.3
Commodities less food	41.408	210.4	213.8	16.4	1.6	1.1	2.0	1.7
Nondurables less food	18.736	220.5	227.5	24.8	3.1	1.4	3.2	3.0
Nondurables less food and apparel	14.290	268.6	278.2	31.6	3.9	1.6	3.7	4.0
Nondurables	36.391	232.0	236.3	15.8	1.9	1.3	1.7	1.6
Services less rent	35.664	266.1	270.2	16.0	1.5	1.5	1.5	1.7
Services less medical care	36.921	249.2	252.7	15.4	1.4	1.2	1.6	1.4
Energy	10.313	327.9	344.6	46.6	5.1	2.3	4.6	5.1
All items less energy	89.687	225.9	228.0	11.1	.9	1.2	1.1	.7
All items less food and energy	72.032	220.6	222.8	12.1	1.0	1.2	1.3	1.1
Commodities less food and energy	34.488	193.7	194.9	9.1	.6	.9	1.2	.5
Energy commodities	6.900	361.5	385.0	66.6	6.5	2.6	6.7	6.7
Services less energy	37.544	251.6	255.2	15.0	1.4	1.3	1.5	1.5
Purchasing power of the consumer dollar:								
1967=$1.00 1/	-	$.429	$.423	-12.4	-1.4	-1.1	-1.4	-1.4
1957-59=$1.00 1/	-	.369	.364	-	-	-	-	-

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 2. Consumer Price Index for all urban consumers: Seasonally adjusted U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Seasonally adjusted indexes				Seasonally adjusted annual rate percent change for-					
					3 months ending in			6 months ending in		
	Nov. 1979	Dec. 1979	Jan. 1980	Feb. 1980	May 1979	Aug. 1979	Nov. 1979	Feb. 1980	Aug. 1979	Feb. 1980
Expenditure category										
All items	235.1	238.3	238.5	238.5	12.7	13.1	13.5	17.2	12.9	15.3
Food and beverages	241.4	244.8	244.8	244.7	9.1	9.7	10.3	5.9	6.4	8.1
Food	238.5	242.3	241.8	240.9	9.2	9.5	10.4	5.6	6.3	8.0
Food at home	238.5	242.3	241.8	240.9	8.1	.7	10.7	4.1	4.4	7.4
Cereals and bakery products 1/	228.7	231.6	234.2	236.8	7.8	14.6	9.2	14.9	11.1	12.1
Meats, poultry, fish, and eggs	232.8	240.5	240.6	236.2	16.2	-21.8	11.2	6.0	-4.7	8.6
Dairy products	215.2	215.7	217.1	218.4	9.3	12.7	9.9	6.1	11.0	8.0
Fruits and vegetables	239.1	240.4	231.0	225.6	-3.5	25.6	7.5	-20.7	10.1	-7.7
Sugar and sweets 1/	283.2	284.6	289.8	297.5	9.3	7.0	3.2	21.8	8.2	12.1
Fats and oils	231.5	232.4	234.1	237.8	8.4	5.4	5.4	11.3	6.9	8.3
Nonalcoholic beverages	378.3	381.9	383.1	382.2	-5.4	17.2	23.4	9.3	5.2	16.1
Other prepared foods	215.2	216.7	217.9	220.7	11.4	10.9	6.8	10.6	11.2	8.7
Food away from home	252.0	254.4	256.9	258.6	12.2	9.8	9.9	10.9	11.0	10.4
Alcoholic beverages	177.5	178.5	179.8	180.6	7.1	6.5	9.5	7.2	6.8	8.4
Housing	240.4	243.7	247.2	250.7	13.4	16.2	16.9	18.3	14.8	17.6
Shelter	255.3	259.4	263.7	267.4	14.7	16.7	21.4	20.3	15.7	20.9
Rent, residential 1/	182.1	182.9	184.1	185.6	6.7	8.8	10.8	7.9	7.7	9.3
Other rental costs	244.5	247.4	251.4	256.2	9.2	11.2	14.2	20.6	10.2	17.4
Homeownership	281.6	286.8	292.2	296.6	16.9	18.7	24.1	23.1	17.8	23.6
Home purchase 1/	237.3	239.9	242.1	243.0	13.3	18.2	19.6	10.0	15.7	14.7
Financing, taxes, and insurance	338.7	348.2	358.7	368.1	23.4	22.4	34.2	39.5	22.9	36.8
Maintenance and repairs	265.8	268.8	271.0	273.0	9.5	10.3	10.6	14.6	9.9	12.6
Maintenance and repair services	287.9	291.1	293.8	298.9	10.1	10.8	10.2	16.2	10.4	13.1
Maintenance and repair commodities 1/	214.0	216.6	217.6	218.9	8.0	8.7	11.8	9.5	8.4	10.6
Fuel and other utilities 1/	252.0	255.1	258.6	263.8	16.9	28.5	8.0	20.1	22.6	13.9
Fuels 1/	307.0	311.8	318.0	327.1	25.8	41.9	10.1	28.9	33.6	19.1
Fuel oil, coal, and bottled gas 1/	477.4	488.0	514.0	539.1	55.8	110.1	40.4	62.6	80.9	51.1
Gas (piped) and electricity 1/	267.3	270.8	273.0	278.8	18.4	25.9	1.2	18.4	22.1	9.4
Other utilities and public services 1/	161.0	161.9	161.5	161.3	.0	2.0	3.0	.7	1.0	1.9
Household furnishings and operation	194.9	195.8	197.4	199.2	6.2	5.4	7.3	9.1	5.8	8.2
Housefurnishings	166.3	166.9	168.1	169.6	4.8	3.8	6.9	8.2	4.3	7.5
Housekeeping supplies 1/	238.3	239.2	241.1	243.0	6.8	5.4	9.1	12.5	6.1	10.7
Housekeeping services 1/	256.6	258.1	260.0	261.6	8.2	9.1	8.2	8.0	8.6	8.1
Apparel and upkeep	169.7	170.8	172.4	173.5	7.3	2.2	7.7	9.3	4.7	8.5
Apparel commodities	163.6	164.6	165.9	166.8	6.8	1.0	6.9	8.1	3.8	7.5
Men's and boys' apparel	163.5	163.8	164.6	164.2	3.1	2.5	8.0	1.7	2.8	4.8
Women's and girls' apparel	151.6	152.5	153.5	153.9	7.7	-4.8	.3	6.2	1.5	3.2
Infants' and toddlers' apparel 1/	167.1	167.9	168.9	169.6	14.8	.0	9.5	.5	7.1	4.9
Footwear	182.6	183.9	185.0	185.5	11.3	9.3	10.2	6.5	10.3	8.4
Other apparel commodities 1/	177.8	180.9	184.4	191.4	5.2	7.1	20.2	34.3	6.2	27.1
Apparel services 1/	214.2	216.6	220.7	222.9	12.3	9.4	13.1	17.3	10.8	15.2
Transportation	225.1	228.3	235.3	242.0	20.9	23.2	13.7	33.6	22.1	23.2
Private transportation	225.3	228.7	235.4	242.3	21.6	23.7	12.4	33.8	22.7	22.6
New cars	169.2	169.5	171.8	173.9	12.2	7.7	9.1	11.6	9.9	6.1
Used cars	200.5	203.6	205.8	204.7	-2.7	-3.5	1.8	8.6	-3.1	5.2
Gasoline	307.7	315.7	339.0	363.8	71.9	78.4	32.9	95.4	75.1	61.1
Maintenance and repair	251.2	253.2	255.4	257.7	11.4	10.6	8.9	10.8	11.0	9.8
Other private transportation	205.9	206.9	209.1	211.4	10.2	11.9	7.8	12.0	11.1	9.8
Other private trans. commodities 1/	183.4	185.6	188.4	191.2	7.6	9.9	20.4	18.1	8.8	19.2
Other private trans. services	213.4	214.7	216.7	218.9	10.6	12.5	5.0	10.7	11.5	7.8
Public transportation 1/	216.3	223.0	226.8	229.5	5.6	16.4	35.1	26.3	10.9	30.6
Medical care	248.0	250.7	254.0	257.9	6.3	9.8	10.7	16.9	8.1	13.8
Medical care commodities	156.0	157.3	160.8	161.9	5.7	8.4	7.7	10.2	7.1	9.0
Medical care services 1/	267.6	270.7	274.4	279.0	6.5	10.1	11.2	18.2	8.3	14.6
Professional services 1/	233.0	235.9	238.9	242.7	6.7	8.5	7.4	18.1	7.6	12.6
Other medical care services 1/	309.5	312.8	317.4	322.7	6.4	11.6	14.8	18.2	9.0	16.5
Entertainment	193.3	193.7	195.7	198.1	8.8	6.6	6.5	10.3	7.7	8.4
Entertainment commodities	194.8	195.7	198.2	200.8	6.7	8.4	8.0	12.9	7.5	10.4
Entertainment services 1/	191.5	191.1	192.5	194.5	11.9	3.9	4.5	6.4	7.8	5.5
Other goods and services	202.3	203.7	205.9	207.9	6.0	7.6	8.5	11.5	6.8	10.0
Tobacco products 1/	191.5	192.1	196.7	198.1	2.4	8.0	3.4	14.5	5.1	8.8
Personal care 1/	200.9	203.0	204.2	206.5	7.6	7.6	7.1	11.6	7.6	9.3
Toilet goods and personal care appliances 1/	193.1	195.8	196.4	198.6	6.9	5.2	7.4	11.9	6.1	9.6
Personal care services 1/	208.5	210.0	211.6	214.2	8.4	9.5	7.0	11.4	8.9	9.2
Personal and educational expenses	221.6	222.7	225.0	227.1	7.1	7.0	14.8	10.3	7.1	12.5
School books and supplies	199.2	200.6	203.4	204.7	7.1	8.6	4.8	11.5	7.8	8.1
Personal and educational services	227.1	228.2	230.2	232.6	7.2	6.9	16.3	10.0	7.0	13.1
Commodity and service group										
All items	235.1	238.3	238.5	238.5	12.7	13.1	13.5	17.2	12.9	15.3
Commodities	217.9	220.4	223.5	226.1	12.8	12.6	12.7	15.9	12.7	14.3
Food and beverages	235.1	238.3	238.5	238.5	9.1	9.7	10.3	5.9	6.4	8.1
Commodities less food and beverages	206.6	208.8	213.2	216.9	14.7	17.2	13.6	21.5	16.0	17.5
Nondurables less food and beverages	215.6	218.6	226.0	233.0	24.0	28.8	14.1	36.4	26.9	24.8
Apparel commodities	163.6	164.6	165.9	166.8	6.8	1.0	6.9	8.1	3.8	7.5
Nondurables less food, beverages, and apparel	246.4	250.4	260.4	270.9	33.3	38.8	18.2	46.1	36.0	31.4
Durables	198.4	200.3	202.5	203.5	8.3	10.1	11.4	10.7	9.2	11.1
Services	246.1	249.3	252.9	256.8	12.3	13.7	14.9	16.6	13.0	16.7
Rent, residential 1/	182.1	182.9	184.1	185.6	6.7	8.8	10.8	7.9	7.7	9.3
Household services less rent	234.0	238.4	239.7	240.6	16.2	17.4	19.0	25.5	16.9	22.2
Transportation services	221.5	224.0	226.4	228.6	9.9	12.6	11.0	13.5	11.2	12.2
Medical care services 1/	267.6	270.7	274.4	279.0	6.5	10.1	11.2	18.2	8.3	14.6
Other services	204.0	206.8	208.7	210.9	9.9	8.8	7.7	9.9	8.3	9.7
Special indexes:										
All items less food	223.7	226.4	230.4	234.2	13.5	15.4	14.2	20.1	14.4	17.1
All items less shelter	219.1	221.4	224.3	227.3	11.8	11.6	10.3	15.8	11.7	13.0
All items less mortgage interest costs	220.2	222.5	225.2	227.6	11.5	12.0	11.5	14.1	11.8	12.8
All items less medical care	226.3	229.2	232.5	235.6	13.0	13.2	13.6	17.5	13.1	15.5
Commodities less food	205.1	207.3	211.5	215.2	14.6	16.9	13.5	21.2	15.7	17.3
Nondurables less food	212.0	215.0	223.4	228.4	24.0	27.3	13.9	34.7	25.6	23.9
Nondurables less food and apparel	236.8	240.5	249.5	259.2	30.6	36.2	17.6	43.3	33.4	29.9
Nondurables	226.4	229.4	233.2	237.0	15.7	14.9	12.8	20.1	15.3	16.4
Services less rent	258.0	261.9	265.7	270.2	13.3	14.5	15.4	20.3	13.9	17.8
Services less medical care 1/	242.3	245.3	249.2	252.7	12.0	15.6	15.8	18.3	13.8	17.0
Energy	308.9	315.9	330.5	347.4	47.8	58.8	23.2	60.0	53.2	40.4
All items less energy	221.4	224.1	226.6	228.2	9.9	9.2	12.2	12.9	9.6	12.6
All items less food and energy	215.6	218.1	221.0	223.5	10.0	10.6	12.6	15.5	10.3	14.0
Commodities less food and energy	190.8	192.6	194.9	195.9	8.0	7.9	9.1	11.1	7.9	10.1
Energy commodities	332.8	341.4	364.4	388.9	-71.5	81.9	32.3	86.5	76.6	57.1
Services less energy	244.5	247.8	251.4	255.2	11.8	12.6	16.4	18.7	12.2	17.5

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 3. Consumer Price Index for all urban consumers: Selected areas, all items index, 1967=100 unless otherwise noted

Area 1/	Pricing schedule 2/	Other index base	Indexes Nov. 1979	Dec. 1979	Jan. 1980	Feb. 1980	Percent change to Feb. 1980 from- Feb. 1979	Dec. 1979	Jan. 1980	Percent change to Jan. 1980 from- Jan. 1979	Nov. 1979	Dec. 1979
U.S. city average			225.9	228.9	233.2	236.4	14.1	2.8	1.4	13.9	2.5	1.4
Chicago, Ill.-Northwestern Ind.	M		225.9	228.4	230.3	232.7	14.9	1.9	1.0	15.3	1.9	.8
Detroit, Mich.	M		231.3	233.2	237.2	240.4	13.1	3.1	1.3	15.7	2.6	1.7
L.A.-Long Beach, Anaheim, Calif.	M		224.2	228.0	232.6	237.6	17.7	4.2	2.1	16.5	3.7	2.0
N.Y., N.Y.-Northeastern N.J.	M		221.3	222.9	226.1	228.0	11.1	2.3	.8	11.4	2.2	1.4
Philadelphia, Pa.-N.J.	M		222.4	225.7	227.2	231.1	13.2	3.3	1.7	12.3	2.2	1.6
Anchorage, Alaska	1	10/67	213.7	-	218.2	-	-	-	-	10.1	2.1	-
Baltimore, Md.	1		227.2	-	234.4	-	-	-	-	14.8	3.2	-
Boston, Mass.	1		222.7	-	227.3	-	-	-	-	12.7	2.1	-
Cincinnati, Ohio-Ky.-Ind.	1		233.4	-	239.5	-	-	-	-	13.4	2.6	-
Denver-Boulder, Colo.	1		245.9	-	247.3	-	-	-	-	14.4	.6	-
Miami, Fla.	1	11/77	119.4	-	123.3	-	-	-	-	13.2	3.3	-
Milwaukee, Wis.	1		229.8	-	236.4	-	-	-	-	17.8	2.9	-
Northeast Pennsylvania	1		220.0	-	224.4	-	-	-	-	12.1	2.0	-
Portland, Oreg.-Wash.	1		236.6	-	244.6	-	-	-	-	13.5	3.4	-
St. Louis, Mo.-Ill.	1		225.7	-	232.7	-	-	-	-	14.4	3.1	-
San Diego, Calif.	1		247.8	-	254.0	-	-	-	-	18.2	2.5	-
Seattle-Everett, Wash.	1		227.6	-	236.0	-	-	-	-	16.8	3.7	-
Washington, D.C.-Md.-Va.	1		233.4	-	231.9	-	-	-	-	11.1	2.9	-
Atlanta, Ga.	2		-	223.3	-	230.3	14.1	3.1	-	-	-	-
Buffalo, N.Y.	2		-	221.2	-	227.9	12.3	3.0	-	-	-	-
Cleveland, Ohio	2		-	232.5	-	243.5	15.9	4.7	-	-	-	-
Dallas-Fort Worth, Tex.	2		-	234.1	-	241.7	17.6	3.2	-	-	-	-
Honolulu, Hawaii	2		-	214.8	-	220.9	12.6	2.8	-	-	-	-
Houston, Tex.	2		-	248.7	-	255.9	14.1	2.9	-	-	-	-
Kansas City, Mo.-Kan.	2		-	233.7	-	238.7	14.7	2.1	-	-	-	-
Minneapolis-St.Paul, Minn.-Wis.	2		-	234.0	-	237.9	12.3	1.7	-	-	-	-
Pittsburgh, Pa.	2		-	229.2	-	235.5	12.6	2.7	-	-	-	-
San Francisco-Oakland, Calif.	2		-	230.2	-	240.7	18.0	4.6	-	-	-	-
Region 3/												
Northeast	2	12/77	-	120.6	-	123.7	12.5	2.6	-	-	-	-
North Central	2	12/77	-	125.1	-	128.0	13.9	2.3	-	-	-	-
South	2	12/77	-	123.8	-	127.4	14.1	2.9	-	-	-	-
West	2	12/77	-	125.1	-	129.4	16.6	3.4	-	-	-	-
Population size class 3/												
A-1	2	12/77	-	121.9	-	125.4	13.9	2.9	-	-	-	-
A-2	2	12/77	-	124.2	-	128.1	15.0	3.1	-	-	-	-
B	2	12/77	-	124.4	-	128.0	14.4	2.7	-	-	-	-
C	2	12/77	-	124.4	-	127.7	13.7	2.7	-	-	-	-
D	2	12/77	-	122.9	-	125.8	13.3	2.4	-	-	-	-
Region/population size class cross classification 3/												
Northeast/A	2	12/77	-	119.8	-	122.1	11.9	2.6	-	-	-	-
North Central/A	2	12/77	-	126.3	-	129.6	15.0	2.6	-	-	-	-
South/A	2	12/77	-	123.1	-	127.1	14.2	3.2	-	-	-	-
West/A	2	12/77	-	124.8	-	129.6	17.3	3.8	-	-	-	-
Northeast/B	2	12/77	-	122.2	-	125.6	13.6	2.8	-	-	-	-
North Central/B	2	12/77	-	124.6	-	127.2	12.9	2.1	-	-	-	-
South/B	2	12/77	-	124.6	-	128.0	14.3	2.7	-	-	-	-
West/B	2	12/77	-	126.6	-	130.6	16.4	3.2	-	-	-	-
Northeast/C	2	12/77	-	125.7	-	129.1	14.6	2.7	-	-	-	-
North Central/C	2	12/77	-	123.7	-	126.4	13.1	2.2	-	-	-	-
South/C	2	12/77	-	124.3	-	127.9	13.7	2.9	-	-	-	-
West/C	2	12/77	-	124.5	-	128.1	14.4	2.9	-	-	-	-
Northeast/D	2	12/77	-	121.8	-	124.2	12.6	2.0	-	-	-	-
North Central/D	2	12/77	-	123.0	-	125.8	12.6	2.3	-	-	-	-
South/D	2	12/77	-	122.5	-	125.9	13.7	2.8	-	-	-	-
West/D	2	12/77	-	124.3	-	127.1	14.6	2.3	-	-	-	-

1/ Area is generally the Standard Metropolitan Statistical Area (SMSA), exclusive of farms. L.A.-Long Beach, Anaheim, Calif. is a combination of two SMSA's, and N.Y., N.Y.-Northeastern N.J. and Chicago, Ill.-Northwestern Ind. are the more extensive Standard Consolidated Areas. Area definitions are those established by the Office of Management and Budget in 1973, except for Denver-Boulder, Colo. which does not include Douglas County. Definitions do not include revisions made since 1973.

2/ Foods, fuels, and several other items priced every month in all areas; most other goods and services priced as indicated:
M - Every month.
1 - January, March, May, July, September, and November.
2 - February, April, June, August, October, and December.

3/ Regions are defined as the four Census regions.
The population size classes are aggregations of areas which have urban population as defined below:

A-1	More than 4,000,000.
A-2	1,250,000 to 4,000,000.
B	385,000 to 1,250,000.
C	75,000 to 385,000.
D	Less than 75,000.

Population size class A is the aggregation of population size classes A-1 and A-2.

NOTE: Price changes within areas are found in the Consumer Price Index; differences in living costs among areas are found in Family Budgets.

CPI-W

TABLE 4. Consumer Price Index for urban wage earners and clerical workers: U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Relative importance, December 1979	Unadjusted indexes Jan. 1980	Feb. 1980	Unadjusted percent change to Feb. 1980 from- Feb. 1979	Jan. 1980	Seasonally adjusted percent change from- Nov. to Dec.	Dec. to Jan.	Jan. to Feb.
Expenditure category								
All items	100.000	233.3	236.5	14.2	1.4	1.2	1.4	1.4
All items(1957-59=100)	-	271.3	275.1	-	-	-	-	-
Food and beverages	20.353	237.8	239.0	7.4	.5	1.4	.2	.0
Food	19.237	244.0	245.2	7.3	.5	1.4	.1	.0
Food at home	13.427	240.1	241.1	5.8	.4	1.6	-.2	-.3
Cereals and bakery products 1/	1.683	234.7	237.4	11.5	1.2	1.1	1.0	1.2
Meats, poultry, fish, and eggs	4.663	237.5	236.4	1.8	-.5	3.2	.0	-1.5
Dairy products	1.810	218.9	219.8	9.3	.4	.3	.6	.4
Fruits and vegetables	1.762	227.2	225.9	.2	-.6	.7	-3.9	-2.7
Sugar and sweets 1/	.447	289.6	297.1	10.0	2.6	.8	1.9	2.6
Fats and oils	.376	234.9	236.5	7.6	.7	.4	.9	1.5
Nonalcoholic beverages	1.557	375.6	383.0	10.4	2.0	.9	.4	1.4
Other prepared foods	1.129	219.1	221.7	9.8	1.2	.5	.7	1.1
Food away from home	5.810	258.0	260.1	11.0	.8	1.1	1.1	.5
Alcoholic beverages	1.116	179.7	181.1	8.0	.8	.7	.6	.7
Housing	41.667	247.3	250.5	16.3	1.3	1.3	1.5	1.4
Shelter	28.038	265.1	268.3	18.6	1.2	1.6	1.7	1.4
Rent, residential 1/	4.982	183.9	185.5	8.5	.9	.4	.7	.9
Other rental costs	.302	251.1	253.6	13.8	1.0	1.2	1.9	1.0
Homeownership	22.353	294.6	298.4	21.2	1.3	1.8	1.9	1.3
Home purchase 1/	9.137	242.3	243.0	15.3	.3	1.1	.9	.3
Financing, taxes, and insurance	10.163	363.4	371.6	30.4	2.3	2.7	3.0	2.7
Maintenance and repairs	3.254	271.9	274.4	11.7	.9	1.1	1.1	1.1
Maintenance and repair services	2.322	295.9	299.3	12.6	1.1	1.2	1.0	1.5
Maintenance and repair commodities 1/	.931	218.4	219.5	9.5	.5	1.0	1.2	.5
Fuel and other utilities 1/	6.373	259.2	264.4	18.3	2.0	1.3	1.4	2.0
Fuels 1/	4.584	318.1	327.0	26.1	2.8	1.6	2.0	2.8
Fuel oil, coal, and bottled gas 1/	1.209	315.1	340.3	65.5	4.9	2.3	3.3	4.9
Gas (piped) and electricity 1/	3.375	273.0	278.5	15.6	2.0	1.3	.8	2.0
Other utilities and public services 1/	1.788	161.5	161.4	1.4	-.1	.6	-.2	-.1
Household furnishings and operation	7.256	194.9	196.8	6.5	1.0	.4	.7	.9
Housefurnishings	4.231	166.5	167.9	5.3	.8	.4	.7	.7
Housekeeping supplies 1/	1.497	228.8	232.8	7.6	1.7	.2	.7	1.7
Housekeeping services 1/	1.527	259.2	261.1	8.6	.7	.6	.7	.7
Apparel and upkeep	5.114	169.8	171.5	6.1	1.0	.5	.8	.9
Apparel commodities	4.489	163.6	165.2	5.4	1.0	.5	.7	.9
Men's and boys' apparel	1.391	162.4	162.9	3.4	.3	.2	.1	.1
Women's and girls' apparel	1.719	149.9	151.3	2.4	.9	.3	.7	1.1
Infants' and toddlers' apparel 1/	.124	229.1	232.7	8.4	1.6	.8	-.6	1.6
Footwear	.706	183.3	183.9	9.6	.3	.8	.7	.0
Other apparel commodities 1/	.550	185.5	191.8	14.5	3.4	1.7	1.4	3.4
Apparel services 1/	.625	216.9	219.8	11.7	1.3	.7	1.6	1.3
Transportation	20.902	234.1	240.2	22.5	2.6	1.5	3.1	2.8
Private transportation	19.962	234.1	240.4	22.7	2.7	1.4	3.1	2.9
New cars	3.946	174.1	173.4	8.3	.7	.0	1.4	1.2
Used cars	3.622	197.2	195.3	-1.0	-1.0	1.6	1.0	-.5
Gasoline	6.429	335.9	359.0	68.2	6.9	2.7	7.2	7.3
Maintenance and repair	1.621	256.2	259.2	10.6	1.2	1.1	.9	.9
Other private transportation	4.344	210.6	213.6	10.6	1.4	.8	1.0	1.2
Other private trans. commodities 1/	.794	188.0	191.7	12.6	2.0	1.4	.9	2.0
Other private trans. services	3.550	218.7	221.5	10.1	1.3	.7	1.0	1.0
Public transportation 1/	.940	221.9	223.9	17.0	.9	2.4	1.3	.9
Medical care	4.372	254.9	258.7	11.5	1.5	1.1	1.3	1.5
Medical care commodities	.731	161.0	162.7	8.0	1.1	.9	.6	.9
Medical care services 1/	3.641	275.6	279.8	12.1	1.5	1.1	1.4	1.5
Professional services 1/	1.843	241.7	245.5	11.1	1.6	1.0	1.4	1.6
Other medical care services 1/	1.798	317.5	322.1	13.2	1.5	1.2	1.4	1.5
Entertainment	3.936	193.9	196.2	7.6	1.2	-.1	.8	1.2
Entertainment commodities	2.248	194.2	196.9	7.8	1.4	.3	.9	1.4
Entertainment services 1/	1.308	194.4	196.0	7.0	.8	-.7	.7	.8
Other goods and services	4.035	206.0	207.7	6.2	.8	.6	1.4	.9
Tobacco products 1/	1.306	197.1	198.3	7.0	.6	.4	2.6	.6
Personal care 1/	1.684	204.4	206.6	8.5	1.1	.9	1.0	1.1
Toilet goods and personal care appliances 1/	.796	196.2	198.3	7.4	1.1	1.1	.9	1.1
Personal care services 1/	.888	212.7	215.0	9.5	1.1	.8	1.2	1.1
Personal and educational expenses	1.046	226.2	227.8	9.4	.7	.5	.8	1.0
School books and supplies	.156	209.8	210.4	8.6	.3	.7	1.4	.8
Personal and educational services	.890	230.6	232.5	9.6	.8	.5	.7	1.0
Commodity and service group								
All items	100.000	233.3	236.5	14.2	1.4	1.2	1.4	1.4
Commodities	61.878	222.5	225.3	13.5	1.3	1.2	1.5	1.3
Food and beverages	20.353	237.8	239.0	7.4	.5	1.4	.2	.0
Commodities less food and beverages	41.524	212.0	215.7	16.8	1.7	1.1	2.2	1.9
Nondurables less food and beverages	18.832	226.3	234.1	26.7	3.4	1.4	3.4	3.3
Apparel commodities	4.489	163.6	165.2	5.4	1.0	.5	.7	.9
Nondurables less food, beverages, and apparel	14.343	261.2	272.1	34.6	4.2	1.6	4.1	4.1
Durables	22.692	199.6	200.3	9.3	.4	1.0	1.0	.3
Services	38.122	253.6	257.3	13.3	1.5	1.3	1.4	1.5
Rent, residential 1/	4.982	183.9	185.5	8.5	.9	.4	.7	.9
Household services less rent	19.677	297.2	302.4	20.3	1.7	1.9	1.9	2.0
Transportation services	6.111	226.2	229.3	11.3	1.4	1.0	1.0	.9
Medical care services 1/	3.641	275.6	279.8	12.1	1.5	1.1	1.4	1.5
Other services	3.711	209.3	211.4	9.0	1.0	.2	1.0	1.0
Special indexes:								
All items less food	80.763	230.0	233.7	15.9	1.6	1.2	1.9	1.7
All items less shelter	71.962	223.9	227.2	12.6	1.5	1.1	1.4	1.4
All items less mortgage interest costs	91.812	224.7	227.6	12.4	1.3	1.0	1.3	1.1
All items less medical care	95.628	231.8	235.1	14.3	1.4	1.2	1.5	1.4
Commodities less food	42.641	210.3	214.0	16.6	1.8	1.1	2.1	1.8
Nondurables less food	19.948	222.1	229.4	25.6	3.3	1.4	3.2	3.2
Nondurables less food and apparel	15.459	250.2	260.1	32.4	4.0	1.6	3.8	3.9
Nondurables	39.185	232.9	237.4	16.1	1.9	1.4	1.7	1.7
Services less rent	33.140	266.7	270.8	16.3	1.5	1.3	1.7	1.7
Services less medical care 1/	34.481	249.5	253.1	13.6	1.4	1.2	1.6	1.4
Energy	11.115	331.5	348.7	48.2	5.2	2.3	4.7	5.2
All items less energy	88.885	225.3	227.3	10.7	.9	1.1	1.1	.7
All items less food and energy	69.648	219.6	221.8	11.7	1.0	1.1	1.2	1.1
Commodities less food and energy	34.900	192.4	193.5	8.4	.6	.8	1.0	.6
Energy commodities	7.740	362.8	386.4	66.9	6.5	2.6	6.6	6.8
Services less energy	34.747	252.2	255.7	15.2	1.4	1.3	1.4	1.3
Purchasing power of the consumer dollar:								
1967=$1.00 1/	-	$.429	$.423	-12.4	-1.4	-.9	-1.4	-1.4
1957-59=$1.00 1/	-	.369	.364	-	-	-	-	-

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 5. Consumer Price Index for urban wage earners and clerical workers: Seasonally adjusted U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Seasonally adjusted indexes				Seasonally adjusted annual rate percent change for-					
					3 months ending in			6 months ending in		
	Nov. 1979	Dec. 1979	Jan. 1980	Feb. 1980	May 1979	Aug. 1979	Nov. 1979	Feb. 1980	Aug. 1979	Feb. 1980
Expenditure category										
All items	-	-	-	-	12.9	13.3	13.3	17.3	13.1	15.3
Food and beverages	235.2	238.5	238.9	238.8	9.1	3.6	10.3	6.5	6.3	8.5
Food	241.4	244.9	245.1	245.0	9.0	3.5	10.2	6.1	6.2	8.1
Food at home	238.0	241.8	241.3	240.6	7.8	-.3	10.8	4.4	4.0	7.6
Cereals and bakery products 1/	229.7	232.3	234.7	237.4	7.5	14.2	10.4	14.1	10.8	12.2
Meats, poultry, fish, and eggs	232.5	240.0	240.1	236.4	15.1	-21.9	12.0	6.9	-5.2	9.4
Dairy products	215.6	216.3	217.6	218.5	9.3	12.7	9.6	5.5	11.0	7.5
Fruits and vegetables	236.5	238.2	228.8	222.6	-2.7	26.0	4.9	-21.5	10.7	-9.3
Sugar and sweets 1/	281.9	284.1	289.6	297.1	8.2	6.4	2.9	23.4	7.3	12.7
Fats and oils	232.1	233.0	235.1	238.6	6.7	6.0	6.3	11.7	6.3	8.9
Nonalcoholic beverages	375.1	378.6	380.2	385.7	-5.7	15.8	21.3	11.8	4.3	16.5
Other prepared foods	215.6	216.7	218.2	220.6	11.2	10.9	7.8	9.6	11.0	8.7
Food away from home	253.4	256.2	259.0	260.4	12.1	11.0	9.5	11.5	11.4	10.5
Alcoholic beverages	178.0	179.2	180.2	181.5	7.8	6.2	9.8	8.1	7.0	8.9
Housing	240.4	243.6	247.2	250.6	13.8	16.4	16.9	18.1	15.1	17.5
Shelter	256.4	260.4	264.9	268.6	15.3	17.0	22.1	20.4	16.2	21.3
Rent, residential 1/	181.9	182.7	183.9	185.5	6.7	8.6	10.8	8.2	7.6	9.5
Other rental costs	244.1	247.0	251.6	256.1	8.2	11.1	14.8	21.2	9.6	18.0
Homeownership	283.5	288.7	294.3	298.6	17.6	19.2	25.0	23.1	18.4	24.0
Home purchase 1/	237.7	240.2	242.3	243.0	13.5	18.4	20.2	9.2	16.0	14.6
Financing, taxes, and insurance	342.2	351.6	362.3	372.0	24.1	23.0	35.6	39.7	23.5	37.6
Maintenance and repairs	266.4	269.4	272.3	273.4	11.8	11.0	9.5	14.2	11.4	11.9
Maintenance and repair services	290.0	293.5	296.5	300.8	13.8	11.2	9.6	15.7	12.5	12.7
Maintenance and repair commodities 1/	213.6	215.8	218.4	219.5	7.4	10.2	9.1	11.5	8.8	10.3
Fuel and other utilities 1/	252.4	255.7	259.2	264.4	17.1	28.8	7.8	20.4	22.8	13.9
Fuels 1/	306.9	311.8	318.1	327.0	25.8	42.1	9.8	28.9	33.7	19.0
Fuel oil, coal, and bottled gas 1/	478.2	489.0	515.1	540.3	56.0	109.7	40.8	63.0	80.9	51.5
Gas (piped) and electricity 1/	267.1	270.7	273.0	278.5	18.4	26.3	.9	18.2	22.3	9.2
Other utilities and public services 1/	160.9	161.8	161.5	161.4	.0	1.8	2.8	1.2	.9	2.0
Household furnishings and operation	193.0	193.8	195.2	197.0	6.2	5.0	6.2	8.4	5.6	7.4
Housefurnishings	165.2	165.8	167.0	168.2	5.9	3.8	4.2	7.3	4.8	5.8
Housekeeping supplies 1/	226.7	227.2	228.8	232.8	5.9	4.1	9.5	11.2	5.0	10.4
Housekeeping services 1/	255.9	257.5	259.2	261.1	7.5	9.3	9.1	8.4	8.4	8.7
Apparel and upkeep	169.1	170.0	171.4	173.0	6.5	2.4	6.4	9.5	4.5	8.0
Apparel commodities	163.4	164.2	165.3	166.8	5.9	1.5	5.8	8.6	3.7	7.2
Men's and boys' apparel	163.4	163.8	164.0	164.2	3.3	4.3	3.8	2.0	3.8	2.9
Women's and girls' apparel	150.8	151.2	152.3	153.9	5.4	-4.1	.3	8.5	.5	4.3
Infants' and toddlers' apparel 1/	228.7	230.5	229.1	232.7	17.9	1.1	8.3	7.2	9.1	7.8
Footwear	181.9	183.3	184.4	184.6	15.0	6.8	10.5	6.1	10.8	8.3
Other apparel commodities 1/	179.8	182.9	185.5	191.8	-.5	7.1	24.5	29.5	3.2	27.0
Apparel services 1/	212.0	213.4	216.9	219.8	12.3	8.3	10.7	15.5	10.3	13.1
Transportation	225.8	229.1	236.1	242.8	20.6	23.4	13.6	33.7	22.0	23.1
Private transportation	225.9	229.1	236.3	243.1	21.6	23.8	12.8	34.1	22.7	23.0
New cars	169.6	169.6	172.0	174.0	12.0	8.2	2.4	10.8	10.1	6.5
Used cars	200.5	203.7	205.8	204.7	-2.7	-3.5	1.8	8.6	-3.1	3.2
Gasoline	309.1	317.4	340.3	365.2	72.8	79.5	32.7	94.9	76.1	60.8
Maintenance and repair	251.6	254.3	256.5	258.7	11.2	10.7	8.9	11.8	11.0	10.3
Other private transportation	206.3	207.9	209.9	212.4	9.7	12.1	8.4	12.4	10.9	10.3
Other private trans. commodities 1/	183.9	186.4	188.0	191.7	4.5	9.6	18.9	18.1	7.1	18.5
Other private trans. services	214.3	215.7	217.8	220.0	10.8	12.7	6.0	11.1	11.7	8.5
Public transportation 1/	214.6	219.1	221.9	223.9	6.0	13.8	29.5	19.8	9.8	24.6
Medical care	249.1	251.8	255.0	258.7	7.1	11.5	11.2	16.3	9.3	13.7
Medical care commodities	158.8	160.3	161.3	162.7	5.7	9.5	6.6	10.2	7.6	8.4
Medical care services 1/	268.5	271.2	275.6	279.8	7.2	11.8	12.2	17.4	9.5	14.7
Professional services 1/	235.9	238.3	241.7	245.5	8.2	10.7	8.6	17.3	9.4	12.9
Other medical care services 1/	309.3	313.0	317.3	322.1	6.5	13.2	15.9	17.6	9.8	16.8
Entertainment	192.0	192.4	194.0	196.3	9.3	5.2	7.6	7.9	7.2	7.8
Entertainment commodities	192.1	192.6	194.4	197.1	7.6	5.5	7.4	10.8	6.6	9.1
Entertainment services 1/	194.3	193.0	194.4	196.0	12.3	4.8	7.8	3.5	8.5	5.6
Other goods and services	201.4	202.7	205.6	207.5	5.3	8.1	6.8	12.7	6.7	9.7
Tobacco products 1/	191.4	192.1	197.1	198.3	2.0	8.4	2.8	15.2	5.1	8.8
Personal care 1/	200.5	202.3	204.4	206.6	7.1	8.3	6.0	12.7	7.7	9.3
Toilet goods and personal care appliances 1/	192.4	194.5	196.2	198.3	6.7	5.4	4.7	12.8	6.0	8.7
Personal care services 1/	208.6	210.2	212.7	215.0	7.3	10.8	7.2	12.5	9.1	10.0
Personal and educational expenses	210.0	210.2	214.7	217.0	7.1	7.4	13.9	9.7	7.3	11.8
School books and supplies	202.7	204.1	206.9	208.5	7.5	9.1	5.9	11.9	8.3	8.9
Personal and educational services	226.8	228.0	229.5	231.8	7.2	7.1	15.2	9.1	7.1	12.1
Commodity and service group										
All items	-	-	-	-	12.9	13.3	13.3	17.3	13.1	15.3
Commodities	217.8	220.4	223.6	226.4	13.0	12.6	12.0	16.8	12.8	14.4
Food and beverages	235.2	238.5	238.9	238.8	9.1	3.6	10.3	6.5	6.3	8.5
Commodities less food and beverages	206.5	208.7	213.3	217.3	15.0	17.5	13.0	22.6	16.2	17.7
Nondurables less food and beverages	217.1	220.2	227.7	235.3	25.9	30.4	13.8	38.0	28.1	25.3
Apparel commodities	163.4	164.2	165.3	166.8	5.9	1.5	5.8	8.6	3.7	7.2
Nondurables less food, beverages, and apparel	248.0	251.9	262.2	272.9	34.5	40.5	18.1	46.6	37.5	31.6
Durables	196.9	198.8	200.8	201.5	8.5	9.0	9.9	9.7	8.8	9.8
Services	246.6	249.5	253.3	257.2	12.9	14.3	15.1	18.3	13.6	16.7
Rent, residential 1/	181.9	182.7	183.9	185.5	6.7	8.6	10.8	8.2	7.6	9.5
Household services less rent	285.8	291.3	296.8	302.8	17.2	18.4	19.6	26.0	17.8	22.8
Transportation services	221.6	223.6	226.1	228.2	10.3	12.3	10.8	12.5	11.3	11.2
Medical care services 1/	268.8	271.8	275.6	279.8	7.2	11.8	12.2	17.4	9.5	14.7
Other services	206.7	207.1	209.1	211.2	9.8	7.2	9.9	9.0	8.5	9.4
Special indexes:										
All items less food	223.8	226.4	230.6	234.6	13.9	15.8	14.0	20.7	14.9	17.3
All items less shelter	219.5	221.9	224.9	228.0	12.0	11.8	10.1	16.4	11.9	13.2
All items less mortgage interest costs	220.6	222.8	225.6	228.1	11.9	12.2	11.2	14.3	12.1	12.8
All items less medical care	226.3	229.1	232.6	235.8	13.2	13.4	13.2	17.9	13.3	15.5
Commodities less food	205.0	207.2	211.6	215.5	14.8	17.1	12.8	22.1	16.0	17.4
Nondurables less food	213.5	216.4	223.4	230.6	24.6	28.6	13.8	36.1	26.6	24.5
Nondurables less food and apparel	238.2	241.9	251.2	260.9	31.8	37.5	17.3	42.9	34.6	30.0
Nondurables	227.2	230.2	234.1	238.1	13.9	15.5	12.5	20.8	15.7	16.6
Services less rent	258.7	262.5	266.4	270.8	13.9	15.1	15.8	20.1	14.5	17.9
Services less medical care 1/	242.6	245.5	249.5	253.1	12.6	15.5	15.7	18.5	14.1	17.1
Energy	311.8	319.1	334.2	351.5	50.2	60.8	23.6	61.5	55.4	41.3
All items less energy	221.1	223.5	226.0	227.5	9.9	8.8	11.8	12.1	9.4	12.0
All items less food and energy	214.9	217.3	220.0	222.5	10.2	10.2	12.0	14.9	10.2	13.4
Commodities less food and energy	189.8	191.4	193.4	194.5	7.8	7.4	8.0	10.3	7.6	9.1
Energy commodities	334.1	342.9	365.7	390.7	72.6	82.2	32.2	87.0	77.5	57.2
Services less energy	245.0	248.3	251.9	255.6	12.2	13.2	16.5	18.5	12.7	17.5

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 6. Consumer Price Index for urban wage earners and clerical workers: Selected areas, all items index, 1967=100 unless otherwise noted

Area 1/	Pricing schedule 2/	Other index base	Indexes Nov. 1979	Dec. 1979	Jan. 1980	Feb. 1980	Percent change to Feb. 1980 from- Feb. 1979	Dec. 1979	Jan. 1980	Percent change to Jan. 1980 from- Jan. 1979	Nov. 1979	Dec. 1979
U.S. city average			227.6	230.0	233.3	236.5	14.2	2.8	1.4	14.0	2.5	1.4
Chicago, Ill.-Northwestern Ind.	M		225.6	227.8	229.9	232.5	14.9	2.1	1.1	15.1	1.9	.9
Detroit, Mich.	M		230.8	232.2	236.4	239.9	14.9	3.3	1.5	15.4	2.4	1.8
L.A.-Long Beach, Anaheim, Calif.	M		225.8	229.9	235.0	240.0	18.6	4.4	2.1	17.7	4.1	2.2
N.Y., N.Y.-Northeastern N.J.	M		220.7	222.4	225.5	227.7	11.2	2.4	1.0	11.5	2.2	1.4
Philadelphia, Pa.-N.J.	M		223.8	224.6	228.0	231.6	12.5	3.1	1.6	11.8	1.9	1.5
Anchorage, Alaska	1	10/67	211.8	-	215.9	-	-	-	-	9.4	1.9	-
Baltimore, Md.	1		227.9	-	234.5	-	-	-	-	14.4	2.9	-
Boston, Mass.	1		222.5	-	226.9	-	-	-	-	15.1	2.0	-
Cincinnati, Ohio-Ky.-Ind.	1		235.6	-	241.0	-	-	-	-	13.5	2.3	-
Denver-Boulder, Colo.	1		248.6	-	250.9	-	-	-	-	15.1	.9	-
Miami, Fla.	1	11/77	120.5	-	124.9	-	-	-	-	14.4	3.7	-
Milwaukee, Wis.	1		232.5	-	240.8	-	-	-	-	19.4	3.6	-
Northeast Pennsylvania	1		221.1	-	225.8	-	-	-	-	11.7	2.1	-
Portland, Oreg.-Wash.	1		236.7	-	243.5	-	-	-	-	14.8	2.9	-
St. Louis, Mo.-Ill.	1		226.3	-	233.5	-	-	-	-	15.9	3.2	-
San Diego, Calif.	1		244.8	-	251.0	-	-	-	-	18.1	2.5	-
Seattle-Everett, Wash.	1		225.5	-	233.8	-	-	-	-	16.7	3.7	-
Washington, D.C.-Md.-Va.	1		226.7	-	233.0	-	-	-	-	11.3	2.8	-
Atlanta, Ga.	2		-	227.0	-	233.5	15.2	2.9	-	-	-	-
Buffalo, N.Y.	2		-	220.7	-	227.9	12.2	3.3	-	-	-	-
Cleveland, Ohio	2		-	233.2	-	244.1	15.7	4.7	-	-	-	-
Dallas-Fort Worth, Tex.	2		-	233.3	-	240.9	16.8	3.3	-	-	-	-
Honolulu, Hawaii	2		-	215.3	-	221.3	12.9	2.7	-	-	-	-
Houston, Tex.	2		-	246.0	-	251.9	12.9	2.4	-	-	-	-
Kansas City, Mo.-Kans.	2		-	232.4	-	236.6	15.9	1.8	-	-	-	-
Minneapolis-St.Paul, Minn.-Wis.	2		-	234.8	-	239.6	12.8	2.0	-	-	-	-
Pittsburgh, Pa.	2		-	229.7	-	233.9	13.1	2.7	-	-	-	-
San Francisco-Oakland, Calif.	2		-	229.0	-	240.0	17.5	4.8	-	-	-	-
Region 3/												
Northeast	2	12/77	-	120.5	-	123.7	12.4	2.7	-	-	-	-
North Central	2	12/77	-	125.2	-	128.3	14.1	2.5	-	-	-	-
South	2	12/77	-	123.8	-	127.5	14.1	3.0	-	-	-	-
West	2	12/77	-	125.4	-	129.8	16.9	3.5	-	-	-	-
Population size class 3/												
A-1	2	12/77	-	122.0	-	125.7	14.1	3.0	-	-	-	-
A-2	2	12/77	-	124.2	-	128.1	15.0	3.1	-	-	-	-
B	2	12/77	-	124.8	-	128.2	14.5	2.7	-	-	-	-
C	2	12/77	-	124.3	-	127.6	13.6	2.7	-	-	-	-
D	2	12/77	-	123.1	-	126.1	13.3	2.4	-	-	-	-
Region/population size class cross classification 3/												
Northeast/A	2	12/77	-	118.9	-	122.1	11.9	2.7	-	-	-	-
North Central/A	2	12/77	-	126.3	-	129.8	15.2	2.8	-	-	-	-
South/A	2	12/77	-	123.5	-	127.4	14.2	3.2	-	-	-	-
West/A	2	12/77	-	124.7	-	130.0	18.3	4.3	-	-	-	-
Northeast/B	2	12/77	-	121.9	-	123.3	12.9	2.6	-	-	-	-
North Central/B	2	12/77	-	125.7	-	128.4	13.5	2.1	-	-	-	-
South/B	2	12/77	-	124.4	-	127.9	14.5	2.8	-	-	-	-
West/B	2	12/77	-	127.1	-	130.9	16.5	3.0	-	-	-	-
Northeast/C	2	12/77	-	125.5	-	128.8	13.9	2.6	-	-	-	-
North Central/C	2	12/77	-	123.0	-	125.6	12.6	2.1	-	-	-	-
South/C	2	12/77	-	124.3	-	128.2	14.2	3.1	-	-	-	-
West/C	2	12/77	-	125.1	-	128.4	14.0	2.6	-	-	-	-
Northeast/D	2	12/77	-	122.4	-	125.1	13.0	2.2	-	-	-	-
North Central/D	2	12/77	-	123.5	-	126.2	12.6	2.2	-	-	-	-
South/D	2	12/77	-	122.4	-	125.9	13.6	2.9	-	-	-	-
West/D	2	12/77	-	124.5	-	127.3	14.4	2.2	-	-	-	-

1/ Area is generally the Standard Metropolitan Statistical Area (SMSA), exclusive of farms. L.A.-Long Beach, Anaheim, Calif. is a combination of two SMSA's, and N.Y., N.Y.-Northeastern N.J. and Chicago, Ill.-Northwestern Ind. are the more extensive Standard Consolidated Areas. Area definitions are those established by the Office of Management and Budget in 1973, except for Denver-Boulder, Colo. which does not include Douglas County. Definitions do not include revisions made since 1973.

2/ Foods, fuels, and several other items priced every month in all areas; most other goods and services priced as indicated:
M - Every month.
1 - January, March, May, July, September, and November.
2 - February, April, June, August, October, and December.

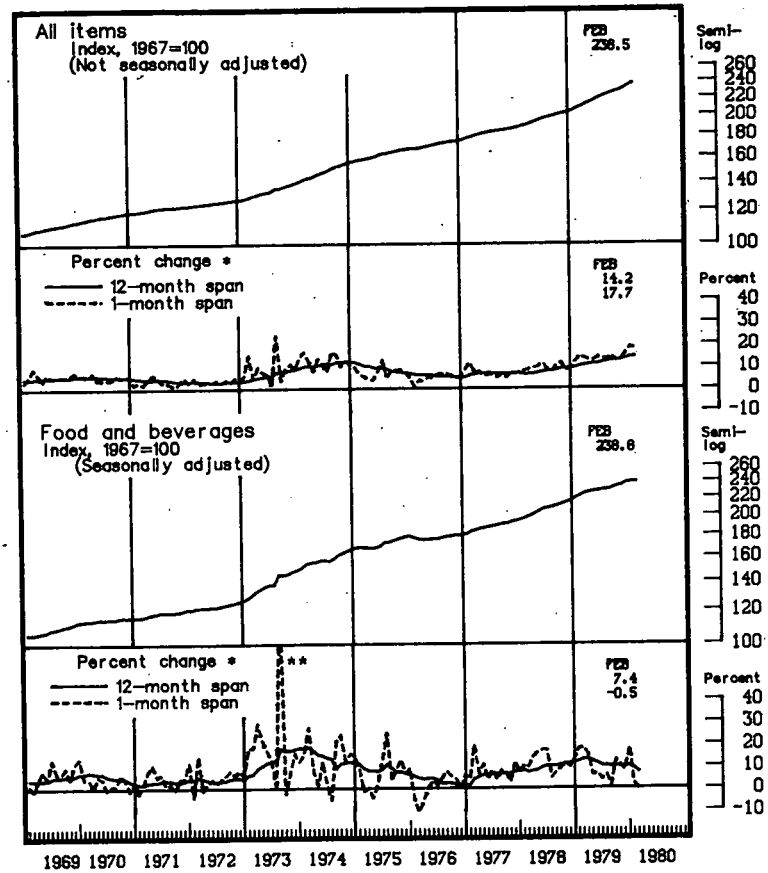
3/ Regions are defined as the four Census regions.
The population size classes are aggregations of areas which have urban population as defined below:

A-1	More than 4,000,000.
A-2	1,250,000 to 4,000,000.
B	385,000 to 1,250,000.
C	75,000 to 385,000.
D	Less than 75,000.

Population size class A is the aggregation of population size classes A-1 and A-2.

NOTE: Price changes within areas are found in the Consumer Price Index; differences in living costs among areas are found in Family Budgets.

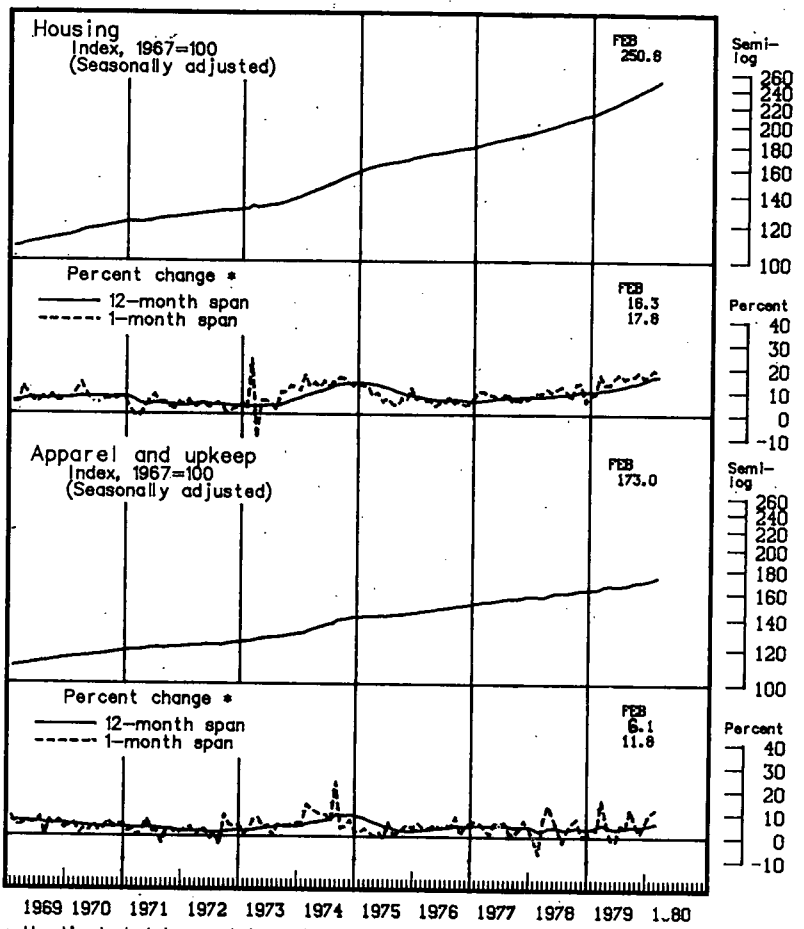
CHART 1: CPI–W: All items, food and beverages, 1969–80



* Unadjusted data used to calculate 12–month percent change. Percent changes over 1–month spans are annual rates calculated from seasonally adjusted data.

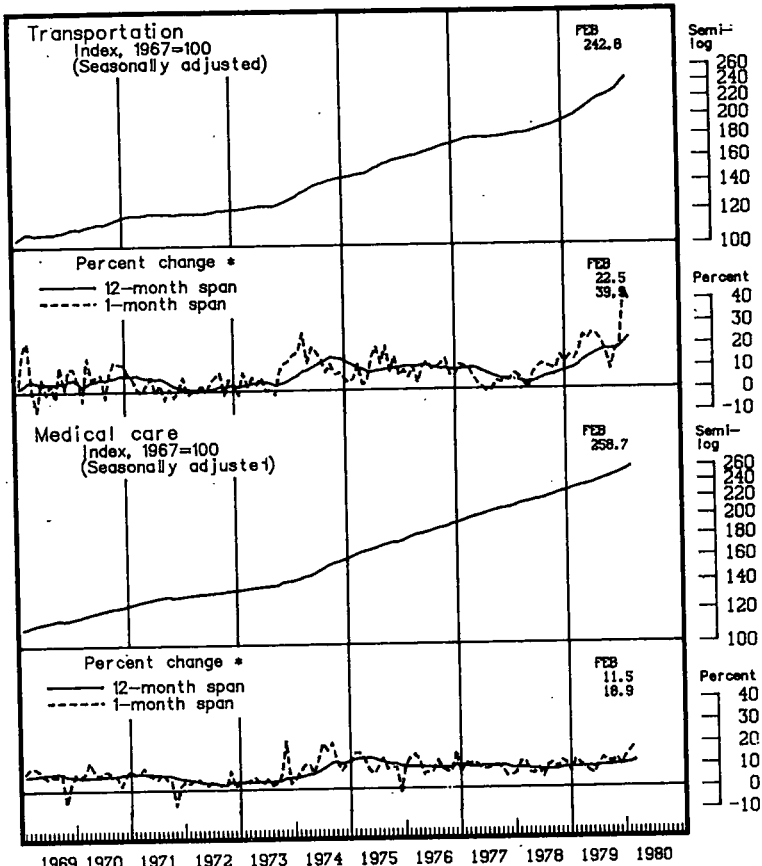
** August 1973 = 92 percent

CHART 2: CPI–W: Housing, apparel and upkeep, 1969–80



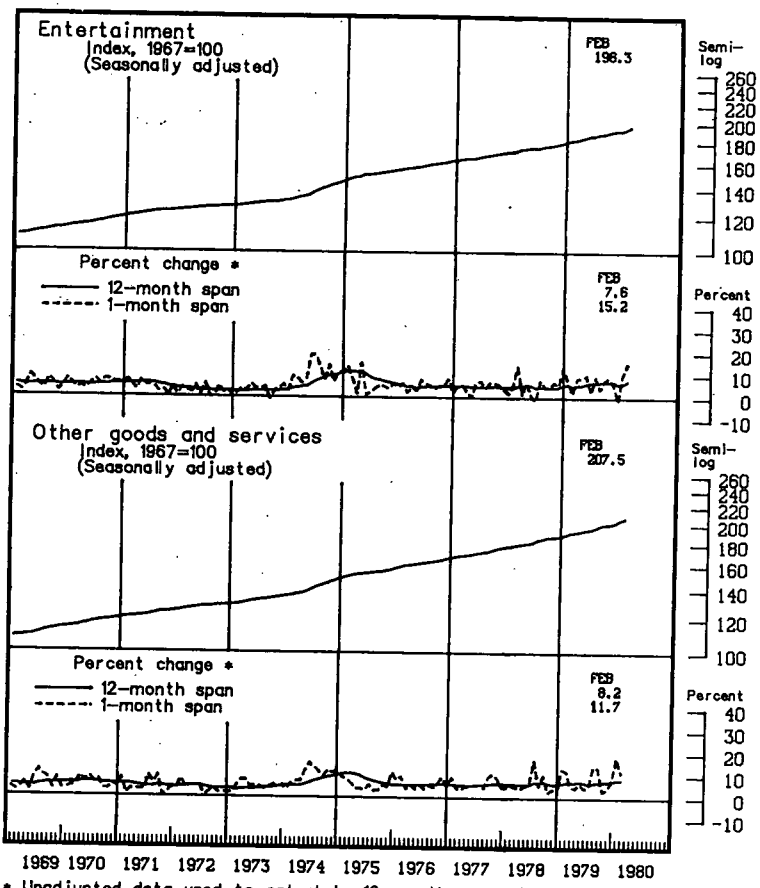
* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

CHART 3: CPI-W: Transportation and medical care, 1969-80



* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

CHART 4: CPI–W: Entertainment, other goods and services, 1969–80



* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

Table C. Alternative HOMEOWNERSHIP COMPONENTS used in official CPI-U and in experimental measures: Percent change over 12 months

12 months ended	Official Consumer Price Index for All Urban Consumers (CPI-U)	Experimental measures of homeownership				
		Flow-of-services measures			Outlays measures	
		X-1 Rental equivalence using CPI rent	X-2 User cost using current interest cost	X-3 User cost using average interest cost	X-4 Outlays using current interest cost	X-5 Outlays using average interest cost
December:						
1968	7.6	2.8	11.1	8.0	11.0	6.0
1969	10.2	3.8	6.9	3.5	13.2	8.3
1970	10.2	4.5	4.3	1.7	12.6	10.1
1971	2.7	3.8	-12.1	-8.9	0.3	7.7
1972	4.1	3.5	2.4	3.3	4.8	6.2
1973	7.7	4.9	22.9	18.8	10.8	4.4
1974	13.3	5.4	16.8	12.9	14.9	9.1
1975	7.9	5.2	2.7	3.3	7.1	9.0
1976	3.8	5.5	-1.0	2.0	2.7	7.6
1977	9.2	6.5	2.5	0.4	10.4	9.0
1978	12.4	7.3	5.7	1.1	12.0	5.3
February 1979	13.5	7.1	10.8	7.4	13.7	5.7
March 1979	13.7	6.7	11.7	10.4	14.0	5.9
April	14.2	6.5	12.3	9.9	14.4	6.1
May 1979	14.6	6.8	13.9	11.3	14.9	6.4
June 1979	14.9	6.8	14.2	10.6	15.0	6.4
July 1979	15.2	7.1	16.7	11.7	15.3	6.8
August 1979	16.0	7.5	20.1	9.8	15.9	7.0
September 1979	16.1	7.6	18.3	13.2	16.4	7.5
October 1979	16.8	8.4	22.2	13.7	17.2	7.8
November 1979	18.3	8.1	24.5	15.1	19.0	7.9
December 1979	19.8	7.9	28.2	22.4	22.6	11.2
January 1980	21.1	8.1	30.7	22.9	24.4	r11.5
February 1980	20.6	8.5	31.2	24.9	24.5	12.1
Relative importance of homeownership component, December 1977 (all-items index=100)	22.8	14.5	11.4	10.0	10.0	8.7

r = revised

Table D. Official ALL-ITEMS CPI-U and EXPERIMENTAL MEASURES using alternative homeownership components: Percent change over 12 months

12 months ended	Official Consumer Price Index for All Urban Consumers (CPI-U)	Experimental measures using alternative homeownership components				
		Flow-of-services measures			Outlays measures	
		X-1 Rental equivalence using CPI rent	X-2 User cost using current interest costs	X-3 User cost using average interest costs	X-4 Outlays using current interest costs	X-5 Outlays using average interest costs
December:						
1968	4.7	3.9	4.9	4.6	4.7	4.2
1969	6.1	5.2	5.6	5.2	6.0	5.7
1970	5.5	4.5	4.5	4.2	5.2	4.9
1971	3.4	3.5	1.6	2.2	3.2	3.8
1972	3.4	3.3	3.2	3.3	3.4	3.5
1973	8.8	8.5	10.5	10.0	9.2	8.7
1974	12.2	11.1	12.6	12.1	12.3	11.8
1975	7.0	6.6	6.3	6.4	6.8	6.9
1976	4.8	5.1	4.3	4.7	4.8	5.2
1977	6.8	6.3	5.8	5.7	6.6	6.5
1978	9.0	8.0	7.8	7.4	8.5	7.8
February 1979	9.9	8.6	9.1	8.7	9.4	8.6
March 1979	10.2	8.8	9.4	9.2	9.8	8.9
April 1979	10.4	8.9	9.6	9.4	9.8	9.1
May 1979	10.8	9.2	10.1	9.7	10.1	9.3
June 1979	10.9	9.3	10.2	9.8	10.2	9.4
July 1979	11.3	9.7	10.9	10.3	10.7	9.9
August 1979	11.8	10.1	11.5	10.4	11.0	10.2
September 1979	12.1	10.4	11.7	11.1	11.4	10.6
October 1979	12.2	10.5	12.2	11.1	11.5	10.5
November 1979	12.6	10.5	12.5	11.3	11.8	10.6
December 1979	13.3	10.8	13.2	12.3	12.5	11.3
January 1980	13.9	11.2	13.9	12.8	13.1	r11.7
February 1980	14.1	11.6	14.3	13.3	13.4	12.1

r = revised

Explanations of Homeownership Measures

Official CPI-U includes five components. (1) The weights for property taxes, property insurance, and home maintenance and repairs represent expenditures of all homeowners in the base period. The weights for house prices and contracted mortgage interest cost represent only those homeowners who actually purchased a home in the base period. Included are the total price paid for the home, and the total amount of interest expected to be paid over half the stated life of the mortgage. (2) Current monthly prices are used for each of these components.

Experimental Measure X-1: (1) The weight for this rental equivalence measure is the estimate of the rental value of all owner-occupied homes in the base period compiled from a specific question asked on the 1972-73 Consumer Expenditure Survey. This covers the entire stock of owned homes. (2) Prices used are the current rents collected for the residential rent component of the CPI. The CPI rent component is designed to represent changes in residential rents for all types of housing units, not just changes in rents for units that are typically owner occupied. The CPI rent component is, therefore, not appropriate for this measure.

Experimental Measure X-2: (1) The weight for this user cost method includes expenditures for mortgage interest, property taxes, property insurance, maintenance and repairs, the estimated base-period cost of homeowners' equity in their houses, and the offset to shelter costs resulting from the estimated appreciation of house values in the base period. This measure covers the entire stock of owned houses. To derive the weights for mortgage interest costs and equity costs, the total value of the housing stock in the base period was apportioned into its debt and equity components. The debt component equals the amount owed and the equity component is the amount owned, i.e., payments on principal plus appreciation from the time of purchase to the base period. Each component was subsequently multiplied by the average mortgage interest rate in the base period to determine its cost. (2) Prices used are current ones except for the appreciation term which uses a 5-year moving average of the changes in appreciation rates.

Experimental Measure X-3: (1) The weights are the same as in Experimental Measure X-2, except that mortgage interest costs are calculated as the total interest amount *paid out* by homeowners in the base period. As in X-1 and in X-2, this measure covers the entire homeowners population. (2) The prices for all components except mortgage interest costs and appreciation are current monthly prices. As in X-2, appreciation is represented by a 5-year moving average of the changes in house prices. However, X-3 uses past and current mortgage interest costs in a 15-year weighted moving average, which reflects the base period age distribution of mortgage loans.

Experimental Measure X-4: The weights for this outlays approach include expenditures actually made in the base period for property taxes, property insurance, maintenance and repairs. The weight for the mortgage interest term is calculated in the same manner as in X-2. However, no appreciation or equity terms are included. Not all homeowners are represented in this measure because those who made no mortgage debt payment in the base period are excluded. (2) The prices used for each of these items are current ones.

Experimental Measure X-5: (1) The weights for this outlays approach include, as in X-4, expenditures actually made in the base period for property taxes, property insurance, maintenance and repairs. The weight for the mortgage interest cost term is the same as for the X-3. No appreciation or equity elements are used. As in X-4, not all homeowners are represented in this measure because those who made no mortgage debt payment in the base period are excluded. (2) Current prices are used in X-5 except for mortgage interest which uses the 15-year moving average also used in the X-3.

Senator BENTSON. Mr. Russell please proceed.

STATEMENT OF R. ROBERT RUSSELL, DIRECTOR, COUNCIL ON WAGE AND PRICE STABILITY, ACCOMPANIED BY NANCY DeLUCIA, MEMBER, POLICY STAFF

Mr. RUSSELL. Thank you. Accompanying me is Nancy DeLucia, who is on the Council policy staff.

The February CPI figure was just about what we expected, an increase roughly comparable to what we had in January, almost component by component. The bad actor was energy. Gasoline prices went up 7.3 percent in February and heating oil prices went up 4.9 percent.

We also continue to have a lot of trouble on the home purchase front, although it appears that the speculative bubble in housing has started to break, because home purchase prices went up by only four-tenths of a percent last month. That is the lowest increase we have had in a long time.

The interest rates continue to go up at very rapid rates, rising 4.9 percent in February.

We are continuing to have good luck in the food area. With farm prices going down, the food index was stable for the month of February.

The underlying rate, which is obtained by subtracting food, housing, energy, and used cars from the overall rate, accelerated slightly in February to 1 percent, for an annual rate of a little over 12 percent. This is a very ominous trend, because we now have several months in a row of double digit rates for the underlying rate of inflation.

I do feel, however, that while the next few months will be very bad, the inflation rate peaked in February. Although there may be an anomalous upward blip particularly when the gas tax in May or—we suspect—in June, we won't see in the future any further acceleration in the overall inflation rate.

Why do I say that? I say that in part because I think that energy price increases have indeed peaked. The world crude oil market has softened tremendously. Spot market prices have now moved down below the contract prices for a number of major African suppliers. Therefore, I think instead of the 7- to 7½-percent increases in gasoline prices that we have had in the past couple of months, we will get increases of 3 to 4 percent over the next several months, until we feel the effect of the gasoline tax in June. Throughout the rest of the year, energy prices should be relatively well behaved because of the softening of the world market for crude oil, and in part because the domestic margins of refiners and retailers are very high and should be held down from further large increases by competition, if not by guidelines.

On the home purchase front, as I indicated, we expect very low increases in home purchase prices over the next few months, since the bubble appears to have burst, in part because of the decline in the housing market, and the very high mortgage interest rates.

However, the mortgage interest component of the CPI should be worse during the next 3 months than it was in the month of February. There is a lag in the incorporation of mortgage interest cost increases into the CPI that ranges from 2½ to 4½ months. Therefore, the big

mortgage increases we got at the end of February will continue to have a deleterious effect on the growth of the CPI for several months ahead. Indeed, we see these mortgage interest costs going up at rates of 4 to 4½ percent. Those are just monthly increases over the next several months.

However, in the second half of the year, as the anti-inflation policy takes its grip and the Federal Reserve can let its foot off the brake, we expect the interest rates to top off and to start to decline.

As for food, I don't think we can reply on continued complete stability in food prices. We can't hope for no increase at all over the rest of the year. But we expect some acceleration to monthly increases of 0.5 to 0.8 over the next several months. This is going to be true because sugar prices have recently gone up a lot, and this will ripple through the process food industry, increasing prices. Dairy product prices are going up considerably because of price supports, and marketing costs—the cost of transporting and processing—for food are going up at very rapid rates, primarily because of energy price increases. So we cannot rely on falling farm prices forever to keep the food index stable.

The critical factor is what is going to happen to the underlying rate of inflation, the rate in the industrial and service core of the economy. This appears now to have been ratcheted up well into double digit rates, a phenomenon that we have been fearing now for half a year or so, during which time we have managed to hold the underlying rate down, despite this big explosion in energy prices.

It now appears that the underlying rate is up into the 10- to 12-percent range, and that even if the shocks were to disappear the underlying rate, which reflects underlying cost conditions in the industrial sector of the economy, will continue to go along at double digit rates throughout the next several months.

This is in spite of the fact that wages continue to be remarkably stable, as measured by the BLS employment hourly earnings index, which went up by just 0.5 in both January and February. The alternative employment cost index, which includes nonproduction as well as production workers, however, did show a significant acceleration in the fourth quarter of 1979, going up at a 10-percent annual rate.

The main reason why the underlying rate is ratcheting up is not because of accelerating labor compensation increases, but rather because of the collapse of the rate of growth in productivity. Unit labor costs have been going up at double digit rates now for half a year or so, and that cannot last for very long without the underlying rate of inflation moving up to double digit rates, and that is now happening.

So we expect the underlying increases to be in the 0.9 to 1 range over the next several months. If you take all of this together, you get increases in the CPI over the next several months that are close to but not equal to the 1.4-percent increase that we had in February. I expect it to decline over the next several months, as the new anti-inflation policy takes hold, and to decline further toward the end of the year, so that we are down to 10 to 12 percent annual rate by the end of the year.

To summarize, these figures indicate that, although I believe the inflation rate has peaked, inflation still is the No. 1 domestic problem. The apparent worsening of the situation has led to a significant streng-

thening of the administration's anti-inflation program earlier this month, manifested primarily in even more fiscal and monetary restraint and in an intensification of the Council's monitoring effort.

We think that the administration is on the right course, that there are no quick fixes. We must avoid the temptation to succumb to the suggestions of snake oil cures for the inflation, stick to the course we are on. We need bigger doses of the medicine, which is the right medicine.

What the President's recent program does is to supply bigger doses of the medicine. We believe it will work and gradually decelerate inflation over the next several years.

Let me say, Senator, that the quote was not quite accurate in the newspapers. I said that we may be faced by near double digit inflation rates over the next decade. I was saying that that may be true because inflation appears to becoming endemic to our society. Unless we come to grips with the productivity problem and initiate other structural reforms, we will not get the inflation down to the levels that we enjoyed in the fifties and sixties in this decade.

[The table and chart referred to follow:]

THE CONSUMER PRICE INDEX
(Seasonally adjusted, percentage changes)

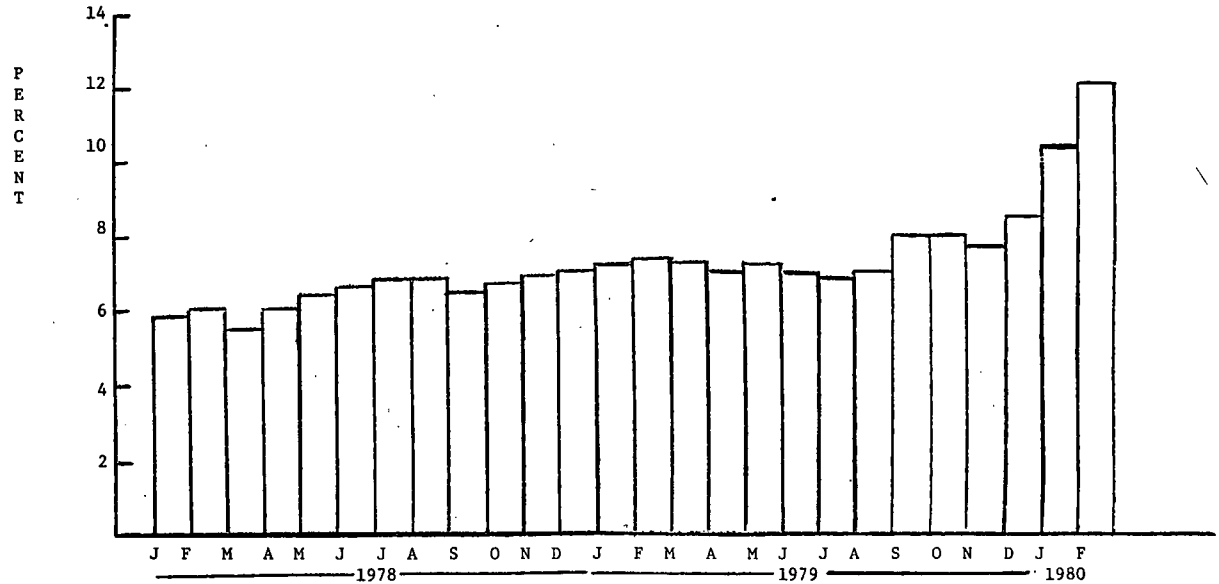
	Dec. 1979 Relative Importance (%)	Feb. 79 to Feb. 80	Three months ended...1/ May 79	Aug. 79	Nov. 79	Feb. 80	Dec. to Jan.	Jan. to Feb.
ALL ITEMS	(100.0)	14.1	12.7	13.1	13.5	17.2	1.4	1.4
Food	(17.7)	2.3	9.2	3.5	10.4	5.6	0.0	0.0
Food At Home	(12.2)	5.8	8.1	0.7	10.7	4.1	-0.2	-0.4
Domestically Produced	(10.0)	4.9	10.1	-1.1	9.3	1.6	-0.4	-0.7
Imported	(2.2)	10.6	4.9	12.3	11.2	13.9	1.0	1.8
Food Away From Home	(5.5)	10.7	12.2	9.8	9.9	10.9	1.0	0.7
Housing Less Fuels 2/	(45.0)	15.1	12.1	14.9	17.8	15.7	1.4	1.1
Home Purchase 2/	(10.4)	15.2	13.3	18.2	19.6	2.4	0.9	0.4
Mortgage Interest Costs	(8.7)	37.2	30.2	26.8	45.3	48.0	3.6	2.9
Rent 2/	(5.3)	8.5	6.7	8.8	10.8	7.9	0.7	0.8
Energy	(10.3)	46.6	47.8	58.8	23.2	60.0	4.6	5.1
Transportation Less Gasoline	18.6	2.8	3.0	2.7	4.3	15.2	1.2	0.8
Public Transportation 2/	(1.1)	20.3	5.6	16.4	35.1	26.3	1.7	1.2
New-Cars	(3.7)	8.0	12.2	7.7	1.0	11.3	1.4	1.2
Apparel & Upkeep	(5.1)	6.5	7.3	2.2	7.7	9.3	0.9	0.6
Medical	(4.8)	10.9	6.3	9.8	10.7	16.9	1.3	1.5
Entertainment	(3.7)	8.0	8.8	6.6	6.5	10.3	1.0	1.2
Other Goods & Services	(4.1)	8.4	6.0	7.6	8.5	11.5	1.1	1.0
All Items Less Energy	(89.7)	11.1	9.9	9.2	12.2	12.9	1.1	0.7
All Items Less Mortgage Interest Cost (MIC)	(91.3)	12.3	11.5	12.0	11.5	14.1	1.2	1.1
All Items Less Energy and MIC	(81.0)	7.5	6.8	6.6	9.2	13.6	0.8	0.8
Underlying Rate 3/	(47.9)	8.7	7.4	7.3	7.8	12.2	1.0	1.0

1/ Annual rates of change.

2/ Not seasonally adjusted.

3/ The Consumer Price Index excluding the costs of home purchases, finance, taxes, and insurance; and food, energy and used cars.

CPI -- Underlying Rate
(3-month percentage change, seasonally adjusted)



Senator BENTSEN. I have to recess this committee until 10:45.

[A short recess was taken.]

Senator BENTSEN. Mr. Russell, thank you very much for your patience. My amendment was adopted, so it was worthwhile.

Mr. RUSSELL. Congratulations.

Senator BENTSEN. Mr. Russell, the components that go into the CPI have been questioned. I recently read an article from "Business Week" titled "The Index That Feeds Inflation." It was written by Mr. William Howard, a retired Federal employee who apparently has taken advantage of it from the way he writes. Have you read that particular article?

Mr. RUSSELL. Who is it by, again?

Senator BENTSEN. William Howard, March 24 issue of Business Week.

Mr. RUSSELL. No; I haven't. I read a similar one.

Senator BENTSEN. I strongly suggest that you read it.

I also understand that some of the financial houses would agree that the components are giving an artificially high number on the Consumer Price Index, compared with the actual rate of inflation, and that some of them are enjoying it very much. It justifies their charging higher interest rates.

So why don't you tell us how interest rates fit into the Consumer Price Index.

What kind of effect do they have? Is it a true relationship, or do they give it a jump beyond what it should be?

Mr. RUSSELL. The Consumer Price Index is a measure of inflation, and more particularly it is a measure of current market prices. It is not really a measure of the cost of living. That means——

Senator BENTSEN. You measure the package of products that an average family of four would buy, as I understand it. But it doesn't quite reflect the cost of living.

Mr. RUSSELL. The reason is, they are looking at the current cost not only of consumption goods that are consumed daily or weekly, but also the current cost of assets that are purchased by consumers, not just houses but automobiles as well. It is the case that while it is not only true that many consumers, indeed most, don't buy a house every year, it is also true that most don't buy a new automobile every year. Yet, what is factored into the Consumer Price Index is the current market price.

The same thing goes for mortgage interest rates. What is factored in is not the average mortgage interest rate paid by all consumers, including those who financed their houses years ago, but rather the current rates being charged by banks for mortgage loans.

This is an accurate index of the rate of inflation. It is a matter of what you wish to measure, but it is looking at——

Senator BENTSEN. But it doesn't relate to the average family.

Mr. RUSSELL. But it does look at the average family in terms of the—the rates are correct and all of that. It is looking at current market prices rather than a combination of current market prices and lagged market prices, based on when people actually purchased a house or financed it. It also looks at current prices of assets rather than the cost of using those assets for consumption.

An alternative to the way the home purchase cost is factored in right now would be to use the implicit rent notion to distinguish between ownership on the one hand and consuming services of that asset on the other. The act of buying a house is an investment. You can choose to live in it or rent it out. The cost of living in it is the rent that you give up by not renting it out.

Now, if we used an implicit rent notion—that is, the rent that people are implicitly paying for living in houses they own—then you would get a much smaller increase for the Consumer Price Index during the periods of rising interest rates and rising home purchase costs.

Over the last year, the rate of inflation would be 2 percent lower if we used the implicit rent notion rather than the current price notion for evaluating the cost of living.

Senator BENTSEN. Two percent?

Mr. RUSSELL. About 2 percent.

Senator BENTSEN. If there is an error of 1 or 2 percent or whatever it might be, doesn't that get compounded in the next pension settlement?

Mr. RUSSELL. That is correct.

Senator BENTSEN. It feeds on itself; doesn't it?

Mr. RUSSELL. Yes, sir. The problem is that the measure of inflation is also used as a measure of the cost-of-living index in escalator clauses, not just in the private sector, but in the Government sector as well, through our indexation of social security payments, food stamps, and other such things.

So one can argue that it is not an appropriate use of that index to use it in escalation purposes in labor contracts because, in fact, most people own a home. And when the cost of home purchase interest rates go up, they are not that much worse off.

Senator BENTSEN. I think your agency has a fine reputation and has shown integrity. I want to be sure that, whatever is done to the Consumer Price Index, if the components have to be adjusted, that we come up with true numbers that really reflect what is happening to the cost of living.

When I look at this chart, the recent increases in the CPI go right off the chart. When they first made that chart, they hadn't anticipated that inflation was going to get so high.

I accused them of cutting the top off the chart to make it more dramatic, but they assured me that they had not, that this is what they started out with. There it is, that 14.1 percent increase in the CPI over the last year.

And you tell me that for the decade, as I understand your corrected statement, it is going to be near double-digit inflation.

Is that what I understand you to have said?

Mr. RUSSELL. If we don't come to grips with the problems of our productivity collapse and other structural problems.

Senator BENTSEN. I just went over to the Senate and got an amendment put on the budget resolution that says that in the future, half the tax cuts should be aimed at encouraging productivity in this country, because I really don't believe that the way you beat inflation is going through this boom and bust cycle.

Every time we do it, we end up ratcheting up to a higher level of so-called acceptable inflation, acceptable unemployment.

I would rather see us beat inflation by production rather than unemployment. And that means putting more modern tools in the hands of American working people so that we can compete with the Japanese and we can compete with the Germans and the French, whose increases in productivity are so much greater than ours today.

Balancing the budget is very important. But that, by itself, is not going to stop inflation.

It is much more deep seated, deep rooted than that. Productivity is a big part of it.

Mr. RUSSELL. I agree with you completely, Senator. In the short run, to try to do something about the productivity collapse now through reform of the tax structure would have inimical inflation impacts over the next year or so. We have to wait until the time is right.

Senator BENTSEN. It has to be phased in. I don't think that you can do it all overnight. If we did that, it would be counterproductive.

What will happen if we have a 10-cent gasoline tax? Some industry analysts say that distributors might put their customary markups on top of the gasoline tax, and you would end up with more than that.

What would you anticipate?

Mr. RUSSELL. I anticipate the price of gasoline going up by about 8 percent in June, and this would have about a 0.4 to 0.5 percent effect on the CPI.

Senator BENTSEN. It would add how much?

Mr. RUSSELL. About 0.4 to 0.5 percent to the overall CPI. This reflects the assumption of a complete pass through of the cost of tax, which is an extreme assumption because, actually, the incidence of the tax is borne in part by the supplier and in part by the purchaser.

If it were borne in part by the supplier, then they wouldn't pass through this full absolute amount. This assumes that the full absolute amount is passed through.

So, if anything, it is an upper bound of what the effect of this tax on the gasoline price would be.

Senator BENTSEN. The wage guidelines have been changed from 7 percent to 7½ to 9½ percent. At the same time, the staff of the Council on Wage and Price Stability will be increased to step up the monitoring. This has been characterized as a tougher enforcement of weak guidelines.

How do you respond to that?

Mr. RUSSELL. I don't think that that is an accurate characterization, Senator. When the 7-percent guideline was promulgated in October 1978, the forecasted increase in the CPI was about 7½ percent.

Therefore, it was only about half a percent below the forecasted increase in the cost of living. At the time that we are instituting the 7½- to 9½-percent standard range, the forecasted inflation rate by the administration is 12 percent and many think the inflation rate over the next year will be higher than that.

So relative to the anticipated inflation rate, this reflects more restraint even than the one in 1978.

Senator BENTSEN. How do you justify raising the guidelines from 7 percent to a range of 7½ to 9½ percent?

And you support that change?

Mr. RUSSELL. Yes; I support that, for the reason I mentioned.

Senator BENTSEN. How do you justify it?

Mr. RUSSELL. There are two ways to look at a pay guideline. You want to set it at a level that is low enough so that if we get a lot of compliance, then, in fact, it will imply meaningful constraint. But you don't want to set it so low that widespread compliance would be hopeless.

I think that this 7½- to 9½-percent range with an 8½-percent midpoint represents a reasonable compromise between those two conflicting objectives.

Senator BENTSEN. Let me get back again to the Consumer Price Index.

BLS has developed some alternative approaches, have they not?

Mr. RUSSELL. Yes, they have. They are now publishing five separate indexes for the housing component of the CPI, most of which uses one form of implicit rent or another.

Senator BENTSEN. They use a rent factor instead of the housing price factor.

Mr. RUSSELL. Yes.

Senator BENTSEN. You told me that made two points difference?

Mr. RUSSELL. Yes, roughly.

Senator BENTSEN. How long has BLS been doing that?

Mr. RUSSELL. BLS for about a month or two. This is the result, of course, of the kind of public discussion that we are having now that has been going on for several months. BLS, I think, has been very forthcoming in doing this. But there is no way that they can change what CPI is used.

Senator BENTSEN. I understand that.

I don't think any change ought to be precipitous. I think that you should have been doing some study and experimentation in trying to see if you are coming up with improved numbers.

Now you said you had five alternative measures at housing costs. Would you tell me two of the main ones that are of interest to you?

Mr. RUSSELL. One of them uses a rent equivalent. It takes the CPI rent component and uses that as a measure of the cost of living in a house instead of the home purchase cost and prevailing market mortgage interest rates.

This one has a downward bias.

Senator BENTSEN. Let me get to interest rates. With this incredible jump in interest rates, what kind of an effect is that going to have? You touched on that earlier.

Can you tell me how many points that would reflect 2 months from now, 3 months from now?

Mr. RUSSELL. They begin to increase the mortgage interest rate in the next 3 months?

Senator BENTSEN. Yes.

Mr. RUSSELL. I expect increases in the mortgage interest component of the CPI at somewhere around 4½ percent each month. This doesn't mean that I expect mortgage interest rates to be going up significantly over the next few months.

Rather, because of this lag in incorporating mortgage interest rate increases into the CPI, the big increase in mortgage interest rates over the last month or so, when they went up from 12, 13 percent to 17 percent, have yet to be factored into the Consumer Price Index.

What we will see over the next few months is a reflection of what has already happened to mortgage interest rates.

Senator BENTSEN. That almost guarantees continued high increases in the Consumer Price Index.

Mr. RUSSELL. That component of it, certainly.

Senator BENTSEN. That is a large component, isn't it?

Mr. RUSSELL. 8½ percent.

Senator BENTSEN. 8½ percent?

Mr. RUSSELL. Yes.

Senator BENTSEN. How much does the housing component count?

Mr. RUSSELL. The whole homeowner component is about 45 percent.

If you look at home purchase alone, that is 10.4 percent. And mortgage interest costs are 8.7 percent.

So home purchase costs are 20.1 percent of the weight.

Senator BENTSEN. 20.1 percent?

Mr. RUSSELL. Yes.

Senator BENTSEN. What is the average number of times a person buys a home in their adult lifetime?

Do you have a number for that?

Mr. RUSSELL. No; I don't have a number. What this reflects is the fact that a typical urban consumer spends about 20 percent of their income on home purchase financing costs.

Senator BENTSEN. You don't account for the fact that most consumers pay lower interest rates.

Mr. RUSSELL. The weight is correct. There is nothing wrong with the weight.

Senator BENTSEN. I'm not arguing that.

Mr. RUSSELL. It is the appropriate weight. It is just that these are very big numbers. The changes are large. Home purchase costs, changes in mortgage interest costs.

Senator BENTSEN. It is tough to decide how to handle what, in effect, is a long-term purchase, a long-term encumbrance.

Mr. RUSSELL. That's right.

Senator BENTSEN. I yield to my colleague.

Representative BROWN. Thank you, Mr. Chairman.

Mr. RUSSELL. I guess the good news is that it isn't going up at a faster rate than it has been. And the bad news is that it still has been going up at a terribly fast rate over the last couple of months.

I think the better news, as I have just been told by staff, is that Senator Bentsen, if he has not already mentioned it, and perhaps modesty advises him not to mention it, but my pleasure with it obliges me to mention it, has managed to get the Senate over on the floor today to accept in the budget process the concept that any future tax rate adjustments should be aimed at increasing productivity. At least half of it would go to increasing productivity.

Senator BENTSEN. I am really not that modest. [Laughter.]

Representative BROWN. You could have fooled me. I thought you were the soul of modesty. [Laughter.] As a member of this committee, I want to share in any pride that you have taken in accomplishing that.

I think that is a particularly salutary accomplishment. I notice from the notes that were taken for me that you said the question of

productivity is fundamental to whether or not we will be able to reduce inflation down from present double-digit levels at any time in the eighties.

In other words, we must address the productivity problem.

Would you share with me the feeling that one of the ways we have to do that is to give people the impetus or the stimulation to invest in modernization of plants in the United States, or in the modernization of our productive capacity?

Mr. RUSSELL. I certainly would. I think the most important thing that the Government can do to revitalize the rate of growth of productivity is to provide the right kind of economic climate.

That means they should reformulate the tax structure to provide additional incentives to investment and it also means that we have to get the inflation rate down because high inflation rates mean a lot of uncertainty. It means more variable inflation rates and uncertainty dampens investor confidence, and hence, dampens incentives to invest.

Representative BROWN. If the housing godmother, fairy godmother, were able to wave her wand and we could increase the amount of housing in this country by 50 percent or double within the next couple of months, clearly housing prices would break and come down, would they not?

Mr. RUSSELL. Yes.

Representative BROWN. At least mortgage prices might break and come down, because we would have people giving you a better deal in an attempt to move those houses, I would think. And if we could do that in housing we could do it in other areas—in the production of food, for example. And that is all a function of the efficiency of the production side or of productivity in general.

That, again, is a function of investing.

I have to tell you this weekend I must go to Youngstown, Ohio, to speak to a group of people about the problems that our society faces.

My guess is that in Youngstown, they don't think as much about these hostages or the Afghans or the Cambodians as they do about the almost 10,000 people out of work in that city of 100,000. These people are out of work because of the closedown of our steel mills there. The mills there have not been able to keep modern and productive because our tax structure has discouraged that kind of reinvestment in modernization.

You said you thought energy prices had peaked.

Mr. RUSSELL. Energy price increases had peaked; not energy prices. They will continue to go up.

Representative BROWN. Let me raise a couple of specters for you. Suppose we had a collapse of the political situation in Saudi Arabia.

Mr. RUSSELL. I would change my forecast.

Representative BROWN. And that would suggest that prices might not peak, so the energy prices might further exacerbate the situation in which we find ourselves. As I look at this list, energy prices are No. 1 in their level above the average level of increase, 5.1, in the January–February jump. Is that correct?

Mr. RUSSELL. Yes; 5.1 percent.

Representative BROWN. I am looking at the far right column on the Consumer Price Index seasonal adjustment.

Mr. RUSSELL. But not the expected inflation rate. Certainly not my expectation. I would doubt that the expectation, on average, is for 18-percent inflation over the long term of the mortgage interest loan.

Representative BROWN. But the rate of increase in the value of the house, say, over the last 10 years, has gone up more rapidly certainly than the rate of increase for mortgages. So, what I am asking is: is a home still a good investment on the basis of statistics that you have available?

Mr. RUSSELL. Certainly, in the long term, I am sure a home will continue to be a good investment, but right now it would cost so much to finance a house that I don't expect a large number of people to be buying houses until mortgage interest rates come down. That's why the housing market is starting to soften. Home purchase prices are not going up as rapidly as they were. Housing starts are down because it is hard to sell a house, and until the interest rates come down, I am sure there is not going to be much turnover of homes.

Representative BROWN. Let me push a couple of more questions, because I will today visit with the homebuilders from my area. I have already been on the phone to them over the last few days, and what I am told is that the infrastructure that builds the houses is rapidly disappearing in this country because the homebuilders are, to put it in nice economic terms, going to "belly up."

The homebuilders are getting out of business because people are not buying houses at these high rates. We are killing the fairy godmother of housing by not allowing the wand to wave and increase the supply of housing. These interest rates and the things you have described as adverse to the home purchasers have had an impact on us to the extent that the builders, the producers of housing, are dying very quickly.

Would you suggest that we ought to do something in that regard to encourage the sustenance or maintenance of that infrastructure in our society?

Mr. RUSSELL. We have been hearing claims that the homebuilding industry has been going belly-up for a while now, and we hear the same thing everytime the economy slows down. This is an unfortunate concomitant of the fact that the great burden of shortrun economic stabilization falls on monetary policy.

The way we slow down the economy to fight inflation through monetary policy is by making credit more expensive, typically. This means that a disproportionate share of the ill effects of recession fall on the housing market, and this will always be true. This time around, we are trying to mitigate that effect through ways of restricting the amount of credit that don't affect the housing industry, per se. This is through selective credit restrictions on credit cards and other types of consumer credit—and we do not apply the selective credit controls to home purchase or to the purchase or automobiles.

Representative BROWN. If I could conclude with this thought: The automobile industry might state that it is our No. 1 industry, and that we are No. 1 in production of automobiles, automobile parts, and so forth. If you restrict automobiles, you have an adverse economic effect on the United States that falls as unevenly on the American people as some of these other things do.

With reference to homebuilding, however, it is not totally an easy-in, easy-out business. I would suggest that perhaps, along with Senator Bentsen's tax cuts to encourage productivity, we may need something to encourage savings to keep people in the savings and loan market or in the house-financing market in such a way so as the keep the homebuilders, at least the basic infrastructure of homebuilders, in the field.

Finally: Food price stability will not continue. Did you suggest the prices will go up or that they will be spiking over the next few months?

Mr. RUSSELL. I don't think we can count on zero percent rate of change in food prices such as we have had over the last 2 months. We can't count on that for the rest of the year. That is just due to farm prices going down. That is a very competitive market. Prices go down sometimes, and sometimes they go up. They are bound to turn up before the end of the year, and marketing costs are going up fairly rapidly, so we can expect to see food prices go up probably 10 percent through 1980.

Representative BROWN. Thank you, Mr. Chairman.

Senator BENTSEN. Thank you very much.

Thank you, Mr. Russell, for your testimony.

We now have Mr. Lawrence Chimerine, Chief Economist of Chase Econometrics; Mr. Rudolph Oswald, director of research, AFI-CIO; and Mr. Charles Holt, director of the Bureau of Business Research, University of Texas.

I would like you to hold your statements to 5 minutes. Since I have another conflict on my schedule, I will select the first witness with total objectivity: Mr. Holt, from the University of Texas. [Laughter.]

STATEMENT OF CHARLES C. HOLT, DIRECTOR, BUREAU OF BUSINESS RESEARCH AND PROFESSOR OF MANAGEMENT, UNIVERSITY OF TEXAS AT AUSTIN

Mr. HOLT. Thank you, Senator Bentsen. I am sure that was pure random chance.

I appreciate the opportunity to testify. I only wish I could bring some good news. Indeed, I think maybe you have heard the good news, at least as far as I am concerned, although you may not have recognized it.

The inflation outlook for the United States is certainly accelerated in the United States and also worldwide, but worse than that, the wage-price inflation process, as Mr. Russell pointed out, is throughout the whole economy; it cannot be quickly stopped even by high-level unemployment. The existing monetary constraints are almost certain to produce a recession triggered by further declines in housing and investment added to those of autos and steel.

In addition, rising unemployment will be accompanied by lower productivity, and the inflation rate will fall only slowly.

The unprecedented high and rising interest rates carry some risks of financial panic which would then force some relaxation of monetary restraints. The President's program, which is discussed below, will curtail consumer spending more broadly and will help to restrain prices,

but a significant reduction of the inflation rate is 6 months to 1 year away.

With regard to the President's program, my statement discusses some of the details, but let me say briefly, overall the President's program is fine as far as it goes. The achievement of a balanced budget is a significant objective because it is necessary to get through to people's consciousness that effective restraint action is being taken. The other alternative is a long, slow, grinding out of inflation that will take years and a great deal of lost production.

So, the best we can hope for is some dramatic impact. I think the balanced budget which the President is proposing certainly has the right flavor. I think it doesn't go far enough, and I will come back to that in a minute.

One probably couldn't hope for a better program in an election year from any President who wanted to be reelected. The best we can hope for is increasing unemployment high enough and holding it long enough to stop inflation. Unfortunately, frictional unemployment is so high that we achieve no inflation restraint until unemployment exceeds about 5½ percent.

The prospects are bleak, indeed. The available policies for dealing with our inflation and unemployment problems are utterly inadequate. This may be an opportune time to stand back from our baffling problems and to ask whether we shouldn't be looking at them from a different angle.

Senator BENTSEN. Should be looking at what?

Mr. HOLT. Looking at them from a different angle altogether.

In short, we are in deep trouble, and we will be for a long time.

We should be shooting for a Government surplus. Lord Keynes must be turning in his grave. We are now up to an 18-percent inflation rate, and we are talking about a balanced budget. According to orthodox demand theory of regulation, we should certainly be trying to run a surplus at this point. But politically it is quite infeasible. It is not reasonable to expect that.

Compounding this, you have discussed the importance of raising productivity. Actually there are a number of things that are lowering the real standard of living in the United States. Not only is the OPEC oil cartel lowering our standard of living, but the exhaustion of American energy resources, petroleum, plus the prices of imported raw materials from other countries is rising as well. The evident need to increase military strength—all of these things, plus the last clincher. The price of stopping inflation is to run up unemployment; that will decrease productivity and output. This is extremely serious.

These economic problems are compounded by growing public distrust of government, business, and technology; pressures to reduce Government resources; single-issue politics; increasing distrust of the Russians; and intractable problems in the Middle East.

More generally, if we stand back and look at the problems we are facing, the pace of change is now so fast in our society that complex systemic problems are generated faster than we can solve them.

These problems strain our knowledge base and our abilities to analyze, organize, and manage. Contributing to the practical difficulties are the disciplinary fragmentation of the university, a scientific

methodology that does not contribute much to understanding human objectives, the tenuous working relations between business and government, and a political process dominated by adversary strategies.

We as a society, and the Government in particular, are in danger of being gradually overwhelmed by our problems, unless we can develop new approaches. The feeling of bafflement, malaise, and frustration is pervasive, and nowhere more so than in the economic policy area. I think what we badly need to recognize—we need to recognize the deep water we are in, and stand back and look at what we really should be doing. I have tried to sketch out a way of structuring our economic policies. Let me tick off the major points briefly, since time is flying.

The budget reform act has been an achievement in the last 5 years. It came at a very high cost and has been notably successful in a move in the right direction. The strategy I propose is that we build on that base and commit overselves, as a matter of public policy, to a balanced operating budget under target conditions. In other words, separate the normal taxation and expenditure budgeting process from the countercyclical stabilization of the economy.

The inflation problem basically reflects difficulties with the purchasing power of money. We don't want to intervene in detail in the economy in constraining that, but rather, we should be using broad fiscal policy and monetary measures to restrain the inflation problem.

I call your attention to the relative mildness of the President's restraint program, fiscal policy, largely, on the one hand. Contrast that to what the Federal Reserve has done in its very active efforts on the monetary side to restrain the economy. It would be politically impossible for Congress and the President to have acted as strongly as the Federal Reserve did on the monetary side.

But when we use monetary restraint alone, severe distortions occur. You have had discussions this morning about what it hits; particularly housing and investment has adverse effects on the longrun productivity. We need to try to restrain inflation by both monetary and fiscal policy.

You may recall that President Johnson asked Congress at one time for control of the first bracket of the personal income tax. Congress was defensive of its prerogatives, and was unwilling to delegate that responsibility to the President.

In view of all of the overwhelming structural problems that we face, I think that both the President and Congress would welcome help from a more or less technically oriented agency, like the Federal Reserve Board, to make countercyclical changes as needed in the tax rates and back that up with monetary policy, so there would be direct coordination between monetary and fiscal policy directed for countercyclical purposes.

Probably the Federal Reserve responsibilities for regulation should be combined with the FDIC and the Comptroller of the Currency in a new agency concerned with bank regulation. Then, the Federal Reserve Board's name could be changed to the Economic Stabilization Board and be responsible for delivering deficits when the economy needs stabilization and increases in the quantity of money, and delivering surpluses and decreases in the money supply, when that is called for to depress demand.

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In order to be able to exercise active stabilization to stabilize the economy, a certain amount of political isolation is needed. A longer tenure of office is required than a 2-year Representative, 6-year Senator, or 4-year President is likely to be able to achieve.

Basically, we are now trying to use the same instruments of budgeting and planning and decisionmaking for all of our problems. The Federal Reserve has some advantages in isolation for executing stabilization policy. It has some conservative banking connections which lends credibility. It can act quickly, in contrast to the long budget and legislative process. It has the best economic research capabilities of any agency in the Government.

Then, if the commitment is made to a balanced current budget by Congress, and the delegation of the cyclical stabilization to the Stabilization Board, then Congress still has tremendous problems of increasing efficiency of the economy, the whole set of programs concerned with productivity, investment, research, development, technical assistance, manpower training, economic development, trade adjustment assistance, regulatory reform, and so forth.

There is plenty in the area of economic policy that Congress would need urgently to give its attention to. Another major facet of legislative attention would be supply shocks. We know that we are going to continue to have inflation problems, and it is time that we adapted some of our institutions to minimize the damage from inflation. There has been discussion that we ought to base the Corporation income tax on stabilized accounting rather than on money accounting. We also ought to stabilize the tax rate brackets. We ought to issue some purchasing power government bonds so that middle income investors have a low-risk and inflation-secure investment medium.

The reason for the Government's not taking action to minimize the damage of inflation in the past has been that for the Government to take these actions would be interpreted as accepting inflation rather than being committed to fight it.

If the Government empowered the Federal Reserve Board to control both monetary and fiscal policy for stabilization and required annually a budget balance in the rest of its government programs, I think it would be clear that the Government in fact was committed to restraining inflation. It can go on to take other actions to minimize the impact of inflation. We are not going to be able to stop inflation dead in its tracks, but could take other action to minimize its damage.

The last area is that we ought to have an active program of trying to make the economy more resistant to inflation. One thing that has been proposed is to give the regulatory agencies budgets to limit the costs they can impose on the private economy. This would keep the inflationary aspects of regulation under control. A tax incentive program—TIP—has a good deal to recommend it. It is a means to put delay and frictions in the inflation process in order to slow it down.

We ought to have skill training and mobility programs designed specifically to speed the production response to shortages, so that we minimize inflation problems.

We face major problems in both countercyclical policy and in structural policy. We are not facing up to either of these problems, and I think that a basic reexamination of the assignment of responsibilities

and powers is overdue. This may be an opportune time to stand back and consider basic changes in our methods for dealing with these problems.

[The prepared statement of Mr. Holt follows:]

PREPARED STATEMENT OF CHARLES C. HOLT

Inflation and the Need for New Economic Policies

This statement, which is submitted at the invitation of the Joint Economic Committee of the Congress, can be briefly summarized as follows: (1) The present high rate of inflation is likely to continue until we trigger a recession with substantially higher rates of unemployment, and even then the inflation rate will decline only slowly. (2) The President's anti-inflation program is commendable and as strong as could be expected to pass in an election year—but still is inadequate. (3) None of the available policy options constitute good answers to the bleak economic outlook of continued high inflation and high unemployment, so new approaches are critically needed. (4) A long term strategy is proposed that offers a new way to organize solutions to the pressing problems that plague our political economy. While this proposal has yet to receive critical evaluation, it at least offers a fresh perspective for thinking about our present policy dilemma. I assume that reducing inflation is now the urgent priority of the American people.

I. The inflation outlook

Inflation has recently accelerated not only in the United States, but world wide. The wage-price process has a great deal of momentum diffused throughout the core of the economy. It can not be quickly stopped even by high levels of unemployment.

The existing monetary constraints are almost certain to produce a recession triggered by declines in housing and investment adding to those of autos and steel. Rising unemployment will be accompanied by lowered productivity, but the inflation rate will fall only slowly. The unprecedented high and rising interest rates carry some risks of financial panic which would then force some relaxation of monetary restraints.

The President's program which is discussed below will curtail consumer spending more broadly and thereby will help to restrain prices, but a significant reduction of the inflation rate is six months to a year away.

II. Effects of the President's program

The short run effects of the President's recently announced anti-inflationary program relate to the restriction of consumer credit, a new tax on oil, and voluntary wage controls. The restriction of credit card borrowing is intended to curb consumers' "buy now" psychology. This effort through the Federal Reserve Board to target the restraint on consumer credit is sound although rather indirect in its approach through the administrative rules on credit card charges,[1] reserve requirements, etc.

The 10 cent extra tax on gasoline has the virtues of encouraging conservation, increasing revenue to balance the budget, and discouraging further OPEC price increases. But this medicine will be no more popular with the consumer than the constraint on his/her credit card.

Raising the percentage figure on permissible wage increases is probably necessary to maintain the viability of the voluntary wage-price program which undoubtedly has some limited effectiveness as a restraint on inflation.

The long term actions will require the concurrence of Congress in withholding taxes on interest and dividends, and cutting unnamed expenditures by $13 billion. Since substantial tax evasion is known to occur on dividends and interest, this is an ideal way to increase tax revenue. There is no increase in taxes levied, only in taxes collected.

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[1] However, this would be an opportune time to change the credit card rules so that card users would bear their full costs. As it is now, the hotel, store or restaurant receives a lower net sales price from the credit card purchaser than from the person who pays cash. This two-price system should be challenged by the FED as unfair, if not illegal, price discrimination. Service charges to card users would be both equitable and serve the President's intent of discouraging consumer credit.

The political sweat involved in cutting a preannounced budget is obviously going to be high since many constituencies are affected by mail deliveries, state revenue sharing, pensions, CETA, food stamps, and welfare reform. The bias toward penalizing low power groups is painfully clear. The resulting political problems set a practical limit on such expenditure cuts, no matter what is needed to fight inflation.

Overall the President's program is fine as far as it goes. The achievement of the "balanced budget" symbol is a significant objective, even though the deficit was only 2 percent of GNP. The monetary and fiscal restraints initially will increase unemployment and only later affect inflation. The small and delayed inflation response will come at tremendous cost in lost production and employment. If the balanced budget symbol penetrates the threshold of public consciousness with sufficient impact, the slow grinding costs of prolonged unemployment could be reduced somewhat.

One probably shouldn't expect a better program in an election year from any president who wanted to be reelected. The prospect is for increasing unemployment high enough and holding it there long enough to stop the inflation. Unfortunately, frictional unemployment is so high that we achieve no inflation restraint until unemployment exceeds 5.5 percent. The prospects are bleak indeed. The available policies for dealing with our inflation and unemployment problems are utterly inadequate. This is an opportune time to stand back from our baffling problems, and ask whether we shouldn't come at them from another angle.

III. Need for new approaches

In addition to the prevailing inflation problems, the prospect for the future is that the real standard of living of the American people is likely to be lowered because of:

1. the increased real costs of OPEC oil and other imported raw materials,
2. the increased use of resources to increase military strength, to aid third world countries, and to extract exhausting American petroleum, and
3. the reduced productivity and labor participation that will result from inducing unemployment in order to restrain inflation.

Since deflating the prices in any significant sector of the economy probably is not feasible, rising relative prices of scarce supplies will inevitably continue to induce some inflation. Indeed we would be facing difficult inflation, unemployment and productivity problems even if the OPEC cartel had not been formed. Also world wide tendencies toward inflation only make the American inflation problem harder to control.

On top of these macro problems we face difficult structural problems relating to poverty, discrimination, teenage unemployment, pollution and regulation. These economic problems are compounded by: (1) growing public distrust of government, business and technology, (2) pressures to reduce government resources, (3) single issue politics, (4) increasing distrust of the Russians, and (5) intractable problems in the Mid East.

More generally, the pace of change is now so fast in our society that complex systemic problems are generated faster than we can solve them. These problems strain our knowledge base and our abilities to analyze, organize and manage. Contributing to the practical difficulties are the disciplinary fragmentation of the university, a scientific methodology that does not contribute much to understanding human objectives, tenuous working relations between business and government, and a political process dominated by adversary strategies. We as a society, and the government in particular, are in danger of being gradually overwhelmed by our problems unless we can develop new approaches. The feeling of bafflement, malaise and frustration is pervasive, and no where more so than in the area of economic policy.

In order to break out of our present box, we need to understand the gaps between performance and the wide range of objectives sought in our society, and devise long term strategies, tactics, and organizations for systematically dealing with the problems. This means partitioning the problems into workable sets and assigning corresponding responsibilities and powers so that progress can be made—all in the context of broad democratic control.

In the area of economic policy we need a strategy that makes sense in both economic and political terms. The proposal below is an effort to outline such a long term strategy. Because of its novelty and the fact that it has yet to be exposed to critical examination, it is advanced tentatively.

IV. A strategy proposal for economic policy

The prevailing Keynesian theory of counter-cyclical demand stabilization calls for running a deficit when cyclical unemployment requires correction and running a surplus when inflation threatens. There is nothing wrong with this economic theory, which is taught in classrooms across the country, but there has been a lot wrong with its implementation by democratic governments. Practical politics impinging on both the President and Congress make fluctuations in expenditures and tax rates extremely painful to the point of being almost impractical. The natural political tendency to raise spending and lower taxes is clearly visible in an almost unbroken U.S. record of deficits with rare, almost accidental, surpluses.

For example, contrast the difficulty which the President and Congressional leaders had in agreeing on the $13 billion reduction of expenditures for the 1980–81 budget revision with the large and decisive recent action by the politically somewhat isolated Fed in tightening the growth rate of the money supply.

Economists now generally recognize that the dynamic regulation of the money supply, taxes and expenditures can counter shocks and cyclical fluctuations, but such aggregate demand measures can not permanently lower frictional unemployment or the structural problems which contribute to inflation. Hence long term programs aimed at structural reform also are needed. The obstacles in the way of effective action are as much political as economic. Good advice that is so hazardous politically that the President and Congress can not follow it is not very helpful.

Another way to characterize our economic mess is that the problems are virtually unmanageable because the economic-political-institutional interactions are so complex.

In view of the urgency of problems discussed in Section III, the interaction between cyclical and structural problems, between economic and political problems, and between inflation and unemployment leads me to propose that we try to partition our global problems into major issues and make corresponding assignments of responsibilities and powers for dealing with them. The partitioning of responsibilities to be presented below is based on the following consideration of both economic and political issues:

Both the President and Congress need the discipline of a balanced budget in order to manage the political pressures on revenues and expenditures that tend to produce deficits, but this would have extremely serious economic consequences for economic stabilization.

The dynamic manipulation of monetary and fiscal policy for counter-cyclical stabilization is not politically feasible for elected officials because too much conflict surrounds decisions on taxes and expenditures to achieve timely regulation of demand. Thus if successful counter-cyclical policy is to be achieved, the President and Congress must set targets and delegate powers over measures that have broad impacts on aggregate demand. A certain degree of isolation must be provided the agency to which these powers are delegated. Such powers over the money supply in the past have been delegated to the Fed but experience has shown that the impacts of monetary policy alone fall much too heavily on narrow industrial sectors such as housing and capital goods. If I correctly assess the suffering from inflation and unemployment that is in prospect for the U.S., elected officials would be wise to try to distance themselves a bit from the heat of counter-cyclical action. They can't succeed if they try to do the job themselves—they can only get burned by trying. Congress could delegate limited powers to the President, but are not likely to do so.

A long term program of structural reform is needed to make the economy more efficient, more equitable, and less prone to inflation and unemployment. We have only made a start on these complex micro economic issues. The President and Congress have a relative advantage in dealing with these issues.

Even if effective action is taken on all of the above points, inflation is likely to be a problem for a long time. Hence, measures should be taken to minimize the damage of inflation.

The following partitioning of responsibilities and action recommendations rest on the above analysis.

A. Balanced budget under target conditions

The Budget Reform Act has achieved a great deal and could be extended to require annually a balanced budget under stated target conditions. Passage of such legislation would indicate clearly the intent of the federal government to

avoid the temptation of running chronic deficits. This proposal is similar to the "full employment balanced budget," but it would require the President and Congress to lay out time paths of inflation and unemployment that would be the targets for counter-cyclical policy. If these target conditions are met by countercyclical policy (to be considered next), the operating budget and fund budgets would be planned to be in balance. If economic conditions deviated from the target, operating surpluses or deficits would occur as in any flexible budgetary system, but no surpluses or deficits would be planned. Thus the discipline would be maintained of constraining expenditures by revenues. This sound reform partially meets the concerns of Proposition 13 advocates and expenditure ceiling advocates who argue that the system is out of control.

B. Delegation of counter-cyclical demand stabilization to the Economic Stabilization Board

The proposal is to change the Federal Reserve Board to the Economic Stabilization Board and transfer its present bank regulatory functions to a new agency which would be consolidated with the Federal Deposit Insurance Corporation and the Comptroller of the Currency.

To be effective, countercyclical demond stabilization requires the coordinated use of both monetary and fiscal policy. The Economic Stabilization Board would be designed to have enough political insulation through tenure of office and powers to regulate the money supply and broad based tax rates on individuals and corporations in order to produce deficits and increases in the money supply when unemployment is high, and surpluses and decreases in the money supply when inflation threatens.

In addition to dynamic aggregate demand regulation through changes in the money supply and counter-cyclical surpluses or deficits, measures to restrain inflation through a tax incentive plan (discussed below) could be invoked and its rates changed as needed by the Stabilization Board. The delegation of these operating decisions to the Economic Stabilization Board would need to be accompanied by clear policy from the President and Congress as to what precise price stability and unemployment targets should be pursued.

The Stabilization Board, like the FED, would have the following advantages in performing these operating functions:

(1) Some political isolation from intense but short lived political pressures as the result of 14 year terms but adequate responsiveness through rolling Presidential appointments and Senate confirmation,

(2) Conservative banking connections which make its enforcement of anti-inflationary measures credible,

(3) Ability to act quickly in contrast to a lengthy budget and legislative processes (Important because fast corrections can be smaller and more effective) and

(4) The best economic research capabilities of any agency in the federal government, plus considerable expertise on the Board itself.

President Johnson once asked Congress for limited discretionary control over the first bracket of the personal income tax. Congress then was not willing to share its taxing power with the President. In view of the many problems that we now face, perhaps Congress and the President would be ready to accept some help with countercyclical demand regulation provided they retained full control of the policy objectives. The stabilization Board would be responsible for trying to achieve the mandated targets.

It is important that we move attention away from instruments (deficits and the money supply) to consequences (the price and unemployment levels). If the policy targets of unemployment and inflation rates are met, there is little reason for being concerned about the control instruments. The President and Congress would set the policy targets and the Economic Stabilization Board would run surpluses or deficits in its Stabilization Budget as needed to try to achieve them. In order to prevent the elected officials from setting unattainable policy targets, the Stabilization Board could offer three alternative attainable pairs of inflation and unemployment target paths and the President and Congress could choose.[2] If the elected officials didn't like any of the alternatives that could be achieved with aggregate demand policy, that would be a clear indication of the need for increased efforts directed at structural problems.

[2] The worst alternative targets could be rejected without necessarily endorsing the remaining one.

C. Promoting economic efficiency and equity

Freed from the short term cyclical problems of demand and monetary management, the President and Congress should concentrate (in the context of a balanced operating budget) on programs to promote: productivity, investment, research, development, technical assistance, manpower training, economic development, trade adjustment assistance, regulatory reform, aid to small business, and regional economic development.

These programs should be justified in terms of improving income distribution, improving knowledge, and offsetting externalities and other interferences with efficiency. They deal intimately with regions, industries, and people. Hence they are of immense interest and concern to Congress, Governors, and Mayors. The President would be particularly concerned with the over all coherence of the program package, and its efficient management.

Much needs to be done in making existing programs more efficient. Many existing tax expenditures (subsidies) probably should be cut back or replaced with more efficient and more direct programs.

D. Policies to make the economy more resistant to inflation

Aside from the Council on Wage and Price Stability, we have little effort aimed at making the economy resistant to inflation. Three specific programs are proposed.

(1) In addition to their own operating budgets the regulatory agencies should have "impact budgets" that limit the estimated dollar costs that they can impose on the private sector through regulations, etc. Within these constraints the agencies should do what they can to reduce pollution, etc. This new budget would give Congress some control of the government's contribution to inflation.

(2) We should have skill training and mobility programs designed to speed production responses to shortages thereby reducing inflationary pressure. This could well be integrated with trade adjustment assistance which is needed as foreign trade disturbances become more important.

(3) Price and wage increases should be taxed as has been proposed under several tax incentive plans (TIP). These programs are designed to slow down the wage-price change process without imposing the rigidities and distortions of wage and price controls. Since a TIP involves administrative costs which should be avoided unless active restraints on inflation are needed, the triggering of the program and the regulation of its rates should be coordinated with the aggregate demand measures by the Economic Stabilization Board in order to achieve the policy targets set by the President and Congress.

If we don't do something like TIP and attempt to squeeze out inflation with unemployment alone, the costs in lost production will be unacceptable.

The inflation rate is now so high and poses such a great threat to fixed income people that we are likely to be forced to wage and price controls unless we devise a better alternative. A TIP should be largely self administered as the income tax used to be (before Congress converted it to a subsidy program for tax accountants).

E. Policies to minimize damage from inflation

With the firm commitment to a balanced budget under A and anti-inflation programs under B and D, the federal government could take actions which previously would have been criticized for implying an acceptance of inflation. The following could be stabilized against inflation by the use of a price index (the GNP deflator): tax rate brackets, corporate accounting, and purchasing power government bonds in limited amounts for the protection of basic retirement savings.

Present proposals to use replacement costs for accounting violate the basic principle of using historical transactions as the basis for accounting, also some inflation effects are not taken into account. Fully stabilized accounts should be made the basis for the corporation income tax in order to protect the capital stock of the country from attenuation through inflation. The same adjustment is required for the taxation of capital gains in the personal income tax.

In conclusion

This framing of responsibilities and programs offers no panacea. The problems we face are real and tough. But if we have a clearer view of the various components of our economic-political difficulties, and face up to them in a systematic and managable way, our chances of success will be increased.

Our economic problems are now so bad that continued drift is dangerous to the welfare of our country. It is essential to recognize that inflation and unemployment problems are sufficiently intractable that we must think and act with a view to the long term. While fast political and economic changes are almost impossible, we usually underestimate the changes that are possible over the long term. While the specifics of this proposal can certainly be challenged, it is essential that we turn our national attention to seeking sound long term solutions that will work. The partitioning of responsibilities and powers that is advocated here makes considerable sense in terms of economics, politics, and management.

The feasibility of these proposals depends on their effectiveness, on events and on leadership—whether the proposals make the political and economic difficulties more manageable, whether inflation and unemployment get bad enough that people and politicians are ready to face the costs of change, and whether our leaders are able to focus action into coherent solutions.

Time will tell whether we face up to our problems or continue trying to muddle through—but the time is late.

Representative BROWN [presiding]. Thank you, Mr. Holt.

I would hope that you can summarize your statements as briefly as possible, Mr. Oswald and Mr. Chimerine. Unfortunately, Senator Bentsen has to be up on the floor on the Senate side, and I, at noon, would have to be at the House side. I would like an opportunity to ask you some questions, so if you could summarize briefly, I would appreciate it.

STATEMENT OF RUDOLPH OSWALD, DIRECTOR OF RESEARCH, AFL-CIO, WASHINGTON, D.C.

Mr. OSWALD. Thank you, Congressman Brown.

I would like to point out some of the major elements from my prepared statement. First of all, we see both inflation and recession as immediate, serious dangers. We want effective action to deal with both. Contrary to Mr. Holt, I do not believe that balancing the budget is the means to solve our current inflation problems. Instead, we need to address directly those areas of the economy where the inflation is coming from—essentially from energy, food, medical care, and housing.

As part of the attack on inflation, and contrary to Mr. Holt's belief, monetary policies are not an effective tool of dealing with the current inflation. I believe that the high interest rates today aggravate rather than mitigate today's inflation.

In terms of the balanced budget, we find that there is no correlation between budget deficits and rates of inflation; rather, that budget deficits are related in this country to either recessions or war. The current deficit that was proposed by the President in his January message amounted to some $16 billion, or half of 1 percent of GNP. That budget would have been balanced, even as the President proposed it, if he had not projected that unemployment would increase. As we look at other countries which have done a substsantially better job than the United States in terms of meeting the inflationary problems, we find that they have substantially higher deficits than the United States—particularly Germany and Japan—while at the same time having rates of inflation that are about half of our particular rate.

In terms of the actions of the President in his anti-inflation policies of raising gasoline taxes, this increases the rate of inflation, in the short run, more than the policies of balancing the budget, even in the

most optimistic terms, could possibly have in terms of reducing the rate of inflation.

In terms of policy actions to be taken in addressing inflation directly, the sectors of energy, food, health care, and high interest rates must be analyzed. I would like to just quickly summarize some of those approaches. Energy supplies must be expanded to relieve the OPEC stranglehold on U.S. energy prices. There must be conservation and development of alternative energy supplies. Controls on the price of oil and gas need to be reimposed, and the importation of oil should be controlled or coordinated by Government action.

In terms of food, speculation, and commodity markets that drive up the prices of wheat, that should be curbed. Exports of foodstuffs and other raw materials in short supply should be regulated to prevent domestic shortages and price rises.

Restrictive agricultural policies that contribute to shortages should be revised. Benefits of price support programs should be restricted to family farmers.

The new approach to health care should be through a national health insurance program. We believe it is the only long-term solution for medical care cost inflation. Interim steps are hospital cost containment and control of professional fees for health care.

Government housing programs for low and moderate income families should be expended to increase the housing supply and to reduce inflation in housing and prices and rents. Selective credit regulation should be expanded to channel available credit toward productive public and industrial needs, housing, family farmers, and to restrict credit for nonproductive investment, such as corporate acquisitions, gambling casinos, and currency speculation.

Congress must block efforts to dismantle or to weaken Federal regulatory agencies established to protect consumers and workers and the general public from unfair monopolistic and antisocial business practices.

The structure of the American economy must be reviewed to determine the inflationary effect of such developments as business mergers, interlocking relationships among the giant corporations and banks, corporate domination of key parts of the national economy, and its effect on America's position in the world economy, and the impact of corporations on American communities and democratic institutions.

Congressman, we believe that in order to curtail inflation, one must address the primary areas where inflation is coming from—not from cosmetic attempts to balance the budget or to try and take it out of the hides of American citizens, who are not the cause of inflation.

Thank you for allowing me to summarize my statement.

[The prepared statement of Mr. Oswald follows:]

PREPARED STATEMENT OF RUDOLPH OSWALD

The AFL–CIO appreciates this opportunity to present to the Joint Economic Committee of the Congress its concerns with the serious economic problems facing this nation. While inflation undermines economic stability, a new recession threatens to weaken the economy still further.

Inflation is a serious problem; and wage and salary workers, retired people, and poor people are the chief victims of inflation. Their buying power has not kept up with inflation. But under current policies, the chief inflationary influences are not now being addressed.

But at the same time, the American economy is experiencing slow growth, and high unemployment and over the next few months conditions will deteriorate even further. Housing starts are falling, and auto production is plummeting, and retail sales are slowing. Rising unemployment will quickly follow.

The AFL–CIO sees both runaway inflation and recession as immediate serious dangers—and we want effective action to deal with both.

Unfortunately, the President's new anti-inflation "balanced budget" plan does little, if anything, to curb inflation.

The President's "balanced budget" plan will seriously weaken vital programs which are essential to curb recission and rising unemployment, to protect the weak and the poor, to provide opportunities for those who seek work, to maintain the services essential to urban life, and to support the underpinnings of our society.

Instead of providing for equality of sacrifice and a sharing of necessary austerity, it places most of the burden on those suffering the worst under present economic conditions.

The program does not attack the direct causes of inflation—the escalating costs of energy, housing, food and medical care. It adds to the incredibly high interest rates which have a critical impact on all sectors of the economy. The AFL–CIO has offered specific proposals to roll back and contain costs in these problem areas and these proposals are again spelled out in this testimony.

Labor has consistently supported programs that bring a measure of equity and a decent standard of life to all Americans.

The AFL–CIO will continue to fight for those programs and against their nullification in the guise of budgetary restraint. We shall do all that we can to make sure the war against inflation is not waged at the expense of those least able to afford new and unfair sacrifices.

We were prepared to join with the Administration in support of its austere budget announced in January although we regarded it as an inadequate response to the nation's problems and needs. We are deeply distressed that it has been so quickly and crudely scuttled, in sacrifice to expediency, Congressional election-year posturing, and the demands of the financial community.

The government deficit is not the cause of today's inflation. Even a casual look at the numbers shows no relationship between the government deficit and inflation. In fact, the sharpest price increases in recent years took place during periods when federal expenditures fell in terms of the total economy and deficits were being rapidly reduced. From 1971 to 1974, e.g., expenditures dropped from 20.7 percent of GNP to 19.9 percent and the deficit dropped from $23 billion to $4.7 billion. Prices, however, jumped from a 3.4 percent annual rate of increase in 1971 to 12.2 percent in 1974. The 1976 deficit of $66 billion was reduced to $27.2 billion by 1979—our most rapid post World War II period of inflation in the past 30 years; and, federal outlays as a percent of GNP (including off budget entities) dropped from 22.6 percent of GNP down to 21.3 percent. Substantial federal deficits in this country have been related to wars and recessions, not to inflation.

Also, when compared with other major industrialized countries, U.S. government spending and deficits are far smaller in relative terms. And, as is the case in the U.S., there is no relation in these countries between the growth in spending or the size of the deficit and the rate of inflation. Germany and Japan e.g., in recent years have had deficits that, as a percent of their national income, are four to six times as large as the U.S. and their government expenditures have been increasing at a much more rapid pace than in the U.S. But, their inflation rate is less than half that of the U.S. and, the U.S. still ranks among the lowest of all industrialized nations in terms of overall levels of taxation and government spending.

Certainly, expenditures and deficits can affect inflation, but any impact depends on a combination of many factors—size, the rate and direction of change, how it's financed, and above all the relationship to the state of the economy. In an economy that is weak and suffering from an inflation that is primarily the result of increased costs of energy, money, food, housing and medical care, it is unrealistic to label the federal deficit and federal government spending as important sources of inflation.

In addition to budget-balancing, restraints on credit are part of the President's new anti-inflation program. Implementation of the Credit Control Act of 1969 by the Federal Reserve will be a demonstration that other monetary means can be used to fight inflation than raising interest rates higher and higher. Selective credit regulation is a key weapon in the fight against inflation.

Unfortunately, the Federal Reserve Board is implementing the Credit Control Act of 1969 with little selectivity in restricting different kinds of use of credit. Also, the Fed is continuing its reliance on raising interest rates. The Fed has attempted to curb the use of individual credit cards, and to limit money market funds. However, it is not restricted credit for general speculative purposes and corporate takeovers. It has also failed to regulate the volatile flows of money in and out of the United States.

Also, there is no targeting or allocation of the use of existing credit. The result is that prospective home-buyers, local governments, and small businesses are squeezed out of the money markets by tight money and high interest rates. The sky-high interest rates have pushed to 14 and 17 percent mortgage interest rates and have already brought disaster to home sales and new construction activity.

To curb inflation, the Administration and the Congress must move to address the real sources of excessive increases in these four problem sectors. Policies that tend to slow down the general economic activity and increase unemployment are the wrong way to attack inflation.

AFL–CIO ANTI-INFLATION PROGRAM

The ALF–CIO has set forth a comprehensive anti-inflation program—a program which is both effective and fair. If an anti-inflation program requires sacrifice, it should be shared according to the ability of groups in society to shoulder the sacrifice. If there is a need for a mandatory program of controls with penalties for non-compliance, it should be a specifically legislated program of across-the-board controls, covering every source of income including profits, dividends, rents, interest rates, executive compensation, professional fees, as well as wages and prices. Due process in resolution of inequities is an essential component of any anti-inflation program.

The fight against inflation must attack directly the most serious problem areas of energy, food, health care, shelter and high interest rates.

Energy supplies must be expanded to relieve the OPEC stranglehold on U.S. energy prices. There must be conservation, development of alternate energy sources, controls on the price of oil and gas, and importation of oil by government action.

Speculation in commodity markets that drives up the prices of wheat and other agricultural products must be curbed. Exports of foodstuffs and other raw materials in short supply must be regulated to prevent domestic storages and price rises. Restrictive agricultural policies that contribute to shortages must be revised, and the benefits of price support programs must be restricted to family farmers.

A new approach to health care through a national health insurance program is the only lasting solution to medical care cost inflation. Interim steps include hospital cost containment and control of professional fees for health care.

Government housing programs for low and moderate-income families should be expanded to increase the housing supply and to reduce inflation in housing prices and rents.

Selective credit regulation needs to be expanded to channel available credit toward productive public and industrial needs, housing, family farmers, and to restrict credit-financed non-productive investment such as corporate acquisitions, gambling casinos and currency speculation.

Congress must block efforts to dismantle or to weaken federal regulatory agencies established to protect consumers and workers and the general public from unfair, monopolistic and anti-social business practices.

The structure of the American economy must be reviewed to determine the inflationary effect of such developments as business mergers, interlocking relationships among the giant corporations and banks, corporate domination of key parts of the national economy and its effect on America's position in the world economy, and the impact of corporations on American communities and democratic institutions.

ENERGY

Between January 1979 and January 1980, energy prices paid by consumers have increased 43 percent, with fuel oil up 62.7 percent, gasoline up 60.3 percent, and natural gas and electricity up 14 percent. The policies to meet this rapidly increasing price of energy should be directed towards mitigating the immediate price explosion while still encouraging long term conservation, development of alternative energy sources, and maintaining adequate supplies.

The price of oil imports has increased eleven-fold from a level of $2.60 a barrel just 7 years ago to a level that currently is approximately $30 a barrel with some prices as high as $42 a barrel.

While the United States does not control OPEC price decisions, it should not allow OPEC prices to become the immediate determiner of all domestically produced energy prices. Oil imports account for approximately 50 percent of total oil usage in the United States, and oil accounts for approximately 50 percent of all energy consumed in the United States. Thus, the dependence on imported oil is approximately 25 percent of total energy usage. All United States energy prices should not be determined by OPEC. The United States should stop the movement towards decontrol of domestic oil prices in order to mitigate these inflationary pressures.

When the President stated his intent to deregulate domestic oil prices in April 1979, it was assumed that the price of oil would rise only slightly. The projections at that time assumed that the impact of decontrol would raise the price of petroleum products by 5 cents per gallon by the end of 1981. These levels have already been far surpassed and are a major factor contributing to the domestic inflationary pressures. Since the assumption of only a small price increase has proven in error, the President and the Congress should stop the spiraling domestic price rise of oil and other competitive fuels.

Price controls should be reintroduced for diesel oil and heating oil (so-called middle distillates) since these fuels are crucial for transportation needs and the essential heating requirements of many families. These prices have already increased from 49 cents to 93 cents a gallon in the past two years and further increases should be restricted.

Natural gas prices should be recontrolled. The production of natural gas should be considered a utility, with prices regulated and related to actual costs and a fair return to the producer. Between November 1978 and November 1979, the average price at the well-head for natural gas increased by 57 percent.

There is no reason why inflation needs to be fed by subscribing to a notion that alternative fuels such as natural gas need to be increased to the BTU equivalent of OPEC oil pricing. Natural gas can be discovered, produced, and shipped at a reasonable profit under a method of price control. Such control of natural gas prices existed for the 40 years prior to 1978 while the natural gas industry flourished and expanded substantially. Reimposition of natural gas price controls would be consistent with past policies of treating natural gas at the well-head as the same type of utility that it is still considered in most states as it is distributed to the final user. Reimposition of natural gas prices would have a substantial impact on consumers as about half of all homes are heated by natural gas.

Oil imports should be brought in through a governmental agency rather than through individual corporations. The United States government would be in a stronger position to negotiate with OPEC than individual corporations. The United States could determine also the maximum amount of oil to be imported. Currently the individual companies have a self-interest in encouraging higher OPEC oil prices since such higher prices raise the value of domestic oil reserves and inventories. A governmental import agency would have no conflict of interest and would be able to negotiate on a government-to-government basis since the OPEC pricing decisions are essentially governmental decisions and not that of individual private producers.

If there is a shortfall of oil supplies or if there is to be a policy of curtailing imports, the available oil should be rationed directly through a federal rationing system rather than through increasing the price of oil. Rationing by price only adds to inflation and hurts those least able to afford the oil price increases. Various studies have shown that the usage of gasoline is correlated with family income, with the greatest amount of driving being done by the highest income families. The impact of raising the price of gasoline is minimum for the wealthy, but for many lower income working men and women, a car and gasoline are an absolute necessity for travel to work.

The President's oil import surcharge is a step in the wrong direction. If the goal is to curtail oil imports, it should be done directly, and if rationing is necessary for distribution of gasoline, it should be imposed.

The current congressional legislation designed to encourage the development of synthetic fuel is an important step in the right direction. However, alternate energy sources must be developed from each of the three primary categories: (1) essential renewable sources—solar, wind, gasohol, tidal and geothermal energy—

for which varying degrees of technology exist and which appear to have minimal environmental effects; (2) nonrenewable sources—coal and nuclear—for which technology exists but which also pose environmental problems; and (3) new areas—such as waste matter, oil shale, tar sands, and other synthetic fuels—which require expensive new technology and may have potential environmental problems.

We believe that all potential energy sources should be developed. Goals should be established for alternate forms of energy to replace specific amounts of oil and natural gas. At the same time, however, no energy source should be developed without companion research into methods of reducing adverse environmental effects.

We urge that a very substantial commitment be made towards advancing solar, gasohol and geothermal technology. Greater development of solar energy and gasohol, for example, would enable many Americans to substitute these sources for oil or natural gas. Solar energy, in particular, has a tremendous potential for making a significant contribution to meeting this nation's energy needs.

The nation cannot afford to ignore coal and nuclear energy, despite environmental dangers. Both sources will play an important role in reducing U.S. dependence on imported oil. Greater use of scrubbers and technology to extract more energy from coal effluent, including cogeneration, would offset air pollution through greater production of energy.

The nation must never relax stringent health and safety regulations governing nuclear power, and immediate, careful attention must be devoted to solving the problem of nuclear waste disposal. We believe that development of nuclear power must be accompanied by expanded research into technology to further reduce safety hazards, so that nuclear power will enjoy the public support it must have to become a significant energy source. We advocate development of technology which turns nuclear waste into reusable fuel.

Conservation is also important in an overall energy program. The demand for energy could be reduced by adoption of the following policies:

The establishment of temperature and lighting standards that could be reasonably enforced in industrial, commercial and residential buildings would lead to economies in heating, lighting and cooling.

Gas and electric rate structures should be revamped to eliminate declining block rates and allow for peak-load pricing.

Mandatory energy efficiency standards for major appliances should be established.

All new and existing buildings should be required to conform with efficient energy standards.

Automobile fleet mileage standards should be maintained and strengthened.

Mass transit systems should be improved and expanded and fares subsidized.

The cogeneration of energy, largely through the use of steam produced in the generation of other forms of energy, should be encouraged, and the conversion of oil-fired boilers should be required.

These are the kinds of conservation measures that are essential to reduce the nation's consumption of energy. As we view conservation, it does not mean a lower quality of life or a slackening of economic growth. Growth in the economy and a high standard of living are endangered if there is not sufficient energy at reasonable prices to turn the wheels of industry. Conservation can help to prevent a shortage of energy.

Energy policy is an essential ingredient to an effective anti-inflation policy.

HOUSING AND INTEREST RATES

The second major contribution to inflation is the spiraling cost of housing and home mortgages. Between January 1979 and January 1980, the cost of shelter has increased by 18.9 percent. While high interest rates show up directly in the rising costs of home ownership, they are reflected indirectly in the higher costs of most items in the Consumer Price Index.

In the past 2 years, the Federal Reserve Board has repeatedly raised the discount rate, theoretically to mitigate inflation. The discount rate is the interest rate that the Fed charges banks for borrowing funds, and becomes the basis for all other interest rates. However, instead of curbing inflation, the escalation of the Fed discount rate has helped fuel the fires of inflation. In January of 1978, consumer prices were rising at a 6.7 percent rate. The discount rate of the Fed-

eral Reserve Board was 6 percent. By January of 1979, the rate of inflation had increased to 9.4 percent and the Federal Reserve Board had increased the discount rate to 9.5 percent. By January 1980, the rate of inflation had increased to 14 percent and the Federal Reserve Board raised the discount rate to 12 percent. Since then the Federal Reserve has increased the discount rate to 13 percent in February and in some circumstances to 16 percent today. The high interest rates were not curbing inflation but were rather fueling that inflation.

The previous record level for the discount rate was 8 percent. That 8 percent level was reached in 1974, under the chairmanship of Arthur Burns, when the rate of inflation in the U.S. was 12.2 percent. That inflationary period was weathered without raising the discount rate to the current astronomical levels.

The Congress should establish universal reserve requirements for all banks, so that the Fed may more effectively use reserve requirements as a tool to control the money supply. This would alleviate some of the dependence upon the discount rate as the main weapon in controlling the supply of money.

The Congress should direct the Federal Reserve Board to lower interest rates and to direct funds to the housing industry which is in the throes of its own recession. Current needs must be directed towards productive uses of money and severe curbs should be placed on the speculative uses of credit and money. In order to stabilize the monetary flows, the government should regulate the inflows and outflows of credit and capital.

Unless the Administration and Congress act quickly, the serious downturn in housing construction will continue to aggravate inflation caused by housing shortages and create severe unemployment among workers in construction and the production and distribution of building materials. Experience demonstrates that high unemployment in construction has a severe adverse effect on the entire economy.

From a level of 2 million units in 1978, housing starts fell 14 percent in 1979, and in the last two months of the year, they were at a seasonally adjusted annual rate of 1.5 million. In January, the rate declined further to 1.4 million. Falling levels of home sales and soaring interest rates indicate continued declines in housing starts.

Since the nation needs about 2.5 million new housing units annually, the current level of housing starts will lead to a major shortage, with resulting inflation in house prices and rents.

We believe the Administration and the Congress should take the necessary actions to make immediately available for mortgage purchase commitments the $10 billion raised from sales and repayments of mortgages made under the Emergency Home Purchase Assistance Act.

Making this money available will allow the immediate revival of the so-called Brooke-Cranston program, which permits the Secretary of Housing and Urban Development to direct the Government National Mortgage Association to begin making mortgage purchase commitments and to actually purchase mortgages during serious downturns in housing construction.

The Brooke-Cranston program should be amended to reflect price rises in recent years. However, mortgage limits should not exceed $55,000 and the maximum sales price should be limited to $57,750 to encourage the construction of housing for families who could not otherwise afford private financing. The program should also be used to finance moderate income rental housing.

The AFL–CIO supports maintaining the current 7½ percent mortgage interest rate ceiling under the Brooke-Cranston program. This reduced interest rate is the most important factor in spurring production and simultaneously providing affordable home and apartment prices for families increasingly being priced out of the housing market.

The Administration should propose and the Congress should enact a measure to ease the excessive burden of 20 percent and higher construction loan interest rates by authorizing construction loans for subsidized and moderate-income rental housing at rates related to the effective Treasury cost of money.

FOOD

Another major inflationary component of the CPI has been food with the price of food up 8.9 percent from January 1979 to January 1980. In light of the record harvests, public policy needs to be directed towards mitigating increases in food prices.

Over the past year, the price of wheat has increased from $3.56 a bushel to $4.30 a bushel. While the AFL–CIO supports the President's action that limits the sale of wheat and grain to the Soviet Union, we do not believe that government payments for the curtailment of such sales should redound to anyone's profiteering. Grain wholesalers and speculators should not be paid a profit at the taxpayers' and consumers' expense. However, farmers deserve a fair return for their production and work.

One of the central elements in the federal farm program should be the goal of mitigating food price increases. The nation's agricultural policy must encourage maximum production to redress the lack of balance between domestic food supplies and the demand for American farm products at home and abroad.

Adequate stockpile reserves of agricultural goods should be established to assure a measure of protection against erratic price and supply fluctuations.

Effective export controls on agricultural products and other raw materials in short supply should be established and maintained during times of inflationary shortages and upward pressures on prices.

The Secretary of Agriculture should be directed to curtail or postpone the export of any food products, when the domestic price for that food product rises by 10 percent or more.

A National Grain Board is needed to protect the interests of the United States in foreign markets for American agricultural products and to provide price and supply stability in domestic U.S. markets. We believe a mechanism like the National Grain Board in Canada should be established to handle foreign sales of U.S. grain to protect the interests of consumers and family farmers and the nation as a whole.

Legislation of this kind is needed because exports of U.S. agricultural commodities are now conducted almost exclusively by five big profiteering international grain trading companies which act in their own self-interest, usually to the disadvantage of family farmers and often against the national interest in terms of food price inflation and national security.

In grain dealing with Communist and other centralized economies, bargaining on a government-to-government basis must protect the American economy and the American people against a repetition of the 1972 Russian grain deal in which the private grain trading corporations put their own profits ahead of the welfare of the American people—and set off a round of food price inflation which still is contributing to inflation in the U.S.

Effective government regulation of commodity speculators also would help protect American consumers against profiteering and excessive food and inflation in food prices. Price support programs should be restricted to family farmers.

Farm land in the U.S. is being purchased at alarming rates by foreign corporations and individuals. This is raising the cost of farm land and thus the price of food. Control of productive farm land in the U.S. by foreign interests could add to food price inflation and seriously injure the nation's economic health. These problems deserve careful attention and action by Congress in the fight against inflation.

HEALTH

Another inflationary area is health care with prices up 10.7 percent between January 1979 and January 1980. Prices of both hospital services and professional services have been rising at a very rapid pace.

To deal with inflation in health care, the most effective step would be enactment of a universal and comprehensive national health insurance program. Hospital cost containment legislation is an important interim step needed to get a grasp on hospital costs. Also comprehensive health planning and development of health maintenance organizations will be steps to mitigate health care price increases.

Other steps that can be taken to alleviate the spiral in health care costs are such programs as hospital pre-admission testing, prospective surgical review, utilization review of hosptial services, and expansion of alternatives to inpatient hospital treatment.

THE NATIONAL ACCORD

The AFL–CIO is participating in the Administration's voluntary program of pay and price restraint as part of the National Accord designed to meet overall economic problems. In the Pay Advisory Committee, we have agreed to new wage

policies that call for substantial sacrifice on the part of America's working men and women. We are ready to bear our share of a burden of austerity, but we insist that the burden be fairly shared and translated into progress in reducing the rate of inflation.

The Administration established a Price Advisory Committee to make the price restraint program more effective. The major shortfall in meeting the wage and price objective in 1979 was in the price area.

Anti-inflation policies will not be successful if they are one-sided, dealing solely with wage restraint. The 6.9 percent decrease in worker buying power that has been sustained during the past year must be reversed, if the U.S. economy is to be pulled away from a recession and move ahead with steady, healthy economic growth.

The National Accord between the labor movement and the Administration was aimed at providing the basis for full participation by the labor movement in the development of national economic policies. Further, it recognized that the fight against inflation can only be won if the austerity required is shared equally by all, and that the future health of the economy depends upon full employment, price stability and balanced growth.

Unfortunately, since the Accord was signed last year there has been an acceleration of inflation and a continued erosion of the buying power of workers' wages and salaries. The Administration's latest anti-inflation program places most of the burden of sacrifice and suffering on those least able to protect themselves under present economic conditions.

As a result, the AFL–CIO is giving very careful and very serious reconsideration to its commitments and responsibilities under the National Accord. In light of these recent events, our confidence in the Administration's commitment to the provisions of the National Accord has been placed in serious doubt.

If voluntary efforts fail, and there seems to be increasing evidence to this effect, the Administration and the Congress should turn to a mandatory anti-inflation program that controls every source of income—profits, dividends, rents, interest rates, executive compensation, professional fees, as well as wages and prices.

AFL–CIO ANTI-RECESSION PROGRAM

But today's economic climate requires that policies be directed not only against inflation, but against recession as well. There is no conflict between fighting inflation and fighting recession. In fact, the two efforts are complementary.

The government must pursue policies that lead to economic growth rather than stagnation, recession and joblessness. The costs of lost production and lost investment for the future are inflationary factors. Interest rates, money supply and budget policy should be geared to healthy and balanced economic growth.

Special programs to fight recession are needed. Congress should enact:

1. A stand-by emergency public works program.
2. A counter-cyclical aid program to state and local governments.
3. Adequate funding for public service jobs, and expanded employment and training programs for adult workers and youth.
4. Policies to counteract the severe housing recession.
5. Mass transit and railroad rehabilitation, housing rehabilitation and other programs which also meet energy problems.
6. Improvements and expansion of the nation's unemployment insurance system to protect more workers and to support basic buying power.

Under current circumstances, we do not believe that a tax cut is warranted. If economic conditions deteriorate, first reliance should be placed upon direct job-creating programs which provide more cost-effective stimulus than tax cuts. Such programs can be targeted directly toward those bearing the burden of recession.

The U.S. economy must be revitalized so that this nation can maintain and improve its national security, its international role, and its technological and economic well-being. America must retain a strong, diversified economy, providing adequate income and job opportunities to American workers, with an undiminished commitment to human welfare and the special needs of America's disadvantaged people.

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

STATEMENT OF LAWRENCE CHIMERINE, CHAIRMAN AND CHIEF ECONOMIST, CHASE ECONOMETRICS, BALA CYNWYD, PA.

Mr. CHIMERINE. I will be very brief, Congressman. I have submitted a rather lengthy prepared statement which I will try to summarize very briefly.

The near-term outlook for inflation is horrendous. I expect the current rate of inflation to continue at least 3 or 4 more months. We are likely to get some relief later in the year, primarily because OPEC prices are not likely to rise any further this year. Once we get to May or June, we are likely to see gasoline prices rise much more slowly.

Second: Mortgage rates will peak eventually, but for now, there is enormous pressure, and I think Mr. Russell, in his testimony, understated the impact of higher mortgage rates on the CPI in the next several months. By June or July, certainly by late summer, that pressure will be alleviated. Mortgage rates will peak, and the CPI can grow more slowly from that factor as well.

On the other hand, food prices are likely to accelerate, partly due to the floods in California and the frosts in Florida, which are affecting food and vegetable production. When you put it all together, the best we can hope for later this year is an inflation rate falling to something like 12 percent and possibly to 10 or 11 percent next year, which I view as the long-term, underlying rate of inflation in the United States, primarily because of underlying trends in labor compensation and productivity. Productivity is declining; not the rate of change, the absolute level of productivity is now declining.

Insofar as the President's program is concerned, I think the program is clearly going to make inflation worse in the short run, both by the gasoline tax which will add close to three-quarters of 1 percentage point to the CPI, and second by the additional upward pressure that has developed on interest rates. In today's world tighter monetary policy is inflationary in the short run, partly because it raises business costs which get passed on by business, but mostly because it causes increases in mortgage rates, without the usury ceilings on mortgage rates, and with the high weight that they have in the CPI.

In the short run, these factors will make inflation worse. I agree with Mr. Oswald; I support cuts in the budget where possible, but the magnitude of these cuts currently being discussed by the Congress and the administration will have very, very little impact on the inflation rate. The only indirect effect it will have is by making the recession deeper, which will reduce inflation a little. That is the only significant effect that the few billion dollars of budget cuts will have on this inflation.

I am concerned from another standpoint. It seems to me that the measures that the administration are proposing concerning the budget and higher taxes, combined with the new credit restraints proposed by the Fed, have come on top of three or four other factors which clearly signal to me that the long-waited recession is not only coming, but that the risks are increasing that this recession may be far more severe than we anticipate.

The factors I refer to are, No. 1, the sharp erosion of real income that almost every household is experiencing; second, the decline in household wealth. The stock market has dropped sharply in the last 4 months. Even housing prices have come down, and when we add to that lower wealth, declining real income, and unavailability of credit because of the new restraints, there isn't anything left to finance consumer spending.

I think that, combined with the weakening of housing construction, will produce this recession.

In fact, the situation is somewhat reminiscent of 1974 and 1975. You might remember that in the fall of 1974, at the economic summit that President Ford held, everyone was talking about anti-inflationary policies, including cutting the budget and tightening money, just when all of the signs were starting to indicate that the recession was developing.

The stock market was falling; commodity prices were falling. Other countries were raising interest rates. All of these characteristics exist right now, and I think all point to a rather significant recession in the next year or so.

We all recognize the need for productivity improvement, but there is absolutely nothing that discourages capital spending and new productivity growth more than a sharp recession and excess capacity in the economy. If we now experience another situation of large excess capacity—it will dampen capital spending and probably aggravate the productivity problem from a long-term standpoint, and in fact, therefore, increase the long-term, underlying inflation rate, which is precisely what happened a few years ago.

If I can conclude, Congressman, by talking about what I think is the appropriate policy in this environment.

First: I would do nothing in terms of tax cuts or any other measures to stimulate the economy util we clearly see the recession. Let's not make that mistake—particularly since we have been wrong about the recession so far.

Second: When we do get a tax cut, I think it should have three parts to it. No. 1: It should attempt to restore some of the lost purchasing power that most households are experiencing. Second: It should include a program of accelerated depreciation, designed to increase the rate of return on new capital spending projects, particularly because higher energy prices and higher capital goods prices are now reducing the rate of return on new capital spending projects. We need policies to counteract that.

Third: I think where possible the tax cut should focus on those kinds of taxes which are directly inflationary, such as social security taxes. In my view the bigger impact of Government programs in the last 4 or 5 years on inflation has not come from a few billion dollars more spending or from a deficit that may be a few billion dollars larger. It has come from increased regulation, which has raised business costs, from minimum wage increases, farm programs, higher social security taxes, and other kinds of programs which don't even show up in the Federal budget but are having a more devastating effect on inflation.

Thank you, Congressman.

[The prepared statement of Mr. Chimerine follows:]

Prepared Statement of Lawrence Chimerine

My name is Lawrence Chimerine, Chairman and Chief Economist of Chase Econometrics. I appreciate the opportunity to testify before the Joint Economic Committee on the Outlook for the U.S. Economy and the President's Anti-inflation Program.

I. OUTLOOK FOR 1980 AND 1981

A. Recent Performance

Although the much heralded recession did not occur during 1979 or early 1980, the strong growth that characterized the economy since the spring of 1975 ended in 1979. The economy's performance over the last fourteen months has been essentially flat, although it has been marked by wide variations in activity across industries and sectors.

Figure 1 shows industrial production; as can be seen, it has been virtually flat since early 1979 after strong and continuous growth in the prior four years. This is not an unusual pattern during the early stages of recession—we frequently observe a period of six months or longer of relatively flat industrial production, followed by a rather sharp decline, rather than a continuous, steady decline. The best example was 1974-1975, as Figure 1 shows.

Several major indicators of household activity also peaked relatively early. Real income per household, or per employee, actually peaked last winter. Retail sales deflated by the CPI for commodities also peaked in late 1978 (see Figure 2); only the stronger performance of spending for services, and the use of a different deflator, have kept total consumption expenditures on a slight uptrend during this period. Finally, as Figure 3 shows, both housing starts and permits also peaked in late 1978, excluding the weather-caused drop last February.

Other important measures, of course, continued to rise during the course of the year, most notably real GNP (despite the drop in the second quarter), and employment. However, as Figure 4 shows, the growth in total output during 1979 was in marked contrast to the prior several years—real GNP ended the year only 0.8% above the year-end 1978 level, despite the 2.3% year-over-year gain and the 2.0% annual rate increase in the fourth quarter. Furthermore, a large part of the gain was the result of a strong rise in exports rather than production for domestic use—without the improvement in constant dollar net exports of goods and services, real GNP would have been virtually flat in 1979 (Figure 4).

Employment continued to grow all during 1979, with the unemployment rate holding steady at between 5.7% and 5.9%. Again, this resembles the 1974-1975 recession; both the household and payroll measures of employment continued to rise until September 1974. Furthermore, as Figure 5 shows, both measures have begun to grow much more slowly, with the pattern very similar to that of late 1973 and most of 1974—this has continued in the early months of this year.

Despite this relatively sluggish performance, the economy held up considerably better than I expected during the second half of the year. Real GNP rose at about a 2.5% annual rate during that period, instead of the sharp decline that had been expected. Most of the error was concentrated in consumer spending.

The stronger-than-anticipated performance for household spending during this period resulted primarily from the sharp decline in the saving rate, from 5.6% in June to 3% in December (Figure 6), although higher than expected employment was also a factor. Some decline in the saving rate, from 5.4% in the second quarter, had been expected; however, the average of 3.5% in the fourth quarter is by far a post-war low. The bulk of the adjustment to weak real income has thus been on the level of savings, which fell from $86 billion in the second quarter to a $44 billion rate in December, rather than on spending. The saving rate has fallen even further in the early months of this year. Furthermore, other measures of the saving rate are actually negative at the moment.

Many hypotheses have been offered to explain the recent decline in the saving rate. But, it seems to me, none are consistent with the abrupt decline since July. For example, the most often cited explanation is that we've experienced a surge in inflationary expectations, causing a buy-in-advance psychology. However, inflation accelerated all during 1978 and early 1979, yet the saving rate stayed very steady at between 4.7% and 5.4% during that period. Furthermore, when inflation accelerated in 1973, the saving rate actually rose sharply—the common explanation was that consumers were saving more out of current income in order to offset the erosion in the real value of their prior savings.

Other data also appear to be inconsistent with this hypothesis. First, as Figure 2 showed, household spending did not accelerate last year—it was either up slightly or down slightly, depending on the measure used. Thus, there was no rush to buy. Secondly, as Table 1 shows, only services among the major spending categories grew significantly. Much of that growth was in housing, which probably did reflect advance buying, since housing prices (or, really, the cost of housing services) have been rising sharply for several years. Spending for durables was down even after excluding the sharp drop in new auto sales. Nondurables were up slightly, but most of that was in food (where advance buying is difficult at best) and clothing (which has experienced the lowest inflation rate among all categories of consumer goods). Thus, the distribution of spending by categories does not support the offered hypothesis. Third, real interest rates may have been negative early in the year when broad inflation measures are used, reflecting the price of gasoline, heating oil and food. However, price increases of other goods, particularly durables, were far less, and were well below most interest rates. And real rates certainly became positive in October, yet the saving rate has declined further since that time. Fourth, consumer installment credit growth actually slowed all during 1979 relative to prior years—the contention that households rushed out to borrow and spend is not supported by the installment credit data.

In addition to the slowing in production and employment, many leading indicators are currently on a downtrend. These include:

1. The overall index of leading indicators, which has been declining since September;

2. Housing permits, which have fallen sharply over the last five months;

3. New orders for durable goods, which peaked in March and have trended down since;

4. New orders for nondefense capital goods, and contracts for commercial and industrial buildings, both of which are important leading indicators of capital spending, and which peaked last spring.

B. Forecast Assumptions

The following major assumptions underlie the forecast for 1980 and 1981:

1. **Economic Growth Overseas**
The effects of higher oil prices and more restrictive policies will slow economic activity overseas markedly this year, with below average growth again in 1981. Some countries will experience recessions (the U.K., for example), the others just slower growth. This, coupled with the effects of the recent strengthening of the dollar, will have a significant effect on reducing U.S. export growth from the near 30% rise last year. Export orders are already down.

2. **OPEC Prices**
OPEC prices will average about $31 per barrel in 1980. This implies that little or no further increases will occur over and above those announced in January. A 10% increase is assumed for 1981. The major factor which will hold prices at current levels for the rest of this year will be a significant decline in free-world demand, due to the following:

- The recession in the U.S. and slower growth elsewhere will reduce demand for energy in general and oil products in particular.

- Higher prices are already reducing demand in the U.S. and in other countries. Petroleum consumption in the U.S. was down by 2% last year, and, despite strong economic growth, rose by only 3% and 2% in Europe and Japan, respectively. Lagged effects of last year's 50% increase in refined product prices, and the impact of additional increases this year, are likely to reduce oil consumption by several percentage points on a worldwide basis in 1980.

- Inventory building was a major factor sustaining demand last year—our estimate is that nearly 2% of 1979 oil production was stockpiled by importing countries as a hedge against future supply problems. However, storage facilities appear to be on the verge of overflowing—further additions to inventories are highly unlikely, which will also reduce demand.

- Non-OPEC production is expected to rise somewhat this year, especially in Mexico and the North Sea. This implies that OPEC production will have to fall by 8%-10% to absorb the total 5%-6% decline in free-world demand and still maintain a balanced market. As evidence of a glut develops early in the year, we expect that OPEC will make the necessary cuts to sustain price increases already announced but not to permit any additional increases in 1980. Several OPEC countries have already announced scheduled production reductions in anticipation of weaker demand. In fact, OPEC output was reduced by over 1 million barrels per day in January.

  Coupled with decontrol of domestic crude oil, which will raise the average price of domestic crude by about $8 per barrel by year-end 1980, OPEC price increases will result in about a 30¢ per gallon increase in average refined product prices by year-end 1980 (some of these increases are currently being announced). Because of gasoline price controls, which require a cent-by-cent passthrough, and other cost increases, we expect gasoline prices to rise by somewhat more than other refined product prices. These increases assume that dealer and refinery margins will not widen sharply (1) as they have rebounded to normal or near-normal rates, and (2) no shortages will exist to push margins up

further. The President's import fee will add 10¢ per gallon to gasoline prices this year.

3. Wage-Price Guidelines

Wage increases among union workers have outstripped those for nonunion workers in recent years; furthermore, the provision in the guideline program that has permitted union workers to calculate COLAs at an assumed 6% inflation rate in the last year has widened the gap even further. I expect that wage rates in the private sector will rise by more than 1% more rapidly this year than in 1979, in part the result of the relaxation in the wage standard from 7% to the 7-1/2% to 9-1/2% range. A continued high rate of inflation only reinforces this forecast.

4. Monetary Policy

As part of the anti-inflation package, the Federal Reserve announced various actions designed to slow the growth of consumer revolving credit. The direct effect of these measures is to raise short-term interest rates because of the increased cost of funds to the banks due to higher reserve requirements and the discount rate "surcharge." We expect banks and other lenders to attempt to curtail consumer borrowing by imposing higher charges on credit cards, by raising rates on credit card balances (where state usury laws permit), and by speeding up repayment schedules.

Although I expect that these actions by the Fed will curb consumer borrowing to some extent, the effects should not be overstated. First, only about 17% of total consumer installment debt outstanding is directly affected by the new credit controls. Second, consumer borrowing has already been slowing sharply in response to: (a) more caution by lenders, because of usury laws in most states which are making consumer loans unprofitable and concern that households are overcommitted; and (b) slowing consumer demand, in response to higher rates and weak real income.

I expect interest rates to fall later this year in response to the recession and lower credit demands. A significant decline in the demand for credit for inventory financing, consumer purchases, and residential mortgages will be only partially offset by a rising federal deficit. However, we do not expect the Fed to permit short-term rates to fall to anywhere near the levels that prevailed in prior years. Continued high inflation, concern over the dollar, and the recent increase in short-term interest rates overseas will prevent the Fed from easing credit policy and accelerating the decline in rates. Thus, short-term rates can be expected to fall by 5 to 6 percentage points during this year, and then to remain relatively flat in 1981.

5. Federal Expenditures and Taxes

The anti-inflation program announced by President Carter adds a significant amount of additional restraint, primarily through a total of $27 billion of spending cuts and tax increases. However, the new budget that the President will submit will not only include $2 billion in spending reductions for the current fiscal year, and $13 billion for fiscal 1981, but it will also incorporate a $10 billion upward revision in the cost of the original budget. Thus, on a net basis, it will provide for an expenditure level of only a few billion dollars less than the $616 billion in the January budget (for FY 1981). However, I believe that actual expenditures will wind up at least $13 billion above the new estimate. First, the $10 billion upward revision is not sufficient to account for the underestimation in January in that the CPI will grow more than the 11.75% currently estimated by the Administration, increasing the cost of indexed programs. Second, the new Administration forecast

contains a far milder recession; however, their actions and those of the Federal Reserve are likely to make the recession worse, which will cause higher unemployment benefits. Third, differences of opinion within the Congress may prevent an agreement on specific cuts; many of the reductions in the original budget proposal (hospital cost containment, federal pay reform) have already been greeted with lukewarm response. Finally, as the recession deepens, policy may be reversed again. As a result, it is unlikely that the budget will be balanced in FY 1981, even without tax cuts. My assumptions do imply about $8 billion of budget cuts, however.

The President has adopted a fee on imported crude oil in order to raise gasoline prices by 10¢ per gallon, and revenues by about $10 billion. This will be replaced by a 10¢ increase in the Federal gasoline tax when and if Congress enacts such legislation. Legislation which will require withholding on investment and dividend income will also be proposed by the President; this will raise about $3-$4 billion in the first year. I have included these tax increases in our forecast, although there is some chance that withholding on dividend and interest income will not be passed.

Despite the magnitude of the budget numbers, Federal spending levels will not be sufficient to provide significant stimulus to the economy. In fact, in real terms, only military spending will experience significant growth over the next two years. Real military outlays will rise over this period by nearly 10%, mostly for procurement rather than for more armed forces. In other budget areas, inflation and population increases will account for almost or all of the expected expenditure increases. Furthermore, the budget proposals include significant tax increases for next year.

Table 2 shows one measure of fiscal thrust; the change in Federal expenditures (less unemployment benefits) plus changes in Federal receipts due to tax rate changes only, as a percent of GNP. As can be seen, current policies would be relatively restrictive during 1981. The large net tax increase for that year includes both the windfall profits tax and the scheduled social security tax increase, as well as the new ones just announced. This measure of fiscal thrust would be only about one-third of its value in 1975, when substantial tax cuts were combined with sharp increases in expenditures for public works and public service jobs. Inflation is causing a further drag on the economy by raising effective tax rates (not included in Table 2)—this amounts to over $15 billion per year.

There has been much concern expressed over the potential effects of the defense buildup in the budget. In fact, after trending down for many years, real defense spending will rise at a about 4-1/2% annual rate during the next several years and will increase as a share of GNP after many years of decline. Much of the increase will be for military weapons and hardware, including new missiles, and for transport planes to increase armed forces mobility.

The currently planned defense buildup should be put in some perspective, however, in order to assess its impact on the economy. First, because defense spending is now only 22% of the total Federal budget, and about 5% of GNP, these increases are not significant enough to dramatically alter the outlook for economic activity or inflation, although some bottlenecks in certain industries are likely to occur. Because of a sharp increase in orders for commercial aircraft, the aerospace industry is operating at very high utilization rates, and is being plagued by a shortage of skilled workers. Furthermore, shortages of some metals such as titanium and cobalt will be aggravated by the defense buildup, but the impact on the overall inflation measures will be small. Secondly, as discussed earlier the budget contains very modest increases in spending for most nondefense categories. Thus, the total increase in Federal expenditures will still be relatively modest. Third, the expected buiildup is small in relation to the massive

buildup during Vietnam, which involved a 36% increase over three years in real outlays. Furthermore, many "great society" programs were also being enacted at that time, pushing up other categories of the budget, and the economy was already booming in response to the 1964 tax cut. This time, we expect the rise in defense spending to take place while domestic demand is falling, and, as mentioned, other programs are cut back. Thus, the inflationary consequences will not be nearly as severe as during the Vietnam period. Should the buildup greatly exceed what I have included in the forecast, the implication for the economy could be different, however.

C. Outlook

1. Inflation

The Administration is clearly banking on a recession to bring down the rate of inflation and interest rates. During 1980, however, the new program will significantly add to inflation by raising gasoline prices and interest rates; the total effect on the CPI will be about 1% by year end. And the modest cuts in federal spending which we expect will have virtually no direct effect on reducing inflation in 1981—they amount to about 1.5% of the Federal budget, 2% of new credit demands, and 0.3% of total debt outstanding.

As measured by the CPI, the inflation rate will average about 17% in the first half of this year, before falling to about 11-1/2% in the second half. A peaking in mortgage rates, and relatively stable refined product prices, will be the major factors behind the improvement.

As evidenced by the enormous increases in producer prices and consumer prices in January and February, the near-term outlook for inflation had already worsened even before the program. The deteriorating outlook is the result of:

1. The last round of OPEC price increases, triggered by the Saudi Arabian increase to $26 per barrel;

2. Higher gold, silver, and other metals prices, which are feeding into various finished goods, although this is now being reversed;

3. The current upsurge in interest rates, in part triggered by the Fed's increases in the discount rate, which will raise business costs and mortgage rates;

4. Heavy rains in California, which apparently have damaged the fruit and vegetable crop (California accounts for nearly 40% of the nation's vegetable output), and frost in Florida, will cause food prices to start rising after being steady recently;

5. Price increases in anticipation of wage and price controls.

Furthermore, longer-term prospects are not very favorable either—even after mortgage rates peak and the bulk of OPEC-induced increases feed through increase in the CPI will likely be in the 10%-11% annual rate range because of underlying unit labor cost trends (in part due to declining productivity) and domestic oil price decontrol. The CPI is now expected to rise by 14.6% in 1980 and 11.1% in 1981.

New and possibly more dramatic measures of Federal Reserve restraint cannot be ruled out in view of the prospects for inflation, especially if evidence of the recession does not soon develop. A vicious circle has developed, however, especially because of

the existence of money market certificates and the suspension of state mortgage rate ceilings. Measures which push up interest rates in the short run lead to large increases in mortgage rates and thus adversely affect the CPI. This then leads to more tightening, and so on.

2. Real Output

The President's latest proposals will add a significant amount of additional restraint to the economy at a time when the following recessionary forces are already at work:

(1) Real income continues to decline very sharply; for example, total personal income rose by only 0.3% in February before adjusting for inflation. Furthermore, the recent decline in the prices of homes and financial assets has eroded household wealth. Thus, consumer spending has lost its last crutch.

The saving rate has already stabilized in recent months, a pattern I expect to continue for the rest of this year, which implies large declines in real household spending because of declining real income.

Several reasons can be offered to support this forecast of the personal saving rate. First, it is possible that the recent and expected increase in joblessness (especially that part caused by layoffs) could further erode consumer confidence and cause retrenchment by raising concerns over job security. Second, existing home prices have dropped during the last several months, after rising sharply during the prior several years. This is reducing potential capital gains income, which was a major (and growing) source of household saving. Furthermore, sales of such homes have been very erratic in the last year, but have dropped off very sharply in the last three months. Thus, actual cash being raised from capital gains on home sales (to the extent they exceed the downpayment on a repurchase) is falling; this had been a signficant source of spendable cash previously, and helped reduce reported saving rates. Finally, the weakening in new housing construction and in the turnover of existing homes will reduce demand for furnishings and appliances relative to income. Third, the 15% decline in stock prices, and an even larger one in bond prices, has significantly reduced household wealth and potential capital gains. Fourth, the new credit restraints, although the effects will be modest, will also work toward raising the saving rate.

(2) The housing market is in the early stages of a massive decline fueled mostly by the explosion in mortgage rates which will carry new starts below 1 million units by summer. Carrying charges on a typical home are now more than twice as much as only two years ago, so that many families are being priced out of the market even when funds are available. As mentioned earlier, the leading indicators of housing activity, including mortgage commitments, housing starts and permits, and deposit activity at the thrifts, have all been very weak lately.

(3) The rising dollar, and slower growth overseas (caused mostly by inflation and tighter policies) will slow export growth.

Recent performance of the stock and commodity markets suggests that the recession wolf is finally coming. In many ways, the current situation is reminiscent of that in the fall of 1974. Copper and other metals prices, after rising sharply earlier that year, were in the midst of a steep decline. Economic policy was focusing on inflation—

the Economic Summit at that time produced numerous suggestions for tax increases and other anti-inflationary policies (including WIN buttons), just when recessionary forces were building rapidly. And interest rates (and business borrowing) were in the late stages of a steady advance.

Despite these similarities, the recession this time will likely be far less severe than in 1974-1975. Inventories are considerably more lean--inventory/sales ratios have actually come down in recent months. Spending for energy research and development, for auto downsizing, and for military and commercial aircraft, will prevent capital spending from falling at anywhere near the 17% decline (in real terms) which occurred during that recession.

Following a relatively flat first quarter, real GNP will drop sharply in each of the next two quarters, and by 1.3% for the year as a whole. Unemployment will rise to over 8%.

Once this recession ends, I expect a very modest recovery to begin, with a rate of growth far less than we have experienced following prior postwar recessions. After the six postwar recessions thus far, real GNP increased by an average of nearly 8% during the first year of recovery and generally continued to rise very strongly during the second year of expansion. After this recession, however, I expect only a modest recovery, with real GNP rising at only about a 2-1/2% rate (see Table 3). First, OPEC is unlikely to permit oil prices to decline as they did in 1975-1976 when a glut developed. Most OPEC countries are eager to lower production for technical reasons. Thus, OPEC revenues will continue to rise, instead of falling sharply as they did in 1975. Furthermore, it is impossible for OPEC to continue to expand their imports at the 35% rate of recent years, given the relatively low population of many OPEC nations. And recent events in Iran have slowed their development plans even further. The significance of expected OPEC behavior is (1) that oil prices will hold up better than in 1975-1976, causing more inflation than at that time; (2) less OPEC import growth means less export growth for the U.S. and other countries; and (3) the resulting large current account surplus will likely lead to more conservative policies among industrialized countries in order to reduce corresponding deficits (see Table 4). All of these factors will slow economic activity in the U.S.

Second, the combination of rising OPEC prices, domestic decontrol and continued poor productivity growth will prevent inflation from falling to the 6% rate which we experienced following the last recession--it is unlikely that inflation will fall below 10% at any time in the near future. As a result, real income per employee will remain depressed and not rebound as in 1975 (see Figure 7). With weak real income, a record low saving rate, and a very high debt burden, households will not be in a position to sharply increase expenditures. Third, as discussed earlier, current budget policies are not highly stimulative, unlike the situation in 1975 (see Table 2), and short-term rates will still be relatively high by historical standards. All of these factors will combine to keep the recovery very modest for several years.

A summary of the forecast is shown in Table 5.

II. Major Policy Issues

Given the uncertainty regarding both the economic outlook and the world political situation, it is prudent for the Administration and the Congress to wait before adopting

more stimulative policies. Should the economy hold up better than forecast, or if large defense expenditures are required because of world turmoil, fiscal stimulus may be unnecessary.

If the recession does develop as I expect, however, I would favor a package of tax reduction to stimulate the economy, even though it would increase the size of the deficit. Tax reductions are preferable because of the difficulty in curtailing spending programs in subsequent years, and because new spending programs would increase the size of government. I do not view a rising deficit during a period of slack and rising unemployment as inflationary. Furthermore, the current inflation is heavily dominated by cost factors rather than excess demand—expenditure cuts or tax increases would have little effect on slowing this type of inflation.

I suggest that any tax reductions be based on the following criteria:

a. A large portion should be aimed at households to offset some of the loss in purchasing power currently taking place, especially that part due to the increase in effective tax rates caused by inflation;

b. One-third or more should accrue to corporations in a way that would best promote capital spending and improve productivity. In my judgment, a reduction in useful lives which would result in faster write-offs for capital goods is the best method of achieving this objective. Accelerated depreciation is advantageous because it gets directly at the problem of underdepreciation in an inflationary environment; it would make the U.S. more competitive relative to most other industrialized countries, who generally have shorter write-off periods than we do in the U.S.; and it would affect the rate of return on new investment directly. I believe accelerated depreciation is preferable to measures designed to increase household savings, since increases in such savings do not automatically result in more capital spending. In fact, by reducing consumer spending from already weak levels, and causing a larger buildup in excess capacity, such policies may actually discourage capital spending in the environment expected during the next several years. A weak economy with substantial excess capacity has historically always caused a decline in capital spending, because the expected return on new investment prospects falls sharply. Despite very high saving rates in Japan and most European countries, capital spending actually declined during the mid-'70s because of substantial excess capacity. Furthermore, the U.S. personal saving rate was also low relative to other countries all during the 1960s, but investment spending rose sharply, reflecting strong growth in demand, and high utilization rates.

   The recession this year will lower the expected rate of return on new capital spending projects, as will the increase in energy costs, and the recent increase in the price of capital goods. Policies designed to stimulate capital formation should be aimed at offsetting the adverse effect of these factors on expected profitability.

c. A reduction in cost-related taxes, such as payroll taxes, would be ideal in the current environment because it would reduce some of the cost pressures that are perpetuating the current inflation. In my view, increases in cost-related

taxes, and other federal programs which have raised business costs, have had a far bigger impact on inflation in recent years than Federal spending, or the Federal deficit. A reversal of this pattern would be both stimulative and anti-inflationary at the same time.

The ideal package of tax changes to meet these criteria would be a personal tax cut, accelerated depreciation on newly purchased capital goods via a uniform reduction of existing useful lives, and a rollback of the social security tax increase scheduled for next year. Removing Medicare from the trust fund, or earmarking windfall profits tax revenues to finance social security benefits, would ease the burden on the trust fund.

One big risk in the outlook is that wage rates could accelerate sharply in response to last year's inflation and reduction in real incomes. This would prevent even the modest improvement in inflation that I now expect. Thus, I believe serious study should now be given to the use of tax-based inflation policies in the years ahead. Rewarding those who hold down wages and prices by providing matching tax cuts would not only slow the wage-price spiral but would also inject stimulus into the economy whenever required.

With respect to energy, the President's 10¢ per gallon tax will reduce gasoline consumption by only 100,000 barrels per day. This would reduce our oil import bill of about $90 billon by only about $1 billion, and amounts to 0.3% of OPEC output. Thus, a much larger increase or gasoline rationing, would be needed to have any significant effects.

While I strongly applaud the efforts in the congress to reduce Federal expenditures where possible, I cannot support any legislation that would determine Federal spending based upon some inflexible rule such as as a fixed ratio to GNP. The current debate concerning Federal expenditures overlooks a significant change in the prior trend during the last several years. Federal expenditures as a share of GNP have declined in each of the last four years, by a total of about 2 percentage points, from the peak in 1975. In several of those years, actual expenditures were actually below budgeted levels. In part, this reflects the new Congressional budget process which has helped stop the proliferation of many new spending programs, as had been the case during much of the prior ten or fifteen years.

It is true that the ratio of Federal expenditures to GNP has begun to rise again and will likely continue to rise during the next year or longer. There are two major reasons for this. First, about one-third of the Federal budget is now indexed (mostly to the CPI) and much of the remainder is also directly affected by inflation. In fact, because of the impact of imported oil prices and rising mortgage rates on the CPI, it appears that the cost of government programs is now accelerating more rapidly than the price of domestically produced goods and services—this is exerting upward pressure on the Federal expenditure/GNP ratio. This is occurring despite the absence of any major new federal programs. Significant cutbacks in other programs would be necessary in order to meet a legislated ratio, but a better solution to the problem would be to eliminate indexing, or alter the indexation formula. Retirees and other recipients of government transfers are now receiving far better cost-of-living protection than most workers, as evidenced by recent wage increases.

Second, the ratio of Federal expenditures to GNP almost always rises during recessions, reflecting increases in anticyclical programs and the decline in private

production, and will do so in the recession that is now beginning. This legislation would require significant cuts in government spending just at the time when stable or rising Federal expenditures may be necessary to provide some cushion for the economy. This would likely significantly aggravate the recession. Any assessment of the performance of these automatic stabilizers would have to conclude that they have been one major factor in limiting the severity of U.S. recessions in the last forty years.

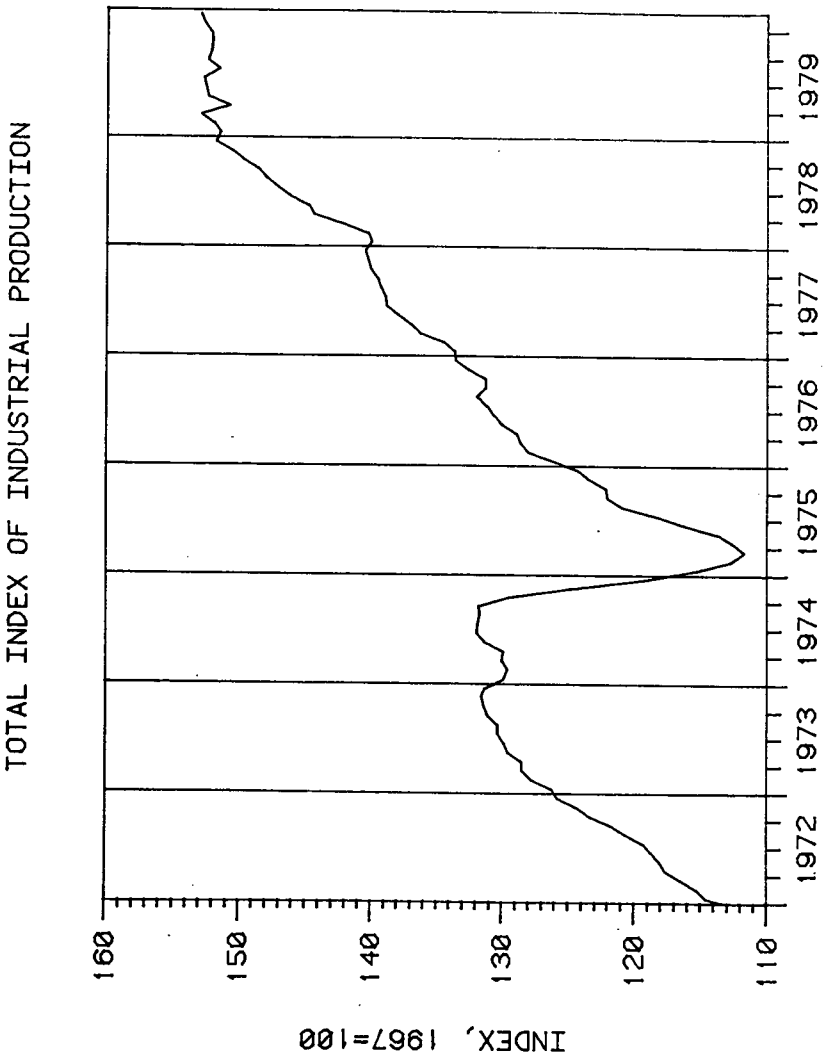
In sum, while I do favor cuts in the budget where possible, I cannot suport any legislation that either does not address the basic factors which are affecting Federal expenditures, or reduces the flexibility of the Congress to use budget policy to impact the economy. It must also be pointed out that budget cuts and/or a balanced budget will have only a minimal effect on inflation in the current environment.

Only a comprehensive program of reducing government regulations and other programs, cost related taxes, slower growth in government spending, stronger energy policies designed to reduce dependence on OPEC (and therefore protect the dollar), accelerated depreciation and other incentives to speed capital formation, and more creative incomes policies will significantly reduce inflation in the long run. No single policy, by itself, will be successful.

Several arguments are now being used in support of wage and price controls. First, the economy is far more indexed than ever before, making a slowing of inflation by traditional methods more difficult. In fact, as discussed previously, very tight money will likely aggravate inflation in the short run. Second, the increase in the number of two-income households, and the widespread availability of unemployment benefits and other transfer payments, have reduced the sensitivity of wages to economic activity. Thus, as a result, only a massive and unacceptable rise in unemployment would result in a significant easing of inflation. And finally, inflationary expectations are so widespread that only a dramatic new policy could significantly reduce them.

Any controls program, to be effective, would have to be relatively short-lived (two years or so), be very simple, contain few exceptions, and be accompanied by both some slack in the economy and fairly retrictive policies.

Figure 1


TOTAL INDEX OF INDUSTRIAL PRODUCTION
INDEX, 1967=100
160
150
140
130
120
110
1972
1973
1974
1975
1976
1977
1978
1979

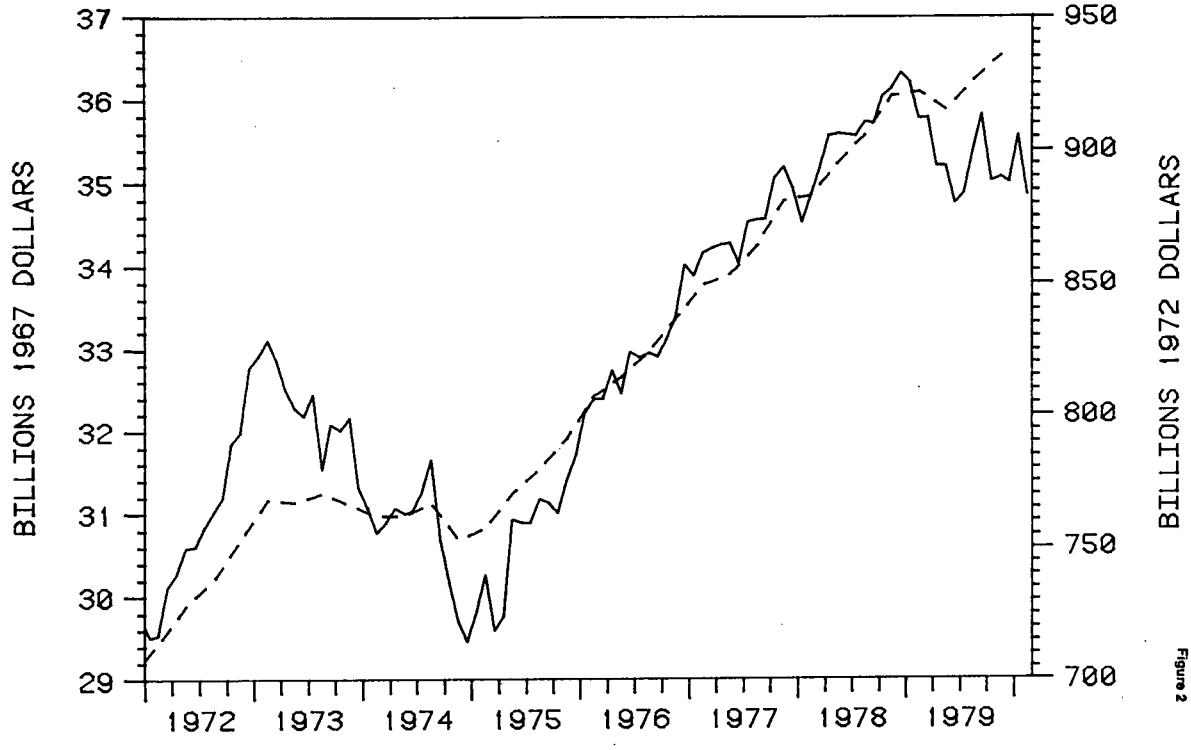
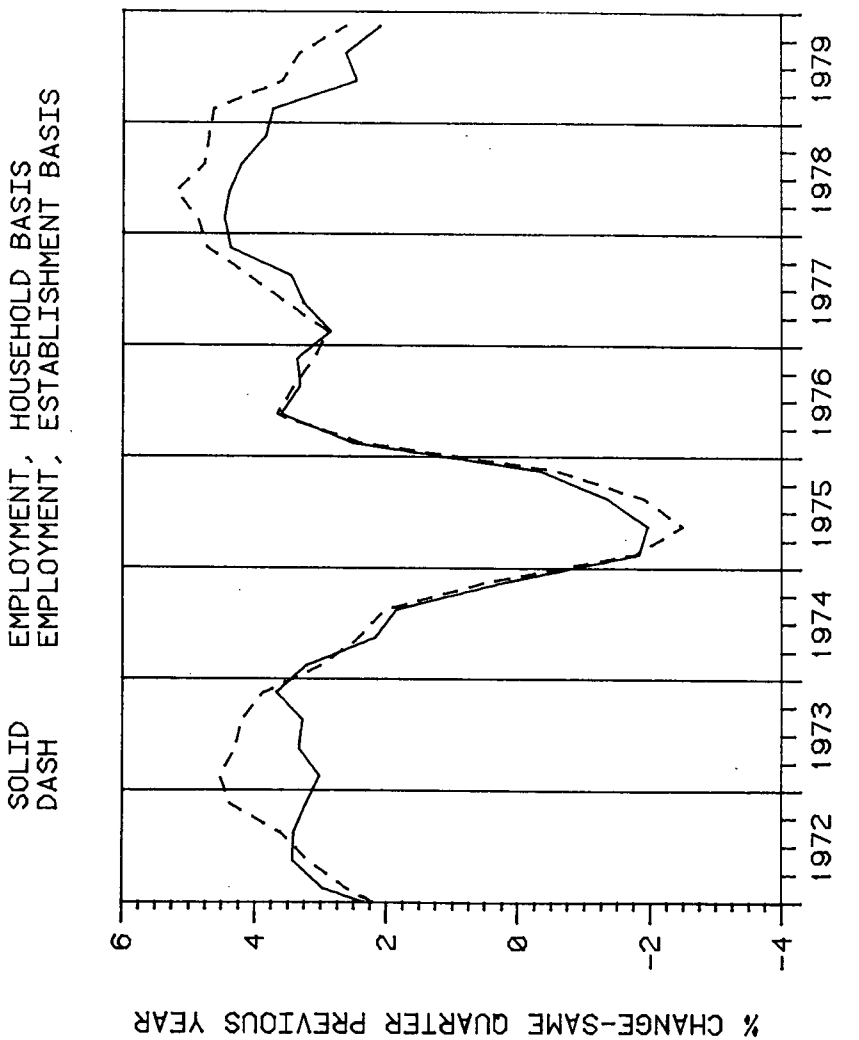

SOLID,LEFT AXIS TOTAL RETAIL SALES
DASH,RIGHT AXIS TOTAL PERSONAL CONSUMPTION EXPENDITURES
BILLIONS 1967 DOLLARS
BILLIONS 1972 DOLLARS
37
36
35
34
33
32
31
30
29
950
900
850
800
750
700
1972
1973
1974
1975
1976
1977
1978
1979

Figure 2

Figure 5


SOLID EMPLOYMENT, HOUSEHOLD BASIS
DASH EMPLOYMENT, ESTABLISHMENT BASIS
% CHANGE-SAME QUARTER PREVIOUS YEAR
6
4
2
0
-2
-4
1972
1973
1974
1975
1976
1977
1978
1979

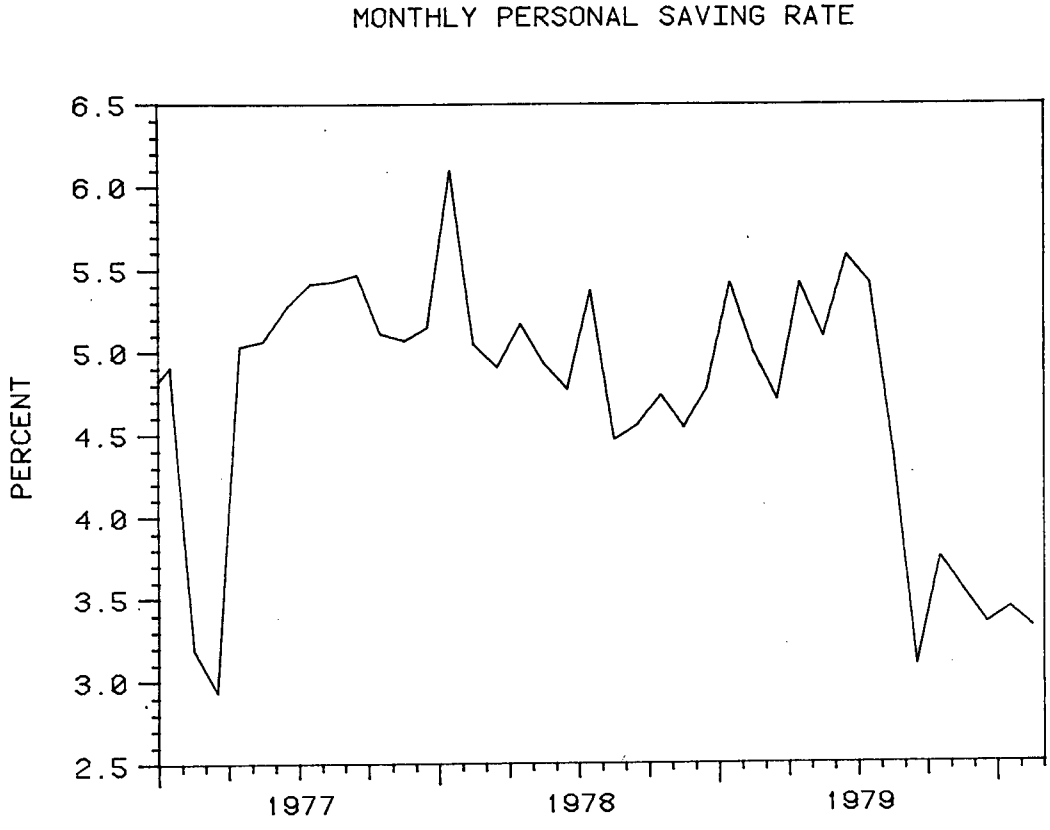

MONTHLY PERSONAL SAVING RATE
PERCENT
6.5
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
1977
1978
1979

Figure 6

Figure 7

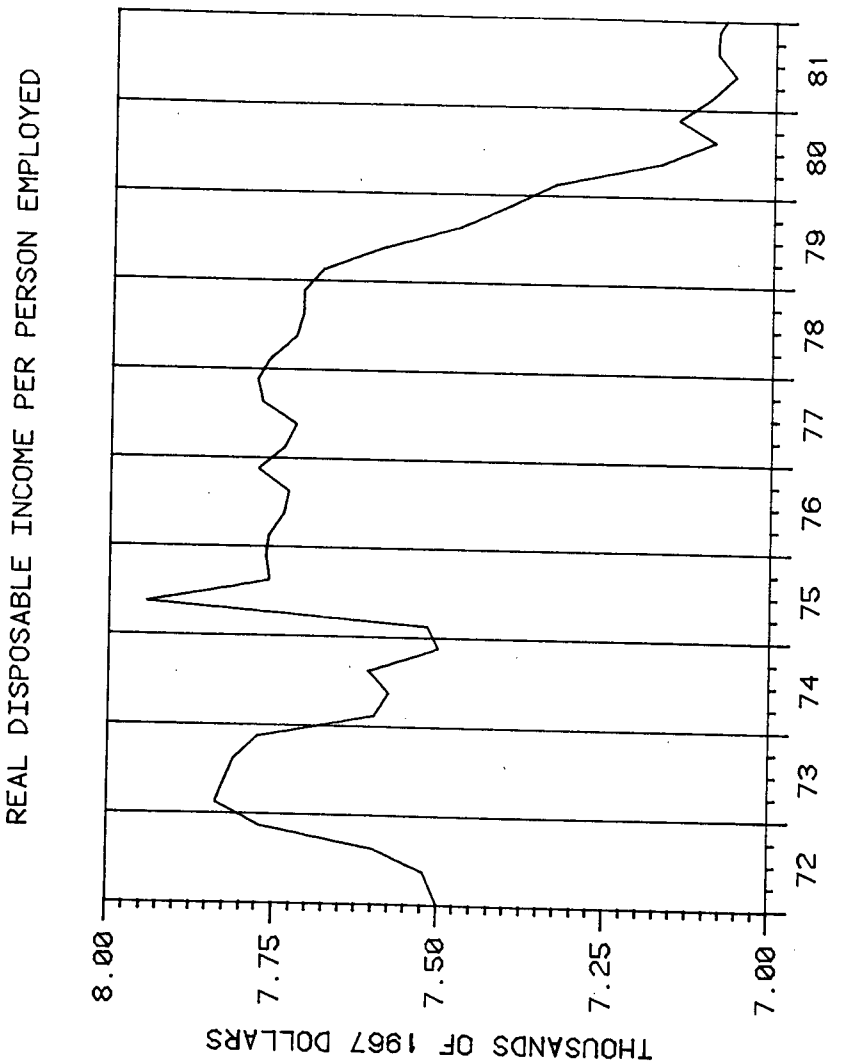

REAL DISPOSABLE INCOME PER PERSON EMPLOYED
THOUSANDS OF 1967 DOLLARS
8.00
7.75
7.50
7.25
7.00
72
73
74
75
76
77
78
79
80
81

Table 1
Personal Consumption Expenditures
(1972 $)

	Fourth Quarter 1978	Fourth Quarter 1979
Durables	152.1	146.0
New Autos	36.4	32.4
Other	115.7	113.6
Nondurable Goods	351.9	356.0
Food	168.6	172.4
Clothing & Shoes	76.4	79.7
Gasoline, Oil & Fuel Oil	34.3	30.5
Other	72.6	73.5
Services	416.3	433.2
Housing	153.7	163.0
Household Operations	59.1	61.4
Transportation	33.0	34.8
Other	170.3	174.0

Table 2

FISCAL POLICY

(BILLIONS OF DOLLARS)

CALENDAR YEAR	(1) CHANGE IN FEDERAL SPENDING, EXCLUDING UNEMPLOYMENT BENEFITS	(2) CHANGE IN FEDERAL RECEIPTS DUE TO TAX CHANGES	(3) (1) - (2)	(4) (3) AS % OF GNP
1969	7.8	11.4	-3.6	-0.4
1970	14.0	-8.6	22.6	2.3
1971	14.6	-7.3	21.9	2.1
1972	24.3	-3.2	27.5	2.3
1973	21.6	8.0	13.6	1.0
1974	31.9	3.2	28.7	2.0
1975	46.8	-15.3	62.1	4.1
1976	30.1	7.2	22.9	1.3
1977	39.7	-1.2	40.9	2.1
1978	41.3	3.2	38.1	1.8
1979	47.3	-6.6	53.9	2.3
1980	69.3	16.3	53.0	2.1
1981	66.6	29.3	37.3	1.3

Table 3

GROWTH -- REAL GNP --1ST YEAR AFTER TROUGH

RECESSION		% CHANGE
48:4 - 49:4		13.4
53:2 - 54:2		7.5
57:3 - 58:1		7.1
60:1 - 61:1		7.0
69:3 - 70:4		4.6
73:4 - 75:1		7.5
	AVERAGE	7.9%
80:4 - 81:4		2.6

Representative BROWN. Thank you, gentlemen. I hate to say this, but I disagree with almost all of you. I also agree with almost all of you—in all cases, in part.

Let me open up, Mr. Oswald, on you—not because you are in the middle, but because you are so traditional.

Could you tell me how many jobs are lost in homebuilding when housing starts fall from 2 million to 1.3 million a year?

Mr. OSWALD. The construction industry employs approximately 4 million workers. The housing industry is a major component of that industry. I don't have an exact figure to give you in terms of the housing drop. The unemployment rate in construction in February, the last month for which figures existed, was 10.5 percent.

Representative BROWN. Significantly higher than the national average?

Mr. OSWALD. Yes.

Representative BROWN. How many jobs are being lost in automobiles this year? Do we have any figures on that?

Mr. OSWALD. Approximately 145,000 workers on temporary layoff and approximately 50,000 on permanent layoff.

Representative BROWN. 195,000. Do you have a percentage of the industry?

Mr. OSWALD. The auto industry directly employs approximately 1 million. Those numbers are kind of difficult to relate. The numbers that one has for layoffs relate primarily to the major producers. It is much more difficult to get the exact figures for all the component producers. They are also heavily affected, and the impacts are fairly substantial in terms of the component producers as well as the primary producers.

Representative BROWN. There are a lot of little 10-men plants that are making gearshift knobs and things like that.

Mr. OSWALD. Glass plants and the like.

Representative BROWN. Not as rapidly as they used to. What about the steel industry?

Mr. OSWALD. The steel industry is also down. United States Steel has closed a number of plants. You mentioned earlier in your discussion the Youngstown impact—the United States Steel plant closing. That is just the latest of those closings.

Representative BROWN. Do you know the percentage of unemployment in those industries?

Mr. OSWALD. I can supply that for the record.

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

Unemployment, February 1980

	Percent
Construction	17.5
Automobiles	17.2
Primary metal industries	8.4
Fabricated metal products	8.3

Source: Bureau of Labor Statistics.

Representative BROWN. Isn't it true that workers' incomes—that is, real incomes after adjusting for inflation and after subtracting taxes—are down rather substantially in the last year; about 3 percent as I understand it?

Mr. OSWALD. The figures that came up this morning were 7.3 percent.

Representative BROWN. 7.3 percent worse off than they were this time last year?

Mr. OSWALD. Yes, on the average, for nonproduction workers in the total private sector.

Representative BROWN. Let me warn you. I'm setting you up here. What will happen to pension funds and social security systems if we don't return to some solid rates of real economic growth?

Mr. OSWALD. They will be in trouble, and I agree with Mr. Chimerine. I think it is important to realize that in the long run it is much more important to have the economy on a growth path than to cause a recession in hope that the recession will resolve inflationary problems.

If we don't have growth, then we will have substantial problems for the payments for pensions, for social security, and problems with bankruptcy and other factors.

Representative BROWN. A good many of the comments that you make in your statement seem to suggest the old classic approach—mandatory wage and price controls. A large bureaucracy is necessary to have that accomplished. I guess you are suggesting that it worked magnificently well under the last President that undertook them.

One would have to think that they worked well, or one wouldn't want to get into them again. Do you really think they worked then?

Mr. OSWALD. Congressman Brown, I do not suggest controls immediately. I did suggest controls may be an answer if nothing else is done. Controls have worked effectively in World War II and during the Korean war. I think they were slightly effective in the last administration, but there was not a commitment for full enforcement of that program, particularly on the price side, nor was there employed any large police force to assure compliance with that program.

Representative BROWN. I think the only place that guarantees full employment is the Government. You had a massive bureaucracy to administer the controls, and they worked for maybe 6 months to 1 year, and they certainly did not work after they were taken off. They may have taken the edge off of a peak for a brief period of time.

Once the controls were taken off, we had managed to take care of 4.1 inflation rates pretty effectively—we had the inflation rate up to 7.3 when we took the controls off.

Mr. OSWALD. Congressman, I think if you are concerned with the psychological impacts of inflation that the controls program would certainly be a much more effective means of taking care of that than balancing the budget and putting 50,000 people who now have jobs, out in the street. Don't try and cure inflation by abolishing the jobs of those who are now being trained under CETA programs. That would not be productive in terms of curbing inflation.

But if we put those 50,000 people to work on monitoring price changes and things, you might break the psychological impact of inflation.

Representative BROWN. I would say that the psychological impact on home buying of having to anticipate inflation is miniscule. I have the figure here for what the average interest rate was in the Washington area—16.3 percent on an average $80,000 house with a 30-year mortgage. That is going to cost about $1,060 for the individual on a

permanent basis in mortgage payments with principal and interest. Then you add $100 or so for taxes and $200 or so for utilities. That gets you up to about $1,300, $1,400.

Now, my guess is that it's a hell of a lot more impressive than psychology. You may go in feeling like $1 million, but if you don't have $1 million, a $1,400 a month rent can really take the socks right off of you, let alone the wind out of your sails.

It seems to me it is more than psychology. It is a real economic impact that makes the guy go home and say to his wife, "You better be happy where you are, because we don't have $1,400 a month." When I go to the boss and say I have to have my income doubled in order to pay for a new house mortgage, he may say:

You know I hate to tell you this, John, but we are going to have to lay off some people, and with your attitude, I think I have changed your spot on the list. It will go up a lot higher with reference to layoffs, because I think I can get somebody that might work a little cheaper.

Mr. OSWALD. Congressman Brown, I agree that inflation is much more than psychology, that high interest rates are clearly a problem. I would point out that the Federal Reserve has continuously raised the discount rate over the last 2-year period. In January 1978, the discount rate was only 6 percent. Today, with the new policies, it is effectively 16 percent. That has not curtailed inflation.

I think the high interest rates feed inflation and add to it. Under the previous inflationary period that Mr. Chimerine spoke about in 1974, the inflation rate reached a record at that point, 12.2-percent in flation rate, and yet the discount rate was never raised above 8 percent, half of where it was today. The tighter monetary policy is feeding inflation in terms of housing as well as in terms of corporations trying to expand or borrow for new productive elements.

Representative BROWN. Let me ask you a question. Is more money the answer? In other words, do we want to encourage Mr. Volcker to put it back on "go" and let the money come out of the end of the machine here in Washington? Or is the answer to get the Federal Government out of the borrowing business so that my builder back home can go to the bank and find that interest rates are not now 17 percent or so, but maybe, you know, that wonderful low level that we all would hope for, 12 percent, 10 percent, a rate which, I might add, was shocking 5 years ago. At least he would be encouraged maybe to borrow the money and put some people to work building houses.

Mr. OSWALD. If you look at the Federal debt rate of increase today, it is substantially less over the last 10-year period than any other borrower, either corporate borrower, State and local debt, mortgage debt, or personal debt. All have increased at substantially faster rates over the last 10 years than has Federal debt.

Representative BROWN. If you look at the rate of increase of the Federal Government as a percentage of our gross national product, you will find that, like a cancer, it has been taking more and more of the private sector's money to operate the Federal Government. It has gone up from something like 18 percent, back in 1964 or 1965, to something over 20, 22 percent today, moving toward 23 percent.

In 1964, the average worker in this country was better off than he is today, because now he pays higher taxes, his dollars are worth less, and

all of his costs are up. The result is that back when the Federal Government share of GNP was 18 percent, the average worker, your constituent and mine, was better off than he is today.

Now that the Government is borrowing more, spending more, cranking out more dollar bills that are worth a hell of a lot less, and now that the interest rate has run clear up there to the point where the homebuilder knows he can't borrow any money to get by, he has begun to dip into his savings, and now he is just about at the bottom of that barrel. The question is: Where do we go from there?

Mr. OSWALD. Congressman, I think it is important to look at what is happening to total debt and where most of the debt is coming from. It is not Federal debt that has been increasing most rapidly. It has been debt for State and local governments, for private individuals, and for corporations.

The relationship, in terms of GNP in relation to most other countries, the U.S. budget, as a percentage of GNP is substantially less than that of Germany or most other European countries.

Representative BROWN. France's is 20 percent; ours is 22, going to 23. I don't think that is substantially——

Mr. OSWALD. Germany's runs above 42 percent.

Representative BROWN. The Germans put a great deal more into savings and therefore have a great deal more money to finance that debt. That really is the answer.

We are winding up with perhaps not actually a shrinking but a relatively shrinking base of savings to finance not only our public debt, but our private debt.

The thing that occurs to me is that perhaps if we could increase the savings available for the financing of both public and private debt, and if we could level off the amount of public debt increase or the public debt that we have, then we could have an expansion of the capacity for private borrowing and growth. Then your folks and mine will have the opportunity to have those jobs that they need and perhaps we will then have them working with more modern tools than they have been.

I think our greatest problem is that we have not been keeping our industry modern enough. Certainly that would seem to be the case in the steel industry, where we just aren't competitive. It is because some of those plants that you talk about—that have been closed—have not been modernized since about 1916.

Ms. OSWALD. Mr. Brown, I think it is important that we keep our industries competitive and that we move in that direction, but I think that part of our policies and part of our actions result in trade policies that are not purely questions of competitiveness.

A year ago October, the ratio of the rate of the value of the dollar to the yen was 180 yen to the dollar. In spite of the fact that the United States has had a continuing trade deficit with Japan of a magnitude of approximately $8 billion, the value of the yen has not gone down, as theory would have, as would be expected, but actually increased to about 250 to the dollar today That means that the steel that comes in from Japan is nearly one-third cheaper than it was a year ago, just because of the change in the value of the yen, not because of the competitiveness of the steelworkers.

Representative BROWN. In other words, if we could inflate our dollar, then we would be better off.

Mr. OSWALD. No. I don't think it is a question of inflating the dollar. I think it is having it reflect more truly the trade relationships with the countries such as Japan.

Representative BROWN. I am having a little trouble with that. I think it might relate a little bit now to whether or not the Japanese plants are more modern than ours.

Mr. OSWALD. But a one-third change in the value of the yen in a year is a substantial change, and that is the rate of change that has taken place since October 1978.

Representative BROWN. That doesn't explain the superiority of the Japanese trade effort in steel for the last dozen years or so. It may explain an adjustment over the last few months, but it certainly does not take into account the fact that the market was not stolen in the last few months. It was stolen over the last few years, and it was stolen because the Japanese have modernized and we have not. I think Senator Bentsen quotes the statistic that there were 22 modern steel plants in the world and of these—and this comes from the text of "Japan As Number One," a book put out by Harvard Business School—half of them are in Japan. None of them were built in the United States. The other half of them are in other countries of the world. We are not maintaining our position.

Let me change the subject, or really continue the subject on another tack. It has been suggested that we need a new governmental national commission for the revitalization of America to deal with our fundamental economic problems. What are your views on a bipartisan commission?

Mr. OSWALD. I think that there is a commission established by the President, under the chairmanship of Mrs. Whitman.

Representative BROWN. Does anyone know if it is doing anything?

Mr. OSWALD. I think it was recently established and is just beginning.

Representative BROWN. Mr. Holt or Mr. Chimerine?

Mr. HOLT. I am not familiar with that particular effort. As I argued in my prepared statement, I think we really need to take a long-term view and look at some fundamental changes. Presidential commissions are often useful at that.

Mr. CHIMERINE. Congressman, I think I find it rather interesting that some of the people who are blaming much of the inflation on government—and to some extent, I think they are correct—are offering solutions which involve more government and more government commissions.

I think there are enough agencies and enough people in government that are looking at these problems so that we do not need another commission. I think part of the problem is the big difference of opinion on what correct policy should be. I don't see how another commission is going to be able to solve this problem.

Representative BROWN. Let me ask a question you may all wish to respond to. One economist says that the inflation is affected only slightly by traditional monetary and fiscal policies due to the inflexibility of wages. He attributes this to the prevalence of multiyear labor agreements, whose expiration dates are staggered over time, and to the wage catchup phenomena. Under such agreements, some work-

ers try, and frequently succeed, even during recessions, to restore or even improve their ranking in the wage structure.

To combat this inflexibility, he advances a new proposal outlining multiyear labor contracts. Do you have any position on that?

Mr. CHIMERINE. I will agree with the first part of your statement. I think that traditional tools for slowing the economy and producing recessions have a much more limited effect on inflation now than ever before, not only for the reasons you mentioned, but because of the existence of unemployment benefits, and the fact that in many families there are at least two people earning wages, so that if one person becomes unemployed, there is more income than previously was the case. I think all of the evidence supports that. Witness the 1974–75 recession. We had the worst unemployment in 40 years and the worst recession in 40 years; yet when we came out of that recession, inflation was still 6 percent.

I do not feel I should comment on labor legislation. My own personal feeling is that indexing, partly through cost of living adjustments in labor contracts, and partly through indexing government programs, has clearly made inflation worse in the United States by perpetuating the inflation cycle. In fact, every time we have an exogenous event, such as an oil price increase, it builds inflation into the system permanently.

So, from my standpoint, anything that can break that spiral, yes, would slow the long-term inflation rate.

Representative BROWN. Mr. Holt.

I will come back to you, Mr. Oswald.

Mr. HOLT. The impressive fact is that economists don't have a good answer to what to do about inflation. It is clearly the No. 1 concern of the American people.

The only sure-fire, long-term answer is to run up a high level of unemployment. As Mr. Oswald has pointed out, the costs, the social costs of doing that are tremendous. We really don't have adequate alternatives. We really need to understand the dynamics of the wage-price process much better than we do now.

We can get arguments on both sides of the issue of whether escalators contribute to inflation or to what extent implicit contracts do very much the same thing. One argument is that long-term contracts, because they respond more slowly to inflation, are anti-inflationary. There is a lot of empirical support for the point you made. When unemployment rises, the general economy is in a recessionary situation. Unions with strong bargaining power improve their relative positions.

Representative BROWN. Let me add one other bit of nastiness, Mr. Oswald, and then let you respond. In his prepared statement, Mr. Chimerine states, and I quote:

> Wage increases among union workers have outstripped those for nonunion workers in recent years. Furthermore, the provision of the guideline program that has permitted union workers to calculate cost-of-living increases at an assumed 6 percent rate in the last year has widened the gap even further.

Do you want to give me your views now on that bit of business?

Mr. OSWALD. Let me start with the question of where inflation is coming from. It is not coming from wages today. It is clearly coming in energy and interest rates and medical care, which are not related at all to wage changes. The development of long-term contracts——

Representative BROWN. Wait a minute. Medical costs are not related to wage changes?

Mr. OSWALD. Unless you include the fees of doctors and dentists, which have shown very rapid increases. I don't normally consider those wages, because in most cases they are so-called proprietary income. The development of long-term contracts really came from corporations as much as it did from unions, with a mutual desire that clearly said there needs to be means of trying to bring about more stability in industries.

Most other countries viewed the U.S. development of long-term contracts as a very good stabilizing influence on labor management relations.

The other basic reason a long-term contract developed was the desire to provide a mix of benefits besides just wage changes, including pensions, that you mentioned earlier. If all of that was done on a 1-year package on a continual basis, it would be, I think, more inflationary, rather than less.

Similarly, if you had to negotiate every year, there would be more of an attempt to try to catch up at the end of the year in terms of price changes than you have under the long-term agreements that we currently have. In terms of the rate of change of union versus nonunion wages in the past year or two, yes, I believe that most of the data indicate that there have been better increases for union workers than nonunion workers.

The data that we indicated at the beginning of the discussion are very clearly not the average of all workers who have suffered substantially from the inflation, and the average of all nonsupervisory workers over the past year is a decline of 7.3 percent in the real spendable earnings of workers.

Representative BROWN. We are trying to reduce the rate of inflation, but the President recently accepted an increase in the wage guideline of 7 percent per year to a range of 7½ to 9 percent per year.

First: Do you support this change? This is to all of you. What would have happened if he had rejected this recommendation?

Second: Some critics have suggested the range is likely to become a norm of 9½ percent. What are your views on this?

Third: The present president of the Communications Workers of America, who will open negotiations for 525,000 Bell System workers this summer, has announced his intention to seek settlement equal to the rate of inflation. Wouldn't such a settlement destroy the guidelines?

Mr. CHIMERINE. I do not support the change, because I think if wages accelerate as a result of the relaxation of the guidelines, all it will do is add more to inflation. Like any other cost, businesses attempt to pass labor costs on in the form of higher prices. That is my current concern about the inflation rate. I think it will subside somewhat later this year, but if wages start accelerating more rapidly in order to catch up for lost purchasing power, then that will perpetuate the inflation and make any reduction impossible.

I would support maintaining the guidelines at 7 percent, and I think any relaxation is just going to make bringing inflation under control more difficult during the next year or so.

Mr. HOLT. On the issue of distribution of income, I would agree with the President's action.

One, if he had tried to follow Mr. Chimerine's approach of continuing the constraints, I think they would have been irrelevant. They would have been patently unfair and unworkable. The program would essentially have dissolved even if they had worked under some very severe questions of an equity between the different parts of the economy when you have an inflation rate of 17 or 18 percent. You know, to try to hold the real income down—7 to 9 percent means another drop of real income of maybe 6 or 7 percent. To say the program has any validity at all, you would have to have it at this rate.

Mr. CHIMERINE. One of the things we are going to have to accept if the inflation is to be brought under some control is the fact living standards have to be reduced as a result of three or four developments that have taken place over the last several years.

First of all: Productivity is going down.

Second: Imported oil prices have risen by such an extent that the oil import bill this year will be $50 billion higher than 2 years ago. That is going overseas to the sheiks and shahs. They are not giving it back to us.

Third: We have oil price decontrol in the United States. All of these factors are perpetuating and generating inflation, and any attempt by workers to be compensated for that kind of inflation is impossible. The pot is shrinking because of these factors.

If workers are allowed cost-of-living adjustments to offset them, we will never bring inflation under control.

Representative BROWN. The next question is about the size of the pie. But Mr. Oswald, one quote from your prepared statement, then I would ask you to respond to both of these. You state: "The AFL–CIO is giving very careful and serious reconsideration to the commitments and responsibilities under the national accord."

Does this mean the AFL–CIO may withdraw its representation from the Pay Advisory Committee?

Also, you make no reference to the decline in productivity growth, but this is the only long-run source of growth in real wages per hour. I want to come back and ask you in a minute what your views are on productivity problems, but with reference to the question, the basic question about wage-price guidelines, answer, if you would, please.

Mr. OSWALD. In terms of the wage-price guidelines, the current reduction in real earnings is already 7 percent. The change in the guidelines reflects really the change of what took place and is substantially calling for greater restraint than when the 7 percent was established. Seven percent was established at a time when the rate of inflation was 8 percent. Today the rate of inflation is over 14 percent. So that the reduction in real earnings that is called for with the new guidelines is substantially greater than the rate of reduction that was called for 1 year ago.

So I think there is no question that instead of relaxation of the guidelines, substantial tightening of the wage guideline is set in terms of what those wages will actually buy, so that the new guidelines mean the workers will be able to buy substantially less than they could under the situation 1 year ago, when 7 percent was first established.

In terms of the participation of the AFL–CIO in the national accord and the Pay Advisory Committee, it was based on a willingness

of workers to sacrifice in terms of fighting inflation, provided the sacrifice was equally shared, and that it not be placed most heavily on those who are the weakest in our society.

It seems to be plain that the budget cuts fall heavily on the weakest in our society, in terms of saying that they are the ones who need to sacrifice in terms of fighting inflation. There have been substantial increases in profits over the past year. Some of the biggest profits have been by the oil companies, precisely where the biggest inflationary pressures are coming from. That does not seem to reflect an equality of sacrifice in terms of the inflationary impact on our society.

Representative BROWN. Let me just say, there is much in what you say that I agree with. I think you can't ask workers to take large real pay cuts, particularly those workers as you suggest, that are the least able in our society to adjust—the retired workers and those on fixed incomes.

However, the Government is taking care of the oil companies. We are going to tax all of that profit away from them. So it is not so much the oil companies, it occurs to me, as it is the Federal Government that is benefiting from all of these problems.

Now, the econometric models that I have seen have estimated that the impact on inflation of budget cuts necessary to achieve a balanced budget next year may be very minor. The administration's response to this is that the models have been very inaccurate recently and that—because they cannot register the considerable psychological impact of a balanced budget on the average citizen and how he responds to the inflationary pressures on him, they are very unreliable.

What are your views on this? Do you buy this, that if we can just break the psychology, if we made it all look like something is being done, that something in fact will be done and we will be making progress?

Mr. CHIMERINE. Congressman, I don't buy that, quite frankly. As a matter of fact, according to a poll which was reported in the paper this morning, I believe that 35 percent of the American public still does not even know that the President announced an anti-inflation program, let alone whether inflation will ultimately be affected by that program.

I don't think balancing the budget is a magic cure. It won't solve the inflation directly. As a matter of fact, Congressman, to be very blunt, I don't think the budget will be balanced. I think the administration has substantially underpredicted the inflation and the costs of social security benefits and other indexed programs. The cost of these programs will sharply exceed even the revised estimates that the administration is now cranking into the revised budget.

Second: As the economy weakens, as I think it will, that will reduce receipts and increase unemployment benefits. I doubt if there will be a balanced budget anyway, even if the Congress goes ahead and cuts 10 to 12 billion out of spending for fiscal year 1981.

Mr. OSWALD. I agree with Mr. Chimerine. The notion that Mr. Ford, for example, got a $66 billion deficit in 1975–76 had nothing to do with his concern with inflation. That deficit was a result of a recesssion. I am very fearful that we will have a severe recession that Mr. Chimerine spoke about. If the administration and Congress per-

sist in cutting the budget or balancing it, that will precisely do what Mr. Hoover did in 1930 in terms of aggravating a recession and pushing it further into a depression.

Mr. HOLT. I think the alternative to not communicating with the American people that the Government is going to do something to really stem the inflation, is going to contribute to the continuation of the inflation problem. I am not optimistic that the symbolic value of a balanced budget is going to accomplish a great deal. Indeed, under the circumstances, if we were really serious, we would be shooting for a rather sizable surplus.

In order to not have the burden of fighting inflation fall on the autoworkers, the construction industry, steel industry, we would need to have an across-the-board tax increase. That would be symbolic.

Representative BROWN. Did you say increase?

Mr. HOLT. Yes; I said a tax increase. I don't see that as in the cards at all.

I am just as concerned as anybody at this table at the costs of increasing unemployment, but I don't hear any suggestions as to how we are going to stop inflation.

Representative BROWN. Can I ask you how the tax increase would help the steelworkers in Youngstown?

Mr. HOLT. Currently they are fighting inflation alone. If every taxpayer in the country saw his taxes going up in this very adverse situation, it would get his attention.

Representative BROWN. Yes, it would. I really think you have something there.

Mr. HOLT. A large part of the inflation problem is the expectation of its continuance. Once you get inflation rolling, the expectation of continuing inflation feeds continuing inflation. If we are going to stop this process, we have to interrupt the cycle. A tax incentive is one approach to putting friction in the gears of the wage-price change process. The surefire way that will work if we stick with it long enough, is to keep unemployment up for a period of years. If we don't, as Mr. Russell was saying, we are looking at a decade of continuing inflation. In other words, the process is simply going to continue.

Representative BROWN. Let me cover what I think is the climax question. Without doubt the workers are suffering. Even those who are working are suffering. Those who are not working are suffering even more, presumably. Those who are retired and living on fixed incomes are suffering because the value of those earned retirement benefits are going down. They can't buy as much. They can't increase their income, because they can't get in with Mr. Oswald's groups and negotiate higher wages in many cases; and taxes go up for all who get increased incomes, and taxes go up for all those who are on fixed incomes, too, because everything costs more and the infrastructure of our society passes on all of those additional costs to them.

It seems to me that one of the fundamental problems is the question of productivity, and you suggest a tax increase to take care of that. I think that would really take care of it. I think that would slit the throat of productivity even more than it has been damaged already.

What policies do you recommend to stop the sharp deterioration in our rate of productivity in this country?

Mr. CHIMERINE. I think I offered a few suggestions. I think the way we stimulate productivity in this country, first and foremost, is to not adopt policies that will produce a massive and prolonged recession. Historically, that always causes a sharp decline in capital spending. If you don't invest, you don't turn over older, less efficient equipment with newer, more efficient equipment, and you don't get productivity growth.

I think we want to have an economic situation that is not allowed to deteriorate too rapidly, like it did in 1974–75. I am not suggesting we keep a boom going, but we don't want a lot of unused, excess capacity.

Second: When we enact tax cuts, significant portions of them should be in the form of accelerated depreciation, primarily because accelerated depreciation will directly increase the expected rate of return on new investment projects. It offsets some of the forces that are reducing the return on new capital spending projects, like higher energy prices and higher capital goods prices, and higher interest rates. It will make us more competitive with European countries. Most European countries, and the Japanese as well, have far shorter writeoff periods than we do in the United States. In fact, they currently expense some kinds of capital goods, while we depreciate them over long periods.

It also gets directly at the problem of underdepreciation in an inflationary environment. So from every standpoint, I support accelerated depreciation as one method to stimulate capital spending, provided it is in an environment where the economy is doing reasonably well. The best example, Congressman, I would use is 1962–63. We adopted an investment tax credit and we adopted accelerated depreciation during that environment when the economy was doing well, when utilization rates were high. So it stimulated more capital spending, more productivity growth. That is the kind of policy I would suggest, if you combine that with reducing business costs and cutting back on Government regulations and some of the other programs that are increasing inflation. I think in the long run that would be the best approach toward stimulating productivity and reducing inflation.

Representative BROWN. Mr. Oswald will say to you, and I will too, that that is good for business; but what about the working stiff who is going to get a job in that plant? What do you do for him?

Mr. CHIMERINE. In stimulating the economy, you get both more productivity and more jobs. The most successful periods we have had in the United States were periods when the economy was growing rapidly enough to support increasing both productivity and employment. We experienced strong growth in the 1960's in productivity and the unemployment rate was 3½ to 4 percent during much of that period. That is not contradictory. You can have both simultaneously with the right kind of policies.

Mr. OSWALD. Congressman Brown, I personally agree with Mr. Chimerine and partially disagree. In terms of the growth, I think that is essential. You will not have productivity unless you have growth in the economy, and the biggest single item that cuts productivity substantially is the serious recession. It takes a long time to turn that around. I am afraid our current policies are heading precisely in that direction.

Representative BROWN. You agree in that area with Mr. Chimerine?

Mr. OSWALD. Yes. I disagree that accelerated depreciation is the single and the only area that one can use to achieve increased productivity. Depreciation needs to be related to the useful life. There have been some moves currently by the administration already in changing useful life on a couple of items, including the steel industry and its depreciation, and I think that is a good way to move in terms of having it related to useful life; but I think the important elements that relate to our decline in productivity has been the decline of our economy away from goods-producing industry to more of a service industry. To the extent that we lose our productive capability in relation to foreign countries, we lose the high productivity areas of our economy to others and we shift more and more to lower productivity sectors. I think we need to change some of that emphasis.

Also, one of the very important elements of productivity is just the capability of the workers. We need to expand our manpower training in order to make workers more productive. It is an important element in terms of providing the sort of increases in productivity that comes both from machinery as well as people who know how to use that machinery well to increase productivity, and who just know how to do things better.

I think it is a combination of all of those things.

Representative BROWN. Would you also agree that it is more productive for the worker, getting an overtime opportunity, to go ahead and take it, because he gets to keep a better hunk of it?

Mr. OSWALD. I don't think so. Most of the studies indicate that long overtime hours decrease productivity because of fatigue and other things. With the high unemployment problems today, I think it is a matter of encouraging more employment opportunities. We lose more productivity by people not working at all. That is the biggest loss of productivity, because they are not producing anything.

Representative BROWN. That turns me to an argument about minimum wage. When working overtime puts you in the 50-percent tax bracket, you may say: Well, to heck with it. I don't want to do the overtime work. Why should I work half the time for somebody else to get the benefit?

I am suggesting the possibility that one of these programs to stimulate more productivity might very well be not tax increases but a tax cut—in effect, a tax cut for the individual so that he will invest either his time or his money or his effort in something because he knows he will get a better return on it.

Does that make sense?

Mr. OSWALD. I think we do part of that in terms of trying to encourage people to increase their training while they are on the job where work-related training is currently a tax deductible item.

Representative BROWN. Reduce taxes.

Mr. OSWALD. But we already do that, Congressman. We do say that education expenses related to improving a person's ability to perform a job is a tax deductible element.

Representative BROWN. What if we gave him a tax deduction for saving money, for putting money into an investment account of some kind, a savings and loan account, some stock, or a rental house?

Mr. OSWALD. You already do that, put big increases in the amount that currently is deductible, in the windfall profits tax that just passed. Those figures have already been doubled with eventual losses to the Treasury without any real impact, I don't believe, that would be forthcoming in terms of the savings rates that are related thereto.

Representative BROWN. You wouldn't want any more?

Mr. OSWALD. No.

Representative BROWN. You wouldn't want any more tax benefits for the average income person?

Mr. OSWALD. I would think if I spent an hour working and earned $5, that I shouldn't pay a higher tax on that than if I got $5 from interest income. It's all income.

Representative BROWN. Would you be willing to take the same tax on both incomes?

Mr. OSWALD. Currently the same tax applies until your income is over $50,000.

Representative BROWN. No, it doesn't really, because currently for the average individual who makes $20,000, the tax rate varies from 14 percent up to about 24 to 28 percent. Then if he has an investment income, you add that to the top and he pays 28 percent on that investment income.

Mr. OSWALD. To the top or to the bottom?

Representative BROWN. I would suggest another approach, and that is that you might take that investment income off and start at the 14 percent so that he could get the same tax break—the average income person could get the same tax break as the rich person now gets by being able to take his high income and invest it in a capital gain, a gold brick, or an oriental rug or something like that.

Unfortunately, not many of those things are made in this country, but if the average income worker could take his investment income back down to 14 percent, then he might be encouraged to put it into an investment, and that might help make jobs for his kids and might help him put something aside for his youngster's college education.

Mr. OSWALD. Congressman, there would be a substantial shift in the incidence of tar in our country away from the wealthy toward poorer people.

Representative BROWN. You are for that?

Mr. OSWALD. No. I think that the wealthy have the greater ability——

Representative BROWN. There wouldn't be a substantial shift in tax.

Mr. OSWALD. Yes. The tax incidence. Let us take the person with $50,000 in earned income who then is paying, as your example would be, a marginal tax of 50 percent on unearned income, and they have the greatest amount of unearned income, that you would be starting them all over again in terms of the rate at which they are paying tax on that additional income.

Representative BROWN. Let me say two things. It is the poor that bear that burden, because they don't get the jobs. The unearned income or high income man can put his money in land and wait for the capital gain, or put it into gold and speculate in some other way, and get a substantial return.

What I am trying to suggest is that you give the middle and average income person a chance to have his tax reduced by encouraging him to put something into investment income, which might help create a job for his kids.

Mr. OSWALD. When Congress just enacted the doubling of the amount that is tax deductible on the windfall profits tax, they did not limit that deduction to low income people. They provided that deduction for everybody, regardless of their income.

I think we have policies that shift the tax burden, then, to the poor rather than the wealthy.

Representative BROWN. I am going to try to shift it away. I want you to look at that as a possibility.

Gentlemen, it has been fine hearing you. I trust you have had a chance to exercise your views, and maybe I have exercised a few of mine.

We will call the hearing to a halt at this point.

[Whereupon, at 12:44 p.m., the committee adjourned, subject to the call of the Chair.]

Fortunately, there was some good news in the March Consumer Price Index. Gasoline and heating oil prices rose less than in January and February, and new-car prices leveled off, but food prices went up again. Clothing prices went up much faster than in any recent months, and home ownership costs, largely mortgage interest rates, continued to skyrocket.

At this point, without objection, the press release entitled "The Consumer Price Index—March 1980" will be inserted in the hearing record.

[The information referred to follows:]

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Tuesday, April 22, 1980

THE CONSUMER PRICE INDEX--MARCH 1980

The Consumer Price Index for All Urban Consumers (CPI-U) rose 1.4 percent before seasonal adjustment in March to 239.8 (1967=100), the Bureau of Labor Statistics of the U.S. Department of Labor announced today. The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) also increased 1.4 percent before seasonal adjustment in March to 239.9 (1967=100). The CPI-U was 14.7 percent higher and the CPI-W was 14.6 percent higher than in March 1979.

CPI for All Urban Consumers (CPI-U)--Seasonally Adjusted Changes

On a seasonally adjusted basis, the CPI for All Urban Consumers rose 1.4 percent in March, the same as in January and February. During the 3 months ended in March, the CPI-U rose at a seasonally adjusted annual rate of 18.1 percent. This compares with increases of about 13 percent in each of the 4 quarters of 1979. Food and beverage prices advanced sharply in March, following 2 months of very little change. The index for apparel and upkeep also accelerated in March, increasing 2.0 percent. The housing component of the CPI rose somewhat more than in February as a smaller increase in household fuel prices was more than

Table A. Percent Changes in CPI for All Urban Consumers (CPI-U)

Expenditure category	Seasonally adjusted								Unadjusted
	Changes from preceding month							Compound annual rate 3-mos. ended	12-mos. ended
	1979				1980				
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Mar. '80	Mar. '80
All items	1.2	1.0	1.0	1.2	1.4	1.4	1.4	18.1	14.7
Food and beverages	1.0	.8	.7	1.4	.1	0	1.0	4.3	7.4
Housing	1.3	1.4	1.3	1.4	1.4	1.4	1.6	19.5	17.0
Apparel and upkeep	1.3	.3	.3	.6	.9	.6	2.0	15.3	7.1
Transportation	1.3	.8	1.2	1.4	3.1	2.8	1.7	35.2	23.0
Medical care	.8	.9	.9	1.1	1.3	1.5	.9	15.9	11.2
Entertainment	.5	.6	.5	.2	1.0	1.2	1.3	15.0	8.5
Other goods and services	1.5	.2	.3	.7	1.1	1.0	.5	10.6	8.4

(Data for CPI-U are shown in tables 1 through 3.)

offset by a sharp increase in mortgage interest rates. The transportation component rose noticeably less than in February as the rate of advance in gasoline prices slowed substantially. The medical care and other goods and services components also rose less than last month, while the entertainment index continued to increase about the same as in February.

The index for grocery store foods rose 1.1 percent in March, following declines in both January and February. The rise was primarily due to increases in the prices for beef, eggs, and fresh fruits and vegetables. Prices for sugar rose sharply for the third consecutive month. On the other hand, most other major components of grocery store foods registered more moderate price increases in March than in February. Prices of the other 2 components of the food and beverage index--restaurant meals and alcoholic beverages--rose 0.8 and 0.5 percent, respectively, about the same as in February.

The 1.6 percent increase in the housing index continued the sharp upward trend evident since early 1979. In March, home financing costs rose 4.5 percent, reflecting an increase of 3.9 percent in mortgage interest rates and 0.4 percent in house prices. The increase in house prices, the same as in February, was the second consecutive moderate rise following large increases in each of the previous 12 months. The index for household maintenance and repairs increased 1.7 percent, following a 1.5 percent increase in February. (The 12-month percent changes for five experimental measures of housing costs can be found at the end of this release.) In March, prices for household fuels rose 2.1 percent. Fuel oil prices rose 2.8 percent, following increases of over 5 percent in both January and February. The index for gas and electricity rose 1.9 percent in March.

Gasoline prices advanced 3.9 percent in March, substantially less than in January and February. Prices for other petroleum products, such as motor oil and coolant, rose substantially--2.0 percent--in March. Prices for new cars rose 0.3 percent, following seasonal adjustment, compared with increases of over 1.0 percent in both January and

February. Used car prices declined 1.2 percent. Automobile finance charges continued to increase sharply--up 4.0 percent--and charges for automobile insurance rose 1.6 percent. The index for public transportation increased 1.1 percent, about the same as in February.

The index for apparel and upkeep rose 2.0 percent in March, compared with 0.6 percent in February. All clothing prices--men's and boys', women's and girls', and infants' and toddlers'-- rose sharply as higher priced spring and summer wear items were introduced. Prices for other apparel commodities continued to advance sharply, primarily reflecting earlier increases in the prices of precious metals. Apparel services also continued to increase notably--up 1.3 percent in March.

The 0.9 percent increase in the medical care index was less than in recent months. Professional services rose 1.0 percent as fees for physicians' services rose 0.8 percent and dental services advanced 1.1 percent. Charges for hospital rooms rose 0.9 percent in March, following a 1.6 percent increase in February.

The index for entertainment rose 1.3 percent in March, slightly more than in January and February. The indexes for entertainment commodities--reading materials, sporting goods and equipment, and toys and hobbies--and for entertainment services both registered increases of 1.3 percent.

The other goods and services component rose 0.5 percent in March, following substantially larger increases earlier this year. Tobacco products, personal care items, and educational expenses all registered more moderate increases in March.

CPI for Urban Wage Earners and Clerical Workers (CPI-W)--Seasonally Adjusted Changes

On a seasonally adjusted basis, the CPI for Urban Wage Earners and Clerical Workers rose 1.4 percent in March, the same as in January and February. Food and beverage prices advanced sharply, following 2 months of very little change. The index for apparel and upkeep also rose sharply in March, increasing 1.7 percent. The housing component of the CPI rose

somewhat more than in February, as a smaller increase in household fuel prices was more than offset by a sharp increase in mortgage interest rates. The transportation component rose noticeably less than in February as the rate of increase in gasoline prices slowed substantially. The medical care and other goods and services components also rose less than last month, while the index for entertainment continued to increase about the same as in February.

The index for grocery store foods rose 1.0 percent in March, following declines in both January and February. The rise was primarily due to increases in the prices for eggs and for fresh fruits and vegetables, both of which had registered declines over the first 2 months of 1980. Prices for sugar and sweets also rose sharply for the third consecutive month. Prices of the other two components of the food and beverage index--restaurant meals and alcoholic beverages--rose 0.9 and 0.6 percent, respectively.

The 1.6 percent increase in the housing index continued the sharp upward trend evident since early 1979. In March, home financing costs rose 4.5 percent, reflecting an increase of 3.9 percent in mortgage interest rates and 0.3 percent in house prices. The increase in house prices, the same as in February, was the second consecutive moderate rise following large increases in each of the previous 12 months. The index for household maintenance and repairs increased 1.3 percent, following increases of 1.1 percent in both January and February. In March, prices for household fuels rose 2.1 percent. Fuel oil prices rose 2.7 percent, following increases of over 5 percent in both January and February. The index for gas and electricity rose 1.9 percent in March.

Gasoline prices advanced 4.0 percent in March, substantially less than in January and February. Prices for other petroleum products, such as motor oil and coolant, also rose

substantially—1.7 percent—in March. Prices for new cars rose 0.5 percent, following seasonal adjustment, compared with increases of over 1.0 percent in both January and February. Used car prices declined 1.2 percent. Automobile finance charges continued to increase sharply—up 3.0 percent—and charges for automobile insurance rose 1.7 percent. The index for public transportation also continued to increase substantially.

The index for apparel and upkeep rose 1.7 percent in March, compared with 0.9 percent in February. All clothing prices—men's and boys', women's and girls', and infants' and toddlers'—rose sharply as higher priced spring and summer wear items were introduced. Prices for other apparel commodities continued to advance sharply, primarily reflecting earlier increases in the prices of precious metals. Apparel services also continued to increase notably—up 1.7 percent in March.

The 0.9 percent increase in the medical care index was less than in recent months. Professional services rose 0.9 percent as fees for physicians' services rose 0.8 percent and dental services advanced 1.0 percent. Charges for hospital rooms rose 0.9 percent in March, the same as in February.

The index for entertainment rose 1.6 percent in March. The index for entertainment commodities—reading materials, sporting goods and equipment, and toys and hobbies—rose 1.5 percent, and charges for entertainment services increased 1.6 percent.

The other goods and services component rose 0.4 percent in March, following substantially larger increases earlier this year. The indexes for tobacco products, personal care items, and personal and educational expenses all registered more moderate increases in March.

Table B. Percent Changes in CPI for Urban Wage Earners and Clerical Workers (CPI-W)

Expenditure category	Seasonally adjusted							Unadjusted
	Changes from preceding month						Compound annual rate 3-mos. ended Mar. '80	12-mos. ended Mar. '80
	1979				1980			
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	
All items	1.2	1.0	1.0	1.2	1.4	1.4	1.4	18.1	14.6
Food and beverages	1.0	.8	.6	1.4	.2	0	0.9	4.3	7.2
Housing	1.3	1.4	1.2	1.3	1.5	1.4	1.6	19.3	17.0
Apparel and upkeep	1.0	.5	.1	.5	.8	.9	1.7	14.9	6.6
Transportation	1.2	.7	1.3	1.5	3.1	2.8	1.7	34.9	22.9
Medical care	.9	1.0	.8	1.1	1.3	1.5	.9	15.3	11.6
Entertainment	.6	.7	.5	-.1	.8	1.2	1.6	15.4	8.4
Other goods and services	1.1	.2	.3	.6	1.4	.9	.4	11.5	8.2

(Data for CPI-W are shown in tables 4 through 6.)

Technical Notes

Brief Explanation of the CPI

The Consumer Price Index (CPI) is a measure of the average change in prices over time in a fixed market basket of goods and services. Effective with the January 1978 index, the Bureau of Labor Statistics began publishing CPI's for two population groups: (1) A new CPI for All Urban Consumers (CPI-U) which covers approximately 80 percent of the total noninstitutional civilian population; and (2) a revised CPI for Urban Wage Earners and Clerical Workers (CPI-W) which represents about half the population covered by the CPI-U. The CPI-U includes, in addition to wage earners and clerical workers, groups which historically have been excluded from CPI coverage, such as professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, and retirees and other not in the labor force.

The CPI is based on prices of food, clothing, shelter, and fuels, transportation fares, charges for doctors' and dentists' services, drugs, and the other goods and services that people buy for day-to-day living. Prices are collected in 85 urban areas across the country from about 18,000 tenants, 18,000 housing units for property taxes, and about 24,000 establishments---grocery and department stores, hospitals, filling stations, and other types of stores and service establishments. All taxes directly associated with the purchase and use of items are included in the index. Prices of food, fuels, and a few other items are obtained every month in all 85 locations. Prices of most other commodities and services are collected every month in the five largest geographic areas and every other month in other areas. Prices of most goods and services are obtained by personal visits of the Bureau's trained representatives. Mail questionnaires are used to obtain public utility rates, some fuel prices, and certain other items.

In calculating the index, price changes for the various items in each location are averaged together with weights which represent their importance in the spending of the appropriate population group. Local data are then combined to obtain a U.S. city average. Separate indexes are also published by size of city, by region of the country, for cross-classifications of regions and population-size classes, and for 28 local areas. Area indexes do not measure differences in the level of prices among cities; they only measure the average change in prices for each area since the base period.

The index measures price changes from a designated reference date---1967---which equals 100.0. An increase of 122 percent, for example, is shown as 222.0. This change can also be expressed in dollars as follows: The price of a base period "market basket" of goods and services in the CPI has risen from $10 in 1967 to $22.20.

For further details see the following: *The Consumer Price Index: Concepts and Content Over the Years*, Report 517, revised edition (Bureau of Labor Statistics, May 1978); *The Revision of the Consumer Price Index*, by W. John Layng, reprinted from the *Statistical Reporter*, February 1978, No. 78-5 (U.S. Dept. of Commerce), *Revisions in the Medical Care Service Component of the Consumer Price Index*, by Daniel H. Ginsburg, *Monthly Labor Review*, August 1978; and *CPI issues*, Report 593, (Bureau of Labor Statistics, February 1980).

A Note About Calculating Index Changes

Movement of the indexes from one month to another are usually expressed as percent changes rather than changes in index points because index point changes are affected by the level of the index in relation to its base period while percent changes are not. The example in the accompanying box illustrates the computation of index point and percent changes.

Percent changes for 3-month and 6-month periods are expressed as annual rates and are computed according to the standard formula for compound growth rates. These data indicate what the percent change would be if the current rate were maintained for a 12-month period.

Index Point Change	
CPI	236.4
Less previous index	233.2
Equals index point change:	3.2
Percent Change	
Index point difference	3.2
Divided by the previous index	233.2
Equals:	0.014
Results multiplied by one hundred	0.014x100
Equals percent change:	1.4

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A Note on Seasonally Adjusted and Unadjusted Data

Because price data are used for different purposes by different groups, the Bureau of Labor Statistics publishes seasonally adusted as well as unadjusted changes each month.

For analyzing general price trends in the economy, seasonally adjusted changes are usually preferred since they eliminate the effect of changes that normally occur at the same time and in about the same magnitude every year—such as price movements resulting from changing climatic conditions, production cycles, model changeovers, holidays, and sales.

The unadjusted data are of primary interest to consumers concerned about the prices they actually pay. Unadjusted data also are used extensively for escalation purposes. Many collective bargaining contract agreements and pension plans, for example, tie compensation changes to the Consumer Price Index unadjusted for seasonal variation.

Seasonal factors used in computing the seasonally adjusted indexes are derived by the X-11 Variant of the Census Method II Seasonal Adjustment Program. The updated seasonal data at the end of 1977 replaced data from 1967 through 1977. Subsequent annual updates have replaced 5 years of seasonal data, e.g., data from 1975 through 1979 were replaced at the end of 1979. The seasonal movement of all items and 35 other aggregations is derived by combining the seasonal movement of 45 selected components. Each year the seasonal status of every series is reevaluated based upon certain statistical criteria. If any of the 45 selected components changes its seasonal status, seasonal data from 1967 forward for the all items and for any of the 35 other aggregations, that have that series as a component, are replaced.

24 Hour CPI Mailgram Service

Consumer Price Index data now are available by mailgram within 24 hours of the CPI release. The new service is being offered by the Bureau of Labor Statistics through the National Technical Information Service of the U.S. Department of Commerce.

The CPI MAILGRAM service provides unadjusted and seasonally adjusted data both for the All Urban Consumers (CPI-U) and for the Urban Wage Earners and Clerical Workers (CPI-W) indexes as shown on the CPI-U sample page below. The unadjusted data include the current month's index and the percent changes from 12 months ago and one month ago. The seasonally adjusted data are the percent changes from one month ago.

CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS (CPI-U): U.S. CITY AVERAGE (1967=100)

GROUP	UNADJ INDEX MAY 1979	UNADJUSTED PER CHG FROM 12 MO AGO	UNADJUSTED PER CHG FROM 1 MO AGO	S ADJ PER CHG FROM 1 MO AGO
ALL ITEMS	215.1	10.8	1.2	1.1
ALL ITEMS(1957-59=100)	249.9	-	-	-
FOOD AND BEVERAGES	228.2	11.2	.5	.7
FOOD	234.3	11.6	.9	.7
FOOD AT HOME	233.4	11.3	.7	.5
CEREALS AND BAKERY PRODUCTS	216.2	9.5	.8	1.3
MEATS, POULTRY, FISH, AND EGGS	242.2	19.4	.9	.1
DAIRY PRODUCTS	223.5	11.1	.7	.8
FRUITS AND VEGETABLES	226.8	3.6	.1	- .2
FOOD AWAY FROM HOME	241.1	11.7	1.1	1.1
HOUSING	222.6	11.3	1.2	1.2
RENT, RESIDENTIAL	173.5	5.5	1.1	1.3
HOMEOWNERSHIP	254.9	14.5	1.3	1.3
FUEL AND OTHER UTILITIES	272.5	7.7	2.1	2.2
FUEL OIL, COAL, AND BOTTLED GAS	364.3	23.2	4.1	4.5
GAS (PIPED) AND ELECTRICITY	251.5	8.2	2.6	2.9
HOUSEHOLD FURNISHINGS AND OPERATION	189.2	7.5	.3	.4
APPAREL AND UPKEEP	166.1	3.9	.4	.3
TRANSPORTATION	237.7	13.4	2.4	1.8
NEW CARS	195.8	5.7	.9	1.1
USED CARS	225.4	11.3	2.7	- .5
GASOLINE	267.7	29.1	5.5	5.3
PUBLIC TRANSPORTATION	193.3	3.1	.4	.7
MEDICAL CARE	236.3	8.9	.5	.6
MEDICAL CARE SERVICES	256.4	9.6	.5	.6
ENTERTAINMENT	187.8	6.6	.7	.5
OTHER GOODS AND SERVICES	193.9	7.5	.6	.5
PERSONAL CARE 1/	193.9	7.5	.6	.6
COMMODITIES	205.6	10.9	1.2	.9
COMMODITIES LESS FOOD AND BEVERAGES	192.9	10.3	1.5	1.0
NONDURABLES LESS FOOD AND BEVERAGES	185.7	12.0	2.3	1.9
DURABLES	159.2	13.3	1.1	.5
SERVICES	229.5	13.3	1.1	1.3
ALL ITEMS LESS FOOD	203.9	10.5	1.3	1.4
ENERGY 1/	260.8	19.3	4.2	4.5
ALL ITEMS LESS FOOD AND ENERGY	194.1	9.5	.9	.9

1/ NOT SEASONALLY ADJUSTED.

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TABLE 1. Consumer Price Index for all urban consumers: U.S. City average, by expenditure category and commodity and service group, 1967=100

Group	Relative importance, December 1979	Unadjusted indexes Feb. 1980	Mar. 1980	Unadjusted percent change to Mar. 1980 from- Mar. 1979	Feb. 1980	Seasonally adjusted percent change from- Dec. to Jan.	Jan. to Feb.	Feb. to Mar.
Expenditure category								
All items	100.000	256.4	259.8	14.7	1.4	1.4	1.4	1.4
All items(1957-59=100)	-	274.9	278.8	-	-	-	-	-
Food and beverages	18.45	238.6	241.0	7.4	1.0	.1	.0	1.0
Food	17.655	244.9	247.3	7.3	1.0	.0	.0	1.0
Food at home	12.202	241.3	243.6	6.0	1.0	-.2	-.4	1.1
Cereals and bakery products 1/	1.518	236.8	238.6	11.8	.8	1.1	1.1	.8
Meats, poultry, fish, and eggs	4.189	236.2	237.8	.3	.7	.0	-1.8	1.0
Dairy products	1.642	219.5	220.3	9.3	.4	.6	.6	.8
Fruits and vegetables	1.702	228.3	232.4	2.9	1.8	-3.9	-2.3	1.7
Sugar and sweets 1/	.418	297.5	313.5	15.2	5.4	1.8	2.7	5.4
Fats and oils	.346	235.9	236.8	7.9	.4	.7	1.6	.8
Nonalcoholic beverages	1.375	384.5	387.1	11.5	.7	.3	1.1	.2
Other prepared foods	1.013	221.8	224.1	10.4	1.0	.6	1.3	1.1
Food away from home	5.454	258.3	260.9	10.6	1.0	1.0	.7	.8
Alcoholic beverages	1.029	180.4	181.7	7.4	.7	.7	.4	.5
Housing	44.999	250.5	254.5	17.0	1.6	1.4	1.4	1.6
Shelter	30.910	267.2	271.6	19.1	1.6	1.7	1.4	1.8
Rent, residential 1/	5.273	185.6	186.6	8.9	.5	.7	.8	.5
Other rental costs	.734	255.7	258.6	14.3	1.1	1.6	1.9	.7
Homeownership	24.904	296.3	302.0	21.7	1.9	1.9	1.5	2.1
Home purchase 1/	10.396	243.0	244.0	14.7	.4	.9	.4	.4
Financing, taxes, and insurance 1/	10.902	367.7	379.9	32.0	3.3	3.0	2.6	3.6
Maintenance and repairs	3.606	273.7	278.8	12.6	1.9	.8	1.5	1.7
Maintenance and repair services	2.778	297.1	303.2	13.2	2.1	.9	1.7	1.9
Maintenance and repair commodities 1/	.828	218.9	221.4	10.6	1.1	.5	.6	1.1
Fuel and other utilities 1/	6.477	263.8	268.0	18.6	1.6	1.4	2.0	1.6
Fuels 1/	4.607	327.1	333.9	26.5	2.1	2.0	2.9	2.1
Fuel oil, coal, and bottled gas 1/	1.214	539.1	553.4	63.0	2.7	5.3	4.9	2.7
Gas (piped) and electricity 1/	3.393	278.8	284.0	16.4	1.9	.8	2.1	1.9
Other utilities and public services 1/	1.870	161.3	161.9	2.0	.4	-.2	-.1	.4
Household furnishings and operation	7.612	199.0	201.3	7.4	1.2	.8	.9	1.0
Housefurnishings	4.139	169.3	171.5	5.4	1.3	.8	.8	1.0
Housekeeping supplies 1/	1.459	235.0	238.0	9.0	1.3	.8	1.7	1.3
Housekeeping services 1/	2.015	261.6	263.6	8.5	.8	.7	.6	.8
Apparel and upkeep	5.107	171.9	176.0	7.1	2.4	.9	.6	2.0
Apparel commodities	4.446	165.1	169.2	6.3	2.5	.8	.5	2.2
Men's and boys' apparel	1.396	162.7	165.6	4.3	1.8	.5	-.2	1.0
Women's and girls' apparel	1.701	151.1	155.5	2.4	2.9	.7	.3	2.7
Infants' and toddlers' apparel 1/	.108	226.6	231.4	7.1	2.1	-1.0	.8	2.1
Footwear	.669	184.6	187.0	9.0	1.3	.6	.3	.9
Other apparel commodities 1/	.572	191.4	199.9	20.0	4.4	1.9	3.8	4.4
Apparel services 1/	.662	222.9	225.9	13.0	1.3	1.9	1.0	1.3
Transportation	18.572	239.6	243.7	23.0	1.7	3.1	2.8	1.7
Private transportation	17.506	239.8	244.0	23.2	1.8	3.1	2.9	1.7
New cars	5.731	175.3	175.0	7.6	-.2	1.4	1.2	-.3
Used cars	2.838	195.3	195.2	-.1	-.1	1.1	-.5	-1.2
Gasoline	5.619	357.6	370.9	68.1	3.7	7.4	7.3	3.9
Maintenance and repair	1.473	258.2	260.9	10.4	1.0	.9	.9	.9
Other private transportation	3.845	212.6	216.5	11.9	1.8	1.1	1.1	2.1
Other private trans. commodities 1/	.712	191.2	192.7	14.0	.8	1.5	1.5	.8
Other private trans. services	3.133	220.4	225.0	11.5	2.1	.9	1.0	2.4
Public transportation 1/	1.066	229.5	232.1	21.2	1.1	1.7	1.2	1.1
Medical care	4.817	257.9	260.2	11.2	.9	1.3	1.5	.9
Medical care commodities	.802	162.1	163.5	8.5	.9	.8	.7	.9
Medical care services 1/	4.015	279.0	281.5	11.8	.9	1.4	1.7	.9
Professional services 1/	1.911	242.9	245.3	10.6	1.0	1.3	1.7	1.0
Other medical care services 1/	2.104	322.7	325.3	12.9	.8	1.5	1.7	.8
Entertainment	3.738	197.8	200.6	8.5	1.4	1.0	1.2	1.4
Entertainment commodities	2.214	200.4	203.4	9.5	1.5	1.3	1.3	1.5
Entertainment services 1/	1.523	194.5	197.0	7.1	1.3	.7	1.0	1.3
Other goods and services	4.081	208.1	208.9	8.4	.4	1.1	1.0	.4
Tobacco products 1/	1.080	198.1	198.4	6.8	.2	2.4	.7	.2
Personal care 1/	1.632	206.5	208.1	8.3	.8	.6	1.1	.8
Toilet goods and personal care appliances 1/	.728	198.6	200.2	7.6	.8	.3	1.1	.8
Personal care services 1/	.905	214.2	215.7	9.0	.7	.8	1.2	.7
Personal and educational expenses	1.369	228.0	228.3	9.7	.1	1.0	.9	.5
School books and supplies	.174	206.5	206.9	8.0	.2	1.4	.6	.7
Personal and educational services	1.195	233.3	233.6	9.9	.1	.9	1.0	.4
Commodity and service group								
All items	100.000	256.4	259.8	14.7	1.4	1.4	1.4	1.4
Commodities	59.063	225.2	228.0	13.7	1.2	1.4	1.2	1.2
Food and beverages	18.685	238.6	241.0	7.4	1.0	.1	.0	1.0
Commodities less food and beverages	40.379	215.5	218.4	16.8	1.3	2.1	1.7	1.3
Nondurables less food and beverages	17.706	231.8	237.5	26.5	2.5	3.4	3.1	2.4
Apparel commodities	4.446	165.1	169.2	6.3	2.5	.8	.5	2.2
Nondurables less food, beverages, and apparel	13.261	270.1	276.6	34.3	2.4	4.0	4.0	2.6
Durables	22.672	202.1	203.0	4.4	.4	1.1	.5	.2
Services	40.937	256.8	261.3	16.1	1.8	1.4	1.5	1.9
Rent, residential 1/	5.273	185.6	186.6	8.9	.5	.7	.8	.5
Household services less rent	21.689	300.2	306.3	21.1	2.0	1.8	2.0	2.5
Transportation services	5.673	229.6	233.4	12.9	1.7	1.1	1.0	1.7
Medical care services 1/	4.015	279.0	281.5	11.8	.9	1.4	1.7	.9
Other services	4.285	211.1	212.9	9.2	.9	.9	1.1	.9
Special indexes:								
All items less food	82.345	253.5	257.1	16.3	1.5	1.8	1.6	1.5
All items less shelter	69.090	252.6	254.6	12.7	1.3	1.3	1.3	1.3
All items less mortgage interest costs	91.346	227.1	229.8	12.6	1.2	1.2	1.1	1.2
All items less home purchase and mortgage interest costs	80.950	255.4	258.2	12.3	1.2	1.3	1.2	1.2
All items less medical care	95.183	255.0	258.4	14.8	1.4	1.4	1.3	1.5
Commodities less food	41.408	213.8	216.7	16.6	1.4	2.0	1.7	1.3
Nondurables less food	18.736	227.3	232.6	25.3	2.3	3.2	3.0	2.4
Nondurables less food and apparel	14.290	258.2	264.1	32.1	2.3	3.7	4.0	2.4
Nondurables	36.391	236.3	240.3	16.1	1.7	1.7	1.6	1.6
Services less rent	35.664	270.2	275.4	17.2	1.9	1.5	1.7	2.0
Services less medical care	36.921	252.7	257.4	16.6	1.9	1.6	1.4	1.9
Energy	10.313	344.6	355.0	47.2	3.0	4.6	5.1	3.0
All items less energy	89.687	228.0	230.8	11.6	1.2	1.1	.7	1.2
All items less food and energy	72.032	222.8	225.7	12.6	1.3	1.3	1.1	1.2
Commodities less food and energy	34.488	194.9	196.5	9.0	.8	1.2	.5	.6
Energy commodities	6.920	385.0	398.5	66.4	3.5	6.7	6.7	3.9
Services less energy	37.344	253.2	259.6	16.0	1.7	1.5	1.5	1.8
Purchasing power of the consumer dollar:								
1967=$1.00 1/	-	$.423	$.417	-12.8	-1.4	-1.4	-1.4	-1.4
1957-59=$1.00 1/	-	.364	.359	-	-	-	-	-

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 2. Consumer Price Index for all urban consumers: Seasonally adjusted U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Seasonally adjusted indexes				Seasonally adjusted annual rate percent change for-					
					3 months ending in			6 months ending in		
	Dec. 1979	Jan. 1980	Feb. 1980	Mar. 1980	June 1979	Sept. 1979	Dec. 1979	Mar. 1980	Sept. 1979	Mar. 1980
Expenditure category										
All items	-	-	-	-	12.8	13.8	13.7	18.1	13.3	15.9
Food and beverages	238.3	238.5	238.5	240.8	6.4	6.5	11.9	4.3	6.4	8.0
Food	244.8	244.8	244.7	247.1	6.4	6.5	12.1	3.8	6.4	7.9
Food at home	242.5	241.8	240.9	243.5	4.4	5.3	12.3	2.0	4.8	7.0
Cereals and bakery products 1/	231.6	234.2	236.8	238.6	8.3	15.1	11.1	12.6	11.7	11.9
Meats, poultry, fish, and eggs	240.5	240.6	236.2	238.5	-.5	-13.2	20.2	-3.3	-6.6	7.8
Dairy products	215.7	217.1	218.4	220.1	9.2	12.2	7.4	8.4	10.7	7.9
Fruits and vegetables	240.4	231.0	225.6	229.4	6.6	22.9	3.2	-17.1	14.5	-7.5
Sugar and sweets 1/	284.6	287.8	297.5	313.5	8.0	6.8	5.7	47.2	7.4	23.6
Fats and oils	232.4	234.1	237.8	239.7	5.1	9.0	4.2	13.2	7.0	8.6
Nonalcoholic beverages	381.9	383.1	387.2	387.9	-2.2	26.3	17.5	6.4	11.2	11.8
Other prepared foods	216.7	217.9	220.7	223.2	12.0	11..	9.9	12.5	11.6	9.2
Food away from home	254.4	256.9	258.6	260.6	11.1	9.0	11.6	10.1	10.1	10.9
Alcoholic beverages	178.5	179.8	180.6	181.5	6.5	5.9	10.0	6.9	6.2	8.4
Housing	249.3	247.2	250.7	254.8	15.1	15.9	17.4	19.5	15.5	18.5
Shelter	259.4	263.7	267.4	272.2	15.7	17.6	22.4	21.2	16.7	21.8
Rent, residential 1/	182.9	184.1	185.6	186.6	8.2	10.2	9.0	8.3	9.2	8.7
Other rental costs	247.8	251.4	256.2	258.1	11..	12.4	19.2	18.5	11.7	16.8
Homeownership	286.8	292.2	296.6	302.7	17.8	19.5	25.6	24.1	18.6	24.9
Home purchase 1/	239.9	242.1	243.0	244.0	16.3	17.1	18.8	7.0	16.7	12.7
Financing, taxes, and insurance	348.2	358.7	368.1	381.4	22.0	25.3	38.1	43.9	23.6	41.0
Maintenance and repairs	268.8	271.0	275.0	279.8	10.9	10.9	11.3	17.4	10.9	14.3
Maintenance and repair services	291.1	293.8	298.9	304.7	11.5	9.7	11.8	20.0	10.6	15.8
Maintenance and repair commodities 1/	216.6	217.6	218.9	221.4	8.9	14.6	10.0	9.2	11.7	9.6
Fuel and other utilities 1/	255.1	258.6	263.8	268.0	45.3	22.0	6.4	21.8	43.7	13.8
Fuels 1/	311.8	318.0	327.1	333.9	38.1	31.7	7.0	31.5	34.9	18.6
Fuel oil, coal, and bottled gas 1/	488.0	514.0	539.1	553.4	76.3	93.9	24.9	65.4	84.9	43.7
Gas (piped) and electricity 1/	270.8	273.0	278.8	284.0	28.7	16.6	1.0	21.0	22.5	10.6
Other utilities and public services 1/	161.9	161.5	161.3	161.9	1.0	1.5	5.4	.7	1.3	2.6
Household furnishings and operation	195.8	197.4	199.2	201.2	5.4	4.9	7.9	11.5	5.2	9.7
Housefurnishings	166.9	168.3	169.6	171.3	4.0	3.0	7.5	11.0	3.5	9.2
Housekeeping supplies 1/	229.2	231.5	235.0	238.1	9.8	4.8	9.4	16.3	5.3	12.8
Housekeeping services 1/	258.1	260.0	261.6	263.6	8.7	9.0	7.6	8.8	8.8	8.2
Apparel and upkeep	170.8	172.4	173.5	177.0	1.0	7.7	5.1	15.3	4.3	10.1
Apparel commodities	164.8	165.9	166.8	170.0	-.2	7.2	4.0	14.9	3.4	9.3
Men's and boys' apparel	163.8	164.6	164.2	165.9	3.3	4.3	4.5	5.2	3.8	4.9
Women's and girls' apparel	152.5	153.5	153.9	158.0	-8.3	7.9	-3.6	15.2	-.5	5.4
Infants' and toddlers' apparel 1/	227.1	229.4	226.6	231.4	9.2	4.6	6.8	7.8	6.9	7.3
Footwear	183.9	185.0	185.5	187.2	11.9	7.7	9.2	7.4	9.8	8.3
Other apparel commodities 1/	180.9	184.4	191.6	199.9	1.7	13.3	20.7	49.1	7.3	34.1
Apparel services 1/	210.6	212.6	222.9	225.9	10.0	11.0	12.7	18.3	10.5	15.5
Transportation	228.3	235.3	242.0	246.2	23.4	20.6	14.3	35.2	22.0	24.3
Private transportation	228.3	235.4	242.3	246.5	24.6	20.3	13.1	35.9	22.4	24.0
New cars	169.5	171.8	173.9	174.5	11.3	7.1	.0	12.3	9.2	6.0
Used cars	203.6	205.8	204.7	202.3	-2.5	-4.9	10.5	-2.5	-3.7	3.8
Gasoline	315.7	339.0	363.8	378.1	84.5	63.1	29.1	105.7	73.3	62.9
Maintenance and repair	253.2	255.4	257.7	259.9	11.3	9.6	9.5	11.0	10.5	10.3
Other private transportation	206.9	209.1	211.4	215.8	10.3	11.2	8.3	18.3	10.8	13.2
Other private trans. commodities 1/	185.6	188.4	191.2	192.7	6.8	14.3	19.0	16.2	10.6	17.6
Other private trans. services	217.1	219.4	218.9	224.1	11.2	10.5	6.2	18.7	10.8	12.3
Public transportation 1/	223.0	226.8	229.5	232.1	5.3	25.2	39.5	17.3	14.8	27.9
Medical care	250.7	254.0	257.9	260.1	6.7	10.7	12.0	15.9	8.6	13.9
Medical care commodities	159.6	159.8	161.9	163.3	6.5	8.1	9.3	9.9	7.3	9.6
Medical care services 1/	270.7	274.4	279.0	281.5	6.7	11.2	12.6	16.9	8.9	14.7
Professional services 1/	235.9	238.9	242.9	245.3	7.4	8.4	10.1	16.9	7.9	13.5
Other medical care services 1/	313.9	319.4	322.7	325.3	6.1	13.6	15.1	17.0	9.8	16.0
Entertainment	193.7	195.7	198.1	200.6	6.4	7.7	5.3	15.0	7.0	10.1
Entertainment commodities	195.7	198.2	200.8	203.4	4.6	9.7	7.7	16.7	7.1	12.1
Entertainment services 1/	191.1	192.5	194.7	197.0	9.0	5.0	1.9	12.9	7.0	7.3
Other goods and services	203.7	205.9	207.9	208.9	5.3	12.2	5.1	10.6	8.7	7.8
Tobacco products 1/	192.1	196.7	198.1	198.4	1.3	10.0	2.5	13.8	5.6	8.0
Personal care 1/	203.0	204.2	206.5	208.1	6.2	8.5	8.3	10.4	7.3	9.4
Toilet goods and personal care appliances 1/	195.8	196.4	198.6	200.2	3.9	7.7	9.5	9.3	5.8	9.4
Personal care services 1/	210.0	211.6	213.2	215.7	8.5	9.0	7.2	11.3	8.8	9.2
Personal and educational expenses	222.7	225.0	227.1	228.2	7.5	18.3	3.5	10.3	12.8	6.8
School books and supplies	200.6	203.4	204.7	206.1	6.7	24.0	-7.8	11.4	15.0	1.4
Personal and educational services	228.2	230.2	232.6	233.6	7.5	17.7	5.2	9.8	12.5	7.5
Commodity and service group										
All items	-	-	-	-	12.8	13.8	13.7	18.1	13.3	15.9
Commodities	220.4	223.5	226.1	228.8	12.7	13.3	12.5	16.1	13.0	14.3
Food and beverages	238.3	238.5	238.5	240.8	6.4	6.5	11.9	4.3	6.4	8.0
Commodities less food and beverages	208.8	213.2	216.9	219.7	15.6	16.8	12.8	22.6	16.3	17.6
Nondurables less food and beverages	218.6	226.0	233.0	238.7	26.2	26.2	12.8	42.2	26.2	26.7
Apparel commodities	164.6	165.9	166.8	170.4	-.2	7.2	4.0	14.9	3.4	9.3
Nondurables less food, beverages, and apparel	250.4	260.4	270.9	278.0	36.9	34.4	16.2	51.9	35.6	32.8
Durables	200.3	202.5	203.5	204.0	9.4	9.1	13.2	7.6	9.2	10.3
Services	249.5	252.9	256.8	261.6	13.2	14.3	15.8	20.9	13.7	18.3
Rent, residential 1/	182.9	184.1	185.6	186.6	8.2	10.2	9.0	8.3	9.2	8.7
Household services less rent	289.4	294.7	297.6	303.1	17.7	17.3	21.2	28.5	17.5	24.8
Transportation services	224.0	226.4	228.6	232.6	10.1	12.7	12.7	16.3	11.4	14.5
Medical care services 1/	270.7	274.4	279.0	281.5	6.7	11.2	12.6	16.9	8.9	14.7
Other services	206.8	208.7	210.9	212.9	8.7	10.2	5.6	12.3	9.4	8.9
Special indexes:										
All items less food	226.4	230.4	234.2	237.8	14.4	15.4	14.2	21.7	14.9	17.9
All items less shelter	201.8	204.2	207.3	210.3	11.6	12.1	10.2	17.1	11.9	13.6
All items less mortgage interest costs	222.5	225.2	227.6	230.3	11.6	12.3	11.8	14.8	12.0	13.3
All items less home purchase and mortgage interest costs	220.4	223.2	225.9	228.7	11.7	11.3	10.4	15.9	11.5	13.2
All items less medical care	229.2	232.5	235.6	239.1	13.1	13.9	14.0	18.4	13.5	16.2
Commodities less food	207.3	211.5	215.2	217.9	15.6	16.4	12.7	22.1	16.0	17.3
Nondurables less food	215.0	221.8	228.4	233.8	24.7	25.2	12.8	39.8	25.0	25.6
Nondurables less food and apparel	240.5	249.3	259.2	265.4	34.1	32.1	15.7	48.3	33.1	31.0
Nondurables	229.4	233.2	237.0	240.8	14.6	16.2	12.6	21.4	15.4	16.9
Services less rent 1/	261.9	265.7	270.2	275.7	13.9	14.9	16.9	22.8	14.4	19.8
Services less medical care	245.3	249.2	252.7	257.4	13.7	16.2	15.3	21.2	14.9	18.3
Energy	315.9	330.5	347.4	357.9	59.2	49.9	19.2	64.8	54.5	40.2
All items less energy	224.1	226.6	228.2	231.0	9.0	10.6	13.5	12.9	9.8	13.2
All items less food and energy	218.1	221.0	223.5	226.2	10.1	10.9	13.9	15.7	10.5	14.8
Commodities less food and energy	192.6	194.9	195.9	197.1	7.5	8.3	10.4	9.7	7.9	10.0
Energy commodities	341.4	364.4	386.9	404.2	83.8	67.9	26.7	96.5	75.7	57.8
Services less energy	247.8	251.4	255.2	259.9	11.7	14.2	17.1	21.0	13.0	19.0

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 3. Consumer Price Index for all urban consumers: Selected areas, all items index, 1967=100 unless otherwise noted

Area 1/	Pricing schedule 2/	Other index base	Indexes Dec. 1979	Jan. 1980	Feb. 1980	Mar. 1980	Percent change to Mar. 1980 from- Mar. 1979	Jan. 1980	Feb. 1980	Percent change to Feb. 1980 from- Feb. 1979	Dec. 1979	Jan. 1980
U.S. city average			229.9	233.2	236.4	239.8	14.7	2.8	1.4	14.1	2.8	1.4
Chicago, Ill.-Northwestern Ind.	M		228.4	230.3	232.7	235.5	14.0	2.3	1.2	14.9	1.9	1.0
Detroit, Mich.	M		233.2	237.2	240.4	242.9	14.8	2.4	1.0	15.1	3.1	1.3
L.A.-Long Beach, Anaheim, Calif.	M		228.0	232.6	237.6	241.3	18.4	3.7	1.6	17.7	4.2	2.1
N.Y., N.Y.-Northeastern N.J.	M		222.9	226.1	228.0	231.2	12.0	2.3	1.4	11.1	2.3	.8
Philadelphia, Pa.-N.J.	M		223.7	227.2	231.1	234.6	14.6	3.3	1.5	13.2	3.3	1.7
Anchorage, Alaska	1	10/67	-	218.2	-	223.5	11.2	2.4	-	-	-	-
Baltimore, Md.	1		-	234.4	-	245.0	17.2	4.5	-	-	-	-
Boston, Mass.	1		-	227.3	-	234.2	14.2	3.0	-	-	-	-
Cincinnati, Ohio-Ky.-Ind.	1		-	239.5	-	247.8	14.9	3.5	-	-	-	-
Denver-Boulder, Colo.	1		-	247.3	-	255.2	14.4	3.2	-	-	-	-
Miami, Fla.	1	11/77	-	123.3	-	127.7	14.8	3.6	-	-	-	-
Milwaukee, Wis.	1		-	236.4	-	242.7	16.9	2.7	-	-	-	-
Northeast Pennsylvania	1		-	224.4	-	229.0	12.5	2.0	-	-	-	-
Portland, Oreg.-Wash.	1		-	244.6	-	253.6	17.7	3.7	-	-	-	-
St. Louis, Mo.-Ill.	1		-	232.7	-	238.1	14.3	2.3	-	-	-	-
San Diego, Calif.	1		-	254.0	-	258.3	16.7	1.7	-	-	-	-
Seattle-Everett, Wash.	1		-	236.0	-	243.8	17.8	3.3	-	-	-	-
Washington, D.C.-Md.-Va.	1		-	231.9	-	238.8	12.3	3.0	-	-	-	-
Atlanta, Ga.	2		223.3	-	230.3	-	-	-	-	14.1	3.1	-
Buffalo, N.Y.	2		221.2	-	227.9	-	-	-	-	12.3	3.0	-
Cleveland, Ohio	2		232.5	-	243.5	-	-	-	-	15.9	4.7	-
Dallas-Fort Worth, Tex.	2		234.1	-	241.7	-	-	-	-	17.4	3.2	-
Honolulu, Hawaii	2		214.8	-	220.9	-	-	-	-	12.6	2.8	-
Houston, Tex.	2		246.7	-	255.9	-	-	-	-	14.1	2.9	-
Kansas City, Mo.-Kans.	2		233.7	-	238.7	-	-	-	-	16.7	2.1	-
Minneapolis-St.Paul, Minn.-Wis.	2		234.0	-	237.9	-	-	-	-	12.3	1.7	-
Pittsburgh, Pa.	2		229.2	-	235.5	-	-	-	-	12.6	2.7	-
San Francisco-Oakland, Calif.	2		230.2	-	240.7	-	-	-	-	18.0	4.6	-
Region 3/												
Northeast	2	12/77	120.6	-	123.7	-	-	-	-	12.5	2.6	-
North Central	2	12/77	125.1	-	128.0	-	-	-	-	13.9	2.3	-
South	2	12/77	123.8	-	127.4	-	-	-	-	14.1	2.9	-
West	2	12/77	125.1	-	129.4	-	-	-	-	16.6	3.4	-
Population size class 3/												
A-1	2	12/77	121.9	-	125.4	-	-	-	-	13.9	2.9	-
A-2	2	12/77	124.2	-	128.1	-	-	-	-	15.0	3.1	-
B	2	12/77	124.6	-	128.0	-	-	-	-	14.4	2.7	-
C	2	12/77	124.4	-	127.7	-	-	-	-	13.7	2.7	-
D	2	12/77	122.9	-	125.8	-	-	-	-	13.3	2.4	-
Region/population size class cross classification 3/												
Northeast/A	2	12/77	119.0	-	122.1	-	-	-	-	11.9	2.6	-
North Central/A	2	12/77	126.3	-	129.6	-	-	-	-	15.0	2.6	-
South/A	2	12/77	123.1	-	127.1	-	-	-	-	14.2	3.2	-
West/A	2	12/77	124.8	-	129.6	-	-	-	-	17.7	3.8	-
Northeast/B	2	12/77	122.2	-	125.6	-	-	-	-	13.4	2.8	-
North Central/B	2	12/77	124.6	-	127.2	-	-	-	-	12.9	2.1	-
South/B	2	12/77	124.6	-	128.0	-	-	-	-	14.3	2.7	-
West/B	2	12/77	126.6	-	130.6	-	-	-	-	16.4	3.2	-
Northeast/C	2	12/77	125.7	-	129.1	-	-	-	-	14.6	2.7	-
North Central/C	2	12/77	123.7	-	126.4	-	-	-	-	13.1	2.2	-
South/C	2	12/77	124.3	-	127.9	-	-	-	-	13.7	2.9	-
West/C	2	12/77	124.5	-	128.1	-	-	-	-	14.4	2.9	-
Northeast/D	2	12/77	121.8	-	124.2	-	-	-	-	12.6	2.0	-
North Central/D	2	12/77	123.0	-	125.8	-	-	-	-	12.6	2.3	-
South/D	2	12/77	122.5	-	125.9	-	-	-	-	13.7	2.8	-
West/D	2	12/77	124.3	-	127.1	-	-	-	-	14.6	2.3	-

1/ Area is generally the Standard Metropolitan Statistical Area (SMSA), exclusive of farms. L.A.-Long Beach, Anaheim, Calif. is a combination of two SMSA's, and N.Y., N.Y.-Northeastern N.J. and Chicago, Ill.-Northwestern Ind. are the more extensive Standard Consolidated Areas. Area definitions are those established by the Office of Management and Budget in 1973, except for Denver-Boulder, Colo. which does not include Douglas County. Definitions do not include revisions made since 1973.

2/ Foods, fuels, and several other items priced every month in all areas; most other goods and services priced as indicated:
M - Every month.
1 - January, March, May, July, September, and November.
2 - February, April, June, August, October, and December.

3/ Regions are defined as the four Census regions.
The population size classes are aggregations of areas which have urban population as defined below:

1	More than 4,000,000.
A-2	1,250,000 to 4,000,000.
B	385,000 to 1,250,000.
C	75,000 to 385,000.
D	Less than 75,000.

Population size class A is the aggregation of population size classes A-1 and A-2.

NOTE: Price changes within areas are found in the Consumer Price Index; differences in living costs among areas are found in Family Budgets.

TABLE a. Consumer Price Index for urban wage earners and clerical workers: U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Relative importance, December 1979	Unadjusted indexes Feb. 1980	Mar. 1980	Unadjusted percent change to Mar. 1980 from- Mar. 1979	Feb. 1980	Seasonally adjusted percent change from- Dec. to Jan.	Jan. to Feb.	Feb. to Mar.
Expenditure category								
All items	100.000	236.5	239.9	14.6	1.4	1.4	1.4	1.4
All items(1957-59=100)	-	275.1	279.0	-	-	-	-	-
Food and beverages	20.353	239.0	241.2	7.2	.9	.2	.0	.9
Food	19.237	245.2	247.5	7.1	.9	.1	.0	.9
Food at home	13.427	241.1	243.1	5.7	.8	-.2	-.3	1.0
Cereals and bakery products 1/	1.683	237.4	239.3	11.8	.8	1.0	1.2	.8
Meats, poultry, fish, and eggs	4.663	236.4	237.1	.1	.3	.0	-1.5	.5
Dairy products	1.810	219.8	221.1	9.3	.6	.6	.4	1.1
Fruits and vegetables	1.762	225.9	230.1	2.1	1.9	-3.9	-2.7	1.8
Sugar and sweets 1/	.447	297.1	314.1	15.3	5.7	1.9	2.6	5.7
Fats and oils	.376	236.5	236.8	7.7	.1	.9	1.5	.7
Nonalcoholic beverages	1.559	383.0	384.4	10.8	.4	.4	1.4	.0
Other prepared foods	1.129	221.7	224.0	10.3	1.0	.7	1.1	1.1
Food away from home	5.810	260.1	262.7	10.4	1.0	1.1	.5	.9
Alcoholic beverages	1.116	181.1	182.8	7.8	.9	.6	.7	.6
Housing	41.667	250.5	254.4	17.0	1.6	1.5	1.4	1.6
Shelter	28.038	268.3	272.7	19.3	1.6	1.7	1.4	1.7
Rent, residential 1/	4.982	185.5	186.4	8.9	.5	.7	.9	.5
Other rental costs 1/	.502	255.6	258.6	14.3	1.2	1.9	1.8	.8
Homeownership	22.553	298.4	304.0	22.0	1.9	1.9	1.5	2.0
Home purchase 1/	9.137	243.0	243.8	14.6	.3	.9	.3	.3
Financing, taxes, and insurance	10.163	371.6	384.1	32.7	3.4	3.0	2.7	3.7
Maintenance and repairs	3.254	274.4	278.2	12.0	1.4	1.1	1.1	1.3
Maintenance and repair services	2.322	299.3	303.5	12.7	1.4	1.0	1.5	1.3
Maintenance and repair commodities 1/	.931	219.5	222.3	10.3	1.3	1.2	.5	1.3
Fuel and other utilities 1/	6.373	264.4	268.7	18.9	1.6	1.4	2.0	1.6
Fuels 1/	4.584	327.0	333.9	26.6	2.1	2.0	2.8	2.1
Fuel oil, coal, and bottled gas 1/	1.209	540.3	554.1	63.0	2.6	5.3	4.9	2.6
Gas (piped) and electricity 1/	3.375	278.5	283.9	16.5	1.9	.8	2.0	1.9
Other utilities and public services 1/	1.788	161.4	161.9	1.9	.3	-.2	-.1	.3
Household furnishings and operation	7.256	196.8	199.2	6.9	1.2	.7	.9	1.0
Housefurnishings	4.231	167.9	170.4	6.0	1.5	.7	.7	1.1
Housekeeping supplies 1/	1.499	232.8	235.5	8.0	1.2	.7	1.7	1.2
Housekeeping services 1/	1.527	261.1	262.7	8.7	.6	.7	.7	.6
Apparel and upkeep	5.114	171.5	175.1	6.6	2.1	.8	.9	1.7
Apparel commodities	4.489	165.2	168.7	5.9	2.1	.7	.9	1.7
Men's and boys' apparel	1.391	162.9	166.0	4.1	1.9	.1	.1	1.2
Women's and girls' apparel	1.719	151.3	154.9	2.4	2.4	.7	1.1	2.1
Infants' and toddlers' apparel 1/	.124	232.7	237.3	9.0	2.0	-.6	1.6	2.0
Footwear	.706	183.9	186.3	9.3	1.3	.7	.0	1.0
Other apparel commodities 1/	.590	191.8	197.8	17.1	3.1	1.4	3.4	3.1
Apparel services 1/	.625	219.8	223.5	12.3	1.7	1.6	1.3	1.7
Transportation	20.902	240.2	244.3	22.9	1.7	3.1	2.8	1.7
Private transportation	19.962	240.4	244.6	23.2	1.7	3.1	2.9	1.7
New cars	3.946	175.4	175.4	8.0	.0	1.4	1.2	.5
Used cars	3.622	195.3	195.2	-.1	-.1	1.0	-.5	-1.2
Gasoline	6.429	359.0	372.7	68.5	3.8	7.2	7.3	4.0
Maintenance and repair	1.621	259.2	261.7	10.5	1.0	.9	.9	.7
Other private transportation	4.344	213.6	217.1	12.0	1.6	1.0	1.2	1.8
Other private trans. commodities 1/	.794	191.7	193.2	13.6	.8	.9	2.0	.8
Other private trans. services	3.550	221.5	225.7	11.6	1.9	1.0	1.0	2.1
Public transportation 1/	.940	223.9	226.1	17.7	1.0	1.3	.9	1.0
Medical care	4.372	258.7	260.9	11.6	.9	1.3	1.5	.9
Medical care commodities	.731	162.7	164.4	8.4	1.0	.6	.9	.9
Medical care services 1/	3.641	279.8	282.2	12.3	.9	1.4	1.9	.9
Professional services 1/	1.843	245.5	247.8	11.3	.9	1.4	1.6	.9
Other medical care services 1/	1.798	322.1	324.4	13.4	.7	1.4	1.5	.7
Entertainment	3.556	196.2	199.5	8.4	1.7	.8	1.2	1.6
Entertainment commodities	2.248	196.9	200.3	8.6	1.7	.9	1.4	1.5
Entertainment services 1/	1.308	196.0	199.1	8.0	1.6	.7	.8	1.6
Other goods and services	4.035	207.7	208.3	8.2	.3	1.4	.9	.4
Tobacco products 1/	1.306	198.3	198.6	6.9	.2	2.6	.6	.2
Personal care 1/	1.684	206.6	207.7	8.5	.5	1.0	1.1	.5
Toilet goods and personal care appliances 1/	.796	198.3	199.6	7.4	.7	.9	1.1	.7
Personal care services 1/	.888	215.0	215.8	9.4	.4	1.2	1.1	.4
Personal and educational expenses	1.046	227.6	228.2	9.4	.2	.8	1.0	.5
School books and supplies	.156	210.4	210.7	8.6	.1	1.4	.8	.7
Personal and educational services	.890	232.5	232.9	9.6	.2	.7	1.0	.5
Commodity and service group								
All items	100.000	236.5	239.9	14.6	1.4	1.4	1.4	1.4
Commodities	61.878	225.3	228.1	13.5	1.2	1.5	1.3	1.2
Food and beverages	20.353	239.0	241.2	7.2	.9	.2	.0	.9
Commodities less food and beverages	41.524	215.7	218.7	17.0	1.4	2.2	1.9	1.3
Nondurables less food and beverages	18.832	234.1	239.8	27.3	2.4	3.4	3.3	2.4
Apparel commodities	4.489	165.2	168.7	5.9	2.1	.7	.9	1.7
Nondurables less food, beverages, and apparel	14.343	272.1	279.0	35.1	2.5	4.1	4.1	2.7
Durables	22.692	200.3	201.2	9.1	.4	1.0	.3	.3
Services	38.122	257.3	261.7	16.3	1.7	1.4	1.5	1.8
Rent, residential 1/	4.982	185.5	186.4	8.9	.5	.7	.9	.5
Household services less rent	19.677	302.4	309.6	21.7	2.4	1.9	2.0	2.5
Transportation services	6.111	229.2	232.7	12.2	1.5	1.0	.9	1.5
Medical care services 1/	3.641	279.8	282.2	12.3	.9	1.4	1.5	.9
Other services	3.711	211.4	213.5	9.5	1.0	1.0	1.0	1.1
Special indexes:								
All items less food	80.763	233.7	237.3	16.5	1.5	1.9	1.7	1.5
All items less shelter	71.962	227.2	230.2	12.8	1.3	1.4	1.4	1.3
All items less mortgage interest costs	91.812	227.6	230.2	12.6	1.1	1.3	1.1	1.1
All items less home purchase and mortgage interest costs	82.675	226.1	229.0	12.4	1.3	1.3	1.2	1.3
All items less medical care	95.628	235.1	238.4	14.7	1.4	1.5	1.4	1.4
Commodities less food	42.641	214.0	216.9	16.7	1.4	2.1	1.8	1.3
Nondurables less food	19.948	229.4	234.8	26.0	2.4	3.2	3.2	2.3
Nondurables less food and apparel	15.459	260.1	266.3	32.8	2.4	3.8	3.9	2.6
Nondurables	39.185	237.4	241.4	16.3	1.7	1.7	1.7	1.6
Services less rent 1/	33.140	270.8	273.9	17.4	1.9	1.5	1.7	2.0
Services less medical care	34.481	253.1	257.7	16.7	1.8	1.6	1.4	1.8
Energy	11.115	348.7	359.6	48.8	3.1	4.7	5.2	3.1
All items less energy	88.885	227.3	230.0	11.1	1.2	1.1	.7	1.2
All items less food and energy	69.648	221.8	224.6	12.2	1.3	1.2	1.1	1.2
Commodities less food and energy	34.900	193.5	195.1	8.4	.8	1.0	.6	.7
Energy commodities	7.740	386.4	400.3	66.8	3.6	6.6	6.8	3.9
Services less energy	34.747	255.7	260.0	16.2	1.7	1.4	1.5	1.8
Purchasing power of the consumer dollar:								
1967-$1.00 1/	-	$.423	$.417	-12.8	-1.4	-1.4	-1.4	-1.4
1957-59=$1.00 1/	-	.364	.358	-	-	-	-	-

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 5. Consumer Price Indexes for urban wage earners and clerical workers: Seasonally adjusted U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Seasonally adjusted indexes				Seasonally adjusted annual rate percent change for-					
	Dec. 1979	Jan. 1980	Feb. 1980	Mar. 1980	3 months ending in June 1979	3 months ending in Sept. 1979	3 months ending in Dec. 1979	3 months ending in Mar. 1980	6 months ending in Sept. 1979	6 months ending in Mar. 1980
Expenditure category										
All items	-	-	-	-	13.0	13.6	13.7	18.1	13.3	15.9
Food and beverages	238.5	238.9	238.8	241.0	5.4	6.5	12.1	4.3	5.9	8.1
Food	244.9	245.1	245.0	247.3	5.3	6.5	12.1	4.0	5.9	8.0
Food at home	241.8	241.3	240.6	242.9	3.2	5.3	12.5	1.8	4.2	7.0
Cereals and bakery products 1/	232.3	234.7	237.4	239.3	7.9	16.3	10.4	12.6	12.0	11.5
Meats, poultry, fish, and eggs	240.0	240.1	236.4	237.6	-.3	-15.0	20.2	-3.9	-6.9	7.5
Dairy products	216.3	217.6	218.5	220.9	8.6	12.4	7.5	8.8	10.5	8.2
Fruits and vegetables	238.2	228.8	222.6	226.7	3.8	23.6	3.1	-18.0	13.3	-8.0
Sugar and sweets 1/	284.1	289.6	297.1	314.1	6.3	6.8	4.2	49.4	6.6	24.8
Fats and oils	233.0	235.1	238.6	240.2	4.6	7.1	6.8	12.9	5.8	9.8
Nonalcoholic beverages	378.6	380.2	385.7	385.6	-3.9	25.1	16.8	7.6	9.7	12.1
Other prepared foods	216.7	218.2	220.6	223.1	12.2	10.6	6.3	12.3	11.4	9.3
Food away from home	256.2	259.0	260.4	262.7	10.3	9.2	11.7	10.5	9.7	11.1
Alcoholic beverages	179.2	180.2	181.5	182.6	6.5	6.9	10.0	7.8	6.7	8.9
Housing	243.6	247.2	250.6	254.6	15.3	16.1	17.0	19.3	15.7	18.2
Shelter	260.4	264.9	268.6	273.2	16.9	17.7	22.7	21.2	17.0	21.9
Rent, residential 1/	182.7	183.9	185.5	186.4	8.4	10.0	8.8	8.4	9.2	8.6
Other rental costs	247.0	251.6	256.1	258.1	10.1	12.3	15.6	19.2	11.2	17.4
Homeownership	288.7	294.3	298.6	306.7	18.3	19.9	26.2	24.1	19.1	25.1
Home purchase 1/	240.2	242.3	243.0	243.8	16.1	17.7	19.0	6.1	16.9	12.4
Financing, taxes, and insurance	351.6	362.3	372.0	385.6	22.5	25.7	39.2	44.7	24.1	41.9
Maintenance and repairs	269.4	272.3	275.4	279.0	12.4	10.0	10.6	15.0	11.2	12.8
Maintenance and repair commodities 1/	293.5	296.5	300.8	304.7	14.7	9.2	11.1	16.2	11.9	13.6
Maintenance and repair commodities 1/	215.8	218.4	219.5	222.3	6.9	12.0	9.8	12.6	9.4	11.2
Fuel and other utilities 1/	255.7	259.2	264.4	268.7	25.9	22.2	6.5	21.9	24.0	14.0
Fuels 1/	311.8	318.1	327.0	333.9	38.6	31.9	7.0	31.5	35.2	18.6
Fuel oil, coal, and bottled gas 1/	489.0	515.1	540.3	554.1	76.0	94.6	25.0	64.9	85.0	43.5
Gas (piped) and electricity 1/	270.7	273.0	278.5	283.9	29.4	16.5	1.2	21.0	22.8	10.6
Other utilities and public services 1/	161.8	161.5	161.4	161.9	.8	1.5	5.1	.2	1.1	2.6
Household furnishings and operation	193.8	195.2	197.0	199.0	5.3	4.8	4.7	11.2	5.0	8.9
Housefurnishings	165.8	167.0	168.2	170.1	4.6	3.2	5.2	10.8	3.9	8.0
Housekeeping supplies 1/	227.2	228.8	232.8	235.5	3.3	5.8	8.5	15.4	4.2	11.9
Housekeeping services 1/	257.5	259.2	261.1	262.7	9.2	8.5	8.8	8.3	8.9	8.6
Apparel and upkeep	170.0	171.4	173.0	176.0	1.0	6.9	4.6	14.9	3.9	9.6
Apparel commodities	164.2	165.3	166.8	169.7	-.2	6.3	4.0	14.1	3.0	8.9
Men's and boys' apparel	163.8	164.0	164.2	166.2	3.3	3.8	3.5	6.0	3.5	4.7
Women's and girls' apparel	151.2	152.3	153.9	157.1	-7.8	5.2	-2.3	16.5	-1.6	6.7
Infants' and toddlers' apparel 1/	230.5	229.1	232.7	237.3	11.9	3.9	8.2	12.3	7.8	10.3
Footwear	183.3	184.6	184.6	186.3	13.0	8.0	9.2	7.2	10.5	8.2
Other apparel commodities 1/	182.9	185.5	191.8	197.8	-2.6	18.0	19.6	36.8	7.2	27.9
Apparel services 1/	213.4	216.9	219.8	223.5	9.6	10.4	9.3	20.3	10.0	14.7
Transportation	229.1	231.1	233.8	246.9	23.6	20.3	14.7	34.9	21.9	24.4
Private transportation	229.1	236.3	243.1	247.3	24.5	20.5	13.6	35.8	22.5	24.2
New cars	169.6	172.0	174.0	174.9	11.6	7.7	.5	13.1	9.6	6.6
Used cars	203.7	203.8	204.7	202.3	-2.5	-4.9	10.7	-2.7	-3.7	3.8
Gasoline	317.4	340.3	365.2	379.9	85.6	63.5	29.4	105.2	74.2	63.0
Maintenance and repair	254.3	256.5	258.7	260.4	11.5	9.8	10.7	9.9	10.6	10.3
Other private transportation	207.9	209.9	212.4	216.3	10.3	11.8	8.9	17.2	11.1	13.0
Other private trans. commodities 1/	186.4	188.0	191.7	193.2	6.3	14.9	18.4	15.4	10.3	16.9
Other private trans. services	215.7	217.8	220.0	224.6	11.2	11.1	7.0	17.6	11.1	12.1
Public transportation 1/	220.1	221.9	223.9	226.1	5.7	20.5	52.8	13.4	12.9	22.7
Medical care	251.8	255.0	258.7	260.9	7.6	11.7	12.1	15.3	9.6	13.7
Medical care commodities	160.3	161.3	162.7	164.2	6.8	7.5	9.0	10.1	7.1	9.5
Medical care services 1/	271.8	275.6	279.8	282.2	7.9	12.6	12.7	16.2	10.2	14.4
Professional services 1/	238.3	241.7	245.5	247.8	8.5	10.6	9.2	16.9	9.6	13.0
Other medical care services 1/	313.0	317.3	322.1	324.4	7.3	14.6	16.5	15.4	10.9	15.9
Entertainment	192.4	194.0	195.3	199.4	7.1	7.0	4.5	15.4	7.1	9.8
Entertainment commodities	192.6	194.4	197.1	200.1	5.3	7.5	9.6	16.5	6.4	10.9
Entertainment services 1/	193.0	194.4	196.0	199.1	10.1	6.5	2.5	13.3	6.3	7.8
Other goods and services	202.1	205.6	207.5	208.3	5.1	11.1	5.1	11.5	8.0	8.3
Tobacco products 1/	192.1	197.1	198.3	198.6	1.5	9.8	2.5	14.2	5.6	6.2
Personal care 1/	202.3	204.4	206.6	207.7	6.6	8.0	8.1	11.1	7.3	9.6
Toilet goods and personal care appliances 1/	194.5	196.2	198.3	199.6	4.2	7.0	7.5	10.9	5.6	9.2
Personal care services 1/	210.2	212.7	215.0	215.8	8.6	9.0	8.8	11.1	8.8	10.0
Personal and educational expenses	223.8	224.0	227.0	229.1	7.5	18.3	3.3	9.5	12.8	6.3
School books and supplies	204.1	206.9	208.5	209.9	7.2	25.3	-7.5	11.9	15.9	1.7
Personal and educational services	228.0	229.5	231.8	232.9	7.5	17.3	5.3	8.9	12.3	7.1
Commodity and service group										
All items	-	-	-	-	13.0	13.6	13.7	18.1	13.3	15.9
Commodities	220.4	223.6	226.4	229.1	12.2	13.3	12.3	16.7	12.8	14.5
Food and beverages	238.5	238.9	238.8	241.0	5.4	6.5	12.1	4.3	5.9	8.1
Commodities less food and beverages	208.7	213.3	217.3	220.1	16.0	16.5	12.6	23.7	16.3	18.0
Nondurables less food and beverages	220.2	227.7	235.3	241.0	27.3	27.3	12.7	43.5	27.3	27.2
Apparel commodities	164.2	165.3	166.8	169.7	-.2	6.4	4.0	14.1	3.0	8.9
Nondurables less food, beverages, and apparel	251.9	262.2	272.9	280.4	38.0	35.6	15.9	53.5	36.8	33.4
Durables	198.8	200.8	201.5	202.2	9.1	8.0	11.9	7.0	8.6	9.4
Services	249.1	251.2	254.2	261.8	14.0	14.5	15.8	20.5	14.2	18.1
Rent, residential 1/	182.7	183.9	185.5	186.4	8.4	10.0	8.8	8.4	9.2	8.6
Household services less rent	291.3	296.8	302.8	310.4	18.8	17.8	21.8	28.9	18.3	25.3
Transportation services	229.1	232.1	235.8	231.7	10.5	12.0	11.5	14.9	13.2	13.2
Medical care services 1/	271.8	275.6	279.8	282.2	7.9	12.6	12.7	16.2	10.2	14.4
Other services	207.1	209.1	211.2	213.5	9.1	10.2	5.8	12.9	9.7	9.3
Special indexes:										
All items less food	226.4	230.6	234.6	238.1	14.9	15.4	14.0	22.3	15.1	18.1
All items less shelter	221.9	224.9	228.0	230.9	11.6	12.1	10.4	17.2	11.9	13.7
All items less mortgage interest costs	222.8	225.6	228.1	230.7	12.0	12.1	11.3	15.0	12.1	13.1
All items less home purchase and mortgage interest costs	221.0	223.9	226.6	229.5	11.9	11.5	10.2	16.3	11.7	13.2
All items less medical care	229.1	232.6	235.8	239.1	13.3	13.7	13.6	18.6	13.5	16.1
Commodities less food	207.2	211.6	215.5	218.2	15.6	16.4	12.5	23.0	16.0	17.6
Nondurables less food	216.4	223.4	230.6	236.0	25.7	26.0	12.8	41.5	25.8	26.3
Nondurables less food and apparel	241.9	251.2	260.9	267.6	35.3	33.3	15.4	49.8	34.3	31.5
Nondurables	230.2	234.1	238.1	241.9	14.4	16.3	12.5	21.9	15.3	17.1
Services less rent	262.5	266.4	270.8	276.1	14.9	15.1	17.0	22.4	15.0	19.7
Services less medical care 1/	245.5	249.5	253.1	257.7	14.1	16.1	15.3	21.4	15.1	18.3
Energy	319.1	334.2	351.5	362.5	62.1	51.1	20.0	66.5	56.5	41.4
All items less energy	223.5	226.0	227.5	230.2	8.8	9.8	12.9	12.5	9.3	12.7
All items less food and energy	217.3	220.0	222.5	225.1	10.1	10.3	13.3	15.1	10.2	14.2
Commodities less food and energy	191.4	193.4	194.5	195.9	7.5	7.4	9.3	9.7	7.4	9.5
Energy commodities	342.9	365.7	390.7	406.0	85.4	67.3	27.2	96.5	76.1	58.1
Services less energy	248.3	251.9	255.6	260.2	12.5	14.2	17.5	20.6	13.4	19.0

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 6. Consumer Price Index for urban wage earners and clerical workers: Selected areas, all items index, 1967=100 unless otherwise noted

Area 1/	Pricing schedule 2/	Other index base	Indexes Dec. 1979	Jan. 1980	Feb. 1980	Mar. 1980	Percent change to Mar. 1980 from- Mar. 1979	Jan. 1980	Feb. 1980	Percent change to Feb. 1980 from- Feb. 1979	Dec. 1979	Jan. 1980
U.S. city average			230.0	233.3	236.5	239.9	14.6	2.8	1.4	14.2	2.8	1.4
Chicago, Ill.-Northwestern Ind.	M		227.8	229.9	232.5	235.2	14.1	2.3	1.2	14.9	2.1	1.1
Detroit, Mich.	M		232.2	236.4	239.9	242.4	14.6	2.5	1.0	14.9	3.3	1.5
L.A.-Long Beach, Anaheim, Calif.	M		229.9	235.0	240.0	243.9	19.3	3.8	1.6	18.6	4.4	2.1
N.Y., N.Y.-Northeastern N.J.	M		222.4	225.5	227.7	230.8	11.9	2.4	1.4	11.2	2.4	1.0
Philadelphia, Pa.-N.J.	M		224.6	228.0	231.6	235.1	13.7	3.1	1.5	12.5	3.1	1.6
Anchorage, Alaska	1	10/67	-	215.9	-	220.2	9.8	2.0	-	-	-	-
Baltimore, Md.	1		-	234.5	-	243.9	15.9	4.0	-	-	-	-
Boston, Mass.	1		-	226.9	-	234.2	14.6	3.2	-	-	-	-
Cincinnati, Ohio-Ky.-Ind.	1		-	241.0	-	249.7	15.2	3.6	-	-	-	-
Denver-Boulder, Colo.	1		-	290.9	-	299.4	15.3	3.4	-	-	-	-
Miami, Fla.	1	11/77	-	124.9	-	128.8	14.6	3.1	-	-	-	-
Milwaukee, Wis.	1		-	240.8	-	247.8	18.3	2.9	-	-	-	-
Northeast Pennsylvania	1		-	225.8	-	231.3	12.0	2.4	-	-	-	-
Portland, Oreg.-Wash.	1		-	243.5	-	251.7	16.6	3.4	-	-	-	-
St. Louis, Mo.-Ill.	1		-	233.5	-	238.5	15.2	2.1	-	-	-	-
San Diego, Calif.	1		-	291.0	-	255.6	16.9	1.8	-	-	-	-
Seattle-Everett, Wash.	1		-	233.8	-	241.3	17.2	3.2	-	-	-	-
Washington, D.C.-Md.-Va.	1		-	233.0	-	239.2	12.1	2.7	-	-	-	-
Atlanta, Ga.	2		227.0	-	233.5	-	-	-	-	15.2	2.9	-
Buffalo, N.Y.	2		220.7	-	227.9	-	-	-	-	12.7	3.3	-
Cleveland, Ohio	2		233.2	-	244.1	-	-	-	-	15.7	4.7	-
Dallas-Fort Worth, Tex.	2		233.3	-	240.9	-	-	-	-	16.8	3.3	-
Honolulu, Hawaii	2		215.5	-	221.3	-	-	-	-	12.9	2.7	-
Houston, Tex.	2		246.0	-	251.9	-	-	-	-	12.9	2.4	-
Kansas City, Mo.-Kans.	2		232.4	-	236.6	-	-	-	-	15.9	1.8	-
Minneapolis-St.Paul, Minn.-Wis.	2		234.8	-	239.6	-	-	-	-	12.8	2.0	-
Pittsburgh, Pa.	2		229.7	-	235.9	-	-	-	-	13.1	2.7	-
San Francisco-Oakland, Calif.	2		229.0	-	240.0	-	-	-	-	17.5	4.8	-
Region 3/												
Northeast	2	12/77	120.5	-	123.7	-	-	-	-	12.4	2.7	-
North Central	2	12/77	125.2	-	128.3	-	-	-	-	14.1	2.5	-
South	2	12/77	123.8	-	127.5	-	-	-	-	14.1	3.0	-
West	2	12/77	125.4	-	129.8	-	-	-	-	16.9	3.5	-
Population size class 3/												
A-1	2	12/77	122.0	-	125.7	-	-	-	-	14.1	3.0	-
A-2	2	12/77	124.2	-	128.1	-	-	-	-	15.0	3.1	-
B	2	12/77	124.8	-	128.2	-	-	-	-	14.5	2.7	-
C	2	12/77	124.3	-	127.6	-	-	-	-	13.6	2.7	-
D	2	12/77	123.1	-	126.1	-	-	-	-	13.3	2.4	-
Region/population size class cross classification 3/												
Northeast/A	2	12/77	118.9	-	122.1	-	-	-	-	11.9	2.7	-
North Central/A	2	12/77	126.3	-	129.8	-	-	-	-	15.2	2.8	-
South/A	2	12/77	123.5	-	127.4	-	-	-	-	14.2	3.2	-
West/A	2	12/77	124.7	-	130.0	-	-	-	-	18.3	4.3	-
Northeast/B	2	12/77	121.9	-	125.3	-	-	-	-	12.9	2.8	-
North Central/B	2	12/77	125.7	-	128.4	-	-	-	-	13.5	2.1	-
South/B	2	12/77	124.4	-	127.9	-	-	-	-	14.5	2.8	-
West/B	2	12/77	127.1	-	130.9	-	-	-	-	16.5	3.0	-
Northeast/C	2	12/77	125.5	-	128.8	-	-	-	-	13.9	2.6	-
North Central/C	2	12/77	123.0	-	125.6	-	-	-	-	12.6	2.1	-
South/C	2	12/77	124.3	-	128.2	-	-	-	-	14.2	3.1	-
West/C	2	12/77	125.1	-	128.4	-	-	-	-	14.0	2.6	-
Northeast/D	2	12/77	122.4	-	125.1	-	-	-	-	13.0	2.2	-
North Central/D	2	12/77	123.5	-	126.2	-	-	-	-	12.6	2.2	-
South/D	2	12/77	122.4	-	125.9	-	-	-	-	13.6	2.9	-
West/D	2	12/77	124.5	-	127.3	-	-	-	-	14.4	2.2	-

1/ Area is generally the Standard Metropolitan Statistical Area (SMSA), exclusive of farms. L.A.-Long Beach, Anaheim, Calif. is a combination of two SMSA's, and N.Y., N.Y.-Northeastern N.J. and Chicago, Ill.-Northwestern Ind. are the more extensive Standard Consolidated Areas. Area definitions are those established by the Office of Management and Budget in 1973, except for Denver-Boulder, Colo. which does not include Douglas County. Definitions do not include revisions made since 1973.

2/ Foods, fuels, and several other items priced every month in all areas; most other goods and services priced as indicated:
M - Every month.
1 - January, March, May, July, September, and November.
2 - February, April, June, August, October, and December.

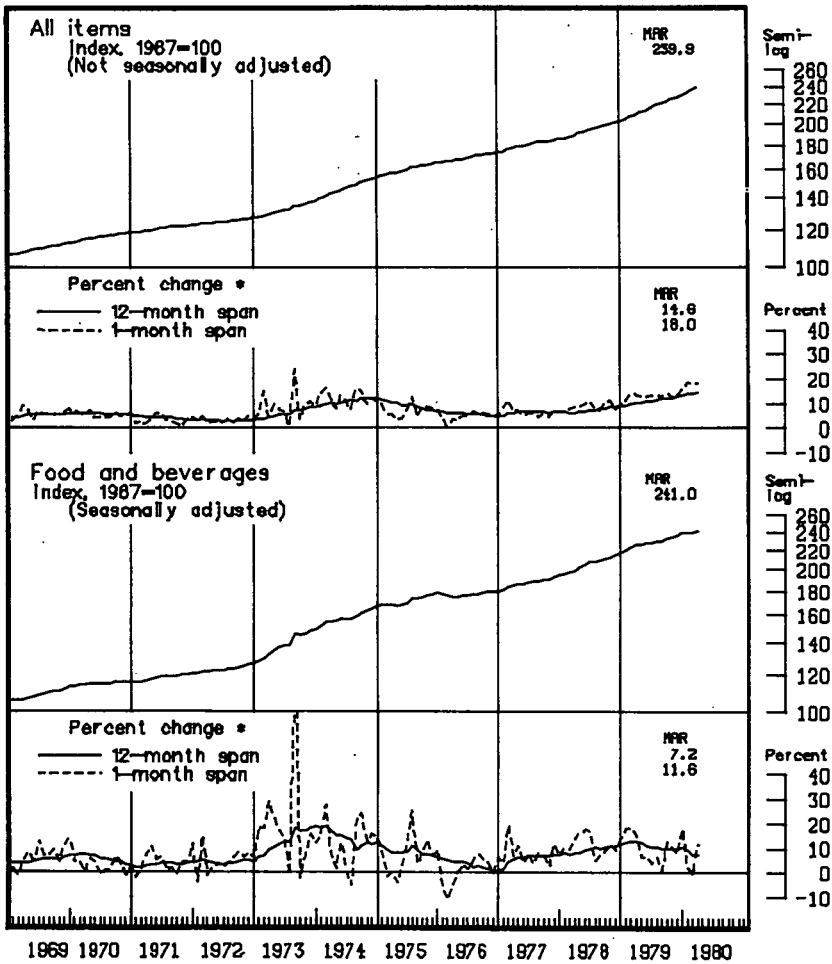
3/ Regions are defined as the four Census regions.
The population size classes are aggregations of areas which have urban population as defined below:

A-1	More than 4,000,000.
A-2	1,250,000 to 4,000,000.
B	385,000 to 1,250,000.
C	75,000 to 385,000.
D	Less than 75,000.

Population size class A is the aggregation of population size classes A-1 and A-2.

NOTE: Price changes within areas are found in the Consumer Price Index; differences in living costs among areas are found in Family Budgets.

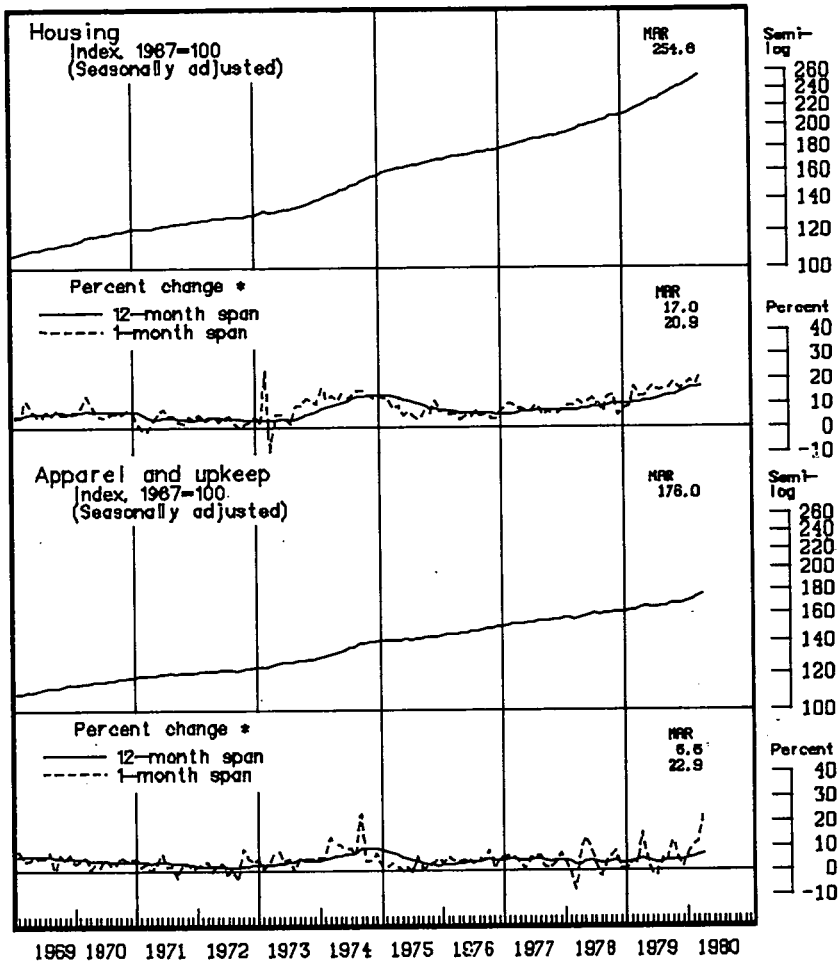
CHART 1: CPI–W: All items, food and beverages, 1969–80



* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

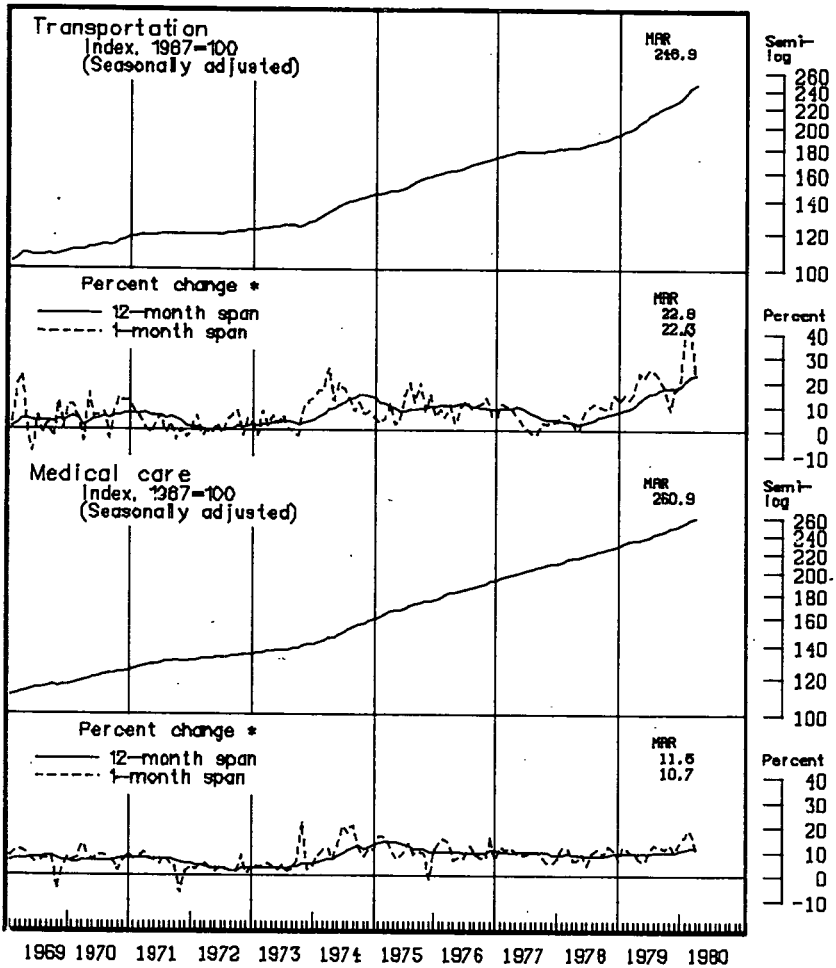
** August 1973 = 92 percent

CHART 2: CPI–W: Housing, apparel and upkeep, 1969–80



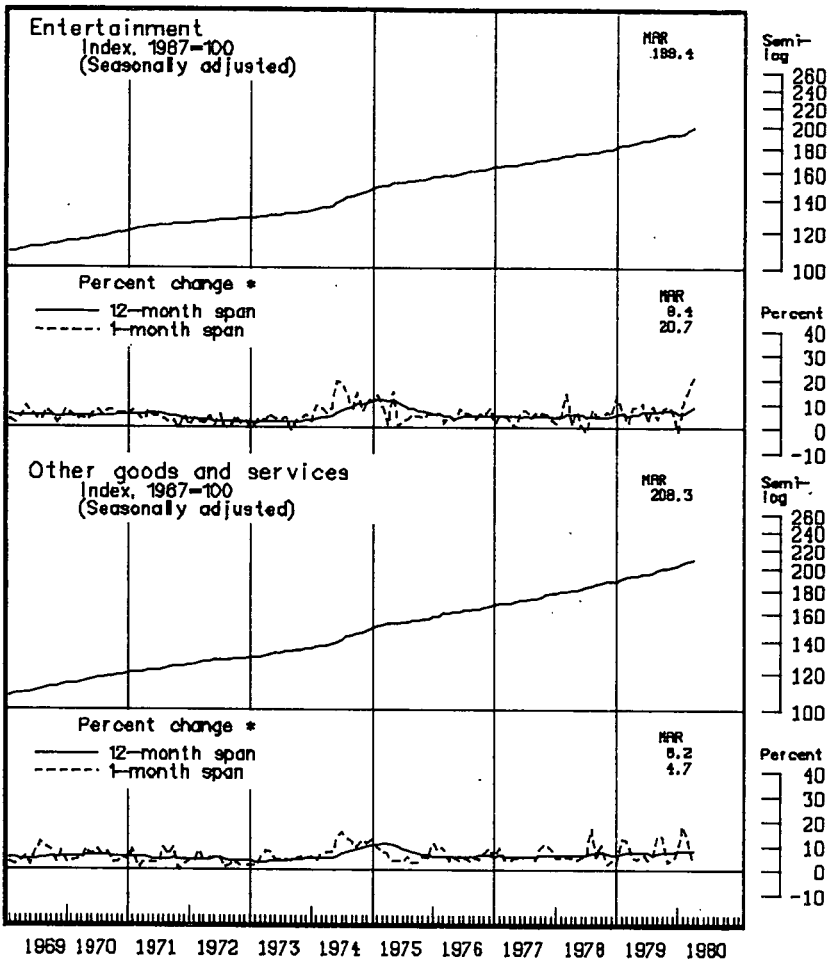
* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

CHART 3: CPI-W: Transportation and medical care, 1969-80



* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

CHART 4: CPI–W: Entertainment, other goods and services, 1969–80



* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

Table C. HOMEOWNERSHIP COMPONENTS used in official CPI-U and in experimental measures: Percent change over 12 months

12 months ended	Official Consumer Price Index for All Urban Consumers (CPI-U)	Experimental measures of homeownership				
		Flow-of-services measures			Outlays measures	
		X-1 Rental equivalence using CPI rent	X-2 User cost using current interest cost	X-3 User cost using average interest cost	X-4 Outlays using current interest cost	X-5 Outlays using average interest cost
December:						
1968	7.6	2.8	11.1	8.0	11.0	6.0
1969	10.2	3.8	6.9	3.5	13.2	8.3
1970	10.2	4.5	4.3	1.7	12.6	10.1
1971	2.7	3.8	-12.1	-8.9	0.3	7.7
1972	4.1	3.5	2.4	3.3	4.8	6.2
1973	7.7	4.9	22.9	18.8	10.8	4.4
1974	13.3	5.4	16.8	12.9	14.9	9.1
1975	7.9	5.2	2.7	3.3	7.1	9.0
1976	3.8	5.5	-1.0	2.0	2.7	7.6
1977	9.2	6.5	2.5	0.4	10.4	9.0
1978	12.4	7.3	5.7	1.1	12.0	5.3
April 1979	14.2	6.5	12.3	9.9	14.4	6.1
May 1979	14.6	6.8	13.9	11.3	14.9	6.4
June 1979	14.9	6.8	14.2	10.6	15.0	6.4
July 1979	15.2	7.1	16.7	11.7	15.3	6.8
August 1979	16.0	7.5	20.1	9.8	15.9	7.0
September 1979	16.1	7.6	18.3	13.2	16.4	7.5
October 1979	16.8	8.4	22.2	13.7	17.2	7.8
November 1979	18.3	8.1	24.5	15.1	19.0	7.9
December 1979	19.8	7.9	28.2	22.4	22.6	11.2
January 1980	21.1	8.1	30.7	22.9	24.4	11.5
February 1980	20.6	8.5	31.2	24.9	24.5	12.1
March 1980	21.7	8.9	38.0	29.7	26.5	12.7
Relative importance December 1977	22.8	14.5	11.4	10.0	10.0	8.7

Table D. Official ALL-ITEMS CPI-U and EXPERIMENTAL MEASURES using alternative homeownership components: Percent change over 12 months

12 months ended	Official Consumer Price Index for All Urban Consumers (CPI-U)	Experimental measures using alternative homeownership components				
		Flow-of-services measures			Outlays measures	
		X-1 Rental equivalence using CPI rent	X-2 User cost using current interest cost	X-3 User cost using average interest cost	X-4 Outlay using current interest cost	X-5 Outlays using average interest cost
December:						
1968	4.7	3.9	4.9	4.6	4.7	4.2
1969	6.1	5.2	5.6	5.2	6.0	5.7
1970	5.5	4.5	4.5	4.2	5.2	4.9
1971	3.4	3.5	1.6	2.2	3.2	3.8
1972	3.4	3.3	3.2	3.3	3.4	3.5
1973	8.8	8.5	10.5	10.0	9.2	8.7
1974	12.2	11.1	12.6	12.1	12.3	11.8
1975	7.0	6.6	6.3	6.4	6.8	6.9
1976	4.8	5.1	4.3	4.7	4.8	5.2
1977	6.8	6.3	5.8	5.7	6.6	6.5
1978	9.0	8.0	7.8	7.4	8.5	7.8
April 1979	10.4	8.9	9.6	9.4	9.8	9.1
May 1979	10.8	9.2	10.1	9.7	10.1	9.3
June 1979	10.9	9.3	10.2	9.8	10.2	9.4
July 1979	11.3	9.7	10.9	10.3	10.7	9.9
August 1979	11.8	10.1	11.5	10.4	11.0	10.2
September 1979	12.1	10.4	11.7	11.1	11.4	10.6
October 1979	12.2	10.5	12.2	11.1	11.5	10.5
November 1979	12.6	10.5	12.5	11.3	11.8	10.6
December 1979	13.3	10.8	13.2	12.8	12.5	11.3
January 1980	13.9	11.2	13.9	12.8	13.1	11.7
February 1980	14.1	11.6	14.3	13.3	13.4	12.1
March 1980	14.7	12.0	15.5	14.1	13.9	12.5

Explanations of Homeownership Measures

Official CPI-U includes five components. (1) The weights for property taxes, property insurance, and home maintenance and repairs represent expenditures of all homeowers in the base period. The weights for house prices and contracted mortgage interest cost represent only those homeowners who actually purchased a home in the base period. Included are the total price paid for the home, and the total amount of interest expected to be paid over half the stated life of the mortgage. (2) Current monthly prices are used for each of these components.

Experimental Measure X-1: (1) The weight for this rental equivalence measure is the estimate of the rental value of all owner-occupied homes in the base period compiled from a specific question asked on the 1972-73 Consumer Expenditure Survey. This covers the entire stock of owned homes. (2) Prices used are the current rents collected for the residential rent component of the CPI. The CPI rent component is designed to represent changes in residential rents for all types of housing units, not just changes in rents for units that are typically owner occupied. The CPI rent component is, therefore, not appropriate for this measure.

Experimental Measure X-2: (1) The weight for this user cost method includes expenditures for mortgage interest, property taxes, property insurance, maintenance and repairs, the estimated base-period cost of homeowners' equity in their houses, and the offset to shelter costs resulting from the estimated appreciation of house values in the base period. This measure covers the entire stock of owned houses. To derive the weights for mortgage interest costs and equity costs, the total value of the housing stock in the base period was apportioned into its debt and equity components. The debt component equals the amount owed and the equity component is the amount owned, i.e., payments on principal plus appreciation from the time of purchase to the base period. Each component was subsequently multiplied by the average mortgage interest rate in the base period to determine its cost. (2) Prices used are current ones except for the appreciation term which uses a 5-year moving average of the changes in appreciation rates.

Experimental Measure X-3: (1) The weights are the same as in Experimental Measure X-2, except that mortgage interest costs are calculated as the total interest amount *paid out* by homeowners in the base period. As in X-1 and in X-2, this measure covers the entire homeowners population. (2) The prices for all components except mortgage interest costs and appreciation are current monthly prices. As in X-2, appreciation is represented by a 5-year moving average of the changes in house prices. However, X-3 uses past and current mortgage interest costs in a 15-year weighted moving average, which reflects the base period age distribution of mortgage loans.

Experimental Measure X-4: The weights for this outlays approach include expenditures actually made in the base period for property taxes, property insurance, maintenance and repairs. The weight for the mortgage interest term is calculated in the same manner as in X-2. However, no appreciation or equity terms are included. Not all homeowners are represented in this measure because those who made no mortgage debt payment in the base period are excluded. (2) The prices used for each of these items are current ones.

Experimental Measure X-5: (1) The weights for this outlays approach include, as in X-4, expenditures actually made in the base period for property taxes, property insurance, maintenance and repairs. The weight for the mortgage interest cost term is the same as for the X-3. No appreciation or equity elements are used. As in X-4, not all homeowners are represented in this measure because those who made no mortgage debt payment in the base period are excluded. (2) Current prices are used in X-5 except for mortgage interest which uses the 15-year moving average also used in the X-3.

Representative REUSS. Mr. Russell, American consumers and workers have only one question: When will we get some relief from this relentless and destructive inflation?

STATEMENT OF R. ROBERT RUSSELL, DIRECTOR, COUNCIL ON WAGE AND PRICE STABILITY

Mr. RUSSELL. Thank you, Congressman.

I guess that I would say that the CPI for March was not a surprise. When I was here before this committee last month, I said that we were in for 1.2 to 1.4 percent increases until early summer, after which time we expect a marked decline in the inflation rate.

The March figures indicate that at least the first part of that forecast is turning out to be true, and I am still confident that the second part will turn out to be true as well.

The only real surprise to us in the increase in March—and that was only a mild surprise—is what happened to food. Food price increases were a little higher than we anticipated. The main reason for the increases were a freeze in Florida which caused prices of fresh fruits and vegetables to go up rapidly during that month. In addition, as we had anticipated, the big increases in sugar prices caused by a worldwide boom in the sugar market is rippling through the economy into sweets, soft drinks, and so forth, and raising prices in that food component.

Also somewhat of a surprise was that beef prices went up quite a bit. Basically, though, we expect that food price increases should be rather large throughout the next several months. And for the year as a whole, it will be in the 7-to-10-percent range. It will be that high primarily because the costs of marketing and distributing and processing foods are very high because of high interest rates and high energy costs. So we expect food prices to be up in the 0.5-to-1-range for the next several months.

The mortgage interest rate component is also about what we expected. Indeed, we predicted 4.1. That's exactly what it turned out to be. And home purchase prices are continuing to be rather moderate.

In addition, the softening of the gasoline market, the energy market in general, is showing up with increases in gasoline of 3.9 percent, and home heating oil of 2.8 percent last month. This is certainly not acceptable, but it is small relative to the 7-percent increases we have seen in recent months.

So that is about the way it looks in terms of special components. The truly disturbing thing is not what is happening with respect to interest rates, energy, and so forth, because we expect that to turn around sharply the second half of the year; but rather, what is happening to the underlying rate of inflation.

I have given you a handout with three pages—the second and third—devoted to the underlying rate, which is a measure of the core rate of inflation—which of course represents that inflation that will persist, even if these extraneous shocks caused by soaring interest rates and crude oil prices, were to disappear tomorrow.

If you look at the second table that I handed out, you will see that whatever measure of the underlying rate that you look at, there has been a marked acceleration during recent quarters.

For example, the Consumer Price Index underlying rate, measured by extracting basically food, energy, and housing from the CPI, was fairly steady, in the 7- to 8-percent range, throughout the latter part of 1978 and most of 1979.

However, late in 1979 the underlying rate measured by the CPI moved up to about 8½ percent, and in the first quarter of 1980 it's been up 12½ percent—a marked acceleration. What we have been fearing most throughout the past year is that the big energy price surge will spill over into the industrial and service core of the economy, causing this ratcheting up of the underlying rate.

This also shows up in the Producer Price Index underlying rate, which is more erratic. This is obtained by extract food and energy from the PPI. You can see that it was in the about 8- to 10-percent range throughout most of 1979, but moved up to an 18-percent figure in the first quarter of 1980.

There are others measures that you can use. We don't have the Non-Farm Business Deflator for the first quarter of 1980, but the Personal Consumption Expenditure Deflator [PCED] less food and energy, shows a similar acceleration of the underlying rate of inflation.

Perhaps the picture of what has happened to the underlying rate is more graphically depicted in the third handout, which shows the CPI underlying rate—a bar chart—for 3-month percentage changes, month by month, since January 1978.

You can see that that is fairly steady throughout most of this period until the latter part of 1979, when we moved up to a new plateau. Then there has been a striking increase in the underlying rate in the first part of 1980.

So we still expect a marked declining inflation rate starting in midsummer or so, especially after the effect of the oil import tax has been transmitted to the economy in June. To give you an idea of the kinds of declines we can expect: If interest rates just level off, let alone decline, if interest rates just level off, that will knock 4 full percentage points off the rate of growth of the CPI.

If energy cost increases for energy commodities are something like 20 percent this year instead of the 60 percent that we had last year—an event that should not be surprising in light of the softening world market for crude oil—then that would knock another 4 full percentage points off the rate of growth of the CPI.

Hence, in these two problem sectors alone, we can expect the overall inflation rate to drop to close to single-digit rates by the end of this year. However, this improvement in the overall inflation rate will mask a worsening of the underlying situation, because it appears that the underlying rate has been ratcheted up into the 10- to 12-percent range. That means that it is going to take that much longer, through the types of fiscal and monetary measures that were put into effect last month, to bring the inflation rate down to acceptable levels.

I would say it would take probably several years of modest restraint to get the underlying rate down from the 10- to 12-percent rate we see now, down to 5 percent, which is an acceptable level of inflation.

[The tables and chart referred to follow:]

CONSUMER PRICE INDEX

[Seasonally adjusted, percentage changes]

	December 1979 relative importance (percent)	March 1979 to March 1980	3 mos ended [1]					
			March 1979	June 1979	September 1979	December 1979	March 1980	February to March
All items	(100.0)	14.7	13.0	12.8	13.8	13.7	18.1	1.4
Food	(17.7)	7.3	16.0	6.4	6.5	12.1	3.8	1.0
Food at home	(12.2)	6.0	17.1	4.4	5.3	12.3	2.0	1.1
Domestically produced	(10.0)	4.8	19.5	4.8	2.5	11.9	6.0	1.2
Imported [2]	(2.2)	11.6	8.6	6.9	15.5	7.6	12.2	1.2
Food away from home	(5.5)	10.6	14.0	11.1	9.0	11.6	10.1	.8
Housing less fuels [2]	(40.4)	15.9	11.3	12.8	15.4	17.2	5.8	1.5
Home purchase [2]	(10.4)	14.7	11.3	16.3	17.1	18.8	7.0	.4
Mortgage interest costs	(8.7)	40.3	31.5	27.7	29.0	52.8	53.8	4.1
Rent [2]	(5.3)	8.9	4.3	8.2	10.2	9.0	8.3	.5
Energy	(10.3)	47.2	25.7	59.2	49.9	19.2	64.8	3.0
Transportation less gasoline	(12.9)	6.7	5.6	2.4	5.1	8.3	10.8	.7
Public transportation [2]	(1.1)	21.2	5.2	5.3	25.2	39.5	17.3	1.1
New cars	(3.7)	7.6	11.9	11.3	7.1	0.0	12.3	.3
Apparel and upkeep	(5.1)	7.1	8.4	1.0	7.7	5.1	15.3	2.0
Medical care	(4.8)	11.2	11.0	6.7	10.7	12.0	15.9	.9
Entertainment	(3.7)	8.5	7.9	6.4	7.7	5.3	15.0	1.3
Other goods and services	(4.1)	7.9	9.2	5.3	12.2	5.1	10.6	.5
All items less energy	(89.7)	11.6	11.1	9.0	10.6	13.5	12.9	1.2
All items less mortgage interest costs (MIC)	(91.3)	12.6	10.6	11.6	12.3	11.8	14.8	1.2
All items less energy and MIC	(81.0)	7.8	9.6	6.5	8.3	8.0	9.4	.9
Underlying rate [3]	(47.9)	9.1	7.5	7.2	8.1	8.6	12.7	1.0

[1] Annual rates of change.
[2] Not seasonally adjusted.
[3] Consumer Price Index excluding the cost of home purchase, finance taxes and insurance; and food, energy and used cars.

Source: U.S. Department of Labor, Bureau of Labor Statistics; and the Council on Wage and Price Stability.

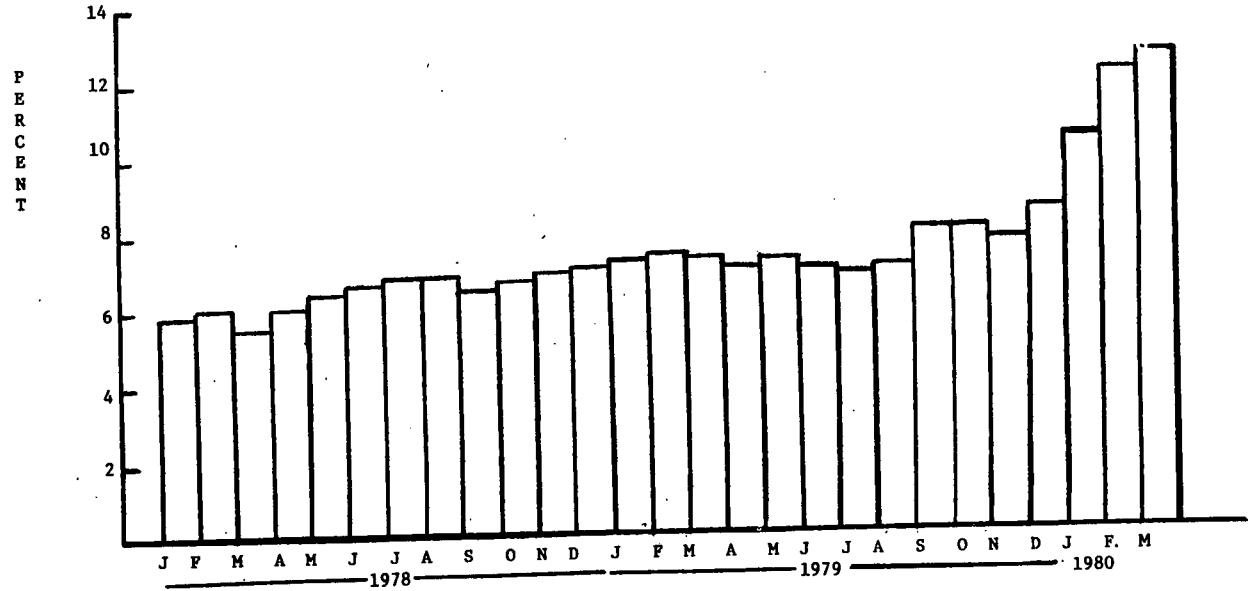
SELECTED MEASURES OF THE UNDERLYING RATE OF INFLATION

	Fiscal year—			Change over previous quarter					
				1st program year [1]				2d program year [1]	
	1977	1978	1979	1978:IV	1979:I	1979:II	1979:III	1979:IV	1980:I
CPI—Underlying rate [2 3]	6.0	6.1	7.5	7.2	7.5	7.2	8.1	8.6	12.7
PPI—Underlying rate [3 4]	5.6	8.1	8.7	7.7	10.3	7.9	9.1	10.5	18.4
Fixed-weight price indices:									
Nonfarm business	6.8	7.2	9.7	7.7	8.5	11.3	11.2	9.0	NA
Personal consumption expenditures less food and energy	6.1	6.6	7.3	6.7	7.8	6.8	7.8	8.4	10.7
Unit labor costs [5]	5.8	8.2	10.8	7.6	14.1	12.8	8.8	8.6	[6] 9.9

[1] Seasonally adjusted, annual percentage rates of change.
[2] Consumer Price Index excluding the costs of home purchase, finance, taxes and insurance; and food, energy, and used cars.
[3] The CPI and PPI measures of the underlying rate are based on monthly data; annual figures are September-to-September changes, and program year figures measure—3-mo changes during the program period.
[4] Producer price index for finished consumer goods excluding food and energy costs.
[5] Fiscal year figures measure third-quarter-to-third-quarter changes in unit labor costs for the nonfarm business sector.
[6] Estimate.

Sources: U.S. Department of Labor, Bureau of Labor Statistics; and U.S. Department of Commerce, Bureau of Economic Analysis.

CPI -- Underlying Rate
(3-month percentage change, seasonally adjusted)



Representative REUSS. Thank you very much.

Mr. Russell, in World War II, GI's like Senator Proxmire and Mr. Wylie and myself were frequently given yellow fever shots and—unfortunately a lot of us got yellow fever from the shots.

Now I notice that our principal element in our anti-inflation program is higher interest rates. And I notice that in the 3 months ending in March 1980, mortgage interest costs increased 53.8 percent. Is that not correct? That is an alarming figure. Is that not a little like the yellow fever shots? Is not this anti-inflation program giving us a large part of the inflation?

Mr. RUSSELL. Well, as I understand—and I am not an expert on medicine—but as I understand, the idea of innoculation is in fact to induce a very mild case of the disease in order to build up the antibodies so that in the long run you are immune to the disease.

Representative REUSS. In this particular incident, several hundred soldiers died of the mild treatment. And if I can believe what I hear from the construction industry and the home building industry, something like that is happening.

I say that because it has been my view that putting all our eggs in the fiscal/monetary basket does not work, and that unless we embark on the structural reforms that are needed, we are never going to get inflation under control.

Mr. RUSSELL. Yes.

Representative REUSS. That is a jumping-off point. I invite your comments on my thesis that the macro game produces misery, not a good result; and that we ought to supplement it by meaningful structural positive adjustment, competitive productivity increasing programs, or we are goners.

Mr. RUSSELL. I agree that there is a lot of short-run pain involved with this particular kind of medicine. There is no doubt about that. However, the only way that we could prevent these soaring interest rates would be to have accommodated the increased demand for credit, thus causing a big increase in the rate of growth of the money supply. That would have kept interest rates down, but would have fed the inflationary process through increasing the aggregate demand in such a way that the inflation would ultimately be even worse, and the pain that we would have to suffer to bring it under control would be all the worse at a later time.

So I think it is very short-sighted to try to keep interest rates down now in order to avoid what some consider to be an anomalous and artificial inflationary effect through the CPI, and suffer the dire consequences later caused by excess aggregate demand, causing widespread inflation, not just in the mortgage interest component of the CPI, but through every single market in the economy.

I also agree with you that in order to get the inflation rate down to the stable levels that we enjoyed in the 1950's and 1960's, we do need structural reform of the type that you have proposed. I think especially we need measures to revitalize productivity growth.

However, to try to revitalize productivity growth now through the most effective method, namely, direct business tax cuts that provide incentives to invest, would fuel the inflationary fires and be disastrous in the short run.

Representative REUSS. Well, a couple of comments.

Of course, I am not advocating getting interest rates down by turning on the money machine. That, as you point out, is self-defeating. But I respectfully differ with you when you say, as I think you did, that that is the only alternative to the misery we are suffering.

Norway has found a pretty good alternative. They keep the rate of inflation down, and have for 2 years, by wage-price controls, that's unspeakable around here, and that has brought interest rates down.

Is it not a fact that, putting to one side whether wage-price controls are possible—I happen to think they are, because I administered them and they worked—but putting that question aside, it is not a fact that wage-price controls would, by keeping the inflation rate down, bring interest rates down, assuming that we also have monetary policy over at the helm, steady-on, you know?

Mr. RUSSELL. For a very short period of time, it can work. As a matter of fact, it worked in this country in the early 1970's. That held the inflation rate down.

Representative REUSS. Right. Well, is it not further true that what this world needs is something for a short period of time while we can put in place the structural reforms that you and I have agreed are the only thing that can save us in the long run?

Mr. RUSSELL. I suggest that these kinds of mandatory controls, such as we had in the early 1970's, are not just short run. They are ephemeral. The available statistical evidence suggests that. Once these controls are lifted, given whatever fiscal monetary policy you have, it doesn't matter, the inflation rate adjusts upward. So the shortrun effect is completely offset. Indeed, some studies suggest that it is more than offset, because what happens when you try to impose a comprehensive set of mandatory controls on the economic system, such as we had in the early 1970's, is that relative prices get out of sync.

When relative prices get out of sync and then we lift the controls, they have to readjust in order for markets to clear in order for equilibrium of the economy to be reestablished so that we don't have long lines in one place and excess supply somewhere else.

The way relative prices adjust is not for the prices that are too high to come down; rather, for the prices that are too low relative to another to come up. That is the way the system adjusts because of downward rigidity in prices in our economic system.

Therefore, the studies that have been done of the early 1970's controls suggests that they were, at best, in the long run, useless, and at worst inimical because the postcontrols period price surge at least offset, and perhaps more than offset, the reduced prices during the controls period.

Representative REUSS. Well, the big difference between me, on the one hand, and you and the administration, on the other, is on our selection of historic examples. I will quite agree that during the Nixon price control period—since his administration, while price controls were on, consisted of bollixing up the structure of the economy something terrible—heavy import duties, controls over soybeans, sales of grain to the Soviet Union at a discount, all sorts of awful things which distorted the underlying economy even more—of course when you lifted off price controls, you got a worse situation.

Put your mind back to 1951 and 1952 when, during the Korean war period, price-wage controls were instituted. When they were removed,

they led to a golden age of American economics in the Eisenhower years.

So I think, with all due respect, you are looking at the wrong examples. We will return to this.

Let me recognize Senator Proxmire.

Mr. RUSSELL. Let me just say that I suggest that those wartime experiences are the wrong examples; then we were trying to mobilize an economy for war and were engaging in a massive reallocation of resources from basically the private to the public sector. I think the disturbances caused by that kind of government induced massive redistribution of resources can effectively be mitigated by the kinds of controls that you are talking about.

Representative REUSS. You do not agree with President Carter's characterization of the current energy crisis as the moral equivalent of war?

Mr. RUSSELL. I am not an expert on morality of war. [Laughter.]

Representative REUSS. Well, you are good on both counts.

Mr. RUSSELL. I do not disagree with his comment.

Representative REUSS. Mr. Wylie.

Representative WYLIE. Thank you very much, Congressman.

Mr. Russell, you said there would be a marked decline in the inflation rate this summer. Right?

Mr. RUSSELL. Yes, sir. The second half of the year.

Representative WYLIE. What will be the causes of that happy decline?

Mr. RUSSELL. There will be two principal causes.

One: There is already evidence that interest rates have leveled off, if not started to decline. That will make a huge difference in the Consumer Price Index; less of a difference in the other measures of inflation which, however, don't show nearly as much inflation as the CPI.

Second: The world crude oil market is softening tremendously. Last year's 120-percent increase in the world price of crude oil was caused not, as many suspect, by a supply shortfall, since last year's world supply of crude oil increased by 4½ to 5 percent, but rather by a panic-stricken worldwide buildup of inventories in anticipation of, or because of anxiety about, the possibility of a supply cutoff from the Middle East due to a political crisis. Worldwide inventory storage capacity is now depleted; therefore, the market is softening tremendously. We are seeing in many respects spot-market prices are down below the contract prices of many African countries. I am sure you read the news today that Japan has now refused to go along with Iran's recent price hike for contract oil, and would prefer to buy oil on the spot market if necessary.

In the United States, inventories of both crude oil and refined products are very high. So what is happening is that that market is starting to soften. Barring another major political crisis in the Middle East, we will not see energy price increases throughout the rest of this year anything like we have seen over roughly the last year and a quarter.

Those two factors alone can drop the inflation rate by 8 percentage points. Then in the second half of the year, if fiscal and monetary restraint, recently put into place, should start to have an effect, that should gradually start to lower the underlying rate of inflation, but

that will not be nearly so dramatic. It will take quite a while to bring that down.

Representative WYLIE. Well, the inflation rate has clearly spread beyond the housing and energy costs. I might say that one of my major concerns is the sharp increase in the food component.

What does that component hold for the future? And is it not likely to have some contributing factor to inflation and to the Consumer Price Index?

Mr. RUSSELL. Certainly. We cannot expect, throughout the rest of this year, anything like the price stability that we had very early in this year when, on a seasonally adjusted basis, there was very little increase in food prices. The reason for that was that farm prices were falling, more than offsetting the increased costs of processing and marketing food products.

These costs, a lot of what we are seeing and will be seeing throughout the rest of this year in the way of rising food prices, are really secondary effects of the energy price surge and the interest cost increases.

Food processing and distributing, as you might expect, is a very energy-intensive process. Therefore, throughout probably the next several months, much of the increase in food prices will reflect the increase in energy prices that we have seen over the last year, and the increase in interest rates that we have seen over the last year.

By bringing these two components under control, which we expect in the second half of the year, we should see moderate food price increases later on.

Representative WYLIE. The Consumer Price Index has been widely cited as a measure of inflation, of course, and I think the reason is that its figures are collected from about 60,000 different sources, according to your information, over 85 urban areas.

I am wondering, what is the current underlying core rate of inflation? You say that interest rates will level off, and that will take 4 percentage points off of the Consumer Price Index, and if energy prices go down, as you expect that they will, by 20 percent instead of the 60 percent that was anticipated, that 4 more percentage points will come off. Does this take anything away from the so-called core rate, then? Or the other factors that are involved?

Mr. RUSSELL. No, it immediately does not; but the reason that the underlying rate has ratcheted up in the past 1½ years from about 7½ percent up to perhaps 12 percent, is that this energy price surge has, as we feared it would, spilled over into the industrial-service sector of the economy. That is the reason for it.

If we do not get any more shocks such as this, then we can prevent further acceleration in the underlying rate. If we can do that, if we get some luck from these problem sectors—not even luck; just have less bad luck—then the fiscal and monetary restraint will start to work on the underlying rate, bringing it down gradually over time.

We cannot expect the underlying rate to drop by 8 percentage points overnight, as we can expect to happen in these problem sectors. It is less volatile. Once we build into the industrial wage-price structure double-digit inflation rates, it is going to take a while, and it is going to be a painful process to get that inflation rate back down to tolerable levels.

Representative WYLIE. So you are saying—and I do not want to put words in your month, because I am not sure that I like what I hear—you are saying that the spread in the nonfuel and nonhousing areas will continue to sustain relatively high inflation rates and high interest rates, excuse me, high Consumer Price Index rates.

Mr. RUSSELL. What I am saying is that the phenomena we have seen over the past 1½ years, where the overall rate of inflation was way above the underlying core rate, is probably going to be reversed during the second half of this year and the overall rate of inflation will probably be below the underlying rate.

That means that we have the extraneous factors working in our favor instead of against us. This is the best possible environment in which fiscal and monetary restraint can actually work to lower that core rate of inflation.

If we were to receive additional shocks to the system, then we might see the underlying rate accelerate even further, but we do not expect that to happen. We would hope to get the underlying rate of inflation down below double-digit rates in 1981.

Representative WYLIE. Thank you, Mr. Russell.

Representative REUSS. Senator Proxmire.

Senator PROXMIRE. Mr. Russell, as I indicated yesterday when you appeared before the Banking Committee, we have—I have great faith in your judgment. I think we are very lucky to have you as one of our two chief inflation fighters, but I must say, the economy is in a mess.

I understand in Poland they are telling American economic jokes. [Laughter.]

Mr. RUSSELL. I heard that was in Chicago.

Senator PROXMIRE. Well, at any rate, they have reason to tell them.

Now you said that you felt—and of course the predictions of the administration, as well as the private economists, on inflation have been very flawed at best. You have underestimated inflation consistently. Not only you, but the administration, other administration economists, and the private sector. It has always become worse.

But you do say that it is going to get much better in the latter half of this year. However, you indicate that you would expect that through June at least, maybe through July, you expect the present rate to continue.

Now if you have that, that indicates that you would have a 9-percent increase in the first half of the year—because it is an 18-percent annual rate. If it tails off in the last half of the year so that you get an overall 12-percent increase, you would have to get only a 6-percent increase in the remaining 6 months. Is that not right? Is that logical? Can you really expect that kind of a—in other words, inflation would have to drop to one-third of the level that it has been the first quarter of this year.

Mr. RUSSELL. I think that is probably somewhat optimistic with respect to the 12 percent——

Senator PROXMIRE. So it would be more than 12 percent inflation for the year.

Mr. RUSSELL. The overall inflation rate for the year. When I was talking about getting down to close to single-digit rates, I meant the annual rate at the end of the year should be down in that range.

Let me say something about forecasting, if I may. It was brought up yesterday and I did not get a chance to respond. It is true that economists have not been doing a very good job of predicting the inflation rate worldwide. The reason for that is not because the models that they use have been incorrect, not the structural relationships involved; but namely, that the judgments about what goes into the models have been wrong.

Senator PROXMIRE. I am sure that is right. "Garbage in-garbage out."

Mr. RUSSELL. That is exactly right.

Senator PROXMIRE. There is nothing wrong with the computers; it is the people who run them.

Mr. RUSSELL. That is right. [Laughter.]

So the forecasts—it is not the computers; it is also the construction of the models. The models themselves are not wrong, but they have to have input based on judgment. Those judgments are the judgments used not only by econometric forecasters, but also by judgmental kind of Wall Street forecasters; and everybody has been wrong, not just the econometric forecasters.

Senator PROXMIRE. I am glad you called our attention to this underlying rate, because in analyzing that what I was struck by are the weights that you give the various components of the CPI. I am startled by the fact that 45 percent of the CPI is housing costs—almost half. Now that is a colossal proportion. As compared with that, it is more than 3 times more important than food; it is 10 times more important than apparel; 10 times more important than medical care, and so forth. Much more than twice as important as transportation. Housing seems to be the name of the game here.

Now we all know that there is a depression, really, out there in housing. After all, when you get a drop in housing starts from 1.8 million to about 1 million and every indication that they are going to go down even further, there would seem to be an expectation that the effects of recession on that particular enormous sector of our economy affecting consumer prices as they do is likely to result in a very, very sharp drop in prices, I would think. Is that not right?

After all, if you have a situation where people simply are not buying homes, the savings and loans and the banks are going to have to begin to reduce their mortgage rates. It is sticky, I realize.

Mr. RUSSELL. Right.

Senator PROXMIRE. But I would think that there is every indication that about the 17-percent mortgage rate, 16 or 17 percent, has probably peaked. Would that not be your expectation?

Mr. RUSSELL. Yes; it is.

Senator PROXMIRE. Now if that is true and if people stop buying homes, so that the prices of homes therefore with the demand drying up, I would think that the price would start going down.

Mr. RUSSELL. That is right. Let me——

Senator PROXMIRE. Now would that not have, therefore, a very, very decisive effect, an extraordinary effect on the CPI?

Mr. RUSSELL. Indeed it will. As a matter of fact, we are already seeing that. Home purchase prices used to be going up at annual rates around 18 percent, or 19 percent. Now that is down to 0.4 percent

per month, which is only of course about a little over 5 percent per year. So I think the bubble has already burst with respect to home purchases.

Senator PROXMIRE. But you still had a big increase in March, as I understand it, in the mortgage rate.

Mr. RUSSELL. The mortgage interest rate is still going up. As a matter of fact, those are mortgage interest costs. That reflects two things: One, what is happening to the mortgage interest rate; and two, what is happening to home purchase prices—because they interact.

Senator PROXMIRE. Well, there is apparently a lag here. When will that mortgage interest rate begin to be—if it does level off—begin to fall? When will that be reflected in the CPI?

Mr. RUSSELL. The average lag is somewhere around 3 months.

Senator PROXMIRE. Three months?

Mr. RUSSELL. The lag is for the home purchase component, not the mortgage interest component. However, they do——

Senator PROXMIRE. Well, there is a lag of 3 months. That means that what was reflected in March is something that took place in December and January.

Mr. RUSSELL. That is right, for home purchase costs.

Senator PROXMIRE. So in April we will get the January and February figures.

Mr. RUSSELL. Yes. We are already getting some relief. I would like to point out something about the weights, though.

While it is true that the weight for all of housing is somewhere around 45 percent, the weight for home purchasing and financing is only about 20 percent. The other 20 percent of that weight are things like maintenance of the house, utilities, and a lot of things that are not associated with purchasing of houses. You cannot necessarily expect those to come down.

Senator PROXMIRE. Well, unfortunately our experience is that—and it is the worst way to solve inflation, Heaven knows—but our experience has been that if anything breaks the back of inflation it is recession. We may be moving into a recession. The President says we probably are, and there is every indication that we are.

It was forecast very widely. Your forecast, I understand, is that it will be short and mild. Why do you say that? Some people argue that it is likely to be a very deep recession in view of what has happened to housing. We have rarely had a recession with this colossal, precipitous drop in housing without having a profound and lasting effect, or a very long-term effect at least, elsewhere.

Mr. RUSSELL. The main reason, Senator, is that we do not have the kinds of distortions in the economy that existed in 1974 when business inventories were way out of line.

Senator PROXMIRE. But doesn't that—we say that, and you are right, sales-to-inventory ratio is pretty good—but is that not likely to change as sales drop? Inventories which are pretty good at a prosperity level of sales become excessive in a hurry.

Mr. RUSSELL. Right. That will certainly happen as we move into a recession and that ratio will change. The point is that in 1974, before we moved into the recession, inventories were extremely high. And that exacerbated the depth of the recession.

Senator PROXMIRE. For example, in the automobile industry, which is another very important segment of the economy, there you have again a serious recession moving to a depression level, and then inventory levels there become heavy and slow down production very sharply. Is that not rght?

Mr. RUSSELL. Yes. In those two sectors—housing and autos—the recession will be much deeper than elsewhere in the economy. But broadly speaking——

Senator PROXMIRE. Well, and they affect so much of the economy because so much is triggered by housing purchases and automobile purchases, too.

Mr. RUSSELL. That is true.

Senator PROXMIRE. Of course, there is one other element of hope, I suppose. The international situation, other countries seem to be doing better than they were in 1974–75. That is an element of strength, is it not, so our exports ought to hold up?

Mr. RUSSELL. That is right. The one thing that may be out of line in our economy right now is the savings rate. If the savings rate goes up a lot, as well, then that could exacerbate the depth of the recession.

Senator PROXMIRE. Now in previous appearances before the committee, you said that inflation might worsen significantly this year if wage settlements tried to recapture the ground lost to inflation in 1979. The chart indicates how serious the drop in real average weekly earnings is. And of course if you or I were a labor negotiator, we would point to that right way and say: Your people cannot get enough to pay for their housing, their food, their car; we have to get a bigger increase in wages.

After all, that drop of 7.1 percent in real average weekly earnings means a recession for millions of Americans who are wage earners.

Now are the wage settlements so far this year, in your judgment, indicating an attempt to recapture the ground lost to inflation? And are they therefore an element that is likely to push up inflation as the year wears on?

Mr. RUSSELL. There certainly is pressure in that direction. I guess the question is how resistant employers and management negotiators will be to that pressure coming from the labor side. It is an understandable pressure for labor to try to catch up with the reduction in the cost of living, even though, I might say, that it's futile. Because, as you know, Senator, most of the reduction in the cost of living is due to a decline in productivity of over 2 percent over the last year, and that cannot be recaptured by increasing wage rates. All that will do is increase the inflation rate commensurately. And a large part of it is due to the transfer of real income from U.S. consumers to oil-producing countries.

That cannot be recaptured. That is a loss that has to be shared by all of us.

Second, I would like to point out that loss in real income is exaggerated because that uses the Consumer Price Index for deflation purposes. As we have noted, that is not a very good indicator of the cost of living.

If we use the Personal Consumption Expenditure instead of the CPI, you would get a much smaller decrease in the standard of living, which I think would be a more accurate reflection of what is going on.

As for what is happening to wages, there is some evidence starting to surface that wage inflation has finally started to accelerate in response to the big increase in the cost of living over the past 1½ years.

The Employment Cost Index went up by, I think, an annual rate of about 10 percent in the fourth quarter of 1979. We finally got a big increase in the Hourly Earnings Index of 1 in March. That is an annual rate, as you know, of over 12 percent. That had been remarkably stable at 8½ percent for a long period of time.

Whether this is just an anomalous blip in that index, or whether it reflects an ominous upward trend in wage inflation, is too early to tell.

Senator PROXMIRE. My time is up, but Congressman Reuss has permitted me to follow up with one other question.

That is a shocking and startling statement for you to make, it seems to me, that the CPI is not a good indicator of the cost of living. It is something that we rely on, and of course what triggers, as you know, the increase in payments for tens of millions of Americans.

If it is not a good indicator, it could very well be an element in causing more inflation, and certainly more expenditures by the Federal Government. Is that not right?

Mr. RUSSELL. Yes.

Senator PROXMIRE. If that is correct, are you advising us that we ought to take another index? You have a whole series of inflation indexes that are available. What should we take?

Mr. RUSSELL. I think the CPI is a very good measure of the inflation rate, a good measure of what is happening to current market prices—including current interest rates, and including current prices of assets such as houses——

Senator PROXMIRE. But not of the cost of living?

Mr. RUSSELL. Pardon?

Senator PROXMIRE. But not of the cost of living.

Mr. RUSSELL. But not of the cost of living, because most people are not buying a house during the relevant period, and are not refinancing their houses.

Senator PROXMIRE. Well, my question then is: What index is a good index of the cost of living?

Mr. RUSSELL. I think that, as a measure of the cost of living, the Personal Consumption Expenditure Deflator is preferable. Also, the——

Senator PROXMIRE. How much has that been up in the first 3 months of this year, in the latest month?

Mr. RUSSELL. That is going up at a rate more like 10 percent.

Senator PROXMIRE. So the cost of living, in your judgment, to the American people is not the 18 percent that we see in the CPI; it's closer to 10 percent. Is that right?

Mr. RUSSELL. Ten-plus, I would say.

Senator PROXMIRE. Ten-plus? What does that mean? Eleven?

Mr. RUSSELL. Perhaps more; I don't know. I don't have the numbers handy right here, but it is certainly way below the CPI.

If you look at it this way, the interest rate component alone adds 4 percentage points. The Personal Consumption Expenditure Deflator does not use current interest rates but rather an implicit rent notion. So I think it would be 3 to 4 percentage points lower just because of that.

Senator PROXMIRE. Thank you, Mr. Russell. Thank you, Congressman Reuss.

Representative REUSS. In the light, Mr. Russell, of what you have said about the deep recession in the automobile industry, can we expect the automobile industry to follow Adam Smith and to reduce prices?

Mr. RUSSELL. Before I answer your question, Congressman Reuss, let me say that the increase in the fixed weighted Personal Consumption Expenditure Deflator in the fourth quarter of 1979, the last period for which I have firm data, is 10.5 percent. That compares to a much higher rate for the CPI for that quarter of 13.7 percent. So there was a 3 percentage point difference in the fourth quarter.

During the first quarter of this year, there probably was at least a comparable difference. So it would be 3 to 4 percentage points lower if you used the PCED, or if we used the other indexes being put out by the BLS, which evaluate home ownership cost differences.

Sorry, Congressman. As for reducing prices——

Representative REUSS. That is what is supposed to happen, according to Samuelson.

Mr. RUSSELL. The problem is that the U.S. auto industry is a bit out of equilibrium right now. Their capital stock is anachronistic. Until they can turn over their capital stocks so that they can downsize their automobiles to adjust to much higher gasoline prices, then I think very high cost increases for that industry are going to prevent any decreases in automobile prices. All we can hope for is that it will moderate the increases. Import competition, particularly, should keep the increases down, but I do not expect any decreases in automobile prices.

Representative REUSS. On the underlying rate, if you will refer to the table which you gave us—the underlying rate, I repeat, is the Consumer Price Index less housing costs, food, energy, and used cars—and looking at it on your table for various 3-month periods, those 3-month periods ending in March 1979, June 1979, September 1979, and December 1979, typically were in the 7- and 8-percent range. I recall your testifying on earlier occasions that keeping the underlying rate in that rather modest 7- and 8-percent range proved that the wage-price guidelines were working.

The wage-price guidelines do not apply to the excluded things like housing, food, energy, and used cars. Now, however, I notice that the latest underlying rate for the 3 months ending in March 1980 is a horrifying 12.7 percent.

Does that indicate that the wage-price guidelines are not working?

Mr. RUSSELL. Not necessarily.

Representative REUSS. Well, how do you——

Mr. RUSSELL. It could be attributable to noncompliance with the guidelines. That is certainly a possibility, and we are monitoring compliance as effectively as we can to determine whether or not that is true. I should say, we need a larger staff to do this as effectively as we would like.

Another possibility is that this reflects the direct passthrough effects of higher interest rates, which are uncontrolled and which are a cost to business in the short run, and the passthrough of much higher energy costs in the past 1½ years.

Look at where it is showing up. A lot of it is in areas like transportation, which we leave in in our assessment of the underlying rate. The huge surge in public transportation costs has got to be attributable to energy. It is not due to noncompliance with our standards.

As you know, there is an exception to our basic price limitation that allows a company to comply, instead, with a limitation on their profits, which therefore allows them to pass through uncontrollable cost increases.

So the surge in the underlying rate may reflect a lot of companies switching over to this alternative standard and passing through the recent surge in interest costs and energy costs.

Representative REUSS. The first reason you assigned for the enormous 12.7 increase in the underlying rate, which leaps well beyond anything we have known, is that there may be widespread repudiation of the wage-price guidelines. Because your monitoring is not adequate, you just do not know, and you have asked for a greatly enlarged staff in order to find out.

Suppose you get the greatly enlarged staff, and your suspicion is confirmed; namely, that nobody is paying much attention to the wage-price guidelines. What policy proposals might that induce from you?

Mr. RUSSELL. Well, first of all, let me disagree with your assumption, or your characterization, that I suspect that it is noncompliance with the standards.

Representative REUSS. I thought you said that.

Mr. RUSSELL. No, I said——

Representative REUSS. You said it "could be"?

Mr. RUSSELL. "Could," oh, yes. It could; but that is not my primary suspicion.

Representative REUSS. Strike "suspicion" and say "possible." All right, what about it?

Mr. RUSSELL. One of the things that we will do is expand our coverage considerably. Right now, we are monitoring directly and systematically some 1,200 companies accounting for, we estimate, a little over half of our GNP. With the expanded staff, we will increase the number of monitored companies from 1,200 to 2,900, substantially increasing the coverage of the output of the economy, although we will probably not do it proportionately, because these are smaller companies that we are monitoring.

We think that the companies that we are monitoring directly are in compliance. We are monitoring them effectively and on a regular basis. We do not think that noncompliance is found there.

Whether or not smaller companies that are not subject to our direct surveillance are ignoring the guidelines is something that we will find out because of this expanded monitoring effort.

In addition, we plan to go beyond the forms that they submit to us and look at backup papers to make sure that there is not a lot of, shall we say, misinterpretation of the standards going on.

Representative REUSS. But suppose you are granted the expanded monitoring powers, and suppose the exercise of those powers reveals that the second layer of the onion has indeed been playing fast and

loose with your guidelines. What then? What policy recommendations for the Nation?

Mr. RUSSELL. It is our belief that if companies are exposed to public scrutiny, and they have not in the past been paying attention to the guidelines, that they will begin to pay attention. Once they have to start submitting forms to us, then I think the standards will be taken much more seriously by those companies.

This turned out to be the case in early 1979. When this program was first announced in October 1978, we did not have regular reporting requirements and our threshold for reporting just base-period data was for companies with $500 million or more in sales.

When we instituted regular reporting requirements for that universe of companies in early 1979, we know through anecdotal and other evidence that a lot of companies that were not taking the standards altogether seriously suddenly decided that they had better comply. We believe the same thing will happen with these other companies, because they do not want to be publicly chastized as being socially irresponsible.

Representative REUSS. Are you familiar with the recent experience of Norway with price-wage controls, where they were instituted almost 2 years ago, and not only have kept price increases in a very admirable 4-percent range, but are extremely popular, I read, with all elements of Norwegian society. Are you familiar with those?

Mr. RUSSELL. No, I am not familiar. I am familiar with Canada.

Representative REUSS. Well, in view of our Government's view that price controls are the work of the devil, and that they cause rigidity and lead to a bureaucratic nightmare, are we not in moral duty bound through the Organization for Economic Cooperation and Development to warn our Norwegian brothers and sisters that they are headed for destruction?

Mr. RUSSELL. No, sir. I think that what we are obliged to do is to look into the Finnish experience and see whether we have something to learn from them.

Representative REUSS. All during his appearances here before this committee, your excellent predecessor, Barry Bosworth, testified repeatedly that he opposed wage-price controls because of the bureaucratic nightmare and the rigidities and all the reasons we hear.

No sooner, however, had he emerged than he came out strong for wage-price controls. There are some newspaper stories—I don't know what their validity, and I hope it's none—that you are perhaps contemplating a departure from the Council on Wage Price Stability.

Is there any likelihood that you would follow a Bosworthian pattern and change your mind about wage-price controls if you left?

Mr. RUSSELL. First of all, let me defend what appears to be fickleness on Barry's part. I think that what has happened is, he has changed his view because he feels that the gradualist approach, given the seriousness of the problem, will not work, and that we have to choose, as I said, between these two dire extremes: mandatory controls or deep recession.

This is where Barry and I part company. I think that he is overreacting to the experience of the last year. I think it continues to be the case that the worsening of the inflation rate is not the fault so much of the policy as it is of two other factors.

First: I think that the continued perverse extraneous shocks from energy and elsewhere are what is primarily causing the acceleration of the inflation rate.

Second: In retrospect one would have to say that more fiscal and monetary restraint would have been desirable. However, that is because the forecasts of all the economists were wrong about the state of the economy. They were all forecasting recession last year.

So we geared our fiscal and monetary policy for an environment in which we would have very slow growth, if not a recession. That forecast turned out to be incorrect. So I do not think that one should necessarily fault the policy for these extraneous factors and for incorrect forecasts.

I think, therefore, he is overreacting to what has happened to the inflation rate, basically, and is unduly pessimistic about the eminence of the decline in the inflation rate in the second half of this year through the policies that are now in place.

Representative REUSS. Suppose it should turn out that Bosworth was right and many of the rest of us wrong, and that gradualism does not work, and that inflation continues at an intolerable and society-destroying level. Would you be willing to display a similar openness of mind?

Mr. RUSSELL. Well, one of the rules we have is not to answer hypothetical questions about "what if the inflation rate were 150 percent?" Fred Kahn got in trouble for exactly that kind of thing.

Representative REUSS. No, but just suppose it continues at 15 percent or thereabout. It's now at 18 percent.

Mr. RUSSELL. I think it is not quite fair to say that we do not have an open mind about these alternative policies. I think the administration's position is that while we continually reassess our policies, we repeatedly reaffirm our conviction that the course that we are on is the right course, and that the alternatives are not viable alternatives.

Representative REUSS. Thank you.

Congressman Wylie.

Representative WYLIE. Congressman, I do have a couple more questions.

I for one am gratified that you and Mr. Bosworth have parted company on the wage and price control issue. Senator Proxmire honed in on the so-called relative importance of housing in your Consumer Price Index, and you have given it 45 percent, which is almost half of the total relative importance.

Then you indicate that you think interest rates might be leveling off, and therefore the Consumer Price Index might be coming down.

Why do you think inflation in housing will fall?

Mr. RUSSELL. First of all, the inflation in home purchase costs has already fallen. We have now had two successive months of 0.4-percent increases, which is an annual rate of only 5 percent. This compares to increases in home purchase costs over the last year of 15 percent, and annual rates of increases approaching 19 percent in more recent times. So that has already fallen substantially.

Another important component is the mortgage interest cost component. That appears to have leveled off, and many think that mortgage interest rates will start to fall very soon. Those two components account for 20 percent of roughly half of the total weight of the home ownership component.

The rest is utilities and repairs. The utilities part ought to fall as well. If in fact energy prices moderate, then we should expect less inflation in that component. So overall, this is one of the areas where we should be optimistic—home ownership.

Representative WYLIE. Well, I detected some criticism of the use of the Consumer Price Index as a measure of the cost of living, and I have heard that before. Let me suggest that as far as the quality of the Consumer Price Index is concerned, is it not true that people save money for years for a down payment on a house? And in this sense, don't people spend money every month for housing purchases?

Mr. RUSSELL. Well, certainly they do. As a matter of fact, they spend about 20 percent of their income on house payments, on average.

The point is that they are not expending these funds at current mortgage interest rates or at current home purchase prices, but rather based on the cost of the home when they bought it and an interest rate at which they financed their house.

I should say that when interest rates start coming down, this particular what one might call defect in the CPI as a measure of the cost of living will, in a sense, work to our benefit. That is, we will then be understanding the increase in the cost of living when interest rates are going down, just as we now believe that we are overstating the increase in the cost of living for a typical American consumer when interest rates are going up rapidly. It cuts both ways.

Representative WYLIE. This may be an elementary question, but what about those who have yet to buy? How are they measured? They put the money in the bank, and they think the interest rates are too high, so they are not buying.

Mr. RUSSELL. This is an average. The problem with averages is, it's like a nice 70° average temperature you put your hand in. It may be nice as long as you can put it into a pot of water with the average temperature, but if instead you have to put one hand in a pot of 0° temperature water and the other in a 220° temperature, although the average might look pretty good, the extremes are awful.

The fact is that for those people who have not yet bought a home and are not therefore experiencing big increases in their wealth because of the inflation in home purchase costs and are not sitting prettily on an old mortgage loan, for them this inflation is terrible. There is no question about it.

Representative WYLIE. Thank you, Congressman Reuss.

Representative REUSS. Senator Proxmire.

Senator PROXMIRE. One of the very serious elements in inflation, of course, is the falloff in productivity. You spoke about that before, and you were explaining in part the real average weekly earnings drop in those terms.

Productivity fell all right last year, and it was one of only two times I understand that this has happened in the post World War II period. What is more shocking is that this is the only time I can recall its ever having fallen when employment increased, and when in real terms the GNP increased throughout the year.

That suggests that we are going to have a precipitous drop in productivity if we move into a recession, particularly if it is any kind of a serious recession. After all, if productivity fell 2½ percent in 1979, under those terms it could easily fall 5 or 6 or 7 percent in 1980. If that is the case, what are the implications for inflation?

Mr. RUSSELL. Well, they are not good, Senator. Certainly if productivity collapses even further and sets the buffer between increases in labor compensation, on the one hand, and increases in unit labor cost, which is what drives prices, on the other, that would even worsen——

Senator PROXMIRE. Well, then, is that not the principal element in productivity? Has it not been consistently that in a recession, rather than lay people off, many employers will keep them there, but there is not much for them to do. So they sit around the plant, sit around the store, sit around the office without much to do, and of course productivity, therefore, goes through the floor.

Mr. RUSSELL. That is right. It is called labor hoarding. That is why, typically, about the time that the economy turns down, productivity falls.

Senator PROXMIRE. Well, it is a matter of a good, humane attitude on the part of the employer. He does not want people to be kicked out of work. He wants them to have a job.

Mr. RUSSELL. That is right. Well, it is not just humaneness, but rather the fact that there are retraining costs and search costs associated with firing and rehiring employees. As long as they think the downturn is ephemeral, they do not want to let their employees go until they see that it is really serious.

Senator PROXMIRE. Well, at any rate, the thrust of my question is: What effect is this likely to have?

Mr. RUSSELL. It would have a deleterious effect, obviously, and make it that much harder to get the underlying rate under control. I am questioning whether we are in the same ball game as we were, for the very reason that in a time when we have as rapid an increase in employment, we have very little increase in productivity, and indeed a decline. I think it means that those structural relationships have changed.

I think this is where economists are mystified. They do not know exactly what is going on. A lot of it seems to be the surge in energy prices. What is going on with productivity now is not too dissimilar to what happened in 1974 when we had a similar decline in productivity.

It may be that what is happening is a lot of substitution——

Senator PROXMIRE. Well, there you had a very deep recession.

Mr. RUSSELL. In 1975 we did, but I mean before the recession; I think that productivity behaved in an unhistoric pattern. I think that what is going on now is perhaps that there is a lot of substitution of workers, of labor input for energy input. It is a rational response to the change in the relative price of energy relative to labor costs.

Many also feel that there is a lot of hoarding going on right now; that businesses, like others, have misforecast the economy, and that this huge increase in employment, without the commensurate increase in output, can only be explained by a lot of labor hoarding going on at this stage of the cycle, which means that we will not get the usual kinds of labor-hoarding problems as we move into the recession. But I would not want to rest my reputation on that being true.

Senator PROXMIRE. Mr. Russell, there is a tendency for us in these meetings to separate politics from economics——

Representative REUSS. I've never been guilty of that. [Laughter.]

Senator PROXMIRE. Well, some of us do, some of us don't; I usually don't. [Laughter.] So I would like to bring politics in here, again. There has been a lot of speculation that 1980 in November would be a disastrous year for the administration, moving into inflation, recession combined, and there is no way that Carter could win under those circumstances.

From what you tell us this morning, from the standpoint of inflation, it could be pretty good. If what you tell us is right, we move down to, say, 10 percent or 8 percent inflation, he has cut the inflation rate in half because he has taken unpopular, tough policies when they were tough, in the winter and spring of 1980, the first President who has done that in an election year, and all the other Presidents if they have done anything with the economy have tried to pump it up—he's done that, and he's gotten results on inflation.

This will be emphasized, as you say, because the underlying inflation rate will be obscured by what is happening to the CPI. The CPI is likely to—just as it exaggerates the inflation now, it wil understate the inflation in the summer and fall. If that is the case, we Democrats may be in fairly good shape from the inflation standpoint.

Of course we also might have an unemployment figure that will be embarrassing.

Mr. RUSSELL. Yes, but I would not be too sanguine about this, Senator, because the last CPI number we will have before the November election will be the August CPI number. We expect things to start——

Senator PROXMIRE. The August CPI for the November election?

Mr. RUSSELL. Right. Because it will be——

Senator PROXMIRE. Why shouldn't we have the September?

Mr. RUSSELL. The end of September we will have the August figure. At the end of November we will get the September figure.

Senator PROXMIRE. At the end of October, though—this is April that we have the March figure.

Mr. RUSSELL. Woops; sorry, yes.

Senator PROXMIRE. So at the end of October, we ought to have the September figure.

Mr. RUSSELL. That's right; sorry. You'll have the September figure for the last one; that's right.

So we are expecting the decline in the inflation rate to start in July. So we will only have 3 months of experience, but you may be right; maybe that will look good.

I have also heard it said, although I know nothing about politics, that the Democrats always have an advantage when we are in a recession, even if the Democrats are the party in power, because the popular belief is that the Democrats are the better party to get us out of a recession; the Republicans are the better party to fight inflation.

So if we have inflation improving while we're moving into a recession, then maybe that does look politically attractive. [Laughter.]

Senator PROXMIRE. Well, these hearings ought to make the President very happy.

I would like to get finally onto the subject that Congressman Reuss spoke about: wage-price controls. Is not the difficulty with wage-price controls really: if you put them into effect, you do really destroy the constituency for the kind of anti-inflation policies that you need?

Right now the Congress of the United States, for once, is determined to balance the budget. Why? Because they are concerned about inflation and the terrific reaction we get out in the public.

If we put wage-price controls into effect and inflation improves, as it did in the first 3 or 4 months of the 1971–73 experience, then you lose that constituency. People say: Well, inflation is not so bad; we can now go ahead with all our programs; we can move ahead with the military, and space, and CETA, and everything else we want to go ahead with.

There is also less pressure, of course, on the Federal Reserve Board certainly in the fiscal area.

Is it not likely, under those circumstances, that we are likely to lose the discipline that Barry Bosworth himself said is essential if you are going to have wage-price controls work? The fundamental policies you need are restrained monetary and fiscal policies. He said that if you accompany that with wage-price controls, it can work.

I just question whether in our political system you are going to get that kind of discipline, except in wartime.

Mr. RUSSELL. Well, you are the expert on that, Senator, not I. It is true that from the business community especially, this is the criticism that we hear not only of mandatory controls but even of our own program, the voluntary standards program; namely, that is misdirects attention away from the all-important fiscal and monetary measures that you need to control inflation; that it deflects attention away from the all-important fiscal and monetary measures that you need to control inflation; that it deflects attention away from that onto even the voluntary standards.

Certainly the Nixon experience is a confirmation of that suspicion about mandatory controls, because there is no doubt that during that period they did use mandatory control to cover up an irresponsible fiscal and monetary policy in which they were overstimulating the economy and hoping the controls would keep the lid on. As soon as they were lifted, then, of course, the surge should not have been unexpected.

I cannot really assess that argument to know whether or not the political process can resist the sorts of demands that will be placed on it if we had a set of mandatory wage-price controls. So I do not know how to evaluate that argument.

That is why I tend to emphasize the economic arguments instead; namely, that it does cause severe distortions and misallocations of resources.

Senator PROXMIRE. At any rate, you would agree that if a wage-price control system is to work, it has to be buttressed by a restrained fiscal and monetary policy?

Mr. RUSSELL. Oh, absolutely.

Senator PROXMIRE. Whether that restrained fiscal and monetary policy may be able to be maintained in peacetime without the influence of rising prices, sharply rising prices, is the question.

Mr. RUSSELL. That is right. With both mandatory controls and stimulative fiscal and monetary policy you have the worst of both worlds. You have all of the dislocative effects of the mandatory controls, and you do not get any longrun impact on inflation.

Senator PROXMIRE. Thank you.

Representative REUSS. Your argument, Senator Proxmire, convinces me that I should change my tack. I have been for a balanced budget; but I am going to back away from that, lest it encourages Paul Volcker and the Fed to be irresponsible on monetary policy.

Senator PROXMIRE. No, what——

Representative REUSS. And by backing the Fed, I encourage Congress to ease up on fiscal pressure.

Senator PROXMIRE. No, quite the reverse. I think that Mr. Volcker has made it very clear that he is going to follow a consistent policy of increasing the money supply at a particular rate. He argues that if you have restrained fiscal policy—you are restraining the economy—then interest rates will come down with the same kind of monetary policy, because the demand for the funds will diminish, begin to take the Federal Government out of the credit markets, they will be borrowing less.

On the other hand, if the Federal Government continues to run big deficits, the effect of that consistent steady policy will be higher interest rates. The one way you get interest rates down is to have a fiscal policy and a restraint throughout the economy, people saving more spending less, that permits you to have interest rates to come down consistent with that steady monetary policy.

Representative REUSS. You were just saying, though, I thought, that Bosworth has something to be said for his position that he favors austere monetary policies, austere fiscal policies, and wage-price policies——

Senator PROXMIRE. Right, to combat inflation.

Representative REUSS [continuing]. And would not yield on any one of them.

Your point has been that, such is the weakness of mortals, that if you have any one good policy, people will ease up on the others. I have a friendly disagreement. We must talk more about this.

Representative WYLIE. Well, please do not back away from your new-found policy of a balanced budget now, Congressman Reuss. I happen to think you are on the right track after a long time. I think Congress and the administration are finally catching up with the American people, and I think the American people ought to take credit for the pressure they have put on Congress and the administration—maybe with a little Republican encouragement over the year.

Senator PROXMIRE. Well, I would agree wholeheartedly that a balanced budget by itself will not do very much certainly in 1 year. But a balanced budget year after year will help, No. 1, in periods of nonrecession. In a recession, you have to have a deficit. In any period of growth, we ought to balance the budget and run a surplus, which we have not done.

But the important thing here is the credibility. If you do follow a restrained fiscal policy, if we do restrain our temptation to spend more money than we should, then we are much more likely to get cooperation in the business sector and from labor.

I think then they realize that the Government really means business about fighting inflation. Otherwise, they will not believe it.

Representative WYLIE. I could not agree more, and that is exactly what I was saying.

Senator PROXMIRE. You are outnumbered 2 to 1, Henry.

Representative REUSS. I could not agree less. Go on. [Laughter.] Congressman Wylie.

Representative WYLIE. Just one final question here.

With the Federal deficit widening for the moment at least, the balanced-budget resolution which we will have on the House floor this week calls for a balanced budget beginning fiscal year 1981 which starts on October 1.

Meanwhile, we are considering another concurrent resolution to increase the deficit for fiscal year 1980, as I understand it.

Will that not cause interests rates to go up for the short term?

Mr. RUSSELL. Well, first of all, the increased deficit in 1980 is attributable to the fact that the administration is forecasting a recession.

Representative WYLIE. And also——

Mr. RUSSELL. And when you have a recession, that will automatically—the deficit is the result of what is going on, not the cause. And when we move into a recession, this obligates additional transfer payments, and also reduces tax revenues automatically, thus unbalancing the budget.

As to whether or not it will increase interest rates depends on exactly how the deficit is financed.

Representative REUSS. Well, is not inflation also feeding on inflation? I say that because we apparently are going to increase the ceiling for food stamps to about $9 billion, which was (1) underestimated, and (2) there was abuse in the program, mismanagement in the program according to a GAO report. But also, food stamps would not buy as much food as it turns out during the course of the year because of inflation, as the administration and the Congress first anticipated. That is just one on which I received a lot of attention from people in the district lately.

But is that not a part of the reason that we are coming here again and asking for more deficit in this year?

Mr. RUSSELL. Yes. Well, as I understand it, there are lots of expenditures and lots of revenues that are indexed to the inflation rate and the state of the economy.

Representative WYLIE. Right.

Mr. RUSSELL. Food stamps is just one example. I think that built into the law are automatic adjustments of food stamp expenditures when the inflation rate goes up.

Representative WYLIE. So should we not be making more of an effort to hold the line today?

Mr. RUSSELL. Well, I think that all of these entitlements and indexation that are built into the Federal budget do exacerbate the problems when we have an inflationary situation such as this.

I personally would like to see a lot of this type of legislation changed to make it less destabilizing to the economy. I do not know that there is much sympathy for that point of view in the Congress. And as I understand it from those who did consult with the Congress before the President made his speech in March, there was not much receptivity to the idea of breaking a lot of those——

Senator PROXMIRE. Chalmers, would you yield on that point?

Representative WYLIE. Certainly.

Senator PROXMIRE. If we should change the CPI as the basis for the indexation of social security now, on what you have told us this morning that would mean that social security would probably do

better. Because from now on we expect the CPI to go down more sharply than inflation. If we shifted to another index, we would probably get a greater increase in social security, and a greater expenditure by the Federal Government, and a more inflationary effect. Isn't that right?

Mr. RUSSELL. Exactly. This may therefore provide you with an ideal opportunity to make the changes. You can only make those changes, as I say, when it hurts.

Senator PROXMIRE. So you make the change when it helps this time—when it helps the social security recipient.

Mr. RUSSELL. When it helps the recipient. That way you do not have the constituencies fighting the legislation at that time. That is shortsighted on their part, perhaps, but I think it is true.

Representative WYLIE. Well, politics aside, I hope for the good of the country that you are right that the inflation rate is coming down, and that our new recruit to the cause, the President's policies do work in this regard.

Thank you very much.

Representative REUSS. Mr. Russell, thank you very much. You, as always, have carried the day very well, and we are grateful to you.

We now stand in adjournment.

[Whereupon, at 11:20 a.m., the committee adjourned, subject to the call of the Chair.]

MONITORING INFLATION

FRIDAY, MAY 23, 1980

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 2167, Rayburn House Office Building, Hon. Richard Bolling (vice chairman of the committee) presiding.

Present: Representative Bolling.

Also present: Louis C. Krauthoff II, assistant director-director, SSEC; William R. Buechner and Mayanne Karmin, professional staff members; Betty Maddox, administrative assistant; and Carol A. Corcoran and Mark R. Policinski, minority professional staff members.

OPENING STATEMENT OF REPRESENTATIVE BOLLING, VICE CHAIRMAN

Representative BOLLING. The committee will be in order.

Mr. Kahn, the consumer price figures released today may well be the first good economic news of the 1980's. Last month, prices rose 0.9 percent, half a percent down from the January, February, and March rates. This was the first decline in the inflation rate in 6 months.

The best news seems to be that energy prices are leveling off. Gasoline prices held steady in April, after rising 7.3 percent in February and 3.9 percent in March. Home heating oil rose 0.5 percent. There are other declines in the inflation rate all across the board. Food went up half a percent, compared to 1 percent in March. Apparel went up 0.3 percent compared to 2 percent last month. Even medical costs have eased.

But this month's inflation rate of 0.9 percent is good news only if it marks the start of a downward trend. We are still faced with an annual rate of 11.4 percent, which may be a welcome relief from the 18-percent rate of the last 3 months, but it is still too high and we all hear rumbling of more increases from OPEC.

In addition, we are faced with a rapidly deteriorating economy and rising unemployment. The Joint Economic Committee has said time and again that recession is just not an acceptable way to fight inflation. And I think that more than just talking about what's happened in the last month—which of course is just 1 month—and as you know better than I, is not a trend. We should spend some time today talking about the suitable policies perhaps that deal with the situation we are in now, where (1) we seem to have inflation at least receding somewhat; and (2) at the same time, there's every indication that we are headed toward a more or less acute recession.

Before proceeding, without objection, the press release entitled "The Consumer Price Index—April 1980" will be inserted in the hearing record at this point.

[The press release referred to follows:]

News United States Department of Labor
Bureau of Labor Statistics Washington, D.C. 20212

Patrick Jackman (202) 272-5160
272-5064
Charles Wallace (202) 523-1208
523-1913

USDL-80-326
TRANSMISSION OF MATERIAL IN THIS RELEASE
IS EMBARGOED UNTIL 9:00 A.M. (EDT)
Friday, May 23, 1980

THE CONSUMER PRICE INDEX--APRIL 1980

The Consumer Price Index for All Urban Consumers (CPI-U) rose 1.1 percent before seasonal adjustment in April to 242.5 (1967=100), the Bureau of Labor Statistics of the U.S. Department of Labor announced today. The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) also increased 1.1 percent before seasonal adjustment in March to 242.6 (1967=100). The CPI-U was 14.7 percent higher and the CPI-W was 14.5 percent higher than in April 1979.

CPI for All Urban Consumers (CPI-U)--Seasonally Adjusted Changes

On a seasonally adjusted basis, the CPI for All Urban Consumers rose 0.9 percent in April. This compares with increases of 1.4 percent in each of the first three months of 1980 and an average monthly increase of slightly more than 1.0 percent during 1979. Much of the slowdown in April was due to smaller price increases for energy items, particularly gasoline. Smaller increases for food, clothing, and home financing costs also contributed to the slowdown.

Table A. Percent Changes in CPI for All Urban Consumers (CPI-U)

Expenditure category	Seasonally adjusted							Unadjusted
	Changes from preceding month							Compound annual rate 3-mos. ended	12-mos. ended
	1979			1980					
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	Apr. '80	Apr. '80
All items	1.0	1.0	1.2	1.4	1.4	1.4	.9	15.9	14.7
Food and beverages	.8	.7	1.4	.1	0	1.0	.5	6.2	7.3
Housing	1.4	1.3	1.4	1.4	1.4	1.6	1.3	19.0	17.3
Apparel and upkeep	.3	.3	.6	.9	.6	2.0	.3	12.4	7.2
Transportation	.8	1.2	1.4	3.1	2.8	1.7	.6	22.6	21.6
Medical care	.9	.9	1.1	1.3	1.5	.9	.7	13.0	11.4
Entertainment	.6	.5	.2	1.0	1.2	1.3	.8	14.0	8.6
Other goods and services	.2	.3	.7	1.1	1.0	.5	.6	8.4	8.6

(Data for CPI-U are shown in tables 1 through 3.)

The transportation index rose 0.6 percent in April, the smallest increase in almost two years. Gasoline prices were unchanged in April following a 3.9 percent rise in the previous month. Used car prices declined 1.8 percent. On the other hand new car prices rose 1.4 percent and automobile finance charges increased 8.2 percent in April. The index for public transportation increased 1.6 percent largely reflecting a 4.4 percent increase in taxi fares.

The sharp upward trend evident in the housing index since early 1979 continued in April, but the 1.3 percent increase was less than in March. In April, home financing costs rose 3.6 percent, following a 4.5 percent increase in March. Mortgage interest rates rose less than in March but house prices rose more. The index for household maintenance and repairs increased 1.4 percent and the index for household furnishings and operations rose 0.7 percent in April. (The 12-month percent changes for five experimental measures of housing costs can be found at the end of this release.) In April, prices for household fuels rose 1.2 percent. Fuel oil prices rose 0.5 percent, the smallest increase since the summer of 1978, and the index for gas and electricity rose 1.4 percent.

The index for food and beverages rose 0.5 percent in April. Prices for grocery store food increased 0.4 percent following a rise of 1.1 percent in March. A 1.3 percent decline in the index for meats, poultry, fish, and eggs, following a 1.0 percent increase in March, was largely responsible for the deceleration. The indexes for fruits and vegetables, cereal and bakery products, and dairy products registered larger increases in April than in March. Prices of the other two components of the food and beverage index—restaurant meals and alcoholic beverages—rose 0.7 and 1.1 percent, respectively in April.

The index for apparel and upkeep rose 0.3 percent in April, following an increase of 2.0 percent in March. Prices for most clothing items declined or registered substantially smaller increases in April than in March. The index for apparel services, however, rose 1.8 percent in April compared with 1.3 percent in March.

The index for medical care rose 0.7 percent in April compared with 0.9 percent in March. Charges for professional services rose 1.2 percent as fees for physicians' services rose 1.0 percent and dental services advanced 1.3 percent. Charges for hospital rooms rose 1.0 percent in April. The index for entertainment rose 0.8 percent in April, compared with an increase of 1.3 percent in March. The indexes for entertainment commodities--reading materials, sporting goods and equipment, and toys and hobbies--and for entertainment services both registered increases of 0.8 percent. The other goods and services component rose 0.6 percent in April, following an increase of 0.5 percent in March and increases of about 1.0 percent in both January and February.

CPI for Urban Wage Earners and Clerical Workers (CPI-W)--Seasonally Adjusted Changes

On a seasonally adjusted basis, the CPI for Urban Wage Earners and Clerical Workers rose 1.0 percent in April. This compares with increases of 1.4 percent in each of the first three months of 1980 and an average monthly increase of slightly more than 1.0 percent during 1979. Much of the slowdown in April was due to smaller price increases for energy items. Smaller increases in food, clothing, and home financing costs also contributed to the slowdown.

The transportation index rose 0.6 percent in April, the smallest increase in almost two years. Gasoline prices declined 0.1 percent in April, following a 4.0 percent increase in the previous month. Used car prices declined 1.7 percent. On the other hand, new car prices rose 1.6 percent and automobile finance charges increased 9.3 percent in April. The index for public transportation increased 1.6 percent largely reflecting a 4.1 percent increase in taxi fares.

The sharp uptrend evident in the housing index since early 1979 continued in April, but the 1.4 percent increase was less than in March. In April, home financing costs rose 3.7 percent, following a 4.5 percent rise in March. Mortgage interest rates rose less than in March but house prices rose more. The index for household maintenance and repairs increased 1.2 percent, and the index for household furnishings and operations rose 0.7 percent in April. In April, prices for household fuels rose 1.1 percent. Fuel oil prices rose 0.5 percent, the smallest increase since the summer of 1978 and the index for gas and electricity rose 1.3 percent.

The index for food and beverages rose 0.7 percent in April. Prices for grocery store food increased 0.5 percent following a rise of 1.0 percent in March. A 1.2 percent decline in the index for meats, poultry, fish, and eggs, following a 0.5 percent increase in March, was largely responsible for the deceleration. The indexes for fruits and vegetables and cereal and bakery products registered larger increases in April than in March. Prices of the other two components of the food and beverage index--restaurant meals and alcoholic beverages--rose 0.8 and 1.1 percent, respectively in April.

The index for apparel and upkeep rose 0.3 percent in April, following an increase of 1.7 percent in March. Prices for most clothing items declined or registered substantially smaller increases in April than in March. The index for apparel services, however, rose 1.1 percent in April, following an increase of 1.7 percent in March.

The index for medical care rose 0.8 percent in April compared with 0.9 percent in March. Charges for professional services rose 1.4 percent as fees for physicians' services rose 1.3 percent and dental services advanced 1.4 percent. Charges for hospital rooms rose 1.0 percent in April. The index for entertainment rose 0.8 percent in April, compared with an increase of 1.6 percent in March. The indexes for entertainment commodities--reading materials, sporting goods and equipment, and toys and hobbies--rose 1.0 percent and for entertainment services increased 0.4 percent. The other goods and services component rose 0.5 percent in April, following an increase of 0.4 percent in March.

Table B. Percent Changes in CPI for Urban Wage Earners and Clerical Workers (CPI-W)

Expenditure category	Seasonally adjusted							Compound annual rate 3-mos. ended	Unadjusted 12-mos. ended
	Changes from preceding month								
	1979			1980					
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	Apr. '80	Apr. '80
All items	1.0	1.0	1.2	1.4	1.4	1.4	1.0	15.9	14.5
Food and beverages	.8	.6	1.4	.2	0	0.9	.7	6.3	7.3
Housing	1.4	1.2	1.3	1.5	1.4	1.6	1.4	18.8	17.3
Apparel and upkeep	.5	.1	.5	.8	.9	1.7	.3	12.4	6.5
Transportation	.7	1.3	1.5	3.1	2.8	1.7	.6	22.7	21.6
Medical care	1.0	.8	1.1	1.3	1.5	.9	.8	13.2	11.9
Entertainment	.7	.5	-.1	.8	1.2	1.6	.8	15.0	8.5
Other goods and services	.2	.3	.6	1.4	.9	.4	.5	7.6	8.3

(Data for CPI-W are shown in tables 4 through 6.)

Technical Notes

Brief Explanation of the CPI

The Consumer Price Index (CPI) is a measure of the average change in prices over time in a fixed market basket of goods and services. Effective with the January 1978 index, the Bureau of Labor Statistics began publishing CPI's for two population groups: (1) A new CPI for All Urban Consumers (CPI-U) which covers approximately 80 percent of the total noninstitutional civilian population; and (2) a revised CPI for Urban Wage Earners and Clerical Workers (CPI-W) which represents about half the population covered by the CPI-U. The CPI-U includes, in addition to wage earners and clerical workers, groups which historically have been excluded from CPI coverage, such as professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, and retirees and others not in the labor force.

The CPI is based on prices of food, clothing, shelter, and fuels, transportation fares, charges for doctors' and dentists' services, drugs, and the other goods and services that people buy for day-to-day living. Prices are collected in 85 urban areas across the country from about 18,000 tenants, 18,000 housing units for property taxes, and about 24,000 establishments--grocery and department stores, hospitals, filling stations, and other types of stores and service establishments. All taxes directly associated with the purchase and use of items are included in the index. Prices of food, fuels, and a few other items are obtained every month in all 85 locations. Prices of most other commodities and services are collected every month in the five largest geographic areas and every other month in other areas. Prices of most goods and services are obtained by personal visits of the Bureau's trained representatives. Mail questionnaires are used to obtain public utility rates, some fuel prices, and certain other items.

In calculating the index, price changes for the various items in each location are averaged together with weights which represent their importance in the spending of the appropriate population group. Local data are then combined to obtain a U.S. city average. Separate indexes are also published by size of city, by region of the country, for cross-classifications of regions and population-size classes, and for 28 local areas. Area indexes do not measure differences in the level of prices among cities; they only measure the average change in prices for each area since the base period.

The index measures price changes from a designated reference date--1967--which equals 100.0. An increase of 122 percent, for example, is shown as 222.0. This change can also be expressed in dollars as follows: The price of a base period "market basket" of goods and services in the CPI has risen from $10 in 1967 to $22.20.

For further details see the following: *The Consumer Price Index: Concepts and Content Over the Years*, Report 517, revised edition (Bureau of Labor Statistics, May 1978); *The Revision of the Consumer Price Index*, by W. John Layng, reprinted from the *Statistical Reporter*, February 1978, No. 78-5 (U.S. Dept. of Commerce), *Revisions in the Medical Care Service Component of the Consumer Price Index*, by Daniel H. Ginsburg, *Monthly Labor Review*, August 1978; and *CPI Issues*, Report 593, (Bureau of Labor Statistics, February 1980).

A Note About Calculating Index Changes

Movements of the indexes from one month to another are usually expressed as percent changes rather than changes in index points because index point changes are affected by the level of the index in relation to its base period while percent changes are not. The example in the accompanying box illustrates the computation of index point and percent changes.

Percent changes for 3-month and 6-month periods are expressed as annual rates and are computed according to the standard formula for compound growth rates. These data indicate what the percent change would be if the current rate were maintained for a 12-month period.

Index Point Change

CPI	236.4
Less previous index	233.2
Equals index point change:	3.2

Percent Change

Index point difference	3.2
Divided by the previous index	233.2
Equals:	0.014
Results multiplied by one hundred	0.014x100
Equals percent change:	1.4

A Note on Seasonally Adjusted and Unadjusted Data

Because price data are used for different purposes by different groups, the Bureau of Labor Statistics publishes seasonally adusted as well as unadjusted changes each month.

For analyzing general price trends in the economy, seasonally adjusted changes are usually preferred since they eliminate the effect of changes that normally occur at the same time and in about the same magnitude every year—such as price movements resulting from changing climatic conditions, production cycles, model changeovers, holidays, and sales.

The unadjusted data are of primary interest to consumers concerned about the prices they actually pay. Unadjusted data also are used extensively for escalation purposes. Many collective bargaining contract agreements and pension plans, for example, tie compensation changes to the Consumer Price Index unadjusted for seasonal variation.

Seasonal factors used in computing the seasonally adjusted indexes are derived by the X-11 Variant of the Census Method II Seasonal Adjustment Program. The updated seasonal data at the end of 1977 replaced data from 1967 through 1977. Subsequent annual updates have replaced 5 years of seasonal data, e.g., data from 1975 through 1979 were replaced at the end of 1979. The seasonal movement of all items and 35 other aggregations is derived by combining the seasonal movement of 45 selected components. Each year the seasonal status of every series is reevaluated based upon certain statistical criteria. If any of the 45 selected components changes its seasonal status, seasonal data from 1967 forward for the all items and for any of the 35 other aggregations, that have that series as a component, are replaced.

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24 Hour CPI Mailgram Service

Consumer Price Index data now are available by mailgram within 24 hours of the CPI release. The new service is being offered by the Bureau of Labor Statistics through the National Technical Information Service of the U.S. Department of Commerce.

The CPI MAILGRAM service provides unadjusted and seasonally adjusted data both for the All Urban Consumers (CPI-U) and for the Urban Wage Earners and Clerical Workers (CPI-W) Indexes as shown on the CPI-U sample page below. The unadjusted data include the current month's index and the percent changes from 12 months ago and one month ago. The seasonally adjusted data are the percent changes from one month ago.

CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS (CPI-U): U.S. CITY AVERAGE (1967=100)

GROUP	UNADJ INDEX MAY 1979	UNADJUSTED PER CHG FROM 12 MO AGO	UNADJUSTED PER CHG FROM 1 MO AGO	S ADJ PER CHG FROM 1 MO AGO
ALL ITEMS	214.1	10.8	1.2	1.1
ALL ITEMS(1957-59=100)	249.9	-	-	-
FOOD AND BEVERAGES	228.2	11.2	.8	.7
FOOD	234.3	11.6	.9	.7
FOOD AT HOME	233.6	11.3	.7	.5
CEREALS AND BAKERY PRODUCTS	216.2	9.5	.8	1.3
MEATS, POULTRY, FISH, AND EGGS	242.2	10.6	.9	.7
DAIRY PRODUCTS	233.8	11.1	.7	.8
FRUITS AND VEGETABLES	228.8	5.6	.1	- .2
FOOD AWAY FROM HOME	241.1	11.7	1.1	1.1
HOUSING	222.6	11.3	1.2	1.2
RENT, RESIDENTIAL	173.5	5.5	1.3	1.3
HOMEOWNERSHIP	224.9	14.6	1.3	1.3
FUEL AND OTHER UTILITIES	272.4	19.7	2.1	2.2
FUEL OIL, COAL, AND BOTTLED GAS	343.3	23.2	4.1	4.5
GAS (PIPED) AND ELECTRICITY	251.5	8.2	2.6	2.6
HOUSEHOLD FURNISHINGS AND OPERATION	149.2	7.5	.3	.4
APPAREL AND UPKEEP	166.1	3.9	.6	.3
TRANSPORTATION	237.7	13.6	2.6	1.8
NEW CARS	165.8	5.7	.9	1.1
USED CARS	225.9	11.3	2.7	- .5
GASOLINE	227.7	29.1	5.8	5.0
PUBLIC TRANSPORTATION	193.3	3.1	.6	.7
MEDICAL CARE	216.3	8.9	.5	.6
MEDICAL CARE SERVICES	254.4	9.6	.5	.6
ENTERTAINMENT	187.8	6.6	.7	.5
OTHER GOODS AND SERVICES	193.9	7.5	.6	.5
PERSONAL CARE 1/	193.9	7.5	.6	.6
COMMODITIES	205.5	10.9	1.2	.9
COMMODITIES LESS FOOD AND BEVERAGES	192.9	10.9	1.5	1.0
NONDURABLES LESS FOOD AND BEVERAGES	195.7	12.0	2.3	1.9
DURABLES	189.2	10.3	1.1	.5
SERVICES	229.5	10.3	1.1	1.3
ALL ITEMS LESS FOOD	205.9	10.5	1.3	1.2
ENERGY 1/	260.5	19.5	4.2	4.2
ALL ITEMS LESS FOOD AND ENERGY	204.1	9.5	.9	.9

1/ NOT SEASONALLY ADJUSTED.

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TABLE 1. Consumer Price Index for all urban consumers: U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Relative importance, December 1979	Unadjusted indexes Mar. 1980	Apr. 1980	Unadjusted percent change to Apr. 1980 from- Apr. 1979	Mar. 1980	Seasonally adjusted percent change from- Jan. to Feb.	Feb. to Mar.	Mar. to Apr.
Expenditure category								
All items	100.000	239.8	242.5	14.7	1.1	1.4	1.4	0.9
All items(1957-59=100)	-	278.8	282.0	-	-	-	-	-
Food and beverages	18.685	241.0	242.8	7.3	.7	.0	1.0	.5
Food	17.455	247.3	249.1	7.2	.7	.0	1.0	.5
Food at home	12.202	243.6	245.3	5.9	.7	-.4	1.1	.4
Cereals and bakery products 1/	1.518	238.6	242.0	12.8	1.4	1.1	.8	1.4
Meats, poultry, fish, and eggs	4.189	237.8	235.1	-2.0	-1.1	-1.8	1.0	-1.3
Dairy products	1.642	220.3	222.4	9.9	1.0	.6	.8	1.0
Fruits and vegetables	1.702	232.4	240.9	6.4	3.7	-2.3	1.7	2.7
Sugar and sweets 1/	.418	313.5	319.5	16.5	1.9	2.7	5.4	1.9
Fats and oils	.346	236.8	238.3	7.1	.6	1.6	.8	.2
Nonalcoholic beverages	1.575	387.1	390.3	12.3	.8	1.1	.2	.0
Other prepared foods	1.013	224.1	226.6	10.7	1.1	1.3	1.1	1.1
Food away from home	5.454	260.9	263.0	10.3	.8	.7	.8	.7
Alcoholic beverages	1.029	181.7	183.9	8.0	1.2	.4	.5	1.1
Housing	44.999	254.5	257.9	17.3	1.3	1.4	1.6	1.3
Shelter	30.910	271.6	276.0	19.6	1.6	1.4	1.8	1.6
Rent, residential 1/	5.273	186.6	187.0	8.7	.2	.8	.5	.2
Other rental costs	.734	258.6	260.7	14.2	.8	1.9	.7	1.1
Homeownership	24.904	302.0	307.7	22.2	1.9	1.5	2.1	1.9
Home purchase 1/	10.596	244.0	246.5	14.4	1.0	.4	.4	1.0
Financing, taxes, and insurance	10.902	379.9	390.6	33.7	2.8	2.6	3.6	2.9
Maintenance and repairs	3.606	278.8	282.9	12.9	1.5	1.5	1.7	1.4
Maintenance and repair services	2.778	303.2	307.9	13.4	1.6	1.7	1.9	1.5
Maintenance and repair commodities 1/	.828	221.4	224.3	11.1	1.3	.6	1.1	1.3
Fuel and other utilities 1/	6.477	268.0	270.5	18.9	.9	2.0	1.6	.9
Fuels 1/	4.607	333.9	337.8	26.6	1.2	2.9	2.1	1.2
Fuel oil, coal, and bottled gas 1/	1.214	553.4	556.4	59.1	.5	4.9	2.7	.5
Gas (piped) and electricity 1/	3.393	284.0	288.0	17.4	1.4	2.1	1.9	1.4
Other utilities and public services 1/	1.870	161.9	162.3	2.2	.2	-.1	.4	.2
Household furnishings and operation	7.612	201.3	203.0	7.6	.8	.9	1.0	.7
Housefurnishings	4.139	171.5	172.7	6.3	.7	.8	1.0	.5
Housekeeping supplies 1/	1.459	238.0	240.7	9.6	1.1	1.7	1.3	1.1
Housekeeping services 1/	2.015	263.6	266.0	8.8	.9	.6	.8	.9
Apparel and upkeep	5.107	174.0	177.3	7.2	.7	.6	2.0	.3
Apparel commodities	4.446	169.2	170.2	6.2	.6	.5	2.2	.1
Men's and boys' apparel	1.396	163.6	166.9	4.6	.8	-.2	1.0	.6
Women's and girls' apparel	1.701	155.5	155.9	2.7	.3	.5	2.7	-.8
Infants' and toddlers' apparel 1/	.108	231.4	234.3	6.2	1.3	.8	2.1	1.3
Footwear	.669	187.0	188.3	8.1	.7	.3	.9	.2
Other apparel commodities 1/	.572	199.9	201.9	21.0	1.0	3.8	4.4	1.0
Apparel services 1/	.662	225.9	230.0	14.0	1.8	1.0	1.3	1.8
Transportation	18.572	243.7	246.8	21.6	1.3	2.8	1.7	.6
Private transportation	17.506	244.0	247.0	21.6	1.2	2.9	1.7	.6
New cars	3.731	175.0	177.0	7.7	1.1	1.2	.3	1.4
Used cars	2.838	195.2	194.7	-1.7	-.8	-.5	-1.2	-1.8
Gasoline	5.419	370.9	374.7	59.7	1.0	7.3	3.9	.0
Maintenance and repair	1.473	260.9	264.1	10.9	1.2	.9	.9	1.4
Other private transportation	3.845	216.5	221.3	13.6	2.2	1.1	2.1	2.0
Other private trans. commodities 1/	.712	192.7	194.1	14.0	.7	1.3	.8	.7
Other private trans. services	3.133	225.0	230.6	13.4	2.5	1.0	2.4	2.3
Public transportation 1/	1.066	232.1	235.9	22.3	1.6	1.2	1.1	1.6
Medical care	4.817	240.2	242.0	11.4	.7	1.3	.9	.7
Medical care commodities	.802	163.5	164.9	8.8	.9	.7	.9	.8
Medical care services 1/	4.015	281.5	283.4	12.0	.7	1.7	.9	.7
Professional services 1/	1.911	243.5	248.2	11.4	1.2	1.7	1.0	1.2
Other medical care services 1/	2.104	325.3	325.8	12.3	.2	1.7	.8	.2
Entertainment	3.738	200.6	202.5	8.6	.9	1.2	1.3	.8
Entertainment commodities	2.214	203.1	205.7	9.8	1.1	1.3	1.3	.8
Entertainment services 1/	1.523	197.0	198.5	7.1	.8	1.0	1.3	.8
Other goods and services	4.081	208.9	209.8	8.6	.4	1.0	.5	.6
Tobacco products 1/	.080	198.4	198.8	6.8	.2	.7	.2	.2
Personal care 1/	1.452	208.1	209.7	8.8	.8	1.1	.8	.8
Toilet goods and personal care appliances 1/	.728	200.2	201.8	8.6	.8	1.1	.8	.8
Personal care services 1/	.905	215.7	217.2	8.9	.7	1.2	.7	.7
Personal and educational expenses	1.369	228.3	228.7	9.7	.2	.9	.5	.6
School books and supplies	.174	205.5	207.1	8.1	.8	.6	.7	.7
Personal and educational services	1.195	233.6	234.0	10.0	.2	1.0	.4	.6
Commodity and service group								
All items	100.000	239.8	242.5	14.7	1.1	1.4	1.4	0.9
Commodities	39.063	228.0	229.9	13.1	.8	1.2	1.2	.5
Food and beverages	18.685	241.0	242.8	7.3	.7	.0	1.0	.5
Commodities less food and beverages	40.379	218.4	220.4	15.9	.9	1.7	1.3	.5
Nondurables less food and beverages	17.704	237.5	239.5	24.8	.8	3.1	2.4	.5
Apparel commodities	4.446	169.2	170.2	6.2	.6	.5	2.2	.1
Nondurables less food, beverages, and apparel	13.261	276.6	279.1	31.8	.9	4.0	2.6	.8
Durables	22.672	203.0	204.9	9.5	.9	.5	.2	.5
Services	40.937	261.3	265.3	16.9	1.5	1.5	1.9	1.5
Rent, residential 1/	5.273	186.6	187.0	8.7	.2	.8	.5	.2
Household services less rent	21.692	307.3	313.4	22.2	2.0	2.0	2.5	2.0
Transportation services	5.673	233.4	238.1	14.4	2.0	1.0	1.7	2.0
Medical care services 1/	4.015	281.5	283.4	12.0	.7	1.7	.9	.7
Other services	4.285	212.9	214.5	9.3	.8	1.1	.9	.8
Special indexes:								
All items less food	82.343	237.1	239.9	16.3	1.2	1.6	1.5	1.1
All items less shelter	69.090	229.6	231.7	12.5	.9	1.3	1.3	.6
All items less mortgage interest costs	91.346	229.8	231.8	12.3	.9	1.1	1.2	.7
All items less home purchase and mortgage interest costs	80.950	228.2	230.2	12.0	.9	1.2	1.2	.7
All items less medical care	95.183	238.4	241.1	14.8	1.1	1.3	1.5	.9
Commodities less food	41.408	212.7	214.6	15.7	.9	1.7	1.3	.5
Nondurables less food	18.736	232.6	234.6	23.7	.9	3.0	2.4	.6
Nondurables less food and apparel	14.290	266.1	268.5	29.9	.9	4.0	2.6	.7
Nondurables	36.391	240.3	242.2	15.4	.8	1.6	1.6	.5
Services less rent 1/	35.664	273.4	280.0	18.1	1.7	1.7	2.0	1.7
Services less medical care	36.921	257.4	261.5	17.4	1.6	1.6	1.9	1.6
Energy	7.313	353.0	358.8	43.4	1.1	5.1	3.0	.9
All items less energy	89.687	230.8	233.4	11.8	1.1	.7	1.2	1.0
All items less food and energy	72.032	225.7	228.5	13.0	1.2	1.1	1.2	1.3
Commodities less food and energy	34.488	196.3	198.2	8.0	.9	.5	.6	.7
Energy commodities	6.920	398.5	402.3	58.9	1.0	6.7	3.9	.3
Services less energy	37.544	259.6	263.5	16.8	1.5	1.3	1.8	1.5
Purchasing power of the consumer dollar:								
1967=$1.00 1/	-	$.417	$.412	-12.9	-1.2	-1.4	-1.4	-1.2
1957-59=$1.00 1/	-	.359	.355	-	-	-	-	-

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 2. Consumer Price Index for all urban consumers: Seasonally adjusted U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Seasonally adjusted indexes				Seasonally adjusted annual rate percent change for-					
	Jan. 1980	Feb. 1980	Mar. 1980	Apr. 1980	3 months ending in			6 months ending in		
					July 1979	Oct. 1979	Jan. 1980	Apr. 1980	Oct. 1979	Apr. 1980
Expenditure category										
All items	-	-	-	-	13.3	13.4	15.6	15.9	13.4	15.7
Food and beverages	238.5	238.5	240.8	242.1	5.8	7.9	8.8	6.2	6.8	7.5
Food	244.8	244.7	247.1	248.4	5.8	7.9	8.6	6.0	6.8	7.3
Food at home	241.8	240.9	243.5	244.5	3.5	7.2	8.2	4.5	5.4	6.3
Cereals and bakery products 1/	234.2	236.8	238.6	242.0	10.9	13.1	15.3	14.0	12.0	13.7
Meats, poultry, fish, and eggs	240.6	236.2	238.5	235.3	-9.3	-5.0	16.7	-8.5	-7.2	3.3
Dairy products	217.1	218.4	220.1	222.4	11.3	10.6	7.5	10.1	11.0	8.8
Fruits and vegetables	231.0	225.6	229.4	235.7	18.9	13.8	-12.7	8.4	16.3	-2.7
Sugar and sweets 1/	289.8	297.5	313.5	319.5	7.8	9.4	9.8	47.7	6.6	27.4
Fats and oils	234.1	237.8	239.7	240.2	3.2	8.6	5.8	10.8	5.9	8.3
Nonalcoholic beverages	383.1	387.2	387.9	388.0	5.1	30.1	10.6	5.2	16.9	7.9
Other prepared foods	217.9	220.7	223.2	225.7	12.9	8.2	6.7	15.1	10.6	10.8
Food away from home	256.9	258.6	260.6	262.5	11.0	9.5	11.7	9.0	10.3	10.3
Alcoholic beverages	179.8	180.6	181.5	183.5	6.8	8.4	8.7	8.5	7.6	8.6
Housing	247.2	250.7	254.6	258.2	16.2	16.7	17.6	19.0	16.4	18.3
Shelter	267.7	267.4	272.2	276.6	16.1	19.8	21.3	21.1	18.0	21.4
Rent, residential 1/	184.1	185.6	186.6	187.0	9.4	13.1	6.1	6.5	11.2	6.3
Other rental costs	251.4	256.2	258.1	261.0	11.1	12.5	17.4	16.2	11.8	16.8
Homeownership	292.2	294.6	302.7	308.5	17.9	21.7	25.6	24.3	19.8	24.9
Home purchase 1/	242.1	243.0	244.0	246.5	17.0	17.9	15.8	7.5	17.4	11.5
Financing, taxes, and insurance	358.7	368.1	381.4	392.6	21.9	29.8	40.6	43.3	25.8	42.1
Maintenance and repairs	271.0	273.0	279.8	283.6	9.9	10.3	11.5	19.9	10.1	15.7
Maintenance and repair services	293.8	298.9	304.7	308.8	10.2	9.5	12.1	22.0	9.8	17.0
Maintenance and repair commodities 1/	217.6	218.9	221.4	224.3	8.8	13.0	10.0	12.9	10.9	11.4
Fuel and other utilities 1/	258.6	263.8	268.0	270.5	31.2	16.4	9.3	19.7	23.6	14.4
Fuels 1/	318.0	327.1	333.9	337.8	47.0	24.4	10.5	27.3	35.3	18.9
Fuel oil, coal, and bottled gas 1/	514.0	539.1	553.4	556.4	94.1	69.0	42.1	37.5	81.1	39.7
Gas (piped) and electricity 1/	273.0	278.8	284.0	288.0	35.2	12.7	.7	23.9	23.4	11.7
Other utilities and public services 1/	161.9	161.3	161.8	162.3	1.5	-1.5	7.0	2.0	.0	4.5
Household furnishings and operation	197.4	199.2	201.2	202.6	5.2	5.3	9.0	11.0	5.3	10.0
Housefurnishings	168.3	169.6	171.3	172.2	3.5	4.5	8.0	9.6	4.0	8.8
Housekeeping supplies 1/	231.1	235.0	238.0	240.7	6.8	6.6	11.7	12.7	6.7	11.6
Housekeeping services 1/	260.0	261.6	263.4	264.9	8.8	8.1	8.8	9.6	8.4	9.2
Apparel and upkeep	172.4	173.5	177.0	177.5	1.0	8.2	7.8	12.4	4.5	10.1
Apparel commodities	165.9	166.8	170.4	170.5	.0	7.4	6.5	11.6	3.6	9.0
Men's and boys' apparel	164.4	164.2	165.3	166.9	3.5	6.1	3.5	5.7	4.7	4.6
Women's and girls' apparel	153.5	153.9	158.0	156.7	-6.6	4.0	3.7	8.6	-1.4	6.1
Infants' and toddlers' apparel 1/	224.9	226.6	231.4	234.3	-3.0	11.0	.2	17.8	3.7	8.6
Footwear	183.8	185.3	187.2	187.3	10.8	8.3	7.7	5.5	9.6	6.6
Other apparel commodities 1/	184.4	191.4	199.9	201.9	2.7	19.4	21.9	43.7	10.7	32.3
Apparel services 1/	220.7	222.9	225.9	230.0	8.0	13.9	16.4	18.0	10.9	17.1
Transportation	233.3	242.0	245.2	247.6	23.4	15.8	25.1	22.6	19.5	23.8
Private transportation	235.4	242.3	246.5	247.9	24.3	15.1	24.2	23.0	19.6	23.6
New cars	171.8	173.9	174.5	177.0	9.1	.7	8.8	12.7	4.8	10.7
Used cars	205.8	204.7	202.3	198.7	-3.7	-2.2	14.4	-13.1	-2.9	-.3
Gasoline	339.0	363.8	378.1	378.1	82.4	45.0	58.6	54.7	62.6	56.6
Maintenance and repair	259.4	257.7	259.9	263.6	11.2	9.1	9.8	13.5	10.2	11.6
Other private transportation	209.1	211.4	213.8	214.6	11.6	10.9	9.5	23.0	11.2	16.1
Other private trans. commodities 1/	188.4	191.2	192.7	194.1	7.5	21.6	14.8	12.7	14.3	13.7
Other private trans. services	216.7	218.9	224.1	229.2	12.6	8.5	8.3	25.1	10.6	16.4
Public transportation 1/	224.8	229.3	232.1	235.6	9.7	26.7	38.4	17.0	17.9	27.5
Medical care	254.0	257.9	260.1	261.9	8.4	10.6	13.8	13.0	9.5	13.4
Medical care commodities	160.8	161.9	163.3	164.6	7.1	8.0	10.3	9.8	7.5	10.1
Medical care services 1/	271.1	279.0	281.5	283.4	8.8	10.9	14.4	13.8	9.9	14.1
Professional services 1/	238.9	242.9	243.3	248.2	8.7	7.2	13.2	16.5	8.0	14.8
Other medical care services 1/	317.4	322.7	325.3	325.8	8.8	14.8	15.3	11.0	11.8	13.2
Entertainment	197.5	198.1	200.6	202.2	6.2	7.2	7.3	14.0	6.7	10.6
Entertainment commodities	198.2	200.8	203.4	205.1	5.5	8.9	10.1	14.7	7.2	12.3
Entertainment services 1/	192.5	194.5	197.0	198.5	7.1	5.7	3.6	13.1	5.9	8.2
Other goods and services	195.9	197.9	208.9	210.1	9.5	11.2	8.8	8.4	8.3	8.6
Tobacco products 1/	196.7	198.1	198.4	198.8	1.3	10.0	11.8	4.3	5.7	8.0
Personal care 1/	204.2	206.5	208.1	209.7	7.9	7.1	9.1	11.2	7.5	10.2
Toilet goods and personal care appliances 1/	196.4	198.6	200.2	201.8	6.2	8.5	8.4	11.5	7.3	9.9
Personal care services 1/	211.6	214.2	215.7	217.2	9.3	6.2	9.2	11.0	7.8	10.1
Personal and educational expenses	225.0	227.1	228.2	229.5	5.7	12.7	7.6	8.8	11.5	7.9
School books and supplies	203.4	204.7	206.1	207.5	7.1	4.4	13.0	8.3	5.7	10.6
Personal and educational services	230.2	232.6	233.6	234.9	5.5	19.8	6.5	8.4	12.4	7.5
Commodity and service group										
All items	-	-	-	-	13.3	13.4	15.6	15.9	13.4	15.7
Commodities	223.5	226.1	228.8	230.0	12.8	12.4	15.1	12.2	12.6	13.6
Food and beverages	238.3	238.5	240.8	242.1	5.8	7.9	8.8	6.2	6.8	7.5
Commodities less food and beverages	213.2	216.9	219.7	220.8	16.0	14.7	18.4	15.0	15.4	16.7
Nondurables less food and beverages	226.0	233.0	238.7	240.0	26.9	20.2	24.9	27.2	23.5	26.0
Apparel commodities	165.9	166.8	170.4	170.5	.0	7.4	6.5	11.6	3.6	9.0
Nondurables less food, beverages, and apparel	260.4	270.9	278.0	280.2	37.0	26.5	30.1	34.1	31.6	32.1
Durables	202.5	203.5	204.0	205.1	9.2	9.1	14.6	5.2	9.2	9.8
Services	252.9	254.8	256.6	259.6	14.0	15.1	16.6	21.7	14.6	19.0
Rent, residential 1/	184.1	185.6	186.6	187.0	9.4	13.1	6.1	6.5	11.2	6.3
Household services less rent	294.7	300.6	308.1	314.4	18.6	18.3	22.7	29.5	18.4	26.0
Transportation services	224.4	229.6	232.6	237.2	11.9	11.7	13.8	20.1	11.8	17.1
Medical care services 1/	274.4	279.0	281.5	283.4	8.8	10.9	14.4	13.8	9.9	14.1
Other services	208.7	210.9	212.9	214.7	7.3	10.4	7.4	12.0	8.8	9.7
Special indexes:										
All items less food	230.4	234.2	237.8	240.3	14.9	14.8	17.5	18.3	14.8	17.9
All items less shelter	224.3	227.3	230.3	231.7	12.0	11.0	12.9	13.9	11.5	13.4
All items less mortgage interest costs	225.2	227.6	230.3	231.8	11.9	12.0	13.3	12.2	12.0	12.8
All items less home purchase and mortgage interest costs	223.2	225.9	228.7	230.2	11.4	11.3	12.5	13.1	11.3	12.8
All items less medical care	232.5	235.6	239.1	241.3	13.4	13.7	15.9	16.0	13.6	15.9
Commodities less food	211.5	215.2	217.9	219.0	15.9	14.4	18.1	15.0	15.1	16.5
Nondurables less food	221.8	228.4	233.8	235.1	25.5	19.6	23.7	26.2	22.5	25.0
Nondurables less food and apparel	249.3	259.2	265.4	267.3	34.2	25.2	28.0	32.2	29.6	30.0
Nondurables	233.2	237.0	240.8	242.0	15.1	14.1	16.2	16.0	14.6	16.1
Services less rent 1/	265.7	270.2	275.7	280.4	14.7	15.5	17.9	24.0	15.1	20.9
Services less medical care	249.2	252.7	257.4	261.5	15.0	16.5	17.0	21.3	15.8	19.1
Energy	330.5	347.4	357.9	361.0	61.1	35.5	35.9	42.3	47.8	39.1
All items less energy	226.6	228.2	231.0	233.4	9.1	11.3	14.4	12.6	10.2	13.5
All items less food and energy	221.0	223.5	226.2	228.7	9.8	11.9	15.5	14.7	10.8	15.1
Commodities less food and energy	194.9	195.9	197.1	198.4	7.0	8.0	13.1	7.4	7.5	10.2
Energy commodities	364.4	388.9	404.2	405.5	83.7	48.0	52.9	53.3	64.9	53.1
Services less energy	251.4	255.2	259.9	263.9	12.2	13.4	18.0	21.4	13.8	19.7

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

CPI-U

TABLE 3. Consumer Price Index for all urban consumers: Selected areas, all items index, 1967=100 unless otherwise noted

Area 1/	Pricing schedule 2/	Other index base	Indexes Jan. 1980	Feb. 1980	Mar. 1980	Apr. 1980	Percent change to Apr. 1980 from- Apr. 1979	Feb. 1980	Mar. 1980	Percent change to Mar. 1980 from- Mar. 1979	Jan. 1980	Feb. 1980
U.S. city average			233.2	236.4	239.8	242.5	14.7	2.6	1.1	14.7	2.8	1.4
Chicago, Ill.-Northwestern Ind.	M		230.3	232.7	235.5	240.1	15.0	3.2	2.0	14.0	2.3	1.2
Detroit, Mich.	M		237.2	240.6	242.9	248.2	16.4	3.2	2.2	14.8	2.4	1.0
L.A.-Long Beach, Anaheim, Calif.	M		232.6	237.6	241.3	244.6	17.7	2.9	1.4	18.4	3.7	1.6
N.Y., N.Y.-Northeastern N.J.	M		226.1	228.0	231.2	233.1	11.9	2.2	.8	12.0	2.3	1.4
Philadelphia, Pa.-N.J.	M		227.2	231.1	234.6	237.4	14.3	2.7	1.2	14.6	3.3	1.5
Anchorage, Alaska	1	10/67	218.2	-	223.5	-	-	-	-	11.2	2.4	-
Baltimore, Md.	1		234.4	-	245.0	-	-	-	-	17.2	4.5	-
Boston, Mass.	1		227.3	-	234.2	-	-	-	-	14.2	3.0	-
Cincinnati, Ohio-Ky.-Ind.	1		239.5	-	247.8	-	-	-	-	14.9	3.5	-
Denver-Boulder, Colo.	1		247.3	-	255.2	-	-	-	-	14.4	3.2	-
Miami, Fla.	1	11/77	122.3	-	127.7	-	-	-	-	14.8	3.6	-
Milwaukee, Wis.	1		236.4	-	242.7	-	-	-	-	16.9	2.7	-
Northeast Pennsylvania	1		224.4	-	229.0	-	-	-	-	12.5	2.0	-
Portland, Oreg.-Wash.	1		244.6	-	253.6	-	-	-	-	17.7	3.7	-
St. Louis, Mo.-Ill.	1		232.7	-	238.1	-	-	-	-	14.3	2.3	-
San Diego, Calif.	1		254.0	-	258.3	-	-	-	-	16.7	1.7	-
Seattle-Everett, Wash.	1		236.0	-	243.8	-	-	-	-	17.8	3.3	-
Washington, D.C.-Md.-Va.	1		231.9	-	238.8	-	-	-	-	12.3	3.0	-
Atlanta, Ga.	2			-	230.3	-	235.3	13.8	2.2	-	-	-
Buffalo, N.Y.	2			-	227.9	-	233.7	13.1	2.5	-	-	-
Cleveland, Ohio	2			-	243.5	-	247.3	15.0	1.6	-	-	-
Dallas-Fort Worth, Tex.	2			-	241.7	-	251.4	19.1	4.0	-	-	-
Honolulu, Hawaii	2			-	220.9	-	227.4	13.3	2.9	-	-	-
Houston, Tex.	2			-	255.9	-	260.8	14.3	1.9	-	-	-
Kansas City, Mo.-Kans.	2			-	238.7	-	243.8	15.3	2.1	-	-	-
Minneapolis-St.Paul, Minn.-Wis.	2			-	237.9	-	244.3	13.2	2.7	-	-	-
Pittsburgh, Pa.	2			-	235.5	-	240.9	13.6	2.3	-	-	-
San Francisco-Oakland, Calif.	2			-	240.7	-	243.5	16.6	1.2	-	-	-
Region 3/												
Northeast	2	12/77	-	123.7	-	126.8	13.3	2.5	-	-	-	-
North Central	2	12/77	-	128.0	-	131.3	14.2	2.6	-	-	-	-
South	2	12/77	-	127.4	-	130.8	14.6	2.7	-	-	-	-
West	2	12/77	-	129.4	-	132.7	16.6	2.6	-	-	-	-
Population size class 3/												
A-1	2	12/77	-	125.4	-	128.9	14.6	2.8	-	-	-	-
A-2	2	12/77	-	128.1	-	131.1	15.1	2.3	-	-	-	-
B	2	12/77	-	128.0	-	131.6	14.9	2.8	-	-	-	-
C	2	12/77	-	127.7	-	130.9	14.3	2.5	-	-	-	-
D	2	12/77	-	125.8	-	128.6	13.5	2.2	-	-	-	-
Region/population size class cross classification 3/												
Northeast/A	2	12/77	-	122.1	-	125.0	12.8	2.4	-	-	-	-
North Central/A	2	12/77	-	129.6	-	133.2	15.1	2.8	-	-	-	-
South/A	2	12/77	-	127.1	-	130.7	15.2	2.8	-	-	-	-
West/A	2	12/77	-	129.6	-	132.8	17.2	2.5	-	-	-	-
Northeast/B	2	12/77	-	125.6	-	129.0	14.1	2.7	-	-	-	-
North Central/B	2	12/77	-	127.2	-	130.9	13.7	2.9	-	-	-	-
South/B	2	12/77	-	128.0	-	131.7	15.1	2.9	-	-	-	-
West/B	2	12/77	-	130.6	-	134.1	16.4	2.7	-	-	-	-
Northeast/C	2	12/77	-	129.1	-	132.7	15.6	2.8	-	-	-	-
North Central/C	2	12/77	-	126.4	-	128.9	13.1	2.0	-	-	-	-
South/C	2	12/77	-	127.9	-	131.3	14.3	2.7	-	-	-	-
West/C	2	12/77	-	128.1	-	131.4	15.2	2.6	-	-	-	-
Northeast/D	2	12/77	-	124.2	-	127.4	12.8	2.6	-	-	-	-
North Central/D	2	12/77	-	125.8	-	128.7	12.6	2.3	-	-	-	-
South/D	2	12/77	-	125.9	-	128.3	13.5	1.9	-	-	-	-
West/D	2	12/77	-	127.1	-	130.4	15.7	2.6	-	-	-	-

1/ Area is generally the Standard Metropolitan Statistical Area (SMSA), exclusive of fares. L.A.-Long Beach, Anaheim, Calif. is a combination of two SMSA's, and N.Y., N.Y.-Northeastern N.J. and Chicago, Ill.-Northwestern Ind. are the more extensive Standard Consolidated Areas. Area definitions are those established by the Office of Management and Budget in 1973, except for Denver-Boulder, Colo. which does not include Douglas County. Definitions do not include revisions made since 1973.

2/ Foods, fuels, and several other items priced every month in all areas; most other goods and services priced as indicated:
M - Every month.
1 - January, March, May, July, September, and November.
2 - February, April, June, August, October, and December.

3/ Regions are defined as the four Census regions.
The population size classes are aggregations of areas which have urban population as defined below:

A-1	More than 4,000,000.
A-2	1,250,000 to 4,000,000.
B	385,000 to 1,250,000.
C	75,000 to 385,000.
D	Less than 75,000.

Population size class A is the aggregation of population size classes A-1 and A-2.

NOTE: Price changes within areas are found in the Consumer Price Index; differences in living costs among areas are found in Family Budgets.

CPI-W

TABLE A. Consumer Price Index for urban wage earners and clerical workers: U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Relative importance, December 1979	Unadjusted indexes Mar. 1980	Apr. 1980	Unadjusted percent change to Apr. 1980 from- Apr. 1979	Mar. 1980	Seasonally adjusted percent change from- Jan. to Feb.	Feb. to Mar.	Mar. to Apr.
Expenditure category								
All items	100.000	239.9	242.6	14.5	1.1	1.4	1.4	1.0
All items(1957-59=100)	-	279.0	282.2	-	-	-	-	-
Food and beverages	20.353	241.2	243.2	7.3	.8	.0	.9	.7
Food	19.237	247.5	249.5	7.2	.8	.0	.9	.6
Food at home	13.427	243.1	245.0	5.9	.8	-.3	1.0	.5
Cereals and bakery products 1/	1.683	239.3	242.2	12.5	1.2	1.2	.8	1.2
Meats, poultry, fish, and eggs	4.663	237.1	234.3	-2.1	-1.2	-1.5	.5	-1.2
Dairy products	1.810	221.1	223.1	9.9	.9	.4	1.1	1.0
Fruits and vegetables	1.762	230.1	239.8	6.8	4.2	-2.7	1.8	3.6
Sugar and sweets 1/	.447	314.1	320.8	17.3	2.1	2.6	5.7	2.1
Fats and oils	.376	236.8	238.3	6.9	.6	1.5	.7	.2
Nonalcoholic beverages	1.557	384.4	389.2	11.9	1.2	1.4	.0	.3
Other prepared foods	1.129	224.0	226.4	10.8	1.2	1.1	1.1	1.2
Food away from home	5.810	262.7	265.3	10.4	1.0	.5	.9	.8
Alcoholic beverages	1.116	182.8	185.0	8.4	1.2	.7	.6	1.1
Housing	41.667	254.4	257.8	17.3	1.3	1.4	1.6	1.4
Shelter	28.038	272.7	277.2	19.9	1.7	1.4	1.7	1.7
Rent, residential 1/	4.982	186.4	186.9	8.7	.3	.9	.5	.3
Other rental costs	.502	258.6	260.3	14.3	.7	1.8	.8	.9
Homeownership	22.553	304.0	310.0	22.7	2.0	1.5	2.0	2.0
Home purchase 1/	9.137	243.8	246.5	14.4	1.1	.3	.3	1.1
Financing, taxes, and insurance	10.163	384.1	395.3	34.5	2.9	2.7	3.7	3.0
Maintenance and repairs	3.254	278.2	281.7	11.9	1.3	1.1	1.3	1.2
Maintenance and repair services	2.322	303.5	307.7	12.4	1.4	1.5	1.3	1.3
Maintenance and repair commodities 1/	.931	222.3	224.3	10.7	.9	.5	1.3	.9
Fuel and other utilities 1/	6.373	268.7	271.0	19.0	.9	2.0	1.6	.9
Fuels 1/	4.584	333.9	337.6	26.6	1.1	2.8	2.1	1.1
Fuel oil, coal, and bottled gas 1/	1.209	554.1	557.1	59.0	.5	4.9	2.6	.5
Gas (piped) and electricity 1/	3.375	283.9	287.6	17.3	1.3	2.0	1.9	1.3
Other utilities and public services 1/	1.788	161.9	162.3	2.1	.2	-.1	.3	.2
Household furnishings and operation	7.256	199.2	200.7	7.2	.8	.9	1.0	.7
Housefurnishings	4.231	170.4	171.5	5.9	.6	.7	1.1	.5
Housekeeping supplies 1/	1.499	235.5	238.1	9.2	1.1	1.7	1.2	1.1
Housekeeping services 1/	1.527	262.7	264.3	8.7	.6	.7	.6	.6
Apparel and upkeep	5.114	175.1	176.1	6.5	.6	.9	1.7	.3
Apparel commodities	4.489	168.7	169.5	5.7	.5	.9	1.7	.1
Men's and boys' apparel	1.391	166.0	167.3	4.5	.8	.1	1.2	.7
Women's and girls' apparel	.794	154.9	154.7	1.7	-.1	1.1	2.1	-.8
Infants' and toddlers' apparel 1/	.124	237.3	241.1	8.6	1.6	1.6	2.0	1.6
Footwear	.706	186.3	188.1	8.0	1.0	.0	1.0	.5
Other apparel commodities 1/	.550	197.8	198.5	10.3	.4	3.4	3.1	.4
Apparel services 1/	.625	223.5	226.0	12.4	1.1	1.3	1.7	1.1
Transportation	20.902	244.3	247.7	21.6	1.4	2.8	1.7	.6
Private transportation	19.962	244.6	248.0	21.7	1.4	2.9	1.7	.6
New cars	3.946	175.4	177.7	8.4	1.3	1.2	.6	1.6
Used cars	3.622	195.2	196.8	-1.6	.8	-.5	-11.2	-1.7
Gasoline	6.429	372.7	376.3	59.9	1.0	7.3	4.0	-.1
Maintenance and repair	1.621	261.7	264.3	10.7	1.0	.9	.7	1.2
Other private transportation	4.344	217.1	223.1	14.1	2.8	1.2	1.8	2.6
Other private trans. commodities 1/	.794	193.2	195.8	14.2	1.3	2.0	.8	1.3
Other private trans. services	3.550	225.7	232.6	14.1	3.1	1.0	2.1	2.8
Public transportation 1/	.940	226.1	229.7	18.6	1.6	.9	1.0	1.6
Medical care	4.372	260.9	263.1	11.9	.8	1.5	.9	.8
Medical care commodities	.731	164.4	166.0	8.9	1.0	.9	.9	.9
Medical care services 1/	3.641	282.2	284.5	12.3	.8	1.5	.9	.8
Professional services 1/	1.843	247.8	251.2	12.0	1.4	1.6	.9	1.4
Other medical care services 1/	1.798	324.0	325.3	13.0	.3	1.5	.7	.3
Entertainment	3.556	199.5	201.3	8.5	.9	1.2	1.6	.8
Entertainment commodities	2.248	200.3	202.8	9.2	1.2	1.4	1.5	1.0
Entertainment services 1/	1.308	199.0	199.9	7.4	.4	.8	1.6	.4
Other goods and services	4.035	208.3	209.2	6.3	.4	.9	.4	.3
Tobacco products 1/	1.306	198.6	198.9	6.9	.2	.6	.2	.2
Personal care 1/	1.684	207.7	209.5	8.9	.9	1.1	.5	.9
Toilet goods and personal care appliances 1/	.796	199.6	201.8	8.4	1.1	1.1	.7	1.1
Personal care services 1/	.888	215.8	217.2	9.4	.6	1.1	.4	.6
Personal and educational expenses	1.046	228.2	228.7	9.5	.2	1.0	.5	.6
School books and supplies	.156	210.7	210.9	8.6	.1	.8	.7	.6
Personal and educational services	.890	232.9	233.4	9.7	.2	1.0	.5	.6
Commodity and service group								
All items	100.000	239.9	242.6	14.5	1.1	1.4	1.4	1.0
Commodities	61.878	228.1	230.1	13.0	.9	1.3	1.2	.5
Food and beverages	20.353	241.2	243.2	7.3	.8	.0	.9	.7
Commodities less food and beverages	41.524	218.7	220.6	16.0	.9	1.9	1.3	.5
Nondurables less food and beverages	18.832	239.8	241.7	25.4	.8	3.3	2.4	.5
Apparel commodities	4.489	168.7	169.5	5.7	.5	.9	1.7	.1
Nondurables less food, beverages, and apparel	14.343	279.0	281.4	32.5	.9	4.1	2.7	.7
Durables	22.692	201.2	203.3	8.8	1.0	.3	.3	.6
Services	38.122	261.7	265.8	17.0	1.6	1.5	1.8	1.6
Rent, residential 1/	4.982	186.4	186.9	8.7	.3	.9	.5	.3
Household services less rent	19.460	309.6	315.8	22.8	2.0	2.0	2.5	2.0
Transportation services	6.111	232.7	238.0	13.9	2.3	.9	1.5	2.2
Medical care services 1/	3.641	282.2	284.5	12.5	.8	1.5	.9	.8
Other services	3.711	213.5	214.6	9.3	.5	1.0	1.1	.6
Special indexes:								
All items less food	80.763	237.3	240.2	16.4	1.2	1.7	1.5	1.0
All items less shelter	71.962	230.1	232.8	12.6	1.0	1.4	1.3	.6
All items less mortgage interest costs	91.812	230.2	232.4	12.4	1.0	1.1	1.1	.7
All items less home purchase and mortgage interest costs	62.675	229.0	231.0	12.1	.9	1.2	1.3	.7
All items less medical care	95.628	238.4	241.2	14.6	1.2	1.4	1.4	1.0
Commodities less food	42.641	216.9	218.9	15.8	.9	1.8	1.3	.5
Nondurables less food	19.963	234.1	236.7	24.4	1.1	3.2	2.3	.5
Nondurables less food and apparel	15.459	266.3	268.7	30.6	.9	3.9	2.6	.7
Nondurables	39.185	241.4	243.3	15.5	.8	1.7	1.6	.5
Services less rent 1/	33.140	275.9	280.8	18.3	1.8	1.7	2.0	1.8
Services less medical care	34.481	257.7	261.9	17.5	1.6	1.4	1.8	1.6
Energy	11.115	359.6	363.3	44.6	1.0	5.2	3.1	.8
All items less energy	88.885	230.0	232.7	11.3	1.2	.7	1.2	1.1
All items less food and energy	69.648	224.6	227.5	12.6	1.3	1.1	1.2	1.2
Commodities less food and energy	34.900	195.1	196.9	8.3	.9	.6	.7	.6
Energy commodities	7.740	400.3	404.0	59.1	.9	6.8	3.9	.3
Services less energy	34.747	260.0	264.2	17.0	1.6	1.5	1.8	1.6
Purchasing power of the consumer dollar:								
1967=$1.00 1/	-	$.417	$.412	-12.7	-1.2	-1.4	-1.4	-1.2
1957-59=$1.00 1/	-	.358	.354	-	-	-	-	-

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 5. Consumer Price Index for urban wage earners and clerical workers: Seasonally adjusted U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Seasonally adjusted indexes				Seasonally adjusted annual rate percent change for-					
					3 months ending in			6 months ending in		
	Jan. 1980	Feb. 1980	Mar. 1980	Apr. 1980	July 1979	Oct. 1979	Jan. 1980	Apr. 1980	Oct. 1979	Apr. 1980
Expenditure category										
All items	238.9	238.8	241.0	242.6	13.3	13.2	15.7	15.9	13.2	15.8
Food and beverages	245.1	245.0	247.3	248.8	5.4	7.9	9.2	6.3	6.6	7.8
Food	241.3	240.4	242.9	244.2	5.3	7.7	9.0	6.2	6.5	7.6
Food at home	234.7	233.4	235.7	236.8	5.2	6.9	8.4	4.9	5.0	6.6
Cereals and bakery products 1/	240.1	237.4	239.3	242.2	11.4	12.9	12.5	13.4	12.2	12.9
Meats, poultry, fish, and eggs	217.4	236.4	237.6	234.8	-9.6	-4.7	16.7	-8.5	-7.2	3.3
Dairy products	228.8	228.5	230.9	231.1	10.6	10.8	7.5	10.5	10.7	9.0
Fruits and vegetables	289.6	222.6	226.7	234.9	18.8	14.1	-13.6	11.1	16.5	-2.0
Sugar and sweets 1/	235.1	297.1	316.1	320.8	7.1	5.7	10.9	50.6	6.4	29.2
Fats and oils	380.2	238.6	240.2	239.7	3.8	7.8	7.8	8.1	5.8	8.0
Nonalcoholic beverages	218.2	385.7	385.6	386.9	3.5	26.1	12.2	7.2	14.2	9.7
Other prepared foods	259.0	220.6	223.1	225.7	13.2	8.9	7.1	14.5	11.0	10.7
Food away from home	180.2	240.4	242.7	244.8	10.7	9.4	12.3	9.3	10.1	10.8
Alcoholic beverages	247.2	181.5	182.6	184.6	6.7	9.1	7.9	10.1	7.9	9.0
Housing	264.9	250.6	254.6	258.1	16.2	17.1	17.4	18.8	16.6	18.1
Shelter	283.9	268.6	273.2	277.8	16.3	20.4	22.5	20.9	18.3	21.6
Rent, residential 1/	251.6	185.5	186.4	186.9	9.4	12.9	6.1	6.7	11.1	6.4
Other rental costs	294.3	256.1	258.1	260.5	10.8	12.7	18.8	14.9	11.7	16.8
Homeownership	242.3	296.6	304.1	310.8	18.2	22.4	26.1	24.4	20.3	25.3
Home purchase 1/	362.3	243.0	243.8	246.5	17.0	18.3	15.8	7.1	17.4	11.3
Financing, taxes, and insurance	272.3	372.0	385.4	397.3	22.2	31.2	41.0	44.6	26.6	42.8
Maintenance and repairs	296.5	275.4	279.0	282.3	9.9	9.8	12.3	15.5	9.8	13.9
Maintenance and repair services		300.8	304.7	308.6	10.7	9.2	12.2	17.4	10.0	14.7
Maintenance and repair commodities 1/	218.4	219.5	222.3	224.3	7.9	10.9	12.8	11.3	9.4	12.0
Fuel and other utilities 1/	259.2	264.4	268.7	271.0	31.6	16.1	9.5	19.5	23.7	14.4
Fuels 1/	318.1	327.0	333.9	337.6	47.5	23.9	10.7	26.9	35.2	18.5
Fuel oil, coal, and bottled gas 1/	515.1	540.3	554.1	557.1	94.2	69.3	42.2	36.8	81.3	39.5
Gas (piped) and electricity 1/	273.0	278.5	283.9	287.6	35.8	12.0	1.2	23.2	23.3	11.6
Other utilities and public services 1/	161.5	161.4	161.9	162.3	1.3	-1.2	6.7	2.0	.0	4.3
Household furnishings and operation	195.2	197.4	199.0	200.4	5.0	5.4	7.5	11.1	5.2	9.3
Housefurnishings	167.0	168.2	170.1	171.0	3.5	4.2	6.2	9.9	3.9	8.1
Housekeeping supplies 1/	228.8	232.8	235.5	238.1	4.9	5.9	9.0	17.3	5.4	13.1
Housekeeping services 1/	259.2	261.1	262.7	264.3	9.4	8.8	8.6	8.1	9.1	8.4
Apparel and upkeep	171.4	173.0	176.0	176.5	.7	7.2	6.1	12.4	3.9	9.2
Apparel commodities	165.3	166.8	169.7	169.9	-.2	6.6	5.0	11.6	3.1	8.2
Men's and boys' apparel	164.0	164.7	167.3	167.3	3.1	7.7	2.0	8.5	3.9	5.1
Women's and girls' apparel	152.3	153.9	157.1	155.9	-8.1	3.2	2.7	9.8	-2.6	6.2
Infants' and toddlers' apparel 1/	229.1	232.7	237.3	241.1	-.2	12.8	.7	22.7	6.1	11.1
Footwear	184.6	184.6	186.9	187.3	9.5	7.2	8.4	6.4	8.3	7.4
Other apparel commodities 1/	185.5	191.8	197.8	198.5	1.4	26.8	16.1	31.1	13.4	23.4
Apparel services 1/	216.9	219.8	223.5	226.0	7.8	12.0	12.1	17.9	9.9	14.9
Transportation	236.1	242.8	246.9	248.5	23.6	15.1	25.9	22.7	19.5	24.3
Private transportation	236.1	243.1	247.3	248.8	24.3	14.7	25.6	22.9	19.4	24.3
New cars	172.0	174.0	174.9	177.7	9.9	-1.0	11.5	13.9	4.3	12.7
Used cars	205.8	204.7	202.3	198.8	-3.7	-2.2	14.4	-12.9	-2.9	-.2
Gasoline	340.3	345.2	379.9	379.7	83.1	45.4	58.1	55.0	63.2	56.5
Maintenance and repair	236.3	238.7	240.4	263.5	11.0	9.3	11	1.4	10.2	13.2
Other private transportation	209.9	212.4	216.3	221.9	11.8	10.4	10	.9	11.1	17.4
Other private trans. commodities 1/	188.0	191.7	193.2	195.8	7.2	17.6	1...	.7	12.3	16.3
Other private trans. services	217.8	220.0	224.6	231.0	12.8	8.7	9.3	.5	10.7	17.6
Public transportation 1/	221.9	223.9	226.1	229.7	8.5	21.1	31.3	18.8	14.7	22.8
Medical care	255.0	258.7	260.9	263.0	9.5	11.8	13.2	13.2	10.7	13.2
Medical care commodities	161.3	162.7	164.2	165.7	7.8	6.9	9.4	11.4	7.4	10.4
Medical care services 1/	275.6	279.8	282.2	284.5	9.7	12.9	13.9	13.6	11.3	13.7
Professional services 1/	241.7	245.5	247.8	251.2	9.4	10.1	12.1	16.7	9.8	14.4
Other medical care services 1/	317.3	322.1	324.4	325.3	10.2	15.8	15.8	10.5	13.0	13.1
Entertainment	194.0	195.3	199.4	200.9	7.3	7.0	4.9	15.0	7.1	9.8
Entertainment commodities	194.4	197.1	200.1	202.2	6.2	6.8	7.1	17.0	6.5	12.0
Entertainment services 1/	194.4	196.0	199.1	199.9	8.9	7.3	1.9	11.8	8.1	6.7
Other goods and services	202.6	205.5	208.3	209.4	5.9	10.2	10.1	7.6	7.8	8.9
Tobacco products 1/	197.1	198.3	198.6	198.9	1.7	9.5	12.9	3.7	5.6	8.2
Personal care 1/	204.8	206.6	207.7	209.5	7.9	7.1	10.4	10.4	7.5	10.4
Toilet goods and personal care appliances 1/	196.2	198.3	199.6	201.8	4.1	7.7	10.0	11.9	5.9	10.9
Personal care services 1/	212.7	215.0	215.8	217.2	11.6	6.6	10.8	8.7	9.1	9.8
Personal and educational expenses	224.7	227.0	228.1	229.5	6.1	14.8	6.9	8.8	11.3	7.8
School books and supplies	206.9	208.5	209.9	211.1	7.6	5.8	12.7	8.4	6.7	10.5
Personal and educational services	229.5	231.8	232.9	234.5	5.7	18.7	6.0	8.6	12.0	7.3
Commodity and service group										
All items	238.9	238.8	241.0	242.6	13.3	13.2	15.7	15.9	13.2	15.8
Commodities	223.6	226.4	229.1	230.3	12.7	11.9	15.3	12.5	12.3	13.9
Food and beverages	238.9	238.8	241.0	242.6	5.4	7.9	9.2	6.3	6.6	7.8
Commodities less food and beverages	213.3	217.3	220.1	221.4	16.5	14.0	18.8	15.4	15.3	17.1
Nondurables less food and beverages	227.7	235.3	241.0	242.2	28.3	20.7	24.6	28.0	24.4	26.3
Apparel commodities	165.3	166.8	169.7	169.9	-.2	6.6	5.0	11.6	3.1	8.2
Nondurables less food, beverages, and apparel	262.2	272.9	280.4	282.5	38.3	27.1	30.3	34.8	32.6	32.5
Durables	200.8	201.5	202.2	203.5	8.6	8.0	13.4	5.5	8.3	9.4
Services	221.9	257.2	261.8	266.0	14.6	15.4	16.1	21.6	15.0	18.8
Rent, residential 1/	183.9	185.5	186.4	186.9	9.4	12.9	6.1	6.7	11.1	6.4
Household services less rent	296.8	302.8	310.4	316.7	19.2	19.2	23.1	29.6	19.2	26.3
Transportation services	251.1	256.2	261.7	263.9	11.8	10.5	13.0	20.5	11.2	16.7
Medical care services 1/	275.6	279.8	282.2	284.5	9.7	12.9	13.9	13.6	11.3	13.7
Other services	209.1	211.2	213.5	214.8	8.6	10.6	6.6	11.4	9.6	8.9
Special indexes:										
All items less food	230.6	234.6	238.1	240.5	15.6	14.6	17.7	18.3	15.1	18.0
All items less shelter	224.9	228.0	230.9	232.4	12.3	10.6	13.3	14.0	11.4	13.6
All items less mortgage interest costs	229.6	228.1	230.7	232.4	12.3	11.8	13.0	12.6	12.1	12.8
All items less home purchase and mortgage interest costs	223.9	226.6	229.3	231.0	12.0	11.0	12.5	13.3	11.5	12.9
All items less medical care	232.6	235.8	239.1	241.4	13.6	13.5	16.1	16.0	13.4	16.0
Commodities less food	211.6	215.5	218.2	219.3	16.1	13.9	18.3	15.4	15.0	16.9
Nondurables less food	231.4	240.6	246.0	247.2	27.2	20.1	23.5	27.1	23.6	25.3
Nondurables less food and apparel	251.2	260.9	267.6	269.5	39.3	25.9	28.6	32.5	30.5	29.5
Nondurables	234.1	238.1	241.9	243.1	15.5	15.9	16.4	14.3	14.7	16.3
Services less rent 1/	246.4	270.8	276.1	281.1	15.5	15.6	17.8	24.0	15.6	20.9
Services less medical care	249.5	253.1	257.7	261.9	13.3	16.3	17.0	21.4	15.8	19.2
Energy	334.2	351.5	362.3	365.5	63.4	36.3	37.2	43.1	49.2	40.1
All items less energy	226.0	227.5	230.2	232.7	8.9	10.5	13.8	12.4	9.7	13.1
All items less food and energy	220.0	222.5	225.1	227.7	9.8	11.1	14.7	14.8	10.4	14.7
Commodities less food and energy	193.4	194.5	195.9	197.1	7.2	6.9	11.5	7.9	7.0	9.7
Energy commodities	365.7	390.7	406.0	407.3	64.4	47.8	52.8	55.9	65.1	53.4
Services less energy	251.9	255.6	260.2	264.4	12.8	15.8	17.0	21.4	14.3	19.6

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 6. Consumer Price Index for urban wage earners and clerical workers: Selected areas, all items index, 1967=100 unless otherwise noted

Area 1/	Pricing schedule 2/	Other index base	Indexes Jan. 1980	Feb. 1980	Mar. 1980	Apr. 1980	Percent change to Apr. 1980 from- Apr. 1979	Feb. 1980	Mar. 1980	Percent change to Mar. 1980 from- Mar. 1979	Jan. 1980	Feb. 1980
U.S. city average			233.3	236.5	239.9	242.6	14.5	2.6	1.1	14.6	2.8	1.4
Chicago, Ill.-Northwestern Ind.	M		229.9	232.5	235.2	239.8	15.2	3.1	2.0	14.1	2.3	1.2
Detroit, Mich.	M		236.4	239.9	242.4	248.0	16.3	3.4	2.3	14.6	2.5	1.0
L.A.-Long Beach, Anaheim, Calif.	M		235.0	240.0	243.9	247.8	18.7	3.3	1.6	19.3	3.8	1.6
N.Y., N.Y.-Northeastern N.J.	M		225.5	227.7	230.8	232.4	11.7	2.1	.7	11.9	2.4	1.4
Philadelphia, Pa.-N.J.	M		228.0	231.6	235.1	237.9	13.8	2.7	1.2	13.7	3.1	1.5
Anchorage, Alaska	1	10/67	215.9	-	220.2	-	-	-	-	9.8	2.0	-
Baltimore, Md.	1		234.5	-	243.9	-	-	-	-	15.9	4.0	-
Boston, Mass.	1		226.9	-	234.2	-	-	-	-	14.6	3.2	-
Cincinnati, Ohio-Ky.-Ind.	1		241.0	-	249.7	-	-	-	-	15.2	3.6	-
Denver-Boulder, Colo.	1		250.9	-	259.4	-	-	-	-	15.3	3.4	-
Miami, Fla.	1	11/77	124.9	-	128.8	-	-	-	-	14.6	3.1	-
Milwaukee, Wis.	1		240.8	-	247.8	-	-	-	-	18.3	2.9	-
Northeast Pennsylvania	1		225.8	-	231.3	-	-	-	-	12.0	2.4	-
Portland, Oreg.-Wash.	1		243.3	-	251.7	-	-	-	-	16.6	3.4	-
St. Louis, Mo.-Ill.	1		233.5	-	238.5	-	-	-	-	13.2	2.1	-
San Diego, Calif.	1		251.0	-	255.6	-	-	-	-	16.9	1.8	-
Seattle-Everett, Wash.	1		233.8	-	241.3	-	-	-	-	17.2	3.2	-
Washington, D.C.-Md.-Va.	1		233.0	-	239.2	-	-	-	-	12.1	2.7	-
Atlanta, Ga.	2		-	233.3	-	239.3	14.9	2.5	-	-	-	-
Buffalo, N.Y.	2		-	227.9	-	233.3	12.6	2.4	-	-	-	-
Cleveland, Ohio	2		-	244.1	-	248.4	14.9	1.8	-	-	-	-
Dallas-Fort Worth, Tex.	2		-	240.9	-	249.6	18.1	3.6	-	-	-	-
Honolulu, Hawaii	2		-	221.3	-	228.4	14.2	3.2	-	-	-	-
Houston, Tex.	2		-	251.9	-	257.3	13.0	2.1	-	-	-	-
Kansas City, Mo.-Kans.	2		-	236.6	-	242.2	14.8	2.4	-	-	-	-
Minneapolis-St.Paul, Minn.-Wis.	2		-	239.6	-	245.7	13.8	2.5	-	-	-	-
Pittsburgh, Pa.	2		-	235.9	-	242.2	14.1	2.7	-	-	-	-
San Francisco-Oakland, Calif.	2		-	240.0	-	242.8	16.0	1.2	-	-	-	-
Region 3/												
Northeast	2	12/77	-	123.7	-	126.8	13.2	2.5	-	-	-	-
North Central	2	12/77	-	128.3	-	131.6	14.3	2.6	-	-	-	-
South	2	12/77	-	127.5	-	130.8	14.5	2.6	-	-	-	-
West	2	12/77	-	129.8	-	133.2	16.7	2.6	-	-	-	-
Population size class 3/												
A-1	2	12/77	-	125.7	-	129.1	14.7	2.7	-	-	-	-
A-2	2	12/77	-	128.1	-	131.1	14.9	2.3	-	-	-	-
B	2	12/77	-	128.2	-	131.8	14.9	2.8	-	-	-	-
C	2	12/77	-	127.6	-	130.8	14.1	2.5	-	-	-	-
D	2	12/77	-	126.1	-	128.8	13.3	2.1	-	-	-	-
Region/population size class cross classification 3/												
Northeast/A	2	12/77	-	122.1	-	124.9	12.6	2.3	-	-	-	-
South/A	2	12/77	-	127.4	-	130.8	14.6	2.7	-	-	-	-
West/A	2	12/77	-	130.0	-	133.4	17.7	2.6	-	-	-	-
Northeast/B	2	12/77	-	125.3	-	128.8	13.8	2.8	-	-	-	-
North Central/B	2	12/77	-	128.4	-	132.0	14.1	2.8	-	-	-	-
South/B	2	12/77	-	127.9	-	131.6	15.1	2.9	-	-	-	-
West/B	2	12/77	-	130.9	-	134.6	16.5	2.8	-	-	-	-
Northeast/C	2	12/77	-	128.8	-	132.6	15.1	3.0	-	-	-	-
North Central/C	2	12/77	-	129.6	-	128.3	12.8	2.1	-	-	-	-
South/C	2	12/77	-	128.2	-	131.7	14.6	2.7	-	-	-	-
West/C	2	12/77	-	128.4	-	131.5	14.6	2.4	-	-	-	-
Northeast/D	2	12/77	-	125.1	-	128.0	13.0	2.3	-	-	-	-
North Central/D	2	12/77	-	126.2	-	129.1	12.7	2.3	-	-	-	-
South/D	2	12/77	-	125.9	-	128.3	13.4	1.9	-	-	-	-
West/D	2	12/77	-	127.3	-	130.1	14.8	2.2	-	-	-	-

1/ Area is generally the Standard Metropolitan Statistical Area (SMSA), exclusive of farms. L.A.-Long Beach, Anaheim, Calif. is a combination of two SMSA's, and N.Y., N.Y.-Northeastern N.J. and Chicago, Ill.-Northwestern Ind. are the more extensive Standard Consolidated Areas. Area definitions are those established by the Office of Management and Budget in 1973, except for Denver-Boulder, Colo. which does not include Douglas County. Definitions do not include revisions made since 1973.

2/ Foods, fuels, and several other items priced every month in all areas; most other goods and services priced as indicated:
M - Every month.
1 - January, March, May, July, September, and November.
2 - February, April, June, August, October, and December.

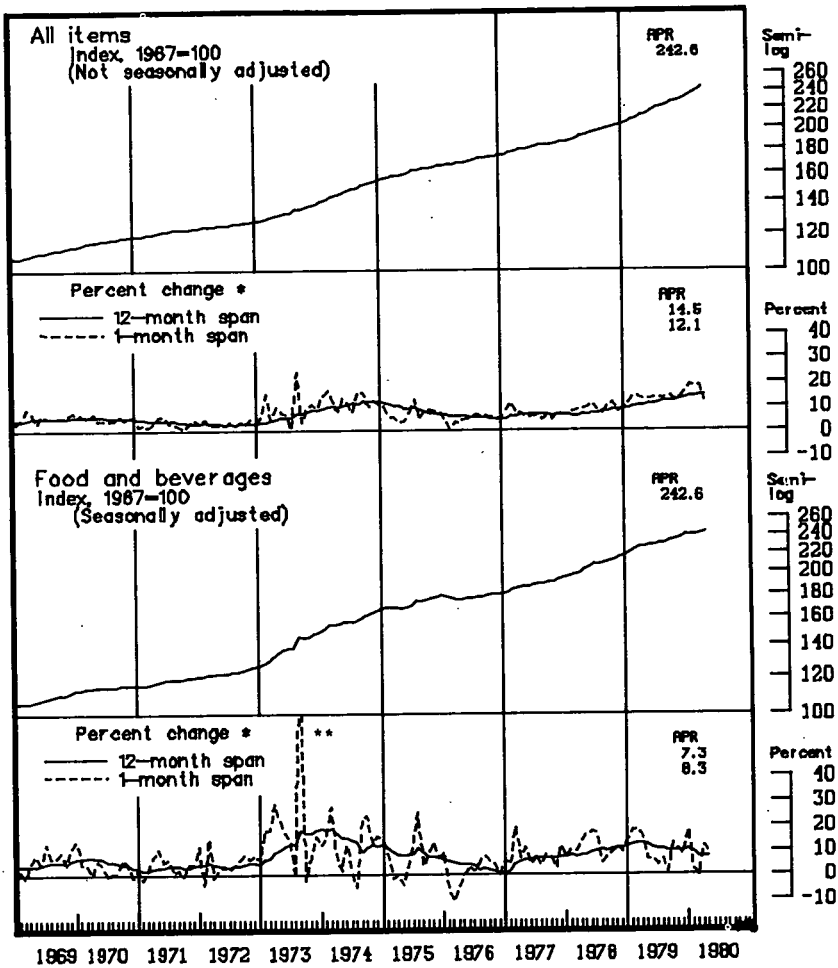
3/ Regions are defined as the four Census regions.
The population size classes are aggregations of areas which have urban population as defined below:

A-1	More than 4,000,000.
A-2	1,250,000 to 4,000,000.
B	385,000 to 1,250,000.
C	75,000 to 385,000.
D	Less than 75,000.

Population size class A is the aggregation of population size classes A-1 and A-2.

NOTE: Price changes within areas are found in the Consumer Price Index; differences in living costs among areas are found in Family Budgets.

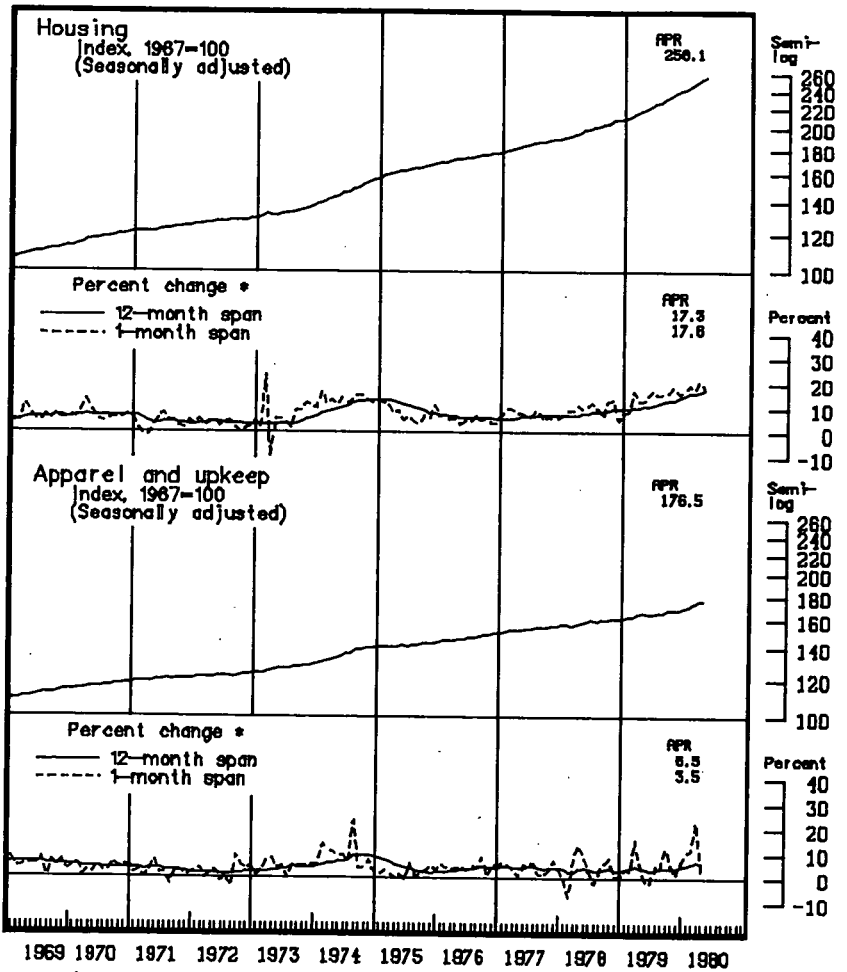
CHART 1: CPI–W: All items, food and beverages, 1969–80



* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

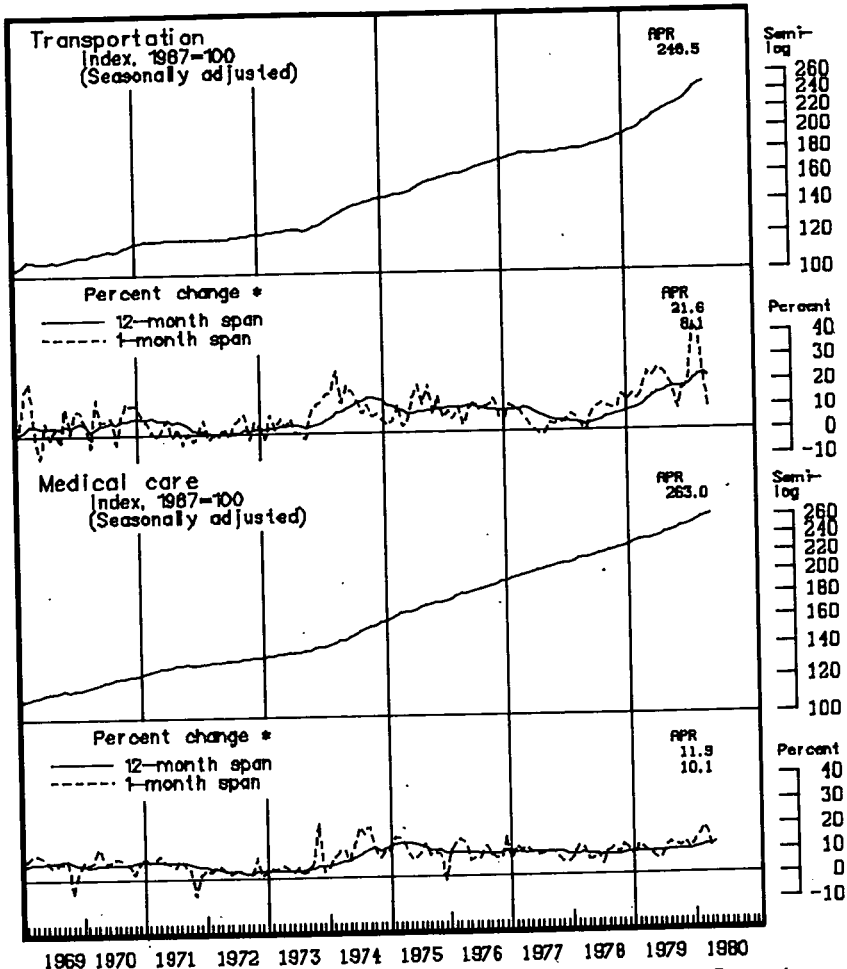
** August 1973 = 92 percent

CHART 2: CPI-W: Housing, apparel and upkeep, 1969-80



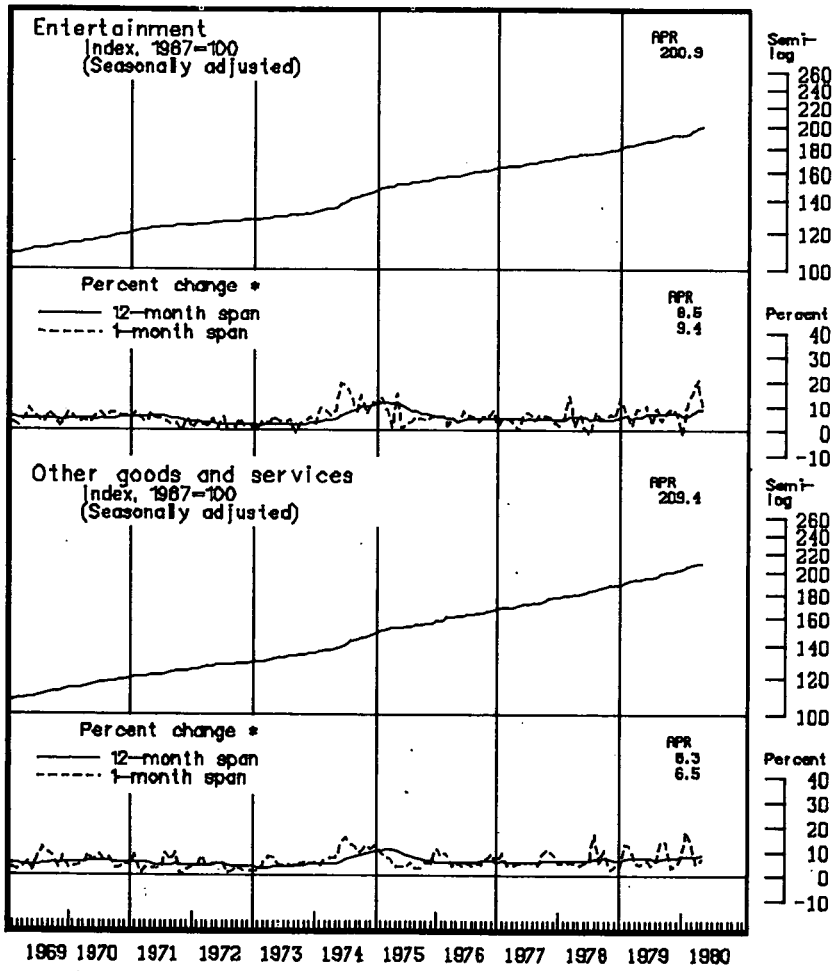
* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

CHART 3: CPI-W: Transportation and medical care, 1969-80



* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

CHART 4: CPI–W: Entertainment, other goods and services, 1969–80



* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

Table C. HOMEOWNERSHIP COMPONENTS used in official CPI-U and in experimental measures: Percent change over 12 months

12 months ended	Official Consumer Price Index for All Urban Consumers (CPI-U)	Experimental measures of homeownership				
		Flow-of-services measures			Outlays measures	
		X-1 Rental equivalence using CPI rent	X-2 User cost using current interest cost	X-3 User cost using average interest cost	X-4 Outlays using current interest cost	X-5 Outlays using average interest cost
December:						
1968	7.6	2.8	11.0r	8.0	11.0	6.0
1969	10.2	3.8	7.1r	3.5	13.2	8.3
1970	10.2	4.5	4.2r	1.7	12.6	10.1
1971	2.7	3.8	-12.1	-8.9	0.3	7.7
1972	4.1	3.5	2.4	3.2r	4.8	6.2
1973	7.7	4.9	23.0r	18.9r	10.8	4.4
1974	13.3	5.4	16.9r	12.9	14.9	9.1
1975	7.9	5.2	2.8r	3.4r	7.1	9.0
1976	3.8	5.5	-1.1r	1.9r	2.7	7.6
1977	9.2	6.5	2.5	0.4	10.4	9.0
1978	12.4	7.3	5.7	-1.1r	12.0	5.3
May 1979	14.6	6.8	13.9	6.2r	14.9	6.4
June 1979	14.9	6.8	14.2	6.3r	15.0	6.4
July 1979	15.2	7.1	16.7	9.4r	15.3	6.8
August 1979	16.0	7.5	20.1	13.2r	15.9	7.0
September 1979	16.1	7.6	18.3	11.5r	16.4	7.5
October 1979	16.8	8.4	22.2	15.5r	17.2	7.8
November 1979	18.3	8.1	24.5	16.3r	19.0	7.9
December 1979	19.8	7.9	28.2	20.5r	22.6	11.2
January 1980	21.1	8.1	30.7	22.0r	24.4	11.5
February 1980	20.6	8.5	31.2	23.3r	24.5	12.1
March 1980	21.7	8.9	38.0	29.7	26.5	12.7
April 1980	22.2	8.7	42.3	33.1	27.7	12.9
Relative Importance December 1977	22.8	14.5	11.4	10.0	10.0	8.7

r=revised

Table D. Official ALL-ITEMS CPI-U and EXPERIMENTAL MEASURES using alternative homeownership components: Percent change over 12 months

12 months ended	Official Consumer Price Index for All Urban Consumers (CPI-U)	Experimental measures using alternative homeownership components				
		Flow-of-services measures			Outlays measures	
		X-1 Rental equivalence using CPI rent	X-2 User cost using current interest cost	X-3 User cost using average interest cost	X-4 Outlay using current interest cost	X-5 Outlays using average interest cost
December:						
1968	4.7	3.9	4.9	4.6	4.7	4.2
1969	6.1	5.2	5.6	5.2	6.0	5.7
1970	5.5	4.5	4.5	4.2	5.2	4.9
1971	3.4	3.5	1.6	2.2	3.2	3.8
1972	3.4	3.3	3.2	3.3	3.4	3.5
1973	8.8	8.5	10.4r	10.0	9.2	8.7
1974	12.2	11.1	12.6	12.1	12.3	11.8
1975	7.0	6.6	6.4r	6.4	6.8	6.9
1976	4.8	5.1	4.3	4.7	4.8	5.2
1977	6.8	6.3	5.9r	5.7	6.6	6.5
1978	9.0	7.9r	7.8	7.1r	8.5	7.8
May 1979	10.8	9.2	10.1	9.3r	10.1	9.3
June 1979	10.9	9.3	10.2	9.4r	10.3r	9.4
July 1979	11.3	9.7	10.9	10.1r	10.7	9.9
August 1979	11.8	10.1	11.5	10.7r	11.0	10.2
September 1979	12.1	10.4	11.7	10.9r	11.5r	10.6
October 1979	12.2	10.5	12.2	11.3r	11.5	10.6r
November 1979	12.6	10.5	12.5	11.4r	11.8	10.6
December 1979	13.3	10.8	13.2	12.1r	12.5	11.3
January 1980	13.9	11.2	13.9	12.7r	13.1	11.7
February 1980	14.1	11.6	14.3	13.1r	13.4	12.1
March 1980	14.7	12.0	15.3	14.1	13.9	12.5
April 1980	14.7	11.7	15.7	14.2	13.8	12.3

Explanations of Homeownership Measures

Official CPI-U includes five components. (1) The weights for property taxes, property insurance, and home maintenance and repairs represent expenditures of all homeowers in the base period. The weights for house prices and contracted mortgage interest cost represent only those homeowners who actually purchased a home in the base period. Included are the total price paid for the home and the total amount of interest expected to be paid over half the stated life of the mortgage. (2) Current monthly prices are used for each of these components.

Experimental Measure X-1: (1) The weight for this rental equivalence measure is the estimate of the rental value of all owner-occupied homes in the base period compiled from a specific question asked on the 1972-73 Consumer Expenditure Survey. This covers the entire stock of owned homes. (2) Prices used are the current rents collected for the residential rent component of the CPI. The CPI rent component is designed to represent changes in residential rents for all types of housing units, not just changes in rents for units that are typically owner occupied. The CPI rent component is, therefore, not appropriate for this measure.

Experimental Measure X-2: (1) The weight for this user cost method includes expenditures for mortgage interest, property taxes, property insurance, maintenance and repairs, the estimated base-period cost of homeowners' equity in their houses, and the offset to shelter costs resulting from the estimated appreciation of house values in the base period. This measure covers the entire stock of owned houses. To derive the weights for mortgage interest costs and equity costs, the total value of the housing stock in the base period was apportioned into its debt and equity components. The debt component equals the amount owed, and the equity component is the amount owned, i.e., payments on principal plus appreciation from the time of purchase to the base period. Each component was subsequently multiplied by the average mortgage interest rate in the base period to determine its cost. (2) Prices used are current ones except for the appreciation term which uses a 5-year moving average of the changes in appreciation rates.

Experimental Measure X-3: (1) The weights are the same as in Experimental Measure X-2, except that mortgage interest costs are calculated as the total interest amount *paid out* by homeowners in the base period. As in X-1 and in X-2, this measure covers the entire homeowner population. (2) The prices for all components except mortgage interest costs and appreciation are current monthly prices. As in X-2, appreciation is represented by a 5-year moving average of the changes in house prices. However, X-3 uses past and current mortgage interest costs in a 15-year weighted moving average, which reflects the base period age distribution of mortgage loans.

Experimental Measure X-4: (1) The weights for this outlays approach include expenditures actually made in the base period for property taxes, property insurance, and maintenance and repairs. The weight for the mortgage interest term is calculated in the same manner as in X-2. However, no appreciation or equity terms are included. Not all homeowners are represented in this measure because those who made no mortgage debt payment in the base period are excluded. (2) The prices used for each of these items are current ones.

Experimental Measure X-5: (1) The weights for this outlays approach include, as in X-4, expenditures actually made in the base period for property taxes, property insurance, and maintenance and repairs. The weight for the mortgage interest cost term is the same as for the X-3. No appreciation or equity elements are used. As in X-4, not all homeowners are represented in this measure because those who made no mortgage debt payment in the base period are excluded. (2) Current prices are used in X-5 except for mortgage interest which uses the 15-year weighted moving average also used in the X-3.

Representative BOLLING. You may proceed as you wish, sir. We are glad to have you with us.

STATEMENT OF HON. ALFRED E. KAHN, CHAIRMAN, COUNCIL ON WAGE AND PRICE STABILITY

Mr. KAHN. Thank you very much, Congressman.

In most ways, you just took the words out of my mouth. What I'd like to do, if I may, in perhaps 15 minutes, is run a number of variations on that central theme that you have entirely correctly set forth.

Since I have had the unenviable job of testifying, with some chagrin, during most of 1979 when the Consumer Price Index went up fairly regularly at a 13-percent annual rate month after month, then jumped to an 18.1-percent average rate in the first 3 months of this year, it's understandable that I express a slight amount of relief at April's 0.9-percent figure, which comes to an annual rate of 11.6 percent; not just because of that single month's figures, because individual months can always be aberrant, but because it does conform roughly—and I will explain why it's only roughly—to what we have been predicting will happen in the next several months of 1980, and increases our confidence that that is going to happen.

Paradoxically, that general interpretation of the April figure is not really confirmed by the even more striking improvement in the April figure for the Wholesale Price Index or Producer Price Index. That figure went up only 0.5 percent, finished goods, which is an annual rate of only 6.2 percent, and which compares with an average of 19.3 percent annual rate for the first 3 months of the year on the Producer Price Index. But I will explain why you can't take too much comfort from that April PPI figure.

So the conclusions that I'm going to reach, which of course will be strikingly similar to yours, are:

First: Yes, the April Consumer Price Index seems to be a sign of the kind of decrease in the rate of inflation that we expect down to the 10 percent or so range in the middle part of 1980, and possibly even temporarily below that. I say possibly temporarily below that, and I will explain that.

Second: That 11.6 percent or even the 10-percent rate that seems roughly to be expected is far from satisfactory, since we still confront that basic underlying rate of something on the order of 10 percent.

Third: That some part of the decline is and will continue to be clearly attributable to the recession which can hardly be a source of satisfaction.

Therefore, part of the drop to 10 percent of the Consumer Price Index that we expect—which may even go below 10 percent for a couple months, or below the underlying rate—will be the result, for example, of the misleading effect of the incorporation of mortgage interest in the Consumer Price Index on the purchase of new homes which has, of course, been flagellating us for many, many months.

Now I suppose we should take satisfaction in the fact that it is misleadingly, or not yet but will misleadingly be understated in the annual rate of inflation in the months ahead, partly because of the decline of some raw material prices. So while it is a relief to be moving out of the intolerably high double-digit rates and it's important that we have

apparently stopped and possibly even reversed the almost hysterical fear of accelerating inflation that we had in the first 3 months of this year, and is a tribute I think in part to the intensified policies the President adopted in mid-March, the underlying problem is still there; what we have is an underlying rate of something like 10 percent, which I think we would have to compare with the 7.5- or perhaps the 8-percent rate of a couple of years ago.

Therefore, we have to begin to think of how we address ourselves to the longer term, slower task of grinding that underlying rate down below 10 percent.

Now let's look in slightly greater detail at the bases for those conclusions.

First: The April improvement in both the Consumer Price Index and even more in the Producer Price Index is preponderantly the result of food. In the Consumer Price Index in April, food went up only 0.5 percent. That's a 6.5-percent annual rate. This has happened entirely at the farm level.

In April—I hate to use annual rates for a single month, but just to give you a notion—in April, prices of food at the farm went down at a 49-percent annual rate. So also with the April Producer Price Index. Food in the PPI went down at a 29-percent annual rate; that's practically the total explanation for the PPI being so satisfactorily low in April, and that's why I must restrain my enthusiasm for what's happened.

In slightly less dramatic terms, that's been true of the entire last year. Over the whole last year, the farm value of food went down in the Consumer Price Index 8.7 percent over the year and the food index in the Consumer Price Index, which of course includes the two-thirds of the value that is beyond the farm, went up 7.1 percent, whereas the whole Consumer Price Index went up 14.5 percent.

So food has been a blessing to us, but that cannot continue. It is not the process that we are counting on to get us down to the 10-percent rate rather firmly.

On the contrary, we expect the price of food to recover and indeed we really want it to at the farm level. It is not healthy when farm prices of food go down. For example, in the last—well, I have the figures for the last few months and it's worth giving you. The farm value of food in the last 3 months has gone down at an annual rate of 26 percent, or in the last 6 months it's gone down at the rate of 12.6 percent. That's not really healthy and, in fact, we expect the price of food generally in the Consumer Price Index to begin to increase, so that over the year the best estimates we have—that is, fourth quarter 1979 to fourth quarter 1980—are in the 9-percent range.

So, it's the other things that we are going to look for improvement in the longer run.

Second: This is more nearly what we are looking for, is the deceleration of energy prices that we have been predicting. You mentioned the 0.9 percent in April. Actually, the price of gasoline didn't go up at all. That compares with a 65-percent annual rate of energy price increase in the first 3 months of the year. This is what we have counted upon.

We must recognize that if the gasoline conservation fee goes into effect it will give us a blip upward of something like almost one-half of 1 percentage point in the entire Consumer Price Index in 1 month

attributable to the gasoline conservation fee. But we must emphasize, as you have, the basic precariousness of this situation. We think the probabilities are that energy prices will not increase at the 100- to 120-percent rate that they did over the last 1½ years, but of course we can't be sure because of the precariousness, which, of course, emphasizes the urgent necessity of our getting control of our energy situation; this is why we feel that paying the price of the gasoline conservation fee as one additional step, along with the many others—the decontrol of domestic oil prices, the Energy Security Corporation, the Energy Mobilization Board—all those things are necessary or we could be subjected to another wave of OPEC price increases.

The other major change that we expect to bring the rate down in these months, but which, incidentally, has not yet appeared in the Consumer Price Index, is mortgage interest.

In April, despite the increase in the rates that we read about in the paper, because of the lag of several months before these things appear in the index, the Consumer Price Index mortgage interest cost continued to go up at a terribly high rate. It went up 3.9 percent, mortgage interest costs, in 1 month. That's April, which is an annual rate of—it's frightening, I don't even have it—it's a 54-percent annual rate. It's so frightening that I do have it. I'm sorry. Correction. This is slightly improvisatory because numbers have been handed to me in just the last 10 or 15 minutes. I feel a little like Howard Cosell, only in that they're improvisatory—but I try to pronounce it correctly.

The point is, that will clearly show up in the next few month. It has not yet, and it should take over from food in bringing us down to this 10-percent rate or so.

Now let's look at the residual—and I'm almost through—because in many ways more important than these largely exogenously caused energy price changes or the effect of interest, which is both misleading and temporary, reflecting inflationary expectations and monetary policy, the interesting thing is the underlying rate, the one that we are going to have to look at.

Now I have observed that many times before and I'll try to be brief, the underlying rate as we define it, which is less food which has been helping us, less energy which has been hurting us, less mortgage interest which has been hurting us, and less used cars which has been helping us enormously, because that, too, is essentially a free market—that underlying rate in the first two quarters of 1979 was 1.5 and 7.1 percent, quite stable.

Representative BOLLING. Could I interrupt you at that point?

Mr. KAHN. Sure.

Representative BOLLING. I would like you to describe the underlying rate, the components of the underlying rate, not in exhaustive detail, but so it is understandable just to an average citizen, because it seems to me we talk a language that is not always understandable when we talk about inflation, and it seems to me very important that the fundamentals of the underlying rate be better understood than they are. Would you do that, please?

Mr. KAHN. Of course, Congressman. I will try to answer it simply.

In general terms, what we try to get at there is to strip away the effects of external shocks like energy and the effects of largely open market prices, which tend to fluctuate up and down rather sharply, to

get at the essentially cost-based rate of inflation that is built into our cost structure. Wages account for about 70 percent of all costs, and the underlying rate is a function of wage rates and productivity, and is the rate that we can hope to get at through our voluntary wage and price standards.

It's the rate that's going to be left even if energy settles down, even if mortgage interest rates settle down. It's the average around which food prices will tend to fluctuate up and down, going up above it when prices at the farm tend to go up, going below it when the prices at the farm tend to go down; and it's more reflective of what happens to the other two-thirds of the food dollar, which is much more affected by the behavior of underlying costs.

I realize that's not a scientific measure.

Representative BOLLING. I understand that, but I'd like to also get one further thing in there. What affects wage rates? I understand that much of it is the result of collective bargaining, but what affects wage rates? Why is there sometimes much greater pressure for increases in wages than there is on other occasions?

The phenomenon is not that complicated, it seems to me, although I know anything you say in reply to a simple-minded question is likely to be a little too simple for a person who wishes to be as precise as you do. I'm still anxious to get at this because it seems to me that the ratchet effect in the economy is a very key element that we seldom really address except by arguing over whether we need mandatory controls or voluntary controls, and none of them seems to work very well very long. Long is the key element in that. So I'm anxious to see what you think, and I realize this is political rather than economic, but I have not been able to figure out the difference between the two when we talk of economics in many cases.

I realize that this is asking you to go beyond your specific field but I think it's important that we try to get that one thing clear. This underlying rate of inflation results from certain events that take place in the society; what are they?

Mr. KAHN. I'll try. I know you better than to think you ask simple-minded questions. I'll try to take it in order, sir.

Representative BOLLING. Good.

Mr. KAHN. I'm sure that I will not be able to give you a fully rounded, adequate answer.

First: It's important to recognize that wages do not bear a very large share of the responsibility for the acceleration of inflation that we have experienced in the last year and a half or two. It's a very important point to make.

This upsurge in the last year—and I can give you the numbers for the last 3 months—in a sense from the 7.5 to 8 percent to the 14.5 if you look at a longer period, or from the 13 to the 18. Something like five-sixths to six-sevenths of that increase is explained simply by the direct effects of the energy and the home purchase component neither of which is really wage pushed.

Representative BOLLING. That is over how long a period?

Mr. KAHN. Well, either if you take the increase from 8 or 8.5 to the 14.5—I can give you those numbers—or if you take the increase from the 13 of last year to the 18.1 in the first quarter of this year, something

like five-sixths are explained by those two components rather than by wages. So that's the first point to make.

Second: Money wages have a tremendous degree of rigidity in them. They tend to be based very largely at any time on the increases that have occurred elsewhere in the preceding 6 months or 1 year. They are heavily influenced by conceptions of fairness—and of course, influenced in a part of the economy, maybe only 20 or 25 percent, by collective bargaining contracts, which have a very heavy CPI element—that what is fair is what has happened to the CPI in the preceding 12 months, and then in the other 75 percent of the economy employers generally are interested in the morale of their workers and not letting them get too far out of line.

So you find over the last few years wage increases have been in a rather narrow range, maybe 7.5 percent, moving up to the 8.5- to the 9.5-percent range, but operating within that much narrower range. That means that there's been a good deal of restraint in wage settlements in the last year and a half because the CPI has been going up 13 and then more recently 18 percent.

Two more things and then I'll stop, at least tentatively. The tendency to build into the wage settlements which then have a degree of rigidity, the changes in the recent past in the CPI tends to build inflexibility into our underlying cost structure sometimes in 3-year contracts, and then that tends to spill over into the rest of the wage structure, so then it becomes very difficult to grind it down and it's a long-term problem.

Therefore, if, partly because of the recession, partly because we can't expect energy prices to continue to go at this horrendous rate, partly because of the decline in mortgage interest rates, we begin to confront, over the next year or two, how we get it below the 10 percent, then we do come smack up against that floor of wage prices.

When I said that the rate of the CPI may well go temporarily below the 10 percent, it will be because of the misleading mortgage interest, because of crude material prices, which tend to be much more fluctuating, and because of the squeeze on profits, none of which really is sustainable over a long period of time. This therefore brings us up against the reality that we have to address ourselves to productivity and to continued fiscal and monetary restraints, which I would be glad to get to.

Representative BOLLING. Tell me a little bit about the rigidities in the wages. What about the rigidity over the last number of years in prices dividing up among other things, the difference in the reaction of farm prices and finished farm product prices, as well as prices of hard goods and soft goods. Is there some variation?

Mr. KAHN. Absolutely, just as wages tend to be set on a kind of cost-of-living-plus. The extreme example, let's say, would be the experimental negotiating agreement in steel, which was signed 3 years ago and which bound steel companies to give a 3-percent wage increase plus something like 70 percent of the change in the CPI, regardless of the condition of the industry, regardless of steel markets, regardless of employment, and a similar kind of settlement in automobiles.

So, similarly, you have a tendency for prices in major industrial sectors in the economy to be set on cost-plus, regardless of the state of their markets. So you have inescapably a tendency for steel prices,

except as they are limited by international competition, to go up cost-plus, even when volume of demand goes down.

So we've got these rigidities built not only into our wage level, but correspondingly, into our price setting, except in these open market sectors of the economy.

Representative BOLLING. And what I would call hard goods are generally not open market in that sense?

Mr. KAHN. That's correct.

Representative BOLLING. So you really have a situation where the core of inflation is, in a curious kind of way, on a cost-plus basis.

Mr. KAHN. That's exactly correct.

Representative BOLLING. And if that can't be dealt with in some fashion, the possibility of getting it down to the kind of situation that we had, say from 1946 to 1966, is very remote?

Mr. KAHN. That's correct; remote only in the sense that it will take time, but not remote in the sense that it's hopeless. I mean that genuinely.

Representative BOLLING. I agree with that entirely. I think we have to face the necessity of dealing with that particular problem and not engaging in the kind of game that is played both politically and objectively, I presume, by people who are always ascribing all the problems of the inflation to one or another cause. I have been guilty of that sometimes in trying to emphasize the importance of getting energy under control, perhaps attributing too much inflation to energy. I think I should be forgiven for that because events have demonstrated fairly conclusively that if we had been a little quicker on energy, we could have done better.

The point is that what I'm trying to do is get away from everything except this particular core of inflation so we can begin to figure out perhaps what the society must expect us to do. I don't means as politicians; I mean as a society.

Mr. KAHN. That suggests, if you will forgive me, about four observations I think terribly important for our understanding of this phenomenon.

First: Profit margins tend over the cycle to ride on top of wage costs, and when I said profits themselves are already undoubtedly being squeezed, what that is is a combination of two things. One is that prices tend to be set with a profit margin on top of these costs, but the actual profits margin on top of these costs, but the actual profits that are earned vary widely with volume. So decreases in sales of automobiles and of steel do show up in sharply diminished realized profits, but not so much in sharply diminished profit margins. That's the rigidity of prices you see.

Second: I couldn't agree with you more about what we might say is the eclectic explanation of inflation. It's very hard to put precisely the role of energy. I think one way of putting it is that that wave of energy price increases that occurred in 1973–74 and again the wave of increases in 1979 and early 1980, the way in which that tends to affect inflation is first in the short run. It accounts for a very large part of the blip.

Right now when you take out direct energy and food and used cars and mortgage interest rates, right now you've got a rate that's running at over 12 percent. A lot of that is still a wave of energy cost

increases that are being passed up in this cost-plus, so the 12-percent exaggerates our underlying rate.

Second: If you think of inflation, as I find it most fruitful to do, as an attempt by all of us to maintain our share of the national income pie plus something every year, whether it's directly through the wages we demand or the profit margins that we add on top, or indirectly in the credit that we seek—I means, debt went up $370 billion in this country last year, and that, of course, had as its counterpart spending beyond income. Savings rates went down. Also in the tax shelters, in the tax preferences that we asked for, and in Government spending programs—all those add up to more than we can supply.

Then you impose on the economy exogenously this increase in energy costs, and what happens is that everybody tries to pass them on and to retain his or her previous standard of living, including his gasoline standard of living, so it tends to enter our cost structure and enter our wage structure and gradually those drift up and then we are fixing it in the underlying rate. I think that's really what you said, but it's more words.

Representative BOLLING. Well, I think that's a very important point and I think until the American people, not just the American politicians, understand the reality of inflation, we are not going to really get a solution because inevitably they demand the wrong things when they hear oversimplified versions of inflation.

We can get one version that says if you balance the budget you're going to take care of inflation. The other version says that if you take all wages down you will take care of inflation. Life just isn't anything like that simple, and we have now lost very substantial control of some of the elements that go into inflation—witness energy and witness the value of the dollar, just to mention a few. There are a great many others, and I think it's terribly important that more and more there be a popular understanding of what's going on because only then is there any possibility of getting solutions that are more than temporary.

You go ahead. I interrupted you.

Mr. KAHN. I think you have really taken me to our conclusion, which is that we must in these months immediately ahead, as we have reason to believe, and that April gives us further reason to believe, the actual rate of the Consumer Price Index increase moves down from the 18 percent to the range of 10 percent, as a result of the things I described, including the recession, and including the declining raw materials component of the wholesale price index, we have to ask ourselves, how do we control that 10-percent rate and gradually squeeze it down; and just as the explanation of that rate runs in these very eclectic terms that you and I have been describing, so the attack on it has got to take at least five forms.

One is the continued restraint at the budget level and in the money supply. That's one. That's not the sole solution, but it's one important solution because that's one way in which we have been increasing our demands on society; our nondefense spending, inflation adjusted, until the late 1970's went up something like 5.5 percent per year in real terms. That's faster than GNP. It also includes the growth of entitlements, which is growing horrendously, and that's part of the shift, in a sense, from the productive to the unproductive part of our society.

This is not an argument for abandoning humane fiscal policy, but

it is an argument for making sure it's confined to what is humane rather than increasingly trying to protect everybody, even the people who don't need it.

So one is monetary and fiscal restraint with all that that involves.

A second, as this committee has so often observed, is addressing ourselves to the productivity problem. That is not the only solution to our problem. If you think of an underlying rate of 10 percent, if we're fortunate, lucky, and hard-working and do everything else, we may get productivity to go up 2 to 3 percent per year, but that's the order of magnitude. Still productivity is terribly important. We are never going to grind inflation down until we get back to our historic situation in which the rate of increase of wages is greater than the rate of increase in the Consumer Price Index. That can happen when wages go up 3 percent and the Consumer Price Index goes up zero or 1 percent more effectively than as at present when wages may be going up 9.5 or 10 percent but the Consumer Price Index is going up more than that. That's productivity, No. 2.

No. 3, energy policy, getting control of that. I know that's easier said than done, but we know the components of that and how it's going to happen over time.

No. 4 is wage and price restraint. We, just right in these months, have got to do everything we can when unemployment is going up to see to it that we don't have an explosion of wages, because in a very real sense, increased wages now will be at the expense of unemployment. They will be for the benefit of the people at work but at the expense of the people who are thrown out of jobs.

No. 5 really overlaps with the productivity and is restoration of the discipline in the competitive market. That, again, I know rolls easily off the tongue but that's——

Representative BOLLING. What do you mean by that? You're talking about a worldwide competitive market?

Mr. KAHN. There's no question about it.

Representative BOLLING. Right.

Mr. KAHN. Both internationally and domestically, but domestically, yesterday the House Public Works Committee voted out a good trucking deregulation bill, I think, both in terms of its symbolism and in terms of its own central importance. This willingness of America, against the plea of very strong, powerful special interests to say that where competition will work, we've got to increase the effectiveness of competition, this is one of the most powerful things we can do to restore productivity in our economy.

Everyone of those is top. Everyone of them means discipline, but it means we have to move to a leaner and tougher and more investing and more efficient economy.

Representative BOLLING. You have goals and I'm sure they are realistic, but what would your goals be as to the practical length of time it would take the society to make the turnaround, because this clearly is a turnaround? We have been going in the wrong direction. Assuming that things would be as they had been in the past when the policies we had no longer fit the events of the day, it's going to take some time to really restore the kind of economic situation that will be even beginning to be satisfactory to the society. It's not a matter of decades. It's a matter of how many years, roughly? I would never hold you to it.

Mr. KAHN. If you do, I'll deny it even if it's in the record. You must make allowance for the fact that nobody could stay in my job unless he had a streak of optimism which defied rationality. That's No. 1.

No. 2: It depends upon whether you mean demonstrable results in the Consumer Price Index or whether you mean signs of a change in national policies and attitudes which promise those results in the Consumer Price Index.

Representative BOLLING. I'll take the signs of change that promise those results.

Mr. KAHN. Those are happening now. The deregulation of airlines, of trucking moving in that direction, the banking reform legislation which has already been passed, the railroad deregulation which is well on its way, the communications increased competition legislation that I hope we may yet be able to push through, the regulatory reform legislation, the whole reexamination of the environmental occupational safety legislation, which is a different kind of problem—those are in some ways revolutionary, even the latter.

Remember the environmental movement was a necessary redress of decades of neglect, but it clearly was a wave of the 1970's—healthy, but now we are in a period of reexamination, not retrenchment, but——

Representative BOLLING. We are looking at the totality.

Mr. KAHN. Exactly, and trying to recognize our resources are limited, because you get inflation not because environmental protections are not desirable but because if these increase costs—and that means increased prices—and if people then say well, we must have the same standard of living as before and in additional environmental protection, then again it becomes inflationary. I see a real change in the attitudes and policy there.

I see it similarly in the almost unanimity of the will of Congress to move toward a balanced budget and fiscal discipline even when, with the recession going on, the temptations to reverse are enormous.

So part of my second answer is I think in this period we are saying we will see it begin to show results in the underlying rate. That's a matter of years, but I believe that when we begin to recover from the recession we are in, then productivity can begin to improve. It's not going to improve obviously with the economy going down, but we will get a spurt of productivity which will help us. We may then see next year, or the year after at the most, the Consumer Price Index being below the rate of wage increases and we may then begin to get a tapering down of wage increases as well.

So with the recovery of demand, profits can recover, which is important, and capital formation can recover. That I think should be helped by tax inducements and I can see that process taking place in 1981 or 1982.

Representative BOLLING. I have been very much concerned about one element in this, a highly political element. As you know, a long time ago, the Joint Economic Committee undertook a special study on economic change which has been going on for a number of years and is on the verge of beginning to produce results. Of course expectations for wonderful results are always larger than they should be, but we have some hope that it will make a contribution.

In looking at some of the preliminary papers, I find a relatively obvious fact that there are relatively few countries that are developed—there's only one, as a matter of fact, that does worse than we

have been doing on productivity and inflation. I think that's a fair statement. The United Kingdom has done worse. We keep hearing a great deal about Japan and Germany doing better and there are books written to the effect that Japan is No. 1 and that Germany may be No. 1 and so on, and so on, and so on; but I notice a curious fact, and I think it's a fact, that every one of the countries that seems to be managing its economy or whose government seems to be managing its responsibility in the economy, whatever the society has decided that is—and I think that's a very important point—in every one of them that seems to be doing better in productivity and in inflation, they have some kind of working arrangement between at least large industry and big labor.

I don't know whether it should be called a social compact between the bigs or whatever one wants to call it, but there is some kind of working arrangement. This seems to have some effect on both inflation and productivity.

I wonder, having watched the efforts that have been made by the political end of the society at the Federal level, with a very careful eye as you have, would it not be helpful if there were greater effort made to in some fashion get the parties who are on two sides of labor-management talking to each other more effectively about this ratchet effect that they both are involved in?

I don't know that we end up with a social compact. I don't have any model as to how we get there. This is an utterly different society, an utterly different country than any of the others you could mention. The size of the country obviously makes it unique among the developed free countries. The diversity of the country, a product not just of size, makes it different. There are other factors, including the level and length of commitment to free elections. There are all kinds of variations which can make it inevitable that, whatever we do to deal with this whole array of problems the result will be different than for any other country operating similarly.

I'm not trying to prejudge how we should do it, even if perhaps I should be prepared to do so after being this long on the Joint Economic Committee, but I'm not. Is there any element of truth in the comparison, not the conclusion but the comparison?

Mr. KAHN. I feel that fundamentally, yes, the answer is that there is a great deal of truth in that comparison. One always has to be cautious about any single explanation of differences in productivity. No matter what one mentions or rates of inflation, one always finds the facts don't seem to bear it out—like the Federal deficit. I mean, in the latter part of 1979, all government in the United States had a surplus. Even if you take the Federal deficit, it's a much smaller percentage of GNP than the average in the past. But what you say describes a growing conviction on my part in the last 6 months to 1 year. The efforts that we have made leading to the so-called accord with labor, leading to the constitution of a tripartite advisory committee, I think are only the beginning of what we are going to have to witness in this country, somehow giving clearer recognition in our actions to the fact that the ways in which our interests coincide are much more important than the ways in which our individual interests differ.

I do see, even in Sweden, which is now having trouble, or Germany or Japan, in contrast with Great Britain and with which I have a particular acquaintance—I mean, my first book was on Great Britain and I retain a very strong interest there—a difference in the—how

shall I say it—the social cohesiveness, willingness in the process of collective bargaining to operate more nearly at a national level and more nearly in terms of what the national economy can afford and in terms of a fair distribution between labor and let's say capital and particularly investment; and this is not to castigate anybody in our country. We must remember the years of the labor movement and the political situation, and the extent to which they can lead is limited.

Representative BOLLING. Also, the leaders of business.

Mr. KAHN. Of course, but I do believe with you that we are going to move in that direction and what we have started is only a beginning in the direction of something better by way of a national accord or compact, and that is not to say that I think that wage and price standards or wage and price controls have anything more than a temporary and marginal effect. It somehow has to be built into the ways in which we choose to live together and it embraces much more than wage and price policy. It includes budget policy and what you do to help the really poorest members of our society and what you do in a restrained way to pinpoint the way to beat the problems of recession, and I see that as necessarily happening in the next several years.

Representative BOLLING. Thank you. If you have covered the points that you wish, I have some relatively narrow questions.

Mr. KAHN. I think that I have covered my introductory comments.

Representative BOLLING. The main purpose of the credit controls instituted in March was to reduce consumer spending, but there are many observers who now think they reduced consumer spending too much and caused a much more severe recession than we would have had without them. There's a story in this morning's Washington Post which indicates that the Federal Reserve is beginning to ease up on its policy of credit restraint.

Do you see any further role for credit controls as part of the anti-inflation program in the immediate future that it was intended to be?

Mr. KAHN. If you mean by credit controls a continued emphasis by the Federal Reserve on a moderate increase in the money supply, then I think that must continue.

If you mean more intensified special controls of the kind that were instituted in March, surely, no. I think the Federal Reserve is doing the right thing in easing up on some of those direct and specific credit controls, consistently however with its policy of not pushing an increase in the money supply but trying to stay within those ranges.

As a long-term proposition, I still think it's important that we retain the possibility of those direct credit controls in our armament however.

Representative BOLLING. OK. On an entirely different subject—not really, but somewhat different, with the automobile industry suffering a severe falloff in sales, which I suppose demonstrates that the American people have decided that there is some kind of an energy problem, is there any evidence that the prices of new cars are stabilizing or falling; and how do you factor the rebates that we have been hearing about in such numbers and confusion although I don't really quite come up with a net result but I have a view that everybody has been in that game? How do they fit into the whole problem or can they be fitted into it?

Mr. KAHN. Well, the more general tendency has been for the automobile industry to price its cars on something like a cost-plus basis. At the same time, we must recognize, in fairness, that the price of new cars in the BLS index over the last year went up 7.2 percent as compared with the total index of 14.7 percent. So there clearly has been restraint. They are clearly complying with the pay-price standard and they are also showing these benefits in improved productivity.

The rebates on new cars do show up in those numbers. Whether they show up fully or adequately, I'm not certain, but I'm sure the BLS tries to make them do so.

The sharp decline in the price of used cars has contributed markedly to the slowing down of the rate of the Consumer Price Index. Just this last month, used cars went down 1.8 percent.

So it's this combined phenomenon you see of slowing rate of sales, profits going down very, very sharply, unemployment rising with unusual sharpness in that industry, and a fair degree of price restraint, but not prices going down because demand goes down.

Representative BOLLING. Right. In another area, do you have any guess as to what would be the effect, short run and longer run, of the very substantial easing in mortgage rates on the whole business of building? How long does it take for that to have an impact?

Mr. KAHN. The best answer is I don't know. I'm sorry, I do not know.

Representative BOLLING. I don't think anybody does, but what kind of a range are we talking about?

Mr. KAHN. Well, our hope—and here I'm trying to summarize the views of the people in the administration who are responsible for looking at these macroeconomic developments—say the Council of Economic Advisers—is that this manifests success of the budget and credit policies introduced in March in turning around the hysteria and the destruction of the long-term bond market and turning down interest rates, and is our greatest hope of moderating the recession. Mortgage rates still have a stickiness to them. Remember that savings and loan institutions took a terrible beating in the past by getting their assets tied up in 6, 7, and 8 percent mortgages while they then became exposed to sharp increases in the rate of paper money, but they are coming down very satisfactorily. I don't know whether it's a 6-month turnaround, but you see it's also influenced by what's happening to people's expectations and what's happened to consumers' incomes.

All I can say is we hope within 6 months or something like that we will see a turnaround in new construction.

Representative BOLLING. Good. I'd like you to address yourself to a very broad general problem which we all face together. We clearly have some hopeful signs that inflation is lessening. We clearly have some discouraging signs that unemployment is increasing. How do we, in very general terms, do both at the same time? We have to continue to maintain a psychology of good management in terms of dealing with the problems of inflation and, at the same time, with not exactly the same members of the society, we have to make it very clear that we are not going to allow any more pain and hardship than is absolutely unavoidable—unavoidable is the right word for me. How do we send that set of messages through policy?

Now I don't expect you to answer that in detail because it involves everything in the budget as far as the Federal Government is concerned and everything that every politician and administrator does, but the general thrust has not been spelled out by many and I think it would be useful for you to attempt that. I know it's a hard task, but it's the task we all face.

Mr. KAHN. I can fairly easily say the general things that you have said. What becomes extraordinarily difficult, and in some sense impossible, is to say how one achieves that. I say in some sense impossible because while I assure you nobody in the administration—I have never heard it even remotely suggested that we were interested in provoking a recession in order to cure inflation; nobody takes that position, to my knowledge—the fact is that the recession that we are suffering is in considerable measure the result of the rapidity of inflation. It is in large measure the result of those high, painfully high, interest rates which were themselves the result of a virtual breakdown in confidence in the dollar. We do not have the luxury of easing up on the fiscal and the monetary policies that broke that spiral, turned it around and got interest rates down.

Paradoxically, the main hope for easing the recession is the decrease in interest rates, which is the result, in part, of a tight monetary policy. I know that sounds crazy, but that's in fact what happens when expectations are so important. Cooling off the demand for credit, that depended upon assuring the country that we were instituting fiscal and monetary discipline.

Representative BOLLING. That's the key point. The thing that we have to do is to assure them that we are capable of managing our affairs—their affairs. That doesn't mean that we are building in total rigidities.

Mr. KAHN. That's right.

Representative BOLLING. And I think that's a very important point that people tend to make fun of. It's very easy to make fun of the Congress for coming around to a balanced budget after 6 years in the process when we are in, and going further into a recession, but the fact of the matter is that it's essential that we demonstrate to certain people in the world and in our own society that we are capable of managing our affairs with a sense of discipline.

Now other millions of people in the country need to look at the other end of it because they do not have the good fortune to be concerned about the value even of money. They don't recognize that they do, so we have to send a very clear signal that they are not going to be allowed to suffer, if that's at all possible.

There's no way to take all the suffering out of recession because there's no way, even if theoretically we are able, to replace a dollar for a dollar of the wages lost. There's no way to replace the difference between being a beneficiary of the society and earning your own living. That makes a difference to people—as I can figure out—to most people.

I'm not suggesting that we can prevent it all, but we can certainly make it clear that we are not just playing games and we are not doing silly and stupid and contrary things, that they are very difficult things which, incidentally, have never had to be done exactly the same way before. Is that a fair statement?

Mr. KAHN. That's exactly right. That does suggest that as we seek this fiscal discipline, it suggests that it's terribly important that we be as humane as possible, that we make every effort to see that we help the people who really can't take it. It is not true that 75 or 80 percent of the American people can't take it. We're simply deceiving ourselves and we are deceiving ourselves if we go around saying loosely that we are fighting this inflation on the backs of the poor. There's no reason why it need be fought on the backs of the poor. The genuinely poor can be insulated. We need not reduce the value of food stamps. We need not cut down summer employment programs for the people who have had no experience, where they are really poor, and we must do everything we can to absorb them in the society.

As you know better than I, since you're involved even more directly in the process than I, that rhetoric is used to cover a whole range of Government spending programs and a whole range of desire to have credit available so people who are fresh out of college and freshly marrying, or cohabiting, being able to borrow at 6 percent and buy a house at $80,000. I mean, we've got to make those finer distinctions and that's how we can begin to pinpoint assistance. There's no reason to be inhumane.

Representative BOLLING. There was a very impressive speech made by one of my colleagues from California during the debate on the first budget resolution—which I had the privilege of presiding over so I heard a lot of debate—in which he, who felt very strongly, as I do, that his pet programs were being maimed by the need for self-discipline, recognized that the society had come to the point where it did not have enough for everything that it wanted to do and that really the budget process was the question of making reasonable choices. This speech was by George Miller, a relatively new Member, but it was one of the wisest speeches I have ever heard, and he said he was totally against the increases in defense that were involved, although he wanted us to have a strong defense. He opted for more help for children, more help for people who are weak, which is my own set of preferences obviously, but he recognized that the time had come to make it clear to everybody that we knew we had to operate within limits and that self-discipline was important so the society could recognize where we were and that we were going to have to make choices. I think perhaps the tragedy of today is that too few people realize that this is the moment in time when the Congress, which is not always the swiftest to recognize reality, has recognized this need because it is the condition of the society today. It's very important that we have begun to look at it, I think belatedly, but perhaps in time.

Mr. Kahn, if you have nothing to add, I think that concludes it, and I thank you very much for a very interesting discussion.

Mr. KAHN. I couldn't possibly improve on your conclusion, sir. Thank you.

Representative BOLLING. The committee stands adjourned.

[Whereupon, at 11 a.m., the committee adjourned, subject to the call of the Chair.]

MONITORING INFLATION

TUESDAY, JUNE 24, 1980

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 6226, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Present: Senator Bentsen and Representative Wylie.

Also present: John M. Albertine, executive director; Mayanne Karmin and Paul B. Manchester, professional staff members; Betty Maddox, administrative assistant; and Mark R. Policinski, minority professional staff member.

OPENING STATEMENT OF SENATOR BENTSEN, CHAIRMAN

Senator BENTSEN. The hearing will get underway.

Mr. Kahn, we are happy to have you. For a long time the Joint Economic Committee has been concerned about the validity of the Consumer Price Index; as our last Newsletter stated, "Is the CPI Accurate?"

Obviously, it isn't. Through a statistical quirk you can see what happened here. We show that the CPI increased at an 11.4-percent annual rate for both April and May, yet we know that there's been a very substantial drop in interest rates during that period of time. After you factor out the increase in the cost of home financing and the 1.3-percent increase in the cost of housing, the annualized rate of inflation for May was only 8.7 percent. Such an adjustment is not unreasonable, because people don't buy homes that often and they don't enter into home mortgages that often.

We have seen a distortion when the CPI was increasing at 18.2 percent. When we talked about correcting the CPI, we heard from various groups objecting to that. If I can read the tea leaves, I would estimate that in the months ahead we are going to see a rather dramatic drop in the rate of increase in the CPI, and we will see a distortion on the way down. Then when we talk about correcting the CPI, we will be hearing from entirely different interest groups.

When we put all that together, we ought to try to find an inflation indicator that more truly reflects what's happening in the economy.

Mr. Kahn, I was just delighted, if I read correctly, that you're talking about a tax cut. I've felt for a long time that you have been a closet tax cutter. I'm very pleased to welcome you to what we have been recommending in the Joint Economic Committee, and what I have been recommending for a while now, a targeted tax cut that

doesn't have to be inflationary, that's going to try to retool America and to improve the productivity of this country, and that will work at curbing inflation in the long run and making this country competitive again.

I don't think we have a shortage of resources. I just think we have had a misapplication of resources; by changing some economic objectives we can take care of that.

Without objection, the press release entitled "The Consumer Price Index—May 1980" will be inserted in the hearing record at this point.

[The press release referred to follows:]

News United States Department of Labor

Bureau of Labor Statistics Washington, D.C. 20212

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THE CONSUMER PRICE INDEX--MAY 1980

The Consumer Price Index for All Urban Consumers (CPI-U) rose 1.0 percent before seasonal adjustment in May to 244.9 (1967=100), the Bureau of Labor Statistics of the U.S. Department of Labor announced today. The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) also increased 1.0 percent before seasonal adjustment in May to 245.1 (1967=100). Both the CPI-U and the CPI-W were 14.4 percent higher than in May 1979.

CPI for All Urban Consumers (CPI-U)--Seasonally Adjusted Changes

On a seasonally adjusted basis, the CPI for All Urban Consumers rose 0.9 percent in May, the same as in April and considerably less than increases of 1.4 percent in each of the first 3 months of the year. The housing component continued to advance sharply and accounted for over three-fourths of the increase in May. As in April, however, most other major categories of consumer spending advanced at more moderate rates.

Table A. Percent Changes in CPI for All Urban Consumers (CPI-U)

Expenditure category	Seasonally adjusted							Unadjusted
	Changes from preceding month						Compound annual rate 3-mos. ended	12-mos. ended
	1979		1980					
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	May. '80	May '80
All items	1.0	1.2	1.4	1.4	1.4	.9	.9	13.6	14.4
Food and beverages	.7	1.4	.1	0	1.0	.5	.3	7.6	7.0
Housing	1.3	1.4	1.4	1.4	1.6	1.3	1.5	19.7	17.7
Apparel and upkeep	.3	.6	.9	.6	2.0	.3	-.2	8.8	6.9
Transportation	1.2	1.4	3.1	2.8	1.7	.6	.3	10.8	19.9
Medical care	.9	1.1	1.3	1.5	.9	.7	.5	8.6	11.5
Entertainment	.5	.2	1.0	1.2	1.3	.8	.6	11.4	8.6
Other goods and services	.3	.7	1.1	1.0	.5	.6	.8	7.7	8.9

(Data for CPI-U are shown in tables 1 through 3.)

The 1.5 percent increase in the housing index continued the sharp upward trend evident since early 1979. In May, home financing costs rose 3.0 percent. House prices rose 1.3 percent. Although FHA and VA mortgage interest rates dropped substantially, conventional rates continued to increase in the index, partly because of the lag betwen the announcement of rate changes and actual mortgage transactions. Conventional mortgage interest rates are represented in the CPI by actual mortgage loan transactions and not by current commitment rates. Natural gas and electricity charges increased 4.8 and 2.5 percent, respectively, resulting in a sharp rise in the index for household fuels in May despite a decline in fuel oil prices. The index for rent increased 1.0 percent. (The 12-month percent changes for five experimental measures of housing costs can be found at the end of this release.)

The index for food and beverages rose 0.3 percent in May, following an increase of 0.5 percent in April. Prices for grocery store foods increased 0.2 percent. Substantial declines in beef, pork, and egg prices were more than offset by increases in the indexes for fruits and vegetables, dairy products, cereal and bakery products, sugar and sweets, and other prepared foods. Prices of the other two components of the food and beverage index--restaurant meals and alcoholic beverages--rose 0.5 and 0.7 percent, respectively, in May.

The transportation index rose 0.3 percent in May, the smallest increase since April 1978. Gasoline prices, which were unchanged in April, declined 0.6 percent in May, following seasonal adjustment. Used car prices declined 1.7 percent on a seasonally adjusted basis, the fourth consecutive decline. On the other hand, new car prices rose 1.0 percent, following a 1.4 percent increase in April as manufacturers' price increases were only partially offset by rebate programs. Automobile finance charges also continued to increase substantially--up 4.3 percent in May. The index for public transportation rose 1.5 percent, reflecting large increases in airline, taxi, and intercity train fares.

The index for apparel and upkeep declined 0.2 percent in May, following seasonal adjustment. A decline in prices for women's and girls' clothing, reflecting early summer sales, was primarily responsible for the decline. Prices for men's and boys' apparel and footwear registered moderate increases while charges for apparel services--up 1.0 percent in May--continued to increase substantially.

The index for medical care rose 0.5 percent in May, the smallest increase in the last 12 months. The index for medical care services also rose 0.5 percent as charges for professional and hospital services both increased less than in recent months. The index for medical care commodities rose 0.9 percent in May, about the same as earlier this year.

The index for entertainment rose 0.6 percent in May, the smallest increase this year. The other goods and services component increased 0.8 percent, more than in March or April. Increases in prices for tobacco products, toilet goods and personal care appliances, and bank service charges were primarily responsible for the rise.

CPI for Urban Wage Earners and Clerical Workers (CPI-W)--Seasonally Adjusted Changes

On a seasonally adjusted basis, the CPI for Urban Wage Earners and Clerical Workers rose 0.9 percent in May. This compares with a 1.0 percent increase in April and increases of 1.4 percent in each of the first 3 months of the year. The housing component continued to advance sharply and accounted for about three-fourths of the CPI increase in May. As in April, however, most other major categories of consumer spending advanced at more moderate rates.

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The 1.5 percent increase in the housing index continued the sharp upward trend evident since early 1979. In May, home financing costs rose 3.1 percent, reflecting an increase of 1.7 percent in mortgage interest rates and 1.3 percent in house prices. The index for rent increased 1.0 percent. Prices for household fuels rose sharply in May as charges for natural gas and electricity increased 4.6 and 2.5 percent, respectively. Fuel oil prices, however, were unchanged in May.

The index for food and beverages rose 0.5 percent in May, following an increase of 0.7 percent in April. Prices for grocery store foods increased 0.3 percent. Substantial declines in beef, pork, and egg prices were more than offset by increases in the indexes for fruits and vegetables, dairy products, cereal and bakery products, sugar and sweets, and other prepared foods.

The transportation index rose 0.2 percent in May, the smallest increase since April 1978. Gasoline prices declined for the second consecutive month--down 0.6 percent in May--following seasonal adjustment. Used car prices declined 1.7 percent on a seasonally adjusted basis, the fourth consecutive decline. On the other hand, new car prices rose 1.1 percent, following a 1.6 percent increase in April. The index for public transportation rose 1.4 percent.

The index for apparel and upkeep rose 0.1 percent in May. Prices for women's and girls' clothing, reflecting early summer sales, declined 1.0 percent while prices for both men's and boys' apparel and footwear increased 0.5 percent.

In May, the index for medical care rose 0.6 percent and the index for entertainment rose 0.5 percent, the smallest increases this year. On the other hand, the other goods and services component increased 0.8 percent, more than in March or April.

Table B. Percent Changes in CPI for Urban Wage Earners and Clerical Workers (CPI-W)

Expenditure category	Seasonally adjusted							Unadjusted
	Changes from preceding month						Compound annual rate 3-mos. ended May '80	12-mos. ended May '80
	1979		1980					
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	
All items	1.0	1.2	1.4	1.4	1.4	1.0	.9	13.6	14.4
Food and beverages	.6	1.4	.2	0	0.9	.7	.5	8.5	7.2
Housing	1.2	1.3	1.5	1.4	1.6	1.4	1.5	19.5	17.7
Apparel and upkeep	.1	.5	.8	.9	1.7	.3	.1	8.8	6.7
Transportation	1.3	1.5	3.1	2.8	1.7	.6	.2	10.8	19.8
Medical care	.8	1.1	1.3	1.5	.9	.8	.6	9.6	12.1
Entertainment	.5	-.1	.8	1.2	1.6	.8	.5	12.1	8.2
Other goods and services	.3	.6	1.4	.9	.4	.5	.8	6.9	8.7

(Data for CPI-W are shown in tables 4 through 6.)

Technical Notes

Brief Explanation of the CPI

The Consumer Price Index (CPI) is a measure of the average change in prices over time in a fixed market basket of goods and services. Effective with the January 1978 index, the Bureau of Labor Statistics began publishing CPI's for two population groups: (1) A new CPI for All Urban Consumers (CPI-U) which covers approximately 80 percent of the total noninstitutional civilian population; and (2) a revised CPI for Urban Wage Earners and Clerical Workers (CPI-W) which represents about half the population covered by the CPI-U. The CPI-U includes, in addition to wage earners and clerical workers, groups which historically have been excluded from CPI coverage, such as professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, and retirees and others not in the labor force.

The CPI is based on prices of food, clothing, shelter, and fuels, transportation fares, charges for doctors' and dentists' services, drugs, and the other goods and services that people buy for day-to-day living. Prices are collected in 85 urban areas across the country from about 18,000 tenants, 18,000 housing units for property taxes, and about 24,000 establishments—grocery and department stores, hospitals, filling stations, and other types of stores and service establishments. All taxes directly associated with the purchase and use of items are included in the index. Prices of food, fuels, and a few other items are obtained every month in all 85 locations. Prices of most other commodities and services are collected every month in the five largest geographic areas and every other month in other areas. Prices of most goods and services are obtained by personal visits of the Bureau's trained representatives. Mail questionnaires are used to obtain public utility rates, some fuel prices, and certain other items.

In calculating the index, price changes for the various items in each location are averaged together with weights which represent their importance in the spending of the appropriate population group. Local data are then combined to obtain a U.S. city average. Separate indexes are also published by size of city, by region of the country, for cross-classifications of regions and population-size classes, and for 28 local areas. Area indexes do not measure differences in the level of prices among cities; they only measure the average change in prices for each area since the base period.

The index measures price changes from a designated reference date—1967—which equals 100.0. An increase of 122 percent, for example, is shown as 222.0. This change can also be expressed in dollars as follows: The price of a base period "market basket" of goods and services in the CPI has risen from $10 in 1967 to $22.20.

For further details see the following: *The Consumer Price Index: Concepts and Content Over the Years*, Report 517, revised edition (Bureau of Labor Statistics, May 1978); *The Revision of the Consumer Price Index*, by W. John Layng, reprinted from the *Statistical Reporter*, February 1978, No. 78-5 (U.S. Dept. of Commerce), *Revisions in the Medical Care Service Component of the Consumer Price Index*, by Daniel H. Ginsburg, *Monthly Labor Review*, August 1978; and *CPI Issues*, Report 593, (Bureau of Labor Statistics, February 1980).

A Note About Calculating Index Changes

Movements of the indexes from one month to another are usually expressed as percent changes rather than changes in index points because index point changes are affected by the level of the index in relation to its base period while percent changes are not. The example in the accompanying box illustrates the computation of index point and percent changes.

Percent changes for 3-month and 6-month periods are expressed as annual rates and are computed according to the standard formula for compound growth rates. These data indicate what the percent change would be if the current rate were maintained for a 12-month period.

Index Point Change

CPI	236.4
Less previous index	233.2
Equals index point change:	3.2

Percent Change

Index point difference	3.2
Divided by the previous index	233.2
Equals:	0.014
Results multiplied by one hundred	0.014x100
Equals percent change:	1.4

A Note on Seasonally Adjusted and Unadjusted Data

Because price data are used for different purposes by different groups, the Bureau of Labor Statistics publishes seasonally adusted as well as unadjusted changes each month.

For analyzing general price trends in the economy, seasonally adjusted changes are usually preferred since they eliminate the effect of changes that normally occur at the same time and in about the same magnitude every year—such as price movements resulting from changing climatic conditions, production cycles, model changeovers, holidays, and sales.

The unadjusted data are of primary interest to consumers concerned about the prices they actually pay. Unadjusted data also are used extensively for escalation purposes. Many collective bargaining contract agreements and pension plans, for example, tie compensation changes to the Consumer Price Index unadjusted for seasonal variation.

Seasonal factors used in computing the seasonally adjusted indexes are derived by the X-11 Variant of the Census Method II Seasonal Adjustment Program. The updated seasonal data at the end of 1977 replaced data from 1967 through 1977. Subsequent annual updates have replaced 5 years of seasonal data, e.g., data from 1975 through 1979 were replaced at the end of 1979. The seasonal movement of all items and 35 other aggregations is derived by combining the seasonal movement of 45 selected components. Each year the seasonal status of every series is reevaluated based upon certain statistical criteria. If any of the 45 selected components changes its seasonal status, seasonal data from 1967 forward for the all items and for any of the 35 other aggregations, that have that series as a component, are replaced.

24 Hour CPI Mailgram Service

Consumer Price Index data now are available by mailgram within 24 hours of the CPI release. The new service is being offered by the Bureau of Labor Statistics through the National Technical Information Service of the U.S. Department of Commerce.

The CPI MAILGRAM service provides unadjusted and seasonally adjusted data both for the All Urban Consumers (CPI-U) and for the Urban Wage Earners and Clerical Workers (CPI-W) Indexes as shown on the CPI-U sample page below. The unadjusted data include the current month's index and the percent changes from 12 months ago and one month ago. The seasonally adjusted data are the percent changes from one month ago.

CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS (CPI-U): U.S. CITY AVERAGE (1967=100)

GROUP	UNADJ INDEX MAY 1979	UNADJUSTED PER CHG FROM 12 MO AGO	UNADJUSTED PER CHG FROM 1 MO AGO	S ADJ PER CHG FROM 1 MO AGO
ALL ITEMS	216.1	10.8	1.2	1.1
ALL ITEMS(1957-59=100)	249.0	-	-	-
FOOD AND BEVERAGES	228.2	11.2	.8	.7
FOOD	234.3	11.4	.9	.7
FOOD AT HOME	233.6	11.3	.7	.5
CEREALS AND BAKERY PRODUCTS	216.2	9.5	.8	1.0
MEATS, POULTRY, FISH, AND EGGS	242.2	19.4	.9	.1
DAIRY PRODUCTS	293.8	11.1	.7	.8
FRUITS AND VEGETABLES	224.8	3.4	.1	-.2
FOOD AWAY FROM HOME	241.1	11.7	1.1	1.1
HOUSING	222.4	11.3	1.2	1.2
RENT, RESIDENTIAL	173.8	6.8	1.0	1.0
HOMEOWNERSHIP	255.9	14.6	1.3	1.3
FUEL AND OTHER UTILITIES	232.2	7.7	2.1	2.2
FUEL OIL, COAL, AND BOTTLED GAS	366.3	23.2	4.1	4.3
GAS (PIPED) AND ELECTRICITY	251.6	8.2	2.6	2.6
HOUSEHOLD FURNISHINGS AND OPERATION	189.2	7.5	.3	.4
APPAREL AND UPKEEP	166.1	3.9	.4	.0
TRANSPORTATION	207.7	13.4	2.4	1.8
NEW CARS	165.8	8.7	.9	1.1
USED CARS	235.4	11.3	2.7	-.5
GASOLINE	247.7	29.1	5.5	5.0
PUBLIC TRANSPORTATION	193.3	3.1	.4	.7
MEDICAL CARE	236.3	8.9	.5	.6
MEDICAL CARE SERVICES	254.4	9.4	.5	.6
ENTERTAINMENT	187.8	6.6	.7	.5
OTHER GOODS AND SERVICES	193.9	7.5	.4	.5
PERSONAL CARE 1/	193.9	7.5	.6	.6
COMMODITIES	205.8	10.9	1.2	.9
COMMODITIES LESS FOOD AND BEVERAGES	192.9	10.9	1.5	1.0
NONDURABLES LESS FOOD AND BEVERAGES	195.7	12.0	2.0	1.9
DURABLES	189.2	10.0	1.1	.5
SERVICES	229.5	10.3	1.1	1.3
ALL ITEMS LESS FOOD	203.8	10.5	1.3	1.2
ENERGY 1/	260.8	19.8	4.2	4.2
ALL ITEMS LESS FOOD AND ENERGY	204.1	9.5	.9	.9

1/ NOT SEASONALLY ADJUSTED.

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TABLE 1. Consumer Price Index for all urban consumers: U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Relative importance, December 1979	Unadjusted Indexes Apr. 1980	May 1980	Unadjusted percent change to May 1980 from- May 1979	Apr. 1980	Seasonally adjusted percent change from- Feb. to Mar.	Mar. to Apr.	Apr. to May
Expenditure category								
All items	100.000	242.5	244.9	14.4	1.0	1.4	0.9	0.9
All items(1957-59=100)	-	282.0	284.8	-	-	-	-	-
Food and beverages	18.685	242.8	244.1	7.0	.5	1.0	.5	.3
Food	17.655	249.1	250.4	6.9	.5	1.0	.5	.3
Food at home	12.202	245.3	246.5	5.6	.5	1.1	.4	.2
Cereals and bakery products 1/	1.518	242.0	244.5	13.1	1.0	.8	1.4	1.0
Meats, poultry, fish, and eggs	4.189	235.1	231.5	-4.4	-1.5	1.0	-1.3	-2.0
Dairy products	1.442	222.4	226.2	11.0	1.7	.8	1.0	1.8
Fruits and vegetables	1.702	240.9	246.6	8.7	2.4	1.7	2.7	2.5
Sugar and sweets 1/	.418	319.5	326.8	18.3	2.3	5.4	1.9	2.3
Fats and oils	.346	238.3	239.5	6.3	.5	.8	.2	-.2
Nonalcoholic beverages	1.375	390.3	393.0	12.5	.7	.2	.0	.2
Other prepared foods	1.013	226.6	229.1	10.9	1.1	1.1	1.1	1.4
Food away from home	5.454	263.0	264.4	9.7	.6	.8	.7	.5
Alcoholic beverages	1.029	183.9	185.4	8.1	.8	.5	1.1	.7
Housing	44.999	257.9	261.7	17.7	1.5	1.6	1.3	1.5
Shelter	30.910	276.0	280.2	20.0	1.5	1.8	1.6	1.6
Rent, residential 1/	5.273	187.0	188.9	8.7	1.0	.5	.2	1.0
Other rental costs	.734	260.7	261.9	13.7	.5	.7	1.1	.5
Homeownership	24.904	307.7	312.9	22.8	1.7	2.1	1.9	1.8
Home purchase 1/	10.396	246.5	249.7	14.8	1.3	.4	1.0	1.3
Financing, taxes, and insurance	10.902	390.6	399.7	34.5	2.3	3.6	2.9	2.3
Maintenance and repairs	3.606	282.9	284.9	12.9	.7	1.7	1.4	.7
Maintenance and repair services	2.778	307.9	310.1	13.5	.7	1.9	1.3	.7
Maintenance and repair commodities 1/	.828	224.3	225.8	10.8	.7	1.1	1.3	.7
Fuel and other utilities 1/	6.477	270.5	275.9	10.8	2.0	1.6	.9	2.0
Fuels 1/	4.607	337.8	346.4	26.1	2.5	2.1	1.2	2.5
Fuel oil, coal, and bottled gas 1/	1.214	556.4	556.0	52.6	-.1	2.7	.5	-.1
Gas (piped) and electricity 1/	3.393	288.0	298.2	18.5	3.5	1.9	1.4	3.5
Other utilities and public services 1/	1.870	162.5	163.1	2.6	.3	.4	.2	.3
Household furnishings and operation	7.612	203.0	204.2	7.9	.6	1.0	.7	.6
Housefurnishings	4.139	172.7	173.4	6.6	.4	1.0	.3	.5
Housekeeping supplies 1/	1.459	240.7	243.6	10.5	1.2	1.3	1.1	1.2
Housekeeping services 1/	2.013	266.0	267.6	8.7	.6	.8	.9	.6
Apparel and upkeep	5.107	177.3	177.5	6.9	.1	2.0	.3	-.2
Apparel commodities	4.446	170.2	170.1	5.8	-.1	2.2	.1	-.4
Men's and boys' apparel	1.396	166.7	168.0	4.9	.7	1.0	.6	.2
Women's and girls' apparel	1.701	155.9	154.1	.6	-1.2	2.7	-.8	-1.7
Infants' and toddlers' apparel 1/	.108	234.3	237.4	7.3	1.3	2.1	1.3	1.3
Footwear	.669	188.1	189.3	8.2	.5	.9	.2	.5
Other apparel commodities 1/	.572	201.9	202.7	21.4	.4	4.4	1.0	.4
Apparel services 1/	.662	230.0	232.2	14.3	1.0	1.3	1.8	1.0
Transportation	18.572	246.8	249.0	19.9	.9	1.7	.6	.9
Private transportation	17.906	247.0	249.2	19.8	.9	1.7	.6	.2
New cars	3.731	177.0	178.9	7.9	1.1	.3	1.4	1.0
Used cars	2.838	196.7	199.3	-3.0	1.3	-1.2	-1.8	-1.7
Gasoline	5.619	374.7	375.4	51.6	.2	3.9	.0	-.6
Maintenance and repair	1.473	264.1	266.1	10.6	.8	.9	1.4	.8
Other private transportation	3.845	221.3	224.5	14.3	1.4	2.1	2.0	1.8
Other private trans. commodities 1/	.712	194.1	195.3	14.2	.6	.8	.7	.6
Other private trans. services	3.133	230.6	234.5	14.3	1.7	2.4	2.3	2.1
Public transportation 1/	1.066	233.9	239.5	23.9	1.5	1.1	1.6	1.5
Medical care	4.617	262.0	263.4	11.5	.5	.9	.7	.5
Medical care commodities	.802	164.9	166.4	9.2	.9	.9	.8	.9
Medical care services 1/	4.015	283.4	284.7	11.9	.5	.9	.7	.5
Professional services 1/	1.911	248.2	250.3	11.6	.8	1.0	1.2	.8
Other medical care services 1/	2.104	325.8	326.3	12.2	.2	.8	.2	.2
Entertainment	3.758	202.5	204.0	8.6	.7	1.3	.8	.6
Entertainment commodities	2.214	205.7	207.0	10.0	.6	1.3	.8	.5
Entertainment services 1/	1.523	198.5	200.1	6.7	.8	1.3	.8	.8
Other goods and services	4.081	209.6	211.2	8.9	.7	.5	.6	.8
Tobacco products 1/	1.080	198.8	200.4	7.6	.8	.2	.2	.8
Personal care 1/	1.632	209.7	211.6	9.1	.9	.8	.8	.9
Toilet goods and personal care appliances 1/	.728	201.8	204.1	9.0	1.1	.8	.8	1.1
Personal care services 1/	.905	217.2	218.8	9.2	.7	.7	.7	.7
Personal and educational expenses	1.369	228.7	229.2	9.8	.2	.5	.6	.8
School books and supplies	.174	207.1	207.1	8.1	.0	.7	.7	.5
Personal and educational services	1.195	234.0	234.7	10.1	.3	.4	.6	.8
Commodity and service group								
All items	100.000	242.5	244.9	14.4	1.0	1.4	0.9	0.9
Commodities	59.063	229.9	231.4	12.4	.7	1.2	.5	.3
Food and beverages	18.685	242.8	244.1	7.0	.5	1.0	.5	.3
Commodities less food and beverages	40.379	220.4	222.0	15.1	.7	1.3	.5	.4
Nondurables less food and beverages	17.706	239.5	240.3	22.8	.3	2.4	.5	.2
Apparel commodities	4.446	170.2	170.1	5.8	-.1	2.2	.1	-.4
Nondurables less food, beverages, and apparel	13.261	279.1	280.4	29.1	.5	2.6	.8	.3
Durables	22.672	204.9	207.1	9.5	1.1	.2	.5	.6
Services	40.937	265.3	269.2	17.3	1.5	1.9	1.5	1.6
Rent, residential 1/	5.273	187.0	188.9	8.7	1.0	.5	.2	1.0
Household services less rent	21.592	313.4	319.6	22.8	2.0	2.5	2.0	2.1
Transportation services	5.673	238.1	241.5	15.1	1.4	1.7	2.0	1.6
Medical care services 1/	4.015	283.4	284.7	11.9	.5	.9	.7	.5
Other services	4.285	214.5	215.9	9.3	.7	.9	.8	.8
Special indexes:								
All items less food	82.345	239.9	242.6	16.1	1.1	1.5	1.1	1.0
All items less shelter	69.090	231.7	233.4	12.0	.7	1.3	.6	.5
All items less mortgage interest costs	91.346	231.8	233.7	12.0	.8	1.2	.7	.6
All items less home purchase and mortgage interest costs	80.950	230.2	232.0	11.6	.8	1.2	.7	.6
All items less medical care	95.183	241.1	243.6	14.5	1.0	1.5	.9	.9
Commodities less food	41.408	218.6	220.2	14.9	.7	1.3	.5	.4
Nondurables less food	18.736	234.6	235.5	21.9	.4	2.4	.6	.2
Nondurables less food and apparel	14.290	266.5	267.9	27.5	.5	2.4	.7	.3
Nondurables	36.391	243.2	245.2	14.3	.4	1.6	.5	.2
Services less rent	35.664	280.0	284.4	18.6	1.6	2.0	1.7	1.7
Services less medical care	36.921	261.5	265.7	17.9	1.6	1.9	1.6	1.6
Energy	10.313	358.8	363.2	39.3	1.2	3.0	.9	.8
All items less energy	89.687	233.4	235.7	11.9	1.0	1.2	1.0	.9
All items less food and energy	72.032	228.5	231.0	13.2	1.1	1.2	1.1	1.0
Commodities less food and energy	34.488	198.2	199.9	8.9	.9	.6	.7	.6
Energy commodities	6.920	402.1	403.0	51.3	.2	3.9	.3	-.3
Services less energy	37.544	263.5	267.0	17.2	1.3	1.8	1.5	1.4
Purchasing power of the consumer dollar:								
1967=$1.00 1/	-	$.412	$.408	-12.6	-1.0	-1.4	-1.2	-1.0
1957-59=$1.00 1/	-	.355	.351	-	-	-	-	-

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 2. Consumer Price Index for all urban consumers: Seasonally adjusted U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Seasonally adjusted indexes				Seasonally adjusted annual rate percent change for-					
	Feb. 1980	Mar. 1980	Apr. 1980	May 1980	3 months ending in			6 months ending in		
					Aug. 1979	Nov. 1979	Feb. 1980	May 1980	Nov. 1979	May 1980
Expenditure category										
All items	-	-	-	-	13.1	13.5	17.2	13.6	13.3	15.4
Food and beverages	238.5	240.8	242.1	242.9	3.7	10.3	5.9	7.6	7.0	6.7
Food	244.7	247.1	248.4	249.2	3.5	10.4	5.6	7.6	6.9	6.6
Food at home	240.9	243.5	244.5	245.1	.7	10.7	4.1	7.2	5.6	5.6
Cereals and bakery products 1/	236.8	238.6	242.0	244.5	14.6	9.2	14.9	13.7	11.9	14.3
Meats, poultry, fish, and eggs	236.2	238.5	235.3	230.6	-21.8	11.2	4.0	-9.2	-6.8	-1.9
Dairy products	218.4	220.1	222.4	226.4	12.7	9.9	6.1	15.5	11.3	10.7
Fruits and vegetables	225.6	229.4	235.7	241.1	25.6	7.5	-20.7	30.4	16.2	1.7
Sugar and sweets 1/	297.5	313.5	319.5	326.8	7.0	3.2	21.8	45.6	5.1	33.2
Fats and oils	237.8	239.7	240.2	239.7	5.4	5.4	11.3	3.2	5.4	7.2
Nonalcoholic beverages	387.2	387.9	388.0	388.7	17.2	23.4	9.3	1.6	20.3	9.4
Other prepared foods	220.7	223.2	225.7	228.9	10.9	6.8	10.6	15.7	8.8	13.1
Food away from home	258.6	260.6	262.5	263.8	9.8	9.9	10.9	8.3	9.9	9.6
Alcoholic beverages	180.6	181.5	183.5	184.7	6.5	9.5	7.2	9.4	8.0	8.3
Housing	290.7	294.8	296.2	297.2	16.2	16.9	18.3	19.7	16.5	19.0
Shelter	267.4	272.2	276.6	281.0	16.7	21.4	20.3	21.9	19.0	21.1
Rent, residential 1/	185.6	186.6	187.0	188.9	8.8	10.8	7.9	7.3	9.8	7.6
Other rental costs	256.2	258.1	261.0	261.9	11.2	14.2	20.6	9.2	12.7	14.7
Homeownership	296.6	302.7	308.5	314.0	18.7	24.1	23.1	25.6	21.4	24.3
Home purchase 1/	243.0	244.0	246.5	249.7	18.2	19.6	10.0	11.5	18.9	10.7
Financing, taxes, and insurance	368.1	373.2	379.6	385.5	22.4	34.2	39.5	43.0	28.1	41.2
Maintenance and repairs	275.0	279.8	283.6	285.5	10.3	10.6	14.6	16.2	10.5	13.4
Maintenance and repair services	298.9	304.7	308.8	311.0	10.8	10.2	16.2	17.2	10.5	16.7
Maintenance and repair commodities 1/	218.9	221.4	224.3	225.8	8.7	11.8	9.5	13.2	10.3	11.3
Fuel and other utilities 1/	263.8	268.0	270.5	275.9	28.5	8.0	20.1	19.6	17.8	19.9
Fuels 1/	326.2	333.9	337.8	346.4	41.9	10.1	28.9	25.8	23.0	27.3
Fuel oil, coal, and bottled gas 1/	539.1	553.4	556.4	556.0	110.1	40.4	62.6	13.1	71.7	35.6
Gas (piped) and electricity 1/	278.8	284.0	288.0	298.2	25.9	1.2	16.4	30.9	12.9	24.5
Other utilities and public services 1/	161.3	161.9	162.3	163.1	2.0	3.0	.7	4.5	2.5	2.6
Household furnishings and operation	199.2	201.2	202.6	203.9	5.4	7.3	9.1	9.8	6.3	9.4
Housefurnishings	169.6	171.3	172.2	173.1	3.8	6.5	8.2	8.5	5.1	8.3
Housekeeping supplies 1/	193.5	195.1	240.7	243.6	5.4	9.4	12.3	13.5	28.1	13.9
Housekeeping services 1/	261.6	263.6	266.0	267.6	9.1	8.2	8.0	9.5	8.6	8.8
Apparel and upkeep	173.5	177.0	177.5	177.2	2.2	7.7	9.3	8.8	4.9	9.0
Apparel commodities	166.8	170.4	170.8	170.4	1.0	6.9	8.1	7.4	3.9	7.7
Men's and boys' apparel	164.2	165.9	166.9	167.3	2.5	8.0	1.7	7.8	5.2	4.7
Women's and girls' apparel	153.9	158.0	156.7	154.1	-4.4	.3	6.2	.5	-2.1	3.3
Infants' and toddlers' apparel 1/	166.8	170.4	170.4	171.4	.0	9.5	.5	20.5	4.7	10.1
Footwear	185.5	187.2	187.5	188.5	9.5	10.2	6.5	6.6	9.8	6.6
Other apparel commodities 1/	191.4	199.9	201.9	202.7	7.1	20.2	34.3	25.8	13.5	30.0
Apparel services 1/	222.9	225.9	230.0	232.2	9.4	13.1	17.3	13.8	11.2	17.5
Transportation	242.0	246.2	247.6	248.3	23.2	13.7	33.6	10.8	18.4	21.7
Private transportation	242.3	246.3	247.9	248.4	23.9	12.4	33.8	10.5	18.0	21.6
New cars	173.9	174.5	177.0	178.7	7.7	1.0	11.6	11.5	4.3	11.5
Used cars	204.7	202.3	198.7	195.4	-3.5	1.8	8.6	-17.0	-.9	-9.0
Gasoline	363.8	378.1	378.1	375.8	78.4	32.9	95.4	13.9	53.9	49.2
Maintenance and repair	257.7	259.9	263.6	265.8	10.6	8.9	10.8	13.2	9.7	12.0
Other private transportation	211.4	215.8	220.2	224.2	11.9	7.8	12.0	24.5	9.8	19.0
Other private trans. commodities 1/	191.2	192.7	194.1	195.3	9.9	20.4	18.1	8.9	15.0	13.4
Other private trans. services	218.9	224.1	229.2	234.0	12.5	5.0	10.7	30.6	8.7	20.2
Public transportation 1/	229.5	232.1	235.9	239.5	16.4	35.1	26.3	18.6	25.4	22.4
Medical care	257.9	260.1	261.9	263.3	9.8	10.7	16.9	8.6	10.2	12.7
Medical care commodities	161.9	163.2	164.6	165.8	8.4	7.2	10.2	10.8	8.1	10.5
Medical care services 1/	279.0	281.5	283.4	284.7	10.1	11.2	18.2	8.4	10.6	13.2
Professional services 1/	242.9	245.3	248.2	250.3	8.5	7.4	18.1	12.8	7.9	15.4
Other medical care services 1/	322.7	325.0	323.8	326.3	11.6	14.8	18.2	4.5	13.2	11.2
Entertainment	198.1	200.6	202.2	203.5	6.6	6.5	10.3	11.4	6.5	10.8
Entertainment commodities	200.8	203.4	205.1	206.2	8.4	8.0	12.9	11.2	8.2	12.0
Entertainment services 1/	194.5	196.0	198.5	199.9	3.9	5.1	6.4	12.0	4.2	9.2
Other goods and services	207.9	208.9	210.1	211.0	7.6	8.5	11.5	7.7	8.1	9.6
Tobacco products 1/	198.1	198.4	198.8	200.4	8.0	3.4	14.5	4.7	5.7	9.5
Personal care 1/	206.5	208.1	209.7	211.6	7.6	7.1	11.6	10.3	7.4	10.9
Toilet goods and personal care appliances 1/	198.6	200.2	201.8	204.1	5.2	7.4	11.9	11.5	6.3	11.7
Personal care services 1/	214.2	215.7	217.2	218.8	9.5	7.0	11.4	8.9	8.2	10.1
Personal and educational expenses	227.1	228.2	229.5	231.3	7.0	14.8	10.3	7.6	10.8	8.9
School books and supplies	204.7	206.1	207.5	208.6	8.6	4.8	11.5	7.8	6.6	9.7
Personal and educational services	232.6	233.6	234.9	236.8	6.9	16.5	10.0	7.4	11.5	8.7
Commodity and service group										
All items	-	-	-	-	13.1	13.5	17.2	13.6	13.3	15.4
Commodities	226.1	228.8	230.0	230.8	12.6	12.7	15.9	8.6	12.7	12.2
Food and beverages	238.5	240.8	242.1	242.9	3.7	10.3	5.9	7.6	7.0	6.7
Commodities less food and beverages	216.9	219.7	220.8	221.6	17.2	13.6	21.5	9.0	15.4	15.0
Nondurables less food and beverages	233.0	238.7	240.0	240.5	28.8	14.1	36.4	13.5	21.2	24.4
Apparel commodities	166.8	170.4	170.5	169.8	1.0	6.9	8.1	7.4	3.9	7.7
Nondurables less food, beverages, and apparel	270.9	278.0	280.2	281.0	38.8	18.2	46.1	15.8	28.1	30.1
Durables	203.5	204.0	205.1	206.3	10.1	11.4	10.7	5.6	10.6	8.1
Services	256.8	261.6	265.6	269.8	13.7	14.9	18.6	21.6	14.3	20.2
Rent, residential 1/	185.6	186.6	187.0	188.9	8.8	10.8	7.9	7.3	9.8	7.6
Household services less rent	256.2	258.1	261.0	261.9	17.6	19.0	25.5	29.9	18.3	27.7
Transportation services	228.6	232.6	237.2	241.1	12.6	11.0	13.3	23.7	11.8	18.5
Medical care services 1/	279.0	281.5	283.4	284.7	10.1	11.2	18.2	8.4	10.6	13.2
Other services	210.9	212.9	214.7	216.4	6.8	9.5	9.9	10.8	8.1	10.4
Special indexes:										
All items less food	234.2	237.8	240.3	242.6	15.4	14.2	20.1	15.1	14.8	17.6
All items less shelter	230.7	233.5	231.7	232.3	11.2	10.3	15.8	10.2	11.0	13.0
All items less mortgage interest costs	227.6	230.3	231.8	233.2	12.0	11.5	14.7	10.2	11.8	12.2
All items less home purchase and mortgage interest costs	225.9	228.7	230.2	231.5	11.0	10.5	14.7	10.3	10.8	12.5
All items less medical care	235.6	239.1	241.3	243.4	13.2	13.6	17.5	13.9	13.4	15.7
Commodities less food	215.2	217.9	219.0	219.8	16.9	13.5	21.2	8.8	15.2	14.8
Nondurables less food	228.4	233.8	235.1	235.5	27.3	13.9	34.7	13.0	20.6	23.4
Nondurables less food and apparel	259.2	265.4	267.3	268.2	36.2	17.6	43.6	14.6	26.5	28.3
Nondurables	237.0	240.8	242.0	242.5	14.9	12.8	20.1	9.6	13.8	14.7
Services less rent	270.2	275.7	280.4	285.1	14.5	15.4	20.5	24.0	15.0	22.1
Services less medical care 1/	252.7	257.4	261.5	265.7	15.6	15.8	18.3	22.2	15.7	20.2
Energy	347.4	357.9	361.0	363.9	58.8	23.2	60.0	20.4	39.9	38.8
All items less energy	228.2	231.0	233.4	235.5	9.2	12.2	12.9	13.4	10.7	13.1
All items less food and energy	223.1	226.2	228.7	231.0	10.0	12.6	13.5	14.1	11.6	14.8
Commodities less food and energy	195.9	197.1	198.4	199.5	7.9	9.1	11.1	7.6	8.5	9.3
Energy commodities	388.9	404.2	405.5	404.2	81.9	32.3	86.5	16.7	55.1	47.5
Services less energy	255.2	259.9	263.9	267.6	12.6	16.4	18.7	20.9	14.5	19.8

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 3. Consumer Price Index for all urban consumers: Selected areas, all items index, 1967=100 unless otherwise noted

Area 1/	Pricing schedule 2/	Other index base	Indexes Feb. 1980	Mar. 1980	Apr. 1980	May 1980	Percent change to May 1980 from- May 1979	Mar. 1980	Apr. 1980	Percent change to Apr. 1980 from- Apr. 1979	Feb. 1980	Mar. 1980
U.S. city average			236.4	239.8	242.5	244.9	14.4	2.1	1.0	14.7	2.6	1.1
Chicago, Ill.-Northwestern Ind.	M		232.7	235.5	240.1	243.1	15.7	3.2	1.2	15.0	3.2	2.0
Detroit, Mich.	M		240.4	242.9	248.2	248.4	16.1	2.3	.1	16.4	3.2	2.2
L.A.-Long Beach, Anaheim, Calif.	M		237.6	241.3	244.6	249.1	18.1	3.2	1.8	17.7	2.9	1.4
N.Y., N.Y.-Northeastern N.J.	M		228.0	231.2	233.1	234.5	11.4	1.4	.6	11.9	2.2	.8
Philadelphia, Pa.-N.J.	M		231.1	234.6	237.4	239.4	13.7	2.0	.8	14.3	2.7	1.2
Anchorage, Alaska	1	10/67	-	223.5	-	226.3	11.3	1.3	-	-	-	-
Baltimore, Md.	1		-	243.0	-	249.1	13.7	1.7	-	-	-	-
Boston, Mass.	1		-	234.2	-	236.9	13.1	1.2	-	-	-	-
Cincinnati, Ohio-Ky.-Ind.	1		-	247.8	-	251.6	13.6	1.5	-	-	-	-
Denver-Boulder, Colo.	1		-	253.2	-	256.0	11.6	1.1	-	-	-	-
Miami, Fla.	1	11/77	-	127.7	-	129.7	15.3	1.6	-	-	-	-
Milwaukee, Wis.	1		-	242.7	-	250.3	15.3	3.1	-	-	-	-
Northeast Pennsylvania	1		-	229.0	-	232.5	12.2	1.5	-	-	-	-
Portland, Oreg.-Wash.	1		-	253.6	-	257.3	16.6	1.5	-	-	-	-
St. Louis, Mo.-Ill.	1		-	238.1	-	241.8	14.5	1.6	-	-	-	-
San Diego, Calif.	1		-	258.3	-	269.7	18.1	4.4	-	-	-	-
Seattle-Everett, Wash.	1		-	243.8	-	249.6	17.5	2.4	-	-	-	-
Washington, D.C.-Md.-Va.	1		-	238.8	-	241.2	11.7	1.0	-	-	-	-
Atlanta, Ga.	2		230.3	-	235.3	-	-	-	-	13.8	2.2	-
Buffalo, N.Y.	2		227.9	-	233.7	-	-	-	-	13.1	2.5	-
Cleveland, Ohio	2		243.5	-	247.3	-	-	-	-	15.0	1.6	-
Dallas-Fort Worth, Tex.	2		241.7	-	251.4	-	-	-	-	19.1	4.0	-
Honolulu, Hawaii	2		220.9	-	227.4	-	-	-	-	13.3	2.9	-
Houston, Tex.	2		255.9	-	260.8	-	-	-	-	14.3	1.9	-
Kansas City, Mo.-Kans.	2		238.7	-	243.8	-	-	-	-	15.3	2.1	-
Minneapolis-St.Paul, Minn.-Wis.	2		237.9	-	244.3	-	-	-	-	13.2	2.7	-
Pittsburgh, Pa.	2		235.5	-	240.9	-	-	-	-	13.6	2.3	-
San Francisco-Oakland, Calif.	2		240.7	-	243.5	-	-	-	-	16.6	1.2	-
Region 3/												
Northeast	2	12/77	123.7	-	126.8	-	-	-	-	13.3	2.5	-
North Central	2	12/77	128.0	-	131.3	-	-	-	-	14.2	2.6	-
South	2	12/77	127.4	-	130.8	-	-	-	-	14.6	2.7	-
West	2	12/77	129.4	-	132.7	-	-	-	-	16.6	2.6	-
Population size class 3/												
A-1	2	12/77	125.4	-	128.9	-	-	-	-	14.6	2.8	-
A-2	2	12/77	128.1	-	131.1	-	-	-	-	15.1	2.3	-
B	2	12/77	128.0	-	131.6	-	-	-	-	14.9	2.8	-
C	2	12/77	127.7	-	130.9	-	-	-	-	14.3	2.5	-
D	2	12/77	125.8	-	128.6	-	-	-	-	13.5	2.2	-
Region/population size class cross classification 3/												
Northeast/A	2	12/77	122.1	-	125.0	-	-	-	-	12.8	2.4	-
North Central/A	2	12/77	129.6	-	133.2	-	-	-	-	15.1	2.8	-
South/A	2	12/77	127.1	-	130.7	-	-	-	-	15.2	2.8	-
West/A	2	12/77	129.6	-	132.8	-	-	-	-	17.2	2.5	-
Northeast/B	2	12/77	125.6	-	129.0	-	-	-	-	14.1	2.7	-
North Central/B	2	12/77	127.2	-	130.9	-	-	-	-	13.7	2.9	-
South/B	2	12/77	128.0	-	131.7	-	-	-	-	15.1	2.9	-
West/B	2	12/77	130.6	-	134.1	-	-	-	-	16.4	2.7	-
Northeast/C	2	12/77	129.1	-	132.7	-	-	-	-	15.6	2.8	-
North Central/C	2	12/77	126.4	-	128.9	-	-	-	-	13.1	2.0	-
South/C	2	12/77	127.9	-	131.3	-	-	-	-	14.3	2.7	-
West/C	2	12/77	128.1	-	131.4	-	-	-	-	15.2	2.6	-
Northeast/D	2	12/77	124.2	-	127.4	-	-	-	-	12.8	2.6	-
North Central/D	2	12/77	125.8	-	128.7	-	-	-	-	12.8	2.3	-
South/D	2	12/77	125.9	-	128.3	-	-	-	-	13.5	1.9	-
West/D	2	12/77	127.1	-	130.4	-	-	-	-	15.7	2.6	-

1/ Area is generally the Standard Metropolitan Statistical Area (SMSA), exclusive of farms. L.A.-Long Beach, Anaheim, Calif. is a combination of two SMSA's, and N.Y., N.Y.-Northeastern N.J. and Chicago, Ill.-Northwestern Ind. are the more extensive Standard Consolidated Areas. Area definitions are those established by the Office of Management and Budget in 1973, except for Denver-Boulder, Colo. which does not include Douglas County. Definitions do not include revisions made since 1973.

2/ Foods, fuels, and several other items priced every month in all areas; most other goods and services priced as indicated:
M - Every month.
1 - January, March, May, July, September, and November.
2 - February, April, June, August, October, and December.

3/ Regions are defined as the four Census regions.
The population size classes are aggregations of areas which have urban population as defined below:

A-1	More than 4,000,000.
A-2	1,250,000 to 4,000,000.
B	385,000 to 1,250,000.
C	75,000 to 385,000.
D	Less than 75,000.

Population size class A is the aggregation of population size classes A-1 and A-2.

NOTE: Price changes within areas are found in the Consumer Price Index; differences in living costs among areas are found in Family Budgets.

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TABLE A. Consumer Price Index for urban wage earners and clerical workers: U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Relative importance, December 1979	Unadjusted indexes Apr. 1980	Unadjusted indexes May 1980	Unadjusted percent change to May 1980 from- May 1979	Unadjusted percent change to May 1980 from- Apr. 1980	Seasonally adjusted percent change from- Feb. to Mar.	Seasonally adjusted percent change from- Mar. to Apr.	Seasonally adjusted percent change from- Apr. to May
Expenditure category								
All items	100.000	242.6	245.1	14.4	1.0	1.4	1.0	0.9
All items(1957-59=100)	-	282.2	285.1	-	-	-	-	-
Food and beverages	20.353	243.2	244.7	7.2	.6	.9	.7	.5
Food	19.237	249.5	251.0	7.2	.6	.9	.6	.4
Food at home	13.427	243.0	244.1	5.7	.4	1.0	.5	.3
Cereals and bakery products 1/	1.683	242.2	244.4	12.7	.9	.8	1.2	.9
Meats, poultry, fish, and eggs	4.663	234.3	230.7	-4.4	-1.5	.5	-1.2	-2.0
Dairy products	1.814	223.1	226.9	11.1	1.7	1.1	1.0	1.8
Fruits and vegetables	1.762	239.8	245.5	9.2	2.4	1.8	3.6	2.6
Sugar and sweets 1/	.447	320.8	328.0	19.0	2.2	5.7	2.1	2.2
Fats and oils	.376	238.3	240.1	6.7	.8	.7	-.2	.3
Nonalcoholic beverages	1.557	389.2	392.3	12.6	.8	.0	.3	.3
Other prepared foods	1.129	226.6	229.6	11.2	1.3	1.1	1.2	1.5
Food away from home	5.810	265.3	267.6	10.6	.9	.9	.8	.9
Alcoholic beverages	1.116	183.0	186.9	8.7	1.0	.6	1.1	.9
Housing	41.667	257.8	261.7	17.7	1.5	1.6	1.4	1.5
Shelter	28.038	277.2	281.6	20.3	1.6	1.7	1.7	1.6
Rent, residential 1/	4.982	186.9	188.7	8.6	1.0	.5	.3	1.0
Other rental costs	.502	260.5	261.7	14.0	.5	.8	.9	.5
Homeownership	22.553	310.0	313.4	23.3	1.7	2.0	2.0	1.8
Home purchase	9.137	246.5	249.8	14.8	1.3	.3	1.1	1.3
Financing, taxes, and insurance	10.163	395.3	404.9	39.3	2.4	3.7	3.0	2.5
Maintenance and repairs	3.254	281.7	283.4	11.8	.6	1.3	1.2	.5
Maintenance and repair services	2.322	307.7	309.1	12.2	.5	1.3	1.3	.4
Maintenance and repair commodities 1/	.931	224.3	226.5	11.0	1.0	1.3	.9	1.0
Fuel and other utilities 1/	6.373	271.0	276.4	18.9	2.0	1.6	.9	2.0
Fuels 1/	4.584	337.6	346.0	26.0	2.5	2.1	1.1	2.5
Fuel oil, coal, and bottled gas 1/	1.209	557.1	557.1	52.7	.0	2.6	.5	.0
Gas (piped) and electricity 1/	3.375	287.6	297.5	18.3	3.4	1.9	1.3	3.4
Other utilities and public services 1/	1.788	162.3	163.1	2.5	.5	.3	.2	.5
Household furnishings and operation	7.256	200.7	201.9	7.3	.6	1.0	.7	.6
Housefurnishings	4.291	171.5	172.2	6.0	.4	1.1	.5	.5
Housekeeping supplies 1/	1.499	238.1	241.2	9.9	1.3	1.2	1.1	1.3
Housekeeping services 1/	1.527	264.3	265.6	8.5	.5	.6	.6	.5
Apparel and upkeep	5.118	176.1	176.8	6.7	.4	1.7	.5	.1
Apparel commodities	4.489	169.5	169.8	5.7	.2	1.7	.1	-.2
Men's and boys' apparel	1.391	167.3	168.9	3.0	1.0	1.2	.2	.3
Women's and girls' apparel	1.719	154.7	154.1	1.4	-.4	2.1	-.8	-1.0
Infants' and toddlers' apparel 1/	.124	241.1	242.8	8.6	.7	2.0	1.6	.7
Footwear	.706	188.1	189.3	8.0	.6	1.0	.5	.6
Other apparel commodities 1/	.550	198.5	197.4	10.0	-.6	3.1	.4	-.6
Apparel services 1/	.625	226.0	230.8	13.9	2.1	1.7	1.1	2.1
Transportation	20.902	247.7	249.9	19.8	.9	1.7	.6	.2
Private transportation	19.962	248.0	250.1	19.8	.8	1.7	.6	.2
New cars	5.946	177.7	179.6	8.7	1.1	.5	1.6	1.1
Used cars	3.622	196.8	199.5	-3.0	1.3	-1.3	-1.7	-1.7
Gasoline	6.429	376.3	377.1	31.8	.2	4.0	-.1	-.6
Maintenance and repair	1.621	264.3	266.1	10.6	.7	.7	1.2	.8
Other private transportation	4.344	223.1	226.7	15.1	1.6	1.8	2.6	2.0
Other private trans. commodities 1/	.796	195.8	196.7	14.3	.5	.8	1.9	.5
Other private trans. services	3.550	232.6	236.8	15.3	1.8	2.1	2.8	2.3
Public transportation 1/	.940	229.7	232.9	19.9	1.4	1.0	1.6	1.4
Medical care	4.372	263.1	264.9	12.1	.7	.9	.8	.6
Medical care commodities	.731	166.0	167.2	9.1	.7	.9	.9	.6
Medical care services 1/	3.641	284.3	286.5	12.7	.6	.9	.9	.6
Professional services 1/	1.843	251.2	253.5	12.5	.9	.9	1.4	.9
Other medical care services 1/	1.798	323.3	326.5	13.0	.4	.7	.3	.4
Entertainment	3.556	201.3	202.4	8.2	.5	1.6	.2	.3
Entertainment commodities	2.248	202.8	203.4	8.9	.3	1.5	1.0	.3
Entertainment services 1/	1.308	199.9	201.8	7.1	1.0	1.6	.4	1.0
Other goods and services	4.033	209.2	210.6	8.7	.7	.4	.9	.8
Tobacco products 1/	1.304	198.9	200.5	7.6	.8	.2	.2	.8
Personal care 1/	1.684	209.5	210.9	8.9	.7	.5	.9	.7
Toilet goods and personal care appliances 1/	.796	201.8	203.9	8.6	1.0	.7	1.1	1.0
Personal care services 1/	.888	217.2	218.1	9.2	.4	.4	.6	.4
Personal and educational expenses	1.046	228.7	229.4	9.6	.3	.5	.6	.3
School books and supplies	.156	210.9	210.9	8.6	.0	.7	.6	.6
Personal and educational services	.890	233.4	234.2	9.7	.3	.5	.6	.8
Commodity and service group								
All items	100.000	242.6	245.1	14.4	1.0	1.4	1.0	0.9
Commodities	41.878	230.1	231.7	12.4	.7	1.2	.9	.5
Food and beverages	20.353	243.2	244.7	7.2	.6	.9	.7	.5
Commodities less food and beverages	41.524	220.6	222.3	15.1	.8	1.5	.5	.3
Nondurables less food and beverages	18.898	241.7	243.6	23.4	.4	2.4	.5	.2
Apparel commodities	4.489	169.5	169.8	5.7	.2	1.7	.1	-.2
Nondurables less food, beverages, and apparel	14.343	281.4	282.7	29.6	.5	2.7	.7	.3
Durables	22.692	203.3	205.4	8.7	1.0	.3	.6	.6
Services	38.122	265.8	269.9	17.5	1.5	1.6	1.6	1.7
Rent, residential 1/	4.982	186.9	188.7	8.6	1.0	.5	.3	1.0
Household services less rent	19.677	315.8	322.2	23.4	2.0	2.5	2.0	2.1
Transportation services	6.111	238.0	241.5	14.7	1.5	1.5	2.2	1.8
Medical care services 1/	3.641	284.3	286.5	12.7	.6	.9	.8	.6
Other services	3.711	214.6	216.5	9.3	.9	1.1	.6	1.0
Special indexes:								
All items less food	80.763	240.2	242.9	16.2	1.1	1.5	1.0	1.0
All items less shelter	71.962	232.4	234.2	12.1	.8	1.3	.6	.6
All items less mortgage interest costs	91.812	232.4	234.3	12.1	.8	1.1	.7	.6
All items less home purchase and mortgage interest costs	82.675	231.0	232.9	11.8	.8	1.3	.7	.6
All items less medical care	95.628	241.2	243.7	14.5	1.0	1.4	1.0	.9
Commodities less food	42.641	218.9	220.5	15.0	.7	1.3	.5	.4
Nondurables less food	19.948	236.7	237.7	22.5	.4	2.3	.5	.2
Nondurables less food and apparel	15.459	268.7	270.0	28.0	.5	2.6	.7	.3
Nondurables	39.130	243.3	244.4	14.7	.5	1.4	.5	.4
Services less rent	33.140	280.8	285.4	18.9	1.6	2.0	1.8	1.7
Services less medical care 1/	34.481	261.9	266.3	18.0	1.7	1.8	1.6	1.7
Energy	11.115	363.3	367.3	40.1	1.1	3.1	.8	.6
All items less energy	88.885	232.7	235.1	11.5	1.0	1.2	1.1	.9
All items less food and energy	69.648	227.5	230.0	12.7	1.1	1.2	1.2	1.0
Commodities less food and energy	34.900	196.9	198.6	8.3	.9	.7	.6	.6
Energy commodities	7.740	404.0	404.7	51.4	.2	3.9	.3	-.3
Services less energy	34.747	264.2	267.8	17.5	1.4	1.8	1.6	1.5
Purchasing power of the consumer dollar:								
1967=$1.00 1/	-	$.412	$.408	-12.6	-1.0	-1.4	-1.2	-1.0
1957-59=$1.00 1/	-	.354	.351	--	-	-	-	-

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

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TABLE 5. Consumer Price Index for urban wage earners and clerical workers: Seasonally adjusted U.S. city average, by expenditure category and commodity and service group, 1967=100

Group	Seasonally adjusted indexes				Seasonally adjusted annual rate percent change for-					
					3 months ending in				6 months ending in	
	Feb. 1980	Mar. 1980	Apr. 1980	May 1980	Aug. 1979	Nov. 1979	Feb. 1980	May 1980	Nov. 1979	May 1980
Expenditure category										
All items	-	-	-	-	13.3	13.3	17.3	13.6	13.3	15.5
Food and beverages	238.8	241.0	242.6	243.7	3.6	10.3	6.3	8.5	6.9	7.4
Food	245.0	247.3	248.8	249.9	3.5	10.2	6.1	8.2	6.8	7.2
Food at home	240.6	242.9	244.2	244.9	.3	10.8	4.4	7.3	5.4	5.9
Cereals and bakery products 1/	237.4	239.3	242.2	244.4	14.2	10.4	14.1	12.3	12.3	13.2
Meats, poultry, fish, and eggs	236.4	237.6	234.8	230.0	-21.9	12.0	6.9	-10.4	-6.5	-2.1
Dairy products	218.5	220.9	223.1	227.1	12.7	9.6	5.5	16.7	11.2	11.0
Fruits and vegetables	222.6	226.7	234.9	240.9	26.0	4.9	-21.5	37.2	14.9	3.8
Sugar and sweets 1/	297.1	314.1	320.8	328.0	6.4	2.9	23.4	48.6	4.6	35.4
Fats and oils	238.6	240.2	239.7	240.3	6.0	6.3	11.7	2.9	6.1	7.2
Nonalcoholic beverages	385.7	385.6	386.9	388.0	15.8	21.3	11.8	2.4	18.6	7.0
Other prepared foods	220.6	223.1	225.7	229.1	10.9	7.8	9.6	16.3	9.3	12.9
Food away from home	260.4	262.7	264.8	266.8	11.0	9.5	11.5	10.2	10.3	10.9
Alcoholic beverages	181.5	182.6	184.6	186.3	6.2	9.8	8.1	11.0	8.0	9.5
Housing	250.6	254.6	258.1	262.0	16.4	16.9	18.1	19.5	16.6	18.8
Shelter	268.6	273.2	277.8	282.3	17.0	22.1	20.4	22.0	19.6	21.2
Rent, residential 1/	185.5	186.4	186.9	188.7	8.6	10.8	8.2	7.1	9.7	7.6
Other rental costs	256.1	258.1	260.5	261.7	11.1	14.8	21.2	9.0	12.9	14.9
Homeownership	298.6	304.7	310.8	316.3	19.2	25.0	23.1	25.9	22.1	24.5
Home purchase 1/	243.0	243.8	246.5	249.8	18.4	20.2	9.2	11.7	19.3	10.4
Financing, taxes, and insurance	372.0	385.6	397.3	407.3	23.0	35.6	39.7	43.7	29.2	41.7
Maintenance and repairs	275.4	279.0	282.3	283.8	11.0	9.5	14.2	12.8	10.3	13.5
Maintenance and repair services	300.8	304.7	308.6	309.7	11.2	9.6	15.7	12.4	10.4	14.0
Maintenance and repair commodities 1/	219.5	222.3	224.3	226.5	10.2	9.1	11.5	13.4	9.6	12.4
Fuel and other utilities 1/	264.4	268.7	271.0	276.4	28.8	7.8	20.4	19.4	17.9	19.9
Fuels 1/	327.0	333.9	337.6	346.0	42.1	9.8	28.9	25.3	24.9	27.1
Fuel oil, coal, and bottled gas 1/	540.3	554.1	557.1	557.1	109.7	40.8	63.0	13.0	71.8	35.7
Gas (piped) and electricity 1/	278.5	283.9	287.6	297.5	26.3	.9	18.2	30.2	12.9	24.1
Other utilities and public services 1/	161.4	161.9	162.3	163.1	1.8	2.8	1.2	4.3	2.3	2.8
Household furnishings and operation	197.0	199.0	200.4	201.6	5.0	6.2	8.6	9.7	5.6	9.1
Housefurnishings	168.2	170.1	171.0	171.9	3.8	4.2	7.5	9.1	4.0	8.3
Housekeeping supplies 1/	232.8	235.5	238.1	241.2	4.1	9.5	11.2	15.2	6.8	13.2
Housekeeping services 1/	261.1	262.7	264.3	265.6	9.3	9.1	8.4	7.1	9.2	7.7
Apparel and upkeep	173.0	176.0	176.5	176.7	2.4	6.4	9.5	8.8	4.4	9.2
Apparel commodities	166.8	169.7	169.9	169.6	1.5	5.8	8.6	6.9	3.6	7.7
Men's and boys' apparel	164.2	166.2	167.3	168.2	4.3	3.8	2.0	10.1	4.0	6.0
Women's and girls' apparel	153.9	157.1	155.9	154.4	-4.1	.3	8.5	1.3	-2.0	4.8
Infants' and toddlers' apparel 1/	232.7	237.3	241.1	242.8	1.1	8.3	7.2	18.5	4.6	12.7
Footwear	184.6	186.5	187.5	188.5	6.8	10.5	6.1	8.7	8.7	7.4
Other apparel commodities 1/	191.8	197.8	198.5	197.4	7.1	24.5	29.5	12.2	15.5	20.5
Apparel services 1/	219.8	223.5	226.0	230.8	8.3	10.7	15.5	21.6	9.5	18.5
Transportation	242.8	246.9	248.5	249.1	23.4	13.6	33.7	10.8	18.4	21.7
Private transportation	243.1	247.3	248.8	249.3	23.8	12.8	34.1	10.6	18.2	21.8
New cars	174.0	174.9	177.7	179.6	8.2	2.4	10.8	13.5	5.3	12.1
Used cars	204.7	202.3	198.8	195.4	-3.5	1.8	8.6	-17.0	-.9	-5.0
Gasoline	363.2	379.9	379.7	377.5	79.5	32.7	94.9	14.2	54.3	49.2
Maintenance and repair	258.7	260.4	263.5	265.6	10.7	8.9	11.8	11.1	9.8	11.4
Other private transportation	212.4	216.3	221.9	226.3	12.1	8.4	12.4	28.9	10.2	20.3
Other private trans. commodities 1/	191.7	193.2	195.8	196.7	9.6	18.9	18.1	10.8	14.2	14.4
Other private trans. services	220.0	224.6	231.0	236.3	12.7	6.0	11.1	33.1	9.3	21.6
Public transportation 1/	223.9	226.1	229.7	232.9	13.8	29.5	19.8	17.1	21.4	18.4
Medical care	258.7	260.9	263.0	264.7	11.5	11.2	16.3	9.6	11.3	12.9
Medical care commodities	162.7	164.2	165.7	166.7	9.5	6.6	10.2	10.2	8.0	10.2
Medical care services 1/	279.8	282.2	284.5	286.3	11.8	12.2	17.4	9.6	12.0	13.4
Professional services 1/	245.5	247.8	251.2	253.5	10.7	8.6	17.3	13.7	9.6	15.5
Other medical care services 1/	322.1	324.4	325.3	326.5	13.2	15.9	17.6	5.6	14.5	11.4
Entertainment	196.3	199.4	200.9	202.0	5.2	7.6	7.9	12.1	6.4	10.0
Entertainment commodities	197.1	200.1	202.2	202.8	5.5	7.4	10.8	12.1	6.4	11.5
Entertainment services 1/	196.0	199.1	199.9	201.8	4.8	7.8	3.5	12.4	6.2	7.9
Other goods and services	207.5	208.3	209.4	211.0	8.1	6.8	12.7	6.9	7.4	9.8
Tobacco products 1/	198.3	198.6	198.9	200.5	8.4	2.8	15.2	4.5	5.5	9.7
Personal care 1/	206.6	207.7	209.5	210.9	8.3	6.0	12.7	8.6	7.1	10.6
Toilet goods and personal care appliances 1/	198.3	199.6	201.8	203.9	5.4	4.7	12.8	11.8	5.1	12.3
Personal care services 1/	215.0	215.8	217.2	218.1	10.8	7.2	12.8	5.9	9.0	9.3
Personal and educational expenses	227.0	228.1	229.5	231.2	7.4	13.9	9.7	7.6	10.6	8.7
School books and supplies	208.5	209.9	211.1	212.4	9.1	5.9	11.9	7.7	7.5	9.8
Personal and educational services	231.8	232.9	234.3	236.1	7.1	15.2	9.1	7.6	11.1	8.4
Commodity and service group										
All items	-	-	-	-	13.3	13.3	17.3	13.6	13.3	15.5
Commodities	226.4	229.1	230.3	231.1	12.6	12.0	16.8	8.6	12.3	12.6
Food and beverages	238.8	241.0	242.6	243.7	3.6	10.3	6.3	8.5	6.9	7.4
Commodities less food and beverages	217.3	220.1	221.1	221.8	17.5	13.0	22.6	8.5	15.2	15.4
Nondurables less food and beverages	235.3	241.0	242.2	242.8	30.4	13.8	38.0	13.4	21.8	25.1
Apparel commodities	166.8	169.7	169.9	169.6	1.5	5.8	8.6	6.9	3.6	7.7
Nondurables less food, beverages, and apparel	272.9	280.4	282.5	283.3	40.5	18.1	46.6	16.1	28.8	30.5
Durables	201.5	202.2	203.5	204.8	9.0	9.9	9.7	6.7	9.5	8.2
Services	257.2	261.8	266.0	270.4	14.3	15.1	18.3	22.2	14.7	20.2
Rent, residential 1/	185.5	186.4	186.9	188.7	8.6	10.8	8.2	7.1	9.7	7.6
Household services less rent	302.8	310.4	316.7	323.3	18.4	19.6	26.0	30.0	19.0	28.0
Transportation services	228.2	231.7	236.9	241.1	12.3	10.0	12.5	24.6	11.1	18.4
Medical care services 1/	279.8	282.2	284.5	286.3	11.8	12.2	17.4	9.6	12.0	13.4
Other services	211.2	213.5	214.8	216.9	7.2	9.9	9.0	11.2	8.5	10.1
Special indexes:										
All items less food	234.6	238.1	240.5	242.8	15.8	14.0	20.7	14.7	14.9	17.7
All items less shelter	228.0	230.9	232.4	233.7	11.8	10.1	16.4	10.4	10.9	13.4
All items less mortgage interest costs	228.1	230.7	232.4	233.8	12.2	11.2	14.3	10.4	11.7	12.3
All items less home purchase and mortgage interest costs	226.6	229.5	231.0	232.4	11.6	10.1	14.8	10.6	10.9	12.7
All items less medical care	235.8	239.1	241.4	243.5	13.4	13.2	17.9	13.7	13.3	15.8
Commodities less food	215.5	218.2	219.3	220.1	17.1	12.8	22.1	8.8	15.0	15.3
Nondurables less food	230.6	236.0	237.2	237.7	28.6	13.8	36.1	12.9	21.0	24.0
Nondurables less food and apparel	260.9	267.6	269.5	270.3	37.5	17.5	43.9	15.2	27.1	28.8
Nondurables	238.1	241.9	243.1	244.1	15.5	12.5	20.8	10.5	14.0	15.5
Services less rent	270.8	276.1	281.1	286.0	15.1	15.8	20.1	24.4	15.4	22.2
Services less medical care 1/	253.1	257.7	261.9	266.3	15.5	15.7	18.5	22.6	15.6	20.5
Energy	351.5	362.5	365.5	367.7	60.8	23.6	61.5	19.7	41.0	39.1
All items less energy	227.5	230.2	232.7	234.9	8.8	11.8	12.1	13.7	10.3	12.9
All items less food and energy	222.5	225.1	227.7	230.0	10.2	12.0	14.9	14.2	11.1	14.5
Commodities less food and energy	194.5	195.9	197.1	198.2	7.4	8.0	10.3	7.8	7.7	9.0
Energy commodities	390.7	406.0	407.3	405.9	82.2	32.2	87.0	16.5	55.2	47.6
Services less energy	255.6	260.2	264.4	268.3	13.2	16.5	18.5	21.4	14.9	19.9

1/ Not seasonally adjusted.
NOTE: Index applies to a month as a whole, not to any specific date.

TABLE 6. Consumer Price Index for urban wage earners and clerical workers: Selected areas, all items index, 1967=100 unless otherwise noted

Area 1/	Pricing schedule 2/	Other index base	Indexes Feb. 1980	Mar. 1980	Apr. 1980	May 1980	Percent change to May 1980 from- May 1979	Mar. 1980	Apr. 1980	Percent change to Apr. 1980 from- Apr. 1979	Feb. 1980	Mar. 1980
U.S. city average			236.5	239.9	242.6	243.1	12.8	2.2	1.0	14.5	2.6	1.1
Chicago, Ill.-Northwestern Ind.	M		232.5	235.2	239.8	243.0	15.9	3.3	1.3	15.2	3.1	2.0
Detroit, Mich.	M		239.9	242.4	248.0	248.9	16.3	2.7	.4	16.3	3.4	2.3
L.A.-Long Beach, Anaheim, Calif.	M		240.0	243.9	247.8	252.6	18.9	3.6	1.9	18.7	3.3	1.6
N.Y., N.Y.-Northeastern N.J.	M		227.7	230.8	232.4	234.1	11.3	1.4	.7	11.7	2.1	.7
Philadelphia, Pa.-N.J.	M		231.6	235.1	237.9	239.9	13.5	2.0	.8	13.8	2.7	1.2
Anchorage, Alaska	1	10/67	-	220.2	-	223.1	10.2	1.3	-	-	-	-
Baltimore, Md.	1		-	243.9	-	247.8	14.7	1.6	-	-	-	-
Boston, Mass.	1		-	234.2	-	236.8	13.5	1.1	-	-	-	-
Cincinnati, Ohio-Ky.-Ind.	1		-	249.7	-	252.9	13.4	1.3	-	-	-	-
Denver-Boulder, Colo.	1		-	259.4	-	262.4	12.5	1.2	-	-	-	-
Miami, Fla.	1	11/77	-	128.8	-	130.9	15.0	1.6	-	-	-	-
Milwaukee, Wis.	1		-	247.8	-	255.2	16.3	3.0	-	-	-	-
Northeast Pennsylvania	1		-	231.3	-	235.8	12.5	1.9	-	-	-	-
Portland, Oreg.-Wash.	1		-	251.7	-	255.9	15.3	1.7	-	-	-	-
St. Louis, Mo.-Ill.	1		-	238.5	-	242.6	15.4	1.7	-	-	-	-
San Diego, Calif.	1		-	255.6	-	264.8	17.1	3.6	-	-	-	-
Seattle-Everett, Wash.	1		-	241.3	-	246.8	17.0	2.3	-	-	-	-
Washington, D.C.-Md.-Va.	1		-	239.2	-	242.0	11.1	1.2	-	-	-	-
Atlanta, Ga.	2		233.5	-	239.3	-	-	-	-	14.9	2.5	-
Buffalo, N.Y.	2		227.9	-	233.3	-	-	-	-	12.6	2.4	-
Cleveland, Ohio	2		244.1	-	248.4	-	-	-	-	14.9	1.8	-
Dallas-Fort Worth, Tex.	2		240.9	-	249.6	-	-	-	-	16.1	3.6	-
Honolulu, Hawaii	2		221.3	-	228.4	-	-	-	-	14.2	3.2	-
Houston, Tex.	2		251.9	-	257.3	-	-	-	-	13.0	2.1	-
Kansas City, Mo.-Kans.	2		236.6	-	242.2	-	-	-	-	14.8	2.4	-
Minneapolis-St.Paul, Minn.-Wis.	2		239.6	-	245.7	-	-	-	-	13.8	2.5	-
Pittsburgh, Pa.	2		235.9	-	242.2	-	-	-	-	14.1	2.7	-
San Francisco-Oakland, Calif.	2		240.0	-	242.8	-	-	-	-	16.0	1.2	-
Region 3/												
Northeast	2	12/77	123.7	-	126.8	-	-	-	-	13.2	2.5	-
North Central	2	12/77	128.3	-	131.6	-	-	-	-	14.3	2.6	-
South	2	12/77	127.5	-	130.8	-	-	-	-	14.5	2.6	-
West	2	12/77	129.8	-	133.2	-	-	-	-	16.7	2.6	-
Population size class 3/												
A-1	2	12/77	125.7	-	129.1	-	-	-	-	14.7	2.7	-
A-2	2	12/77	128.1	-	131.1	-	-	-	-	14.9	2.3	-
B	2	12/77	128.2	-	131.8	-	-	-	-	13.8	2.8	-
C	2	12/77	127.6	-	130.8	-	-	-	-	14.1	2.5	-
D	2	12/77	126.1	-	128.8	-	-	-	-	13.3	2.1	-
Region/population size class cross classification 3/												
Northeast/A	2	12/77	122.1	-	124.9	-	-	-	-	12.6	2.3	-
North Central/A	2	12/77	129.8	-	133.4	-	-	-	-	13.4	2.8	-
South/A	2	12/77	127.4	-	130.8	-	-	-	-	14.6	2.7	-
West/A	2	12/77	130.0	-	133.4	-	-	-	-	17.7	2.6	-
Northeast/B	2	12/77	125.3	-	128.8	-	-	-	-	13.8	2.8	-
North Central/B	2	12/77	128.4	-	132.0	-	-	-	-	14.1	2.8	-
South/B	2	12/77	127.9	-	131.6	-	-	-	-	15.1	2.9	-
West/B	2	12/77	130.9	-	134.6	-	-	-	-	16.5	2.8	-
Northeast/C	2	12/77	128.8	-	132.6	-	-	-	-	15.1	3.0	-
North Central/C	2	12/77	125.6	-	128.3	-	-	-	-	12.8	2.1	-
South/C	2	12/77	128.2	-	131.7	-	-	-	-	14.6	2.7	-
West/C	2	12/77	128.4	-	131.5	-	-	-	-	14.6	2.4	-
Northeast/D	2	12/77	125.1	-	128.0	-	-	-	-	13.0	2.3	-
North Central/D	2	12/77	126.2	-	129.1	-	-	-	-	12.7	2.3	-
South/D	2	12/77	125.9	-	128.3	-	-	-	-	13.4	1.9	-
West/D	2	12/77	127.3	-	130.1	-	-	-	-	14.8	2.2	-

1/ Area is generally the Standard Metropolitan Statistical Area (SMSA), exclusive of farms. L.A.-Long Beach, Anaheim, Calif. is a combination of two SMSA's, and N.Y., N.Y.-Northeastern N.J. and Chicago, Ill.-Northwestern Ind. are the more extensive Standard Consolidated Areas. Area definitions are those established by the Office of Management and Budget in 1973, except for Denver-Boulder, Colo. which does not include Douglas County. Definitions do not include revisions made since 1973.

2/ Foods, fuels, and several other items priced every month in all areas; most other goods and services priced as indicated:
M - Every month.
1 - January, March, May, July, September, and November.
2 - February, April, June, August, October, and December.

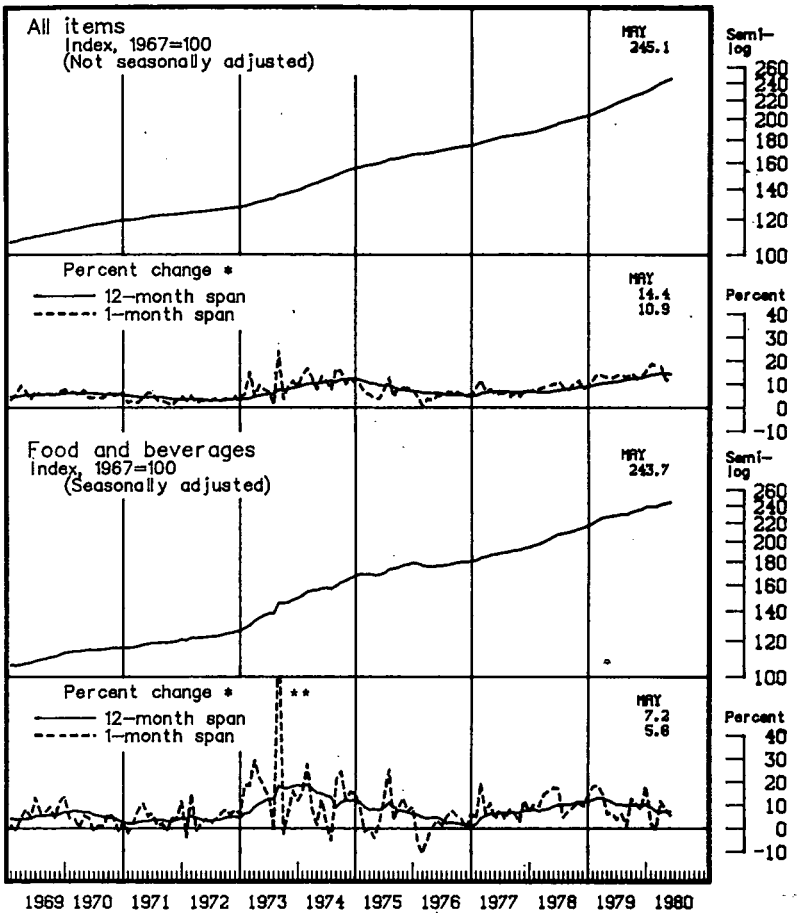
3/ Regions are defined as the four Census regions.
The population size classes are aggregations of areas which have urban population as defined below:

A-1	More than 4,000,000.
A-2	1,250,000 to 4,000,000.
B	385,000 to 1,250,000.
C	75,000 to 385,000.
D	Less than 75,000.

Population size class A is the aggregation of population size classes A-1 and A-2.

NOTE: Price changes within areas are found in the Consumer Price Index; differences in living costs among areas are found in Family Budgets.

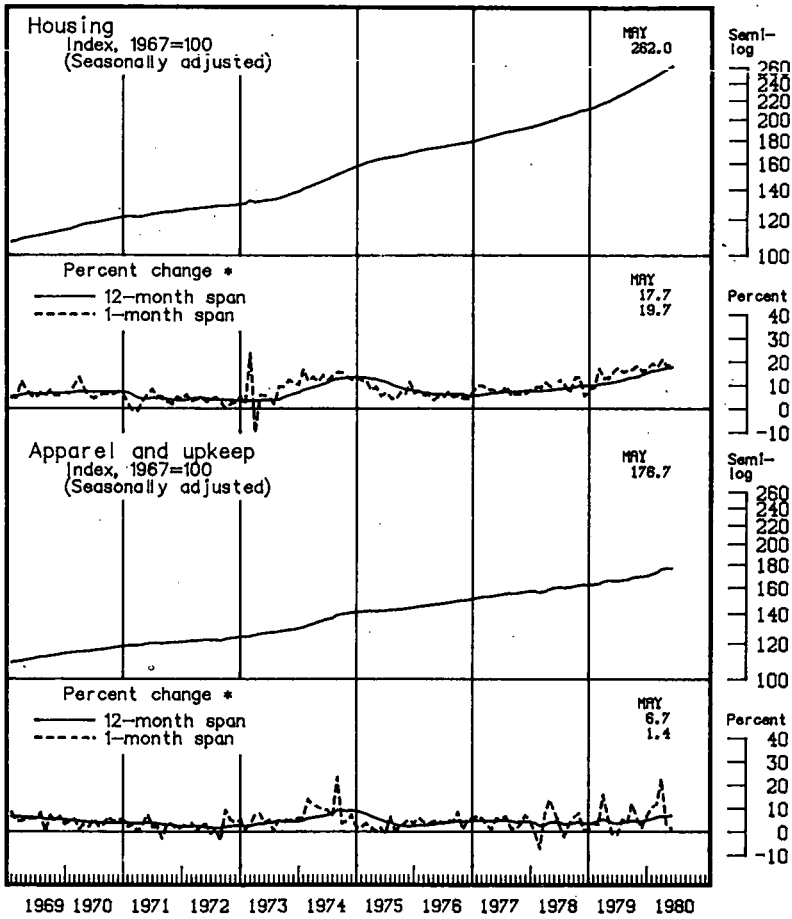
CHART 1: CPI-W: All items, food and beverages, 1969-80



* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

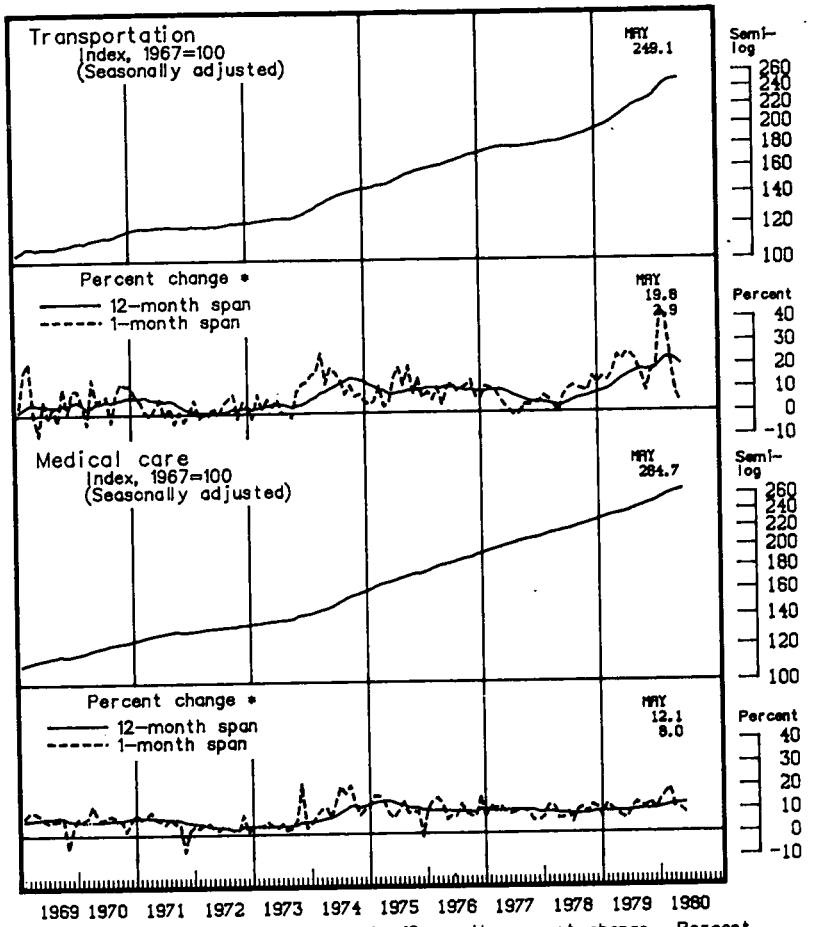
** August 1973 = 92 percent

CHART 2: CPI–W: Housing, apparel and upkeep, 1969–80



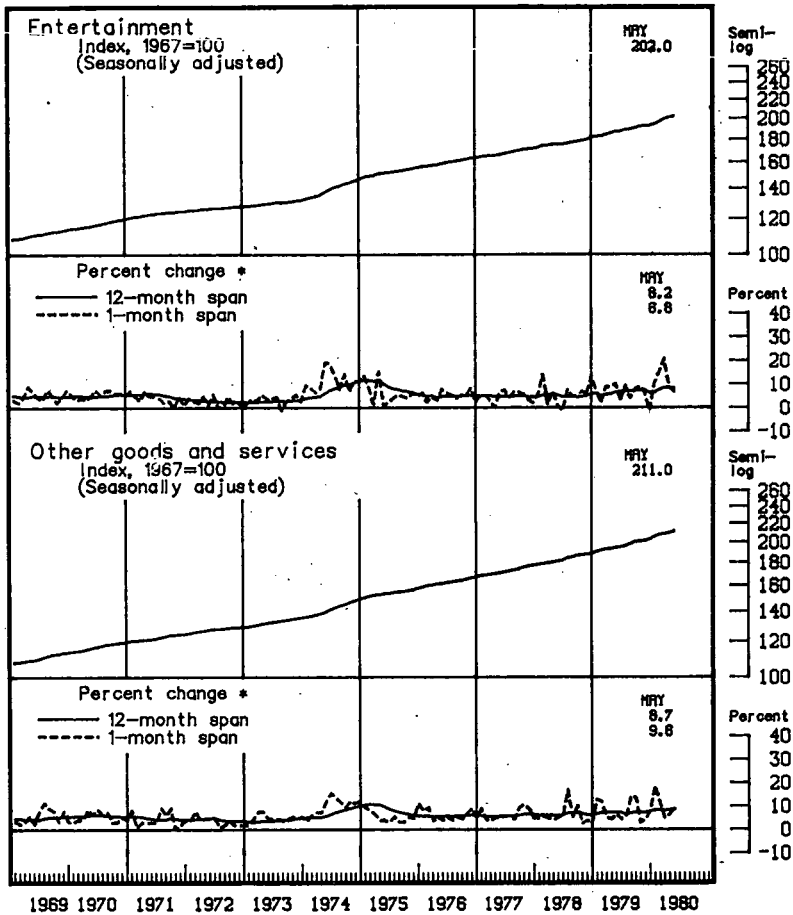
* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

CHART 3: CPI-W: Transportation and medical care, 1969-80



* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

CHART 4: CPI–W: Entertainment, other goods and services, 1969–80



* Unadjusted data used to calculate 12-month percent change. Percent changes over 1-month spans are annual rates calculated from seasonally adjusted data.

Table C. HOMEOWNERSHIP COMPONENTS used in official CPI-U and in experimental measures: Percent change over 12 months

12 months ended	Official Consumer Price Index for All Urban Consumers (CPI-U)	Experimental measures of homeownership				
		Flow-of-services measures			Outlays measures	
		X-1 Rental equivalence using CPI rent	X-2 User cost using current interest cost	X-3 User cost using average interest cost	X-4 Outlays using current interest cost	X-5 Outlays using average interest cost
December:						
1968	7.6	2.8	11.0	8.0	11.0	6.0
1969	10.2	3.8	7.1	3.5	13.2	8.3
1970	10.2	4.5	4.2	1.7	12.6	10.1
1971	2.7	3.8	-12.1	-8.9	0.3	7.7
1972	4.1	3.5	2.4	3.2	4.8	6.2
1973	7.7	4.9	23.0	18.9	10.8	4.4
1974	13.3	5.4	16.9	12.9	14.9	9.1
1975	7.9	5.2	2.8	3.4	7.1	9.0
1976	3.8	5.5	-1.1	1.9	2.7	7.6
1977	9.2	6.5	2.5	0.4	10.4	9.0
1978	12.4	7.3	5.7	-1.1	12.0	5.3
June 1979	14.9	6.8	14.2	6.3	15.0	6.4
July 1979	15.2	7.1	16.7	9.4	15.3	6.8
August 1979	16.0	7.5	20.1	13.2	15.9	7.0
September 1979	16.1	7.6	18.3	11.5	16.4	7.5
October 1979	16.8	8.4	22.2	15.5	17.2	7.8
November 1979	18.3	8.1	24.5	16.3	19.0	7.9
December 1979	19.8	7.9	28.2	20.5	22.6	11.2
January 1980	21.1	8.1	30.7	22.0	24.4	11.5
February 1980	20.6	8.5	31.2	23.3	24.5	12.1
March 1980	21.7	8.9	38.0	29.7	26.5	12.7
April 1980	22.2	8.7	42.3	33.1	27.7	12.9
May 1980	22.8	8.7	42.8	33.9	28.3	13.3
Relative Importance December 1977	22.8	14.5	11.4	10.0	10.0	8.7

Table D. Official ALL-ITEMS CPI-U and EXPERIMENTAL MEASURES using alternative homeownership components: Percent change over 12 months

12 months ended	Official Consumer Price Index for All Urban Consumers (CPI-U)	Experimental measures using alternative homeownership components				
		Flow-of-services measures			Outlays measures	
		X-1 Rental equivalence using CPI rent	X-2 User cost using current interest cost	X-3 User cost using average interest cost	X-4 Outlays using current interest cost	X-5 Outlays using average interest cost
December:						
1968	4.7	3.9	4.9	4.6	4.7	4.2
1969	6.1	5.2	5.6	5.2	6.0	5.7
1970	5.5	4.5	4.5	4.2	5.2	4.9
1971	3.4	3.5	1.6	2.2	3.2	3.8
1972	3.4	3.3	3.2	3.3	3.4	3.5
1973	8.8	8.5	10.4	10.0	9.2	8.7
1974	12.2	11.1	12.6	12.1	12.3	11.8
1975	7.0	6.6	6.4	6.4	6.8	6.9
1976	4.8	5.1	4.3	4.7	4.8	5.2
1977	6.8	6.3	5.9	5.7	6.6	6.5
1978	9.0	7.9	7.8	7.1	8.5	7.8
June 1979	10.9	9.3	10.2	9.4	10.3	9.4
July 1979	11.3	9.7	10.9	10.1	10.7	9.9
August 1979	11.8	10.1	11.5	10.7	11.0	10.2
September 1979	12.1	10.4	11.7	10.9	11.5	10.6
October 1979	12.2	10.5	12.2	11.3	11.5	10.6
November 1979	12.6	10.5	12.5	11.4	11.8	10.6
December 1979	13.3	10.8	13.2	12.1	12.5	11.3
January 1980	13.9	11.2	13.9	12.7	13.1	11.7
February 1980	14.1	11.6	14.3	13.1	13.4	12.1
March 1980	14.7	12.0	15.5	14.1	13.9	12.5
April 1980	14.7	11.7	15.7	14.2	13.8	12.3
May 1980	14.4	11.4	15.4	13.9	13.5	11.9

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Explanations of Homeownership Measures

Official CPI-II includes five components. (1) The weights for property taxes, property insurance, and home maintenance and repairs represent expenditures of all homeowers in the base period. The weights for house prices and contracted mortgage interest cost represent only those homeowners who actually purchased a home in the base period. Included are the total price paid for the home and the total amount of interest expected to be paid over half the stated life of the mortgage. (2) Current monthly prices are used for each of these components.

Experimental Measure X-1: (1) The weight for this rental equivalence measure is the estimate of the rental value of all owner-occupied homes in the base period compiled from a specific question asked on the 1972-73 Consumer Expenditure Survey. This covers the entire stock of owned homes. (2) Prices used are the current rents collected for the residential rent component of the CPI. The CPI rent component is designed to represent changes in residential rents for all types of housing units, not just changes in rents for units that are typically owner occupied. The CPI rent component is, therefore, not appropriate for this measure.

Experimental Measure X-2: (1) The weight for this user cost method includes expenditures for mortgage interest, property taxes, property insurance, maintenance and repairs, the estimated base-period cost of homeowners' equity in their houses, and the offset to shelter costs resulting from the estimated appreciation of house values in the base period. This measure covers the entire stock of owned houses. To derive the weights for mortgage interest costs and equity costs, the total value of the housing stock in the base period was apportioned into its debt and equity components. The debt component equals the amount owed, and the equity component is the amount owned, i.e., payments on principal plus appreciation from the time of purchase to the base period. Each component was subsequently multiplied by the average mortgage interest rate in the base period to determine its cost. (2) Prices used are current ones except for the appreciation term which uses a 5-year moving average of the changes in appreciation rates.

Experimental Measure X-3: (1) The weights are the same as in Experimental Measure X-2, except that mortgage interest costs are calculated as the total interest amount *paid out* by homeowners in the base period. As in X-1 and in X-2, this measure covers the entire homeowner population. (2) The prices for all components except mortgage interest costs and appreciation are current monthly prices. As in X-2, appreciation is represented by a 5-year moving average of the changes in house prices. However, X-3 uses past and current mortgage interest costs in a 15-year weighted moving average, which reflects the base period age distribution of mortgage loans.

Experimental Measure X-4: (1) The weights for this outlays approach include expenditures actually made in the base period for property taxes, property insurance, and maintenance and repairs. The weight for the mortgage interest term is calculated in the same manner as in X-2. However, no appreciation or equity terms are included. Not all homeowners are represented in this measure because those who made no mortgage debt payment in the base period are excluded. (2) The prices used for each of these items are current ones.

Experimental Measure X-5: (1) The weights for this outlays approach include, as in X-4, expenditures actually made in the base period for property taxes, property insurance, and maintenance and repairs. The weight for the mortgage interest cost term is the same as for the X-3. No appreciation or equity elements are used. As in X-4, not all homeowners are represented in this measure because those who made no mortgage debt payment in the base period are excluded. (2) Current prices are used in X-5 except for mortgage interest which uses the 15-year weighted moving average also used in the X-3.

Senator BENTSEN. Congressman Wylie, would you like to make a comment?

Representative WYLIE. Thank you very much, Mr. Chairman. I will have some questions later on of Mr. Kahn.

Senator BENTSEN. Mr. Kahn, we're delighted to have you, and from the expression on your face, apparently what you have to say is going to be a little more pleasant than it has been in the months past.

STATEMENT OF HON. ALFRED E. KAHN, CHAIRMAN, COUNCIL ON WAGE AND PRICE STABILITY

Mr. KAHN. Well, having engaged in these masochistic exercises month after month for 15 months, I must say that it's something of a relief to come when it appears at long last that the Consumer Price Index is improving; though I must caution that there is still a long way to go.

I will be very brief about May. It's very much like April, as those numbers show. My own numbers, which I have to check, show that it's slightly better. I don't know which of us is suffering from rounding errors. Mine show a 10.9-percent annual rate for May as compared with 11.6 in April. That's a small matter when it's seasonally adjusted, but it clearly is a definite improvement from the 18.1-percent average that my number shows for the first quarter of this year.

It's satisfying also that it is very much as predicted and it is a portent of what we will see in the months immediately ahead.

I can't disagree with what you say about the misleading character of the Consumer Price Index as a picture either of what happens to the cost of consumption—because buying a house is not an act of consumption; it's an investment—or as an indication of what the cost of living is—because there's a huge component of the cost of living which is not included in the CPI, and that is the cost of mortgage payments on houses that I bought, or the majority of the people bought in the past. Nevertheless, we are getting something that is more nearly indicative of the kind of underlying rate of inflation with which we will be confronted in the months ahead.

Energy is now back down from the astronomical rates of the first quarter of the year. It is now running at annual rates of 10.9 percent in April and 10.1 percent in May. Food, once again, is playing a more helpful role than we are entitled to continue to rely on. Food is going to have to turn around. Food went up at an annual rate of only 6.5 percent in April. It went up only 3.9 percent annual rate in May.

Senator BENTSEN. The cost of production is going to force up the price.

Mr. KAHN. No doubt about it. Food at the farm is the main explanation, and over the last 3 months food at the farm went down at a 16.6-percent annual rate. That just can't last. Since December 1979, food at the farm has gone down at an annual rate of 20 percent. That can't last, and we expect it will turn around.

But on the other side, mortgage interest still reflects that curious lag. Mortgage interest costs went up 3.6 percent in April. That's 1 month. That's not the annual rate. In May they went up 3 percent. So we still have that curious lag, because it is still reflecting the termination of contracts—the settling—rather than the reduction in current mortgage interest rates.

While food might clearly be expected to turn around, mortgage interest rates will almost certainly take the CPI below 10 percent, and conceivably many points below. It may not appear in June, but there's no doubt it will appear in July.

I certainly agree with what you said at the beginning, Mr. Chairman. The mortgage interest costs added maybe 4 points to the index in the first quarter of the year and they are misleading. They will now, by the time we get to July, conceivably take 4 points off, and they will be misleading in that direction. That may be an auspicious time, however, for us to think about the long run instead of, as in the first 3 months of the year, people rushing in and saying you can't change it now because you're trying to make it look better than it is, and people like me saying, "Please don't change it in July and August, when at last I'll reap the rewards of my suffering in the last year and a half." My message now is that one part of the long run is getting a better measure of what happens to people's cost of living, not necessarily changing the CPI.

We have in process, in response to a specific direction from Congress, a reexamination of how we may handle the indexing; both the question of what index you use and the second, more serious and longer term question of the whole treatment of entitlements in the budget.

So we seem on the verge of having the actual CPI fall markedly below the more enduring, and less tractible, underlying or core rate.

You will recall that if you estimate that rate by taking out home purchase, energy, food, used cars, it was really way below the CPI through the four quarters of 1979—7.5 percent, 7.2 percent, 8.1 percent, and 8.6 percent in the four quarters; roughly 7.5 for the first half of 1979, roughly 8.5 in the second half; and then it jumped up to 12.7 percent in the first quarter of 1980. Now it is definitely down.

I'm sorry that there's something weird about our figures; I was on the phone with Janet Norwood this morning and we can't straighten it out, but it appears as though that rate is definitely below 10 percent.

To take just a few more indications of the clear cooling down even in the basic rate, if you take all commodities and the CPI, in the last 5 months, month by month, they went up 1.4, 1.2, 1.2, 0.5, 0.3. So that's clearly going down. And if you take home purchase less mortgage interest costs, it was 0.7 in May, 0.6 in April, as compared with 1.2 in the first part of the year. So there's no difficulty in saying that if you take out these more volatile market determined factors we seem to be markedly below 10 percent.

It will probably fall slightly more in the months ahead because we still have some high costs—largely of energy—in the pipelines. The indications that it's going to fall are what's happened to the Producer Price Index. In April and May the Producer Price Index, leaving out energy, averaged a 2.3-percent annual increase. If you take out food as well, it's a 6.6-percent annual increase. In May it was just about zero. And if you look at crude materials, they are actually negative in the last 3 months in the Producer Price Index.

All that tells me is the following few things, and with this I will conclude my rather general introduction. We are going to find ourselves forced, as the CPI rate goes down below 10 percent, to confront the more enduring, underlying rate of something like 9.5 percent.

Pay increases seem still to be running at something like 9.5 percent annual rates. The productivity growth is zero. That means unit labor costs are still in the 9- to 10-percent range. We are uncertain about what the recession will do, but our experience in the past is not a cause for optimism. Besides which, we have to find a better way of restraining wage demands through productivity increases, a better way than recession. I can't ignore in this good news about the CPI the fact that the economy is slipping more and more deeply into recession, which certainly is an inefficient, not to say unjust, way of trying to restrain our total demands. So this is the time it seems to me for wage restraint.

We have to hope that wages will be based not on the CPI for the past 12 months, in an attempt to recover the 10.4-percent annual rate of incerase over the last 12 months, but instead on the current CPI and on what we expect the CPI to be in the future.

It is now time to begin thinking strenuously about the long run. That seems to me to have several pieces, most of which of course are familiar to you because we have been discussing them month after month, you and I.

One is surely that we have to develop a better, stronger social compact. I'm sorry to use that word. It's become something of a cliche, but some instrument of restraint on our money income demands. There still is that danger that with a recovery from recession, whenever it begins, that the basic inflation rate will spring up. The point is that we have to keep earning our present standard of living. We can't stand still. As we use up our domestic oil supplies, and other scarce raw materials, as we face a rising threat of competition from other countries, we cannot stand still and maintain our present standard of living. We have to progress in order to stand still. Certainly that has to include tax incentives for capital formation, as this committee has played the leadership in this country in arguing, but I think it means also that we must invest not just in improving our physical capital but in improving our technological and human capital. We have simply got to devote more resources to research and development and investment in human capital. We have to do even more to restore the discipline of the competitive market.

And finally, I regret that I don't know how to say this except in rather general terms, the attention to productivity and to product quality has got to move down to the level of the locality, the individual company, the individual plant, the individual worker. What we need is a partnership at every level of our society in attention to productivity at every one of those levels.

Whether this means more productivity councils, more profit sharing, or something else, I don't know; but it clearly must include a persistent effort, taking advantage of the tax incentives that I don't have any doubt will have to be provided, to make certain that we progress in this country. Because we're not going to be satisfied in this country with even a constant standard of living in the years ahead, and certainly not with a declining one.

I think perhaps that's enough as a beginning, Mr. Chairman, and I would be glad to answer any questions.

Senator BENTSEN. Mr. Kahn, I noticed yesterday that you stated that a tax cut was inevitable in 1981, but you also stated that you do not think that the administration would propose one this year.

It takes a while for Congress to consider these measures, and this should be an opportunity to do something about productivity in this country via the tax route, trying to encourage investment and buying new tools and equipment. So Congress ought to have some time to consider it.

Shouldn't we have a specific proposal this fall to review with the idea that we could work quickly in passing it at the beginning of 1981?

Mr. KAHN. I'm not sure that I'm in a position to answer that adequately, Mr. Chairman. The news that you saw of my statement yesterday, I regret to say, was a perfect piece of nonnews.

Senator BENTSEN. Let's see if we can make it news then. What size tax cut do you think we ought to have?

Mr. KAHN. I'm not really in a position to say. It seems clear to me that when the tax cut comes, it has to be of an order of magnitude of $20 billion, possibly $25 billion. It will have to be molded by at least three considerations.

One: Clearly, we have to start getting on the long-term path. I don't have any doubt about that. Clearly that means that we have to have incentives, a larger percentage than in the past, devoted to encouraging investment in technology and physical plant and equipment.

Senator BENTSEN. You have said one-half of it ought to go to improvement of productivity. That reflects the amendment that was added to the budget resolution that passed the Senate—it called for one-half of a tax cut going to increase productivity.

Do you think that point of view is going to be present in the administration's recommendation?

Mr. KAHN. I don't have any doubt that the administration, from conversations we have had over the last year on this subject, will propose a large component of business-targeted, investment-targeted cuts; I think we all recognize now that we have to give our workers better tools and plants to work with, as well as better technology. We haven't settled on a specific ratio.

The point I want to emphasize, Mr. Chairman, without in any way quarreling with you and without simply being loyal to the administration, is that there is a legitimate, inescapable consideration that the inflation problem—the short-term inflation problem—is still there. I did not disagree with the President's message of March 14. I felt that in the circumstances that we were confronting at that time, with almost hysterical fear of inflation in this country——

Senator BENTSEN. Mr. Kahn, I don't quarrel with you on that, but I also know that we have had over a $100 billion increased drag on this economy by varying factors—by the adding of the price of oil, by being bumped up into higher tax brackets, by fictitious earnings by corporations—all of that is a drag on the economy.

Mr. KAHN. That's right.

Senator BENTSEN. If a tax cut is targeted to increase productivity, what you're trying to do is put more products on the shelf more cheaply, and that's the way I think you ultimately beat inflation in this country and improve the standard of living for our people.

Mr. KAHN. I simply can't disagree with you at all. The fiscal drag and the oil drag are just getting bigger and bigger. The present budget levels of Government expenditures would give us a full employment

surplus in the $20 to $30 billion range, which will grow through the course of 1981. That fiscal drag is simply too great and that's what I meant when I said the tax cut was inevitable. Our tax system is so arranged that we absolutely must give back some portion of it every few years, and I certainly agree with you that we must seize that opportunity to direct a higher proportion than we have in the past to increase capital.

Senator BENTSEN. One other question and then I'll defer to Congressman Wylie.

As I look at these prime rates being charged by the banks today, I really think they are artificially high. They have taken a substantial drop, but nevertheless, with loan demand down as much as it is, I don't see that rates really reflecting big business. Big business goes to commercial paper. It goes to the European market. I think the prime rate is set on an arbitrarily high level, and small business and medium-sized business really pay that, because that rate is fixed in their loans. The bankers say, "We'll loan it to you at prime or half over prime or one over prime," but the big company isn't even paying prime. It's turning around and getting some discount or going to the European market or going to the commercial market to try to do it.

Mr. KAHN. You make me regret the fact that I did not have time over the weekend to read an analysis of this question that I've asked my staff to prepare for me. I remember when Congressman Reuss made this assertion, and I would be very happy to supply you with a copy of that analysis after I have been over it. I will do so in the next few days.

My impression is that that is and has always been the case; that is, that larger, more valued customers have always had access to a preferential rate, and that may be a piece of it.

A second piece is unquestionably that there is a lag in the prime rate, that that market is not a perfectly competitive market, to put it mildly.

Senator BENTSEN. Mr. Kahn, that prime rate used to be the rate that the big corporation paid. I don't believe that's the case any more.

Mr. KAHN. My understanding is that it's not.

Senator BENTSEN. By one means or another they're getting a lower rate than medium-seized business and small business.

Mr. KAHN. I'm sorry I haven't studied it sufficiently. I will be able to give you a good answer to that question and I will be glad to supply it to you. My understanding is the same as yours, but I hesitate giving you an answer on the record because I haven't looked at my staff's paper.

Senator BENTSEN. Congressman Wylie.

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

I think that your statement this morning is very important. As a matter of fact, I considered it so important that I flew back from Columbus to be with you.

I'm one of those—and I want to follow up on what Chairman Bentsen has said—who has concluded that we need to increase your productivity to get more output to meet demand and reduce prices which will help our unemployment problem and at the same time help overcome some of our problems with inflation. But to increase productivity we need somehow to increase capital investment.

There are several ways we can do that. We can do it through direct tax cuts for business, of course. We can do it through increased depreciation rates such as the so-called 10–5–3 plan. We can do it through increases in the permanent investment tax credit, which I'm inclined to favor, I might say.

From your point of view, to increase investment, to increase productivity in the U.S. economy, which option do you think is best for us right now?

I might say I asked that same question to a very distinguished panel last week, made up of Mr. Harold Williams, Chairman of the SEC; Mr. Stanton Williams, the chairman of the board of Pittsburgh Plate Glass and a member of the Business Round Table; Mr. Donald Kirk, chairman of the Finance Accountant Standard Board; Mr. Herman Liebling, whom you know, I'm sure; and Mr. Joseph Connor, chairman of Price Waterhouse.

They are inclined to the view that what we should do now is pass this 10–5–3 depreciation allowance in the near term since there seems to be legislative momentum for this particular approach.

Mr. KAHN. Our preference would be for either of the first two methods that you mentioned. That is to say, some mixture of accelerated depreciation and investment tax credit, at least as compared with general cuts of rates, because they seem by the economic studies that we have done and that we know of, to be more effective in inducing investment.

No. 2: We suspect that accelerated depreciation is a likely candidate for the major share of whatever cut happens in the near future; we think that will have a substantial payoff.

Third: I do want to emphasize again the importance of other parts of our capital. I mean particularly our technological capital. Studies by people like Dennison and others who have been looking into productivity history, analyzing its causes and changes, do not anticipate radical changes as a result of this kind of thing. We mustn't promise miracles. If we have a rather substantial improvement in the depreciation, it could conceivably produce by 1985 a 0.5, or, if it were really more substantial, even a 1 difference in the CPI. It's that order of magnitude or that order of magnitude of changing productivity.

On the 10–5–3, our analyses have been done mainly by the Treasury Department and the Council of Economic Advisers and our tendency is to feel that it produces rather substantial distortions, particularly on the side of very, very long-term investment, and therefore we think that it's possible to introduce accelerated depreciation plans which will be somewhat less costly and less distorted, more neutral between different kinds of investment. That's where we stand.

Representative WYLIE. Do you have a suggestion as to how it might be modified?

Mr. KAHN. Well, again, I would prefer to get you a more official answer.

Representative WYLIE. I wish you would. When we hear a panel like the one I mentioned a little while ago talking in terms of 10–5–3 and others saying that what we should do is to have a permanent investment tax credit increase right now, as I say, it does make it a little bit difficult for us in Congress to know just exactly what we should do.

You say that you think a tax cut in 1981 is virtually inevitable, and Chairman Bentsen attempted to elicit from you what type of a tax

cut you thought we should have and what magnitude, and you said $20 billion. Your opinion is, of course, very important to us. I happen to be one of those people who think that our first priority is to balance the budget and not by anticipated tax increases through the so-called bracket creep route, but to reduce Government spending, and that's where I have been most of the time since coming to Congress.

What form should the tax cut take? Should it be aimed at increasing savings and investments or should it be aimed at stimulating consumer demand?

Mr. KAHN. I think that it is going to have to have both components in it. Observe, for example, what is happening those days to business plans to spend on plant equipment and the orders they are placing. They are going down, though we think still modestly, and we think that's going to help moderate the recession. That's a reflection of the fact that you cannot put all your tax-cut eggs in the capital inducement basket. You have to look at demand as well. So it is not merely political that there's a balance between the two, but we do feel very strongly that the balance has got to be more on the investment side than before. As a kind of long-term development in our country, we've got to devote a larger proportion of our resources to that.

Again, I come back to reversing the long-term decline of expenditures on R. & D. as a percentage of our gross national product. As many members of the administration have said, the social security tax is particularly troublesome, though obviously then we run into the question of the sanctity of the trust funds, but it's troublesome because it adds to costs, and, therefore, if it were possible in some way to cushion that impact at the beginning of 1981, that would be desirable.

Fourth: I 've just got to reiterate this, that behavior of the CPI and that behavior of interest rates that we have been talking about—declines of 7, 8, and even 9 percent—represent in some considerable measure the consequence of the measures that the President announced on March 14; that is to say, of the tightening of credit and of the pledge to present a balanced budget and to do it as much as possible by reductions in expenditures.

We cannot simply turn around on that dime. It is not just a question of catering to the inane public comments about zig-zagging. We would deserve to be thrown out of our jobs if we did not reexamine policies, just as we did in January and February when the outburst of inflationary expectations became almost hysterical and people said, "Oh, the President is zig-zagging." I mean, that's ridiculous. If you suddenly encounter this massive outburst of public psychology, you have to tighten down on fiscal policy.

So now when I say that a tax cut is inescapable, I think, for 1981, someone will say, "Well, the administration is throwing all caution to the wind and zig-zagging." That, again, is ridiculous.

We must react to: (*a*) the long-term needs which we have been talking about for 1½ years; and (*b*) to the short-term developments, if the recession proves to be more severe than it has been.

Nevertheless, there has to be a constancy in it, a recognition that inflation is always there and therefore we mustn't just turn around with a massive move. That's why I said $20 of $25 billion. In terms of the size of fiscal drag, you could easily argue for more than that.

I argued strenuously against such a tax cut in the first 3 months of this year. It was almost incredible when the CPI was growing at 18 percent. Now, if the CPI goes down lower, obviously we can begin to look at the long term. I'm sorry that's a lengthy answer.

Representative WYLIE. No. I appreciate your answer. I think it's a good one, and it will help me as I examine the record again. As you said, we can't turn around on a dime. We can't talk one day about balancing the budget and the next day about cutting taxes. Maybe we're still talking about a balanced budget even with the tax cut; I'm not sure of that yet. Are you reexamining your views and is the administration reexamining it's views on a tax cut in light of the recession and because of unemployment? Did the recession come more quickly than anticipated? Is it a little more deep than you anticipated?

Mr. KAHN. There's no question that the recession has proved to be faster and deeper than the administration projected, just as has the acceleration of inflation in the first 3 months of this year and the intensification of credit demands almost insatiably, and the consequent sharp increase in interest rates, all of which were more dramatic than we had anticipated or anybody had anticipated. I think the first is in considerable measure the consequence of the other. That is to say, as we have always said, for a year and a half and more, that if we could not control inflation, if we let it get away, or if it got away inspite of our best endeavors, that would threaten that the recession would be deeper than otherwise; and surely that is attributable in large measure to the high interest rates which are the inevitable accompaniment to inflation.

Of course, we are looking at that behavior of the economy and, of course, if the next several months show that the recession does get deeper, and continues to get deeper faster than we anticipate, then, of course, there will have to be a reexamination of budgetary policy on the basis of that.

The principal basis—and this is my last sentence—the principal basis for my saying a tax cut is inevitable and desirable and probably effective in 1981 is the long-term consideration. It has to do with the inevitability of giving back some of it, because of the growing fiscal drag, and second, attacking productivity.

Representative WYLIE. I notice from your data that new automobile prices rose faster than all of the prices. That really is a surprise to me, given the recession or depression in Michigan and Ohio. Isn't that surprising to you?

Mr. KAHN. Well, it isn't really. New car prices went up 1 percent in April and May, just close to the order of 13 percent compounded annually. I observe that in the year of the most extreme inflation, that is March to March, new car prices went up only 7.6 percent over the year. You do tend to get new cars priced pretty much on a cost-plus basis, despite the market.

It may show up—as I recall, in the preceding months it didn't go up so sharply because you got some of those sharp discounts on the cars, some of the rebates that some of the companies were giving—but it's one of our problems that I was addressing myself to when I said we've got to look at the long term.

You just had the United Automobile Workers sign a contract whose costs are likely to be on the order of 35 percent over the next 3 years, probably more than 10 percent a year, which exceeded our wage guide-

lines and surely exceeded the growth of productivity in the economy as a whole. You tend to get wages based on a perceived cost of living and then prices based on wages, and it's that underlying rate and that it's hard to get at.

Representative WYLIE. Mr. Chairman, I have taken a lot of time. May I ask just one followup question?

Senator BENTSEN. Sure.

Representative WYLIE. I was interviewed by a television station in Columbus about a week and a half ago and the question was: Our economy is slipping into recession, and the unemployment rate is on the rise. What do you think Congress should do to fight the unemployment? That's a tough one. Anyhow, the question suggests that we should do something dramatic, it seems to me, and I said that the one thing that we must not do is panic, that we must not start throwing money at the problem, like we did in 1977 where we solved the problem of unemployment for the moment but inflation went back up, and if we did that again we would probably have an inflation rate of about 25 percent.

I also made the observation that this spell of unemployment is related directly to the automobile industry because the unemployment rate rose more quickly in the States of Ohio and Michigan, and the unemployment figures are higher in Ohio and Michigan that all of the other States. So shouldn't we do something for the automobile industry?

Mr. KAHN. One, the administration is right now in the process of trying to decide how to meet this particular problem. You're entirely right. I have seen the numbers; unemployment in this recession is far more heavily concentrated in construction and housing and automobiles than in any of the other preceding recessions, much more heavily concentrated.

That suggests, No. 2—forgive me for backtracking but agreeing with you—that as far as the economy as a whole is concerned, it would be a great mistake to turn around on a dime and start increasing and expanding very, very sharply. I think that would be a serious mistake because, No. 3, we do have automatic stabilizers, even in the case of automobile workers who are clearly suffering a very serious unemployment problem. We have unemployment compensation. We have supplementary unemployment benefits, we have extended unemployment compensation; and we have the trade adjustment assistance. The purpose of those automatic stabilizers is to tide us over so we don't have to suddenly rush in and turn around.

I'm talking around the problem, in part, because I don't have a specific answer. There are a few things that are obvious. I just want you to know I'm not trying to deceive you, which I can't.

Let me go to the other end. I, myself, am really opposed to solving the problems of the automobile industry by massive trade restraints. All that means it that you put the problem on the back of the consumers of the United States. If you impose quotas on foreign cars, all you do is increase the premiums that people will have to pay for foreign cars. There are some relatively small things that we are obviously contemplating. There is regulation, some of which we think may not be cost effective or may be sensible to postpone. The President cautioned the Japanese—and I think that's perfectly reasonable—about

their planned expansion of capacity of something like 2 or 3 million cars a year in the next 3 years, which can only affect the automobile market.

What we have is a problem in which the automobile industry, paradoxically, may be like an infant industry for the next 2 or 3 years. That is to say, it has been caught high and dry with inadequate capacity to produce the right kinds of cars; that is, the kind that people now want. It has not been entirely their fault, because the price of gasoline in the United States has been held so low artifically.

I think, therefore, a case can be made for some kind of assistance to them in this transitional period when they have to raise the tens of billions of dollars of capital that are needed to put them in a position to produce cars of the kind that Americans want. The numbers show that the shift to foreign cars is preponderantly the consequence of a shift in kinds of cars that people want rather than a shift away from American cars. This is category by category. General Motors at least has not suffered any decline, and in large measure the declines of Ford and Chrysler are balanced by the increases of their competition. It's a question of equipping themselves to produce the smaller cars, but I would far prefer measures to encourage capital formation, such as quick writeoffs, rather than protectionism at the expense of the American public.

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

Senator BENTSEN. Mr. Kahn, do you think that the consumer's inflationary expectations have been broken? We have seen a reduction in consumer demand. Do you think we are going to see the President preparing an American Express card commercial with his name being put on a credit card and saying, "This is now the American way"?

Mr. KAHN. Predicting how the public will react is, as you know, extremely hazardous. I don't think there's any doubt that we have pricked the bubble of that extreme, almost hysterical, inflationary expectation that we had in the first 3 months of this year, and my own really impressionistic view—and I don't think anybody has a better one with all the economists in the world—is that we are not going to get a quick turnaround of consumer spending habits.

The sharp decline, to almost unprecedented levels, of household savings that we saw in the last quarter of last year and the beginning of this year was clearly a consequence of those extreme expectations, and the extremity of the reactions of the imposition of consumer credit controls, controls that were extremely modest—they were just on incremental extensions—the extremity of that reaction reflected two things I think:

One: The feeling that it was unpatriotic to buy on credit—people were telling me in letters that they were tearing up their credit cards—

Second: A sudden recognition by people of how overextended they had gotten. That's not going to turn around right away.

But finally, we know what happened, as you pointed out, Congressman Wylie, with the excessive attention to recovery in the 1977–78 period; we know that that piece is there below the surface. We know that we have begun each new recovery from a higher plateau than before, so we can't afford to be totally sanguine and simply say forget that inflation problem. It's there underneath. It's going to be there as long as you have wage settlements at the 9.5 level.

Senator BENTSEN. Let me ask you about these wage settlements. We have wage guidelines of 7 to 9.5 percent, and yet settlements have been at 9.5 percent. Has that now become the norm, as some critics have suggested it would?

Mr. KAHN. I don't think so.

Senator BENTSEN. The wage settlements have been around 9.5, have they not?

Mr. KAHN. The most recent figures I have seen are on the order of 9.5 percent. There are two reasons, however, why I can't simply say, well, that shows that the 9.5 is the ceiling. One is that the standards themselves do not count fully certain fringes—the maintenance of health benefits, for example, or additional costs associated with meeting the requirements of ERISA, or pension costs and the like. The second is that the evaluation of the cost of living adjustment clause is at, I have admitted publicly, an unrealistically low 7.5 percent.

The assumption is that the CPI will go up, on the average, only 7.5 percent in the next few years. So the BLS figures showing settlements at 9.5 percent may well mean that they are only at 8.5 under our standards.

There are some signs in the last 2 months from the average hourly wage index that we are getting a deceleration now. We will know better in a month or so.

We are getting settlements all over the range. The steel workers settlement was below the 9.5-percent standard, but that was only because of guideline arithmetic. I say that with some embarrassment, but it is a publicly acknowledged fact. We have just got to watch in the next few months. I think that we must continue to counsel restraint. I think that message is getting across.

Senator BENTSEN. Is the wage-price guideline effort going to be curtailed or dampened by the fact that the Congress did not give you the additional staff that the President requested?

Mr. KAHN. Yes, I believe it will. The effectiveness of a voluntary pay and price program depends in considerable measure on the willingness of the public to believe in it, the conception that it is considered important in Washington, and the refusal of Congress to give us that expansion was less important in terms of the size of the staff or the dollars—I was going to say peanuts but we don't use that phrase in this administration—than in terms of the public credibility, the general feeling that the program may not be there. I think it was a serious thing.

Senator BENTSEN. You don't use banana any more?

Mr. KAHN. I do from time to time.

Senator BENTSEN. All right. Congressman Wylie.

Representative WYLIE. I just have one more question and it's related to the recent OPEC meeting on oil prices.

Assuming your crystal ball is as good as anybody else's, what do you think about oil price increases? Are we in for a substantial increase or have the OPEC members suddenly realized or are they realizing that the specter of recession hangs over the Western economy and further oil price increases are likely to be damaging to them?

Mr. KAHN. First: The first adjective I want to use about the increases is that they were outrageous, simply outrageous.

Second: They are clearly unjustified in any economic terms, in terms either of the nature of the market and the supply and demand balance or in terms of what it's doing to the economies of the world, to the less developed countries—just crushing to them—and plunging the rest of the world into a recession.

Third: They do reflect some restraint. I think it is a fact that Saudi Arabia has recognized that you can't prosper by totally bankrupting your customers.

Fourth: It nevertheless shows that we simply have to work as hard as we can to diminish our dependence on that source of supply.

Representative WYLIE. I noticed it was the No. 1 item at the summit meeting this week. Do you think that will have any effect?

Mr. KAHN. It has been extraordinarily difficult—discouragingly so—to get some agreement among the major consuming countries of the world. The logical thing to do when you confront a cartel in the producing end is to organize yourselves as buyers on the buying end. But, of course, your ability to organize yourselves is not particularly threatening or effective unless you're in a position to curtail your demand, and if we are unwilling to curtail our demand, then what good does it do to organize? You have no weapons.

So the most encouraging thing that we can do is demonstrate that we have in fact been reducing our consumption. I think we've got to do a lot more. We simply have to do more than we have.

Senator BENTSEN. Mr. Kahn, I see we have a vote on the floor of the Senate. We have been very appreciative of your appearance and it has been helpful to our understanding. Thank you very much.

Mr. KAHN. Thank you. It's always a pleasure.

[Whereupon, at 10:55 a.m., the committee adjourned, subject to the call of the Chair.]

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