

Distribution between Retail Prices
and Total Cost of Living.

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The distinction between the retail price factor in the cost of living and the total cost of living is an important one. It constitutes an area of substantial agreement between the Bureau of Labor Statistics, the Mitchell Committee, the American Statistical Association, the CIO Study, "Living Costs in World War II, 1941-1944", and the WLB Steel Panel. The position of each of the distinctions follows:

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Bureau of Labor Statistics

The regular monthly releases of the BIS Index now carry the following statement:

"The BIS Index indicates average changes in retail prices of selected goods, rents and services bought by families of wage earners and lower-salaried workers in large cities. The items covered represented 70 percent of the expenditures of families who had incomes ranging from \$1250 to \$2000 in 1934-36.

"The index does not show the full wartime effect on the cost of living of such factors as lowered quality, disappearance of low-priced goods and forced changes in housing and eating away from home.

"It does not measure changes in total 'living costs' that is, in the total amount families spend for living. Income taxes and bond subscriptions are not included."

Each of these three paragraphs addresses itself to a separate subject.. The first one explains that the BIS Index "indicates average changes in retail prices". The second paragraph in the main explains the deficiencies of the Index in indicating "average changes in retail prices", and is the quantitative question with which the Mitchell Committee deals. The third paragraph explains that the index is not a cost of living index since it "does not measure changes in total 'living costs'".

When the BIS adopted the above statement in its monthly releases on the index, its officials explained to the annual meeting of union research directors in June that the BIS was offering a prize to members of its staff who came forth with the best new name for the index, as the BIS (upon receipt of a new name) was going to cease calling the index a "Cost of Living Index". While the BIS monthly releases have not yet ceased carrying the phrase "cost of living", the BIS plans to drop this phrase soon. In the meanwhile the Office of War Information (July 31, 1944 press release X 32494) refers to the BIS Index as a "price index" solely. Similarly, the Labor Information Service of the BIS (July 1944 Selected List of BIS publications and reports) refers to the BIS Index as follows:

Changes. Seasonal advances
in prices for housefurnishings accounted pr
cipally for a 0.4% increase between mid-April and Mid
May in the BIS Index of retail prices charged wage
earners and lower-salaried workers in large cities...."

It can be seen from this that all reference to the BIS Index as a "cost of living" index has been completely dropped. This, as noted, will shortly be done by the BIS in its monthly releases on the movement of the Index.

The Mitchell Committee Report

The Mitchell Committee, in its report, points out the reasons for ceasing to refer to the BIS Index as a cost of living index, and recommends such action. Pertinent passages from the Mitchell Report in this regard follows: (The page references are to Part I.)

"Because the BIS has, for the most part, attempted to measure price change only, it seems highly desirable to describe its index as a price index. Such a description might reduce the widespread confusion that seems to exist concerning what the Bureau does and does not try to measure." (Page 8)

"A quarterly or monthly index made in this way is an effort to measure average changes in prices that are important to families in large cities living on wages and small salaries." (Page 10)

"It (the BIS Index) tried to show clearly how one factor, change in unit prices, and that factor only, affected the cost of living. But the name of the index invited misunderstanding. Properly speaking, it was an index of average changes in retail prices." (Page 10)

"To most people 'cost of living' means the amount of money a family spends...That interpretation is so widespread that we think the Bureau's index is misnamed." (Page 18)

"The Technical Committee does, however, venture one suggestion: the index should be given a less misleading name." (Page 20)

In addition to defining the BIS Index as "an index of average changes in retail prices", the Mitchell Committee draws the distinction between the retail price factor in the cost of living and the "full cost of living". Pertinent passages in this regard follow: (Page references are to Part I.)

"Living". We have already made
 charge is valid if cost of living is taken
 The amount of money families spend for the goods and ser-
 vices they buy. The Bureau never has tried, and does not
 now try, to measure the cost of living in this sense....
 Page 14.

"The widespread opinion that the BIS Index grossly understates the rise in cost of living is justified, if cost of living is taken to mean the amount of money a family spends for the commodities it buys. Even careful housewives seldom distinguish sharply between this meaning and the highly technical sense in which the BIS uses cost of living--that is, average change in the prices of a list of family supplies kept as constant as the character of the supplies on the market allows." Page 21.

This judgment of the Mitchell Committee was reaffirmed by Dr. Wesley C. Mitchell, after he read the CIO Study, in a letter to Harold J. Ruttenberg on June 14, 1944 (copy was sent to Mr. William H. Davis at Dr. Mitchell's suggestion). Dr. Mitchell said:

"This report ('Living Costs in World War II, 1941-1944') is unquestionably an improvement upon your exceedingly hurried earlier statement (Thomas-Meany Report) and merits careful consideration....."

"First and most basic, I take it that you are trying to find out what has been the 'increase in living costs' since January 1941. As we agreed at our luncheon last Saturday, the BIS makes no such attempt. While I believe that you have defined the Bureau's aim somewhat too narrowly on Page 27 (3rd paragraph, page 23 of printed edition), it is clear that its index is an endeavor to ascertain, as well as may be under exceedingly difficult conditions, merely the price factor in living costs. That you get a much more considerable increase than the Bureau is natural and is not in itself a demonstration that the Bureau's result is incorrect. I think that they have understated the increase in their single factor, though by a margin far narrower than the difference between their result and yours....."

The American Statistical Association

The foregoing represents an area of substantial agreement among the several groups of experts who have inquired into the subject. The Special Committee of the American Statistical Association (Journal of the ASA, December 1943, pages 388-389) is not excluded for it found:

~~cost of living" is arbitrary~~
~~personal advances~~
practices the use of this index raises
of fact. In every-day speech families are
ask to think of their cost of living as the total
amount they spend for consumer goods and services.
Several different factors may cause such expenditures
to change. Thus, they may change because the unit
prices of goods and services rise or fall. Again,
they may change because families are forced by cir-
cumstances beyond their control to alter their manner
of living, as when the exigencies of war make some
goods unavailable. Yet again, they may change be-
cause families have experienced an increase in income
and can afford to buy more goods or better goods....
(See Chapter Three, CIO Study, on immediately pre-
ceding sentence.)

"As used in technical statistical parlance, the
term 'cost of living' has applied only to the first
of the factors which determine family expenditures,
that is, to unit prices. The cost of living index
has undertaken to measure only this one factor. Any
use made of the index must keep this limitation in
mind. Many of the difficulties which critics of the
index have encountered arise from forgetting that it
is designed to measure only changes in retail prices
and trying to use it for purposes to which it is not
suited unless it is supplemented by a number of ad-
ditional statistical measures."

The CIO "Living Costs in World War II, 1941-1944"

The definition of the BIS Index (referred to by Dr. Mitchell)
the CIO Study (page 28) follows:

"In summary, it may be said that the BIS Index
measures average changes in retail prices for a
1934-36 bill of goods (slightly modified to reflect
wartime changes), for workers in a medium income
range, who live in large urban areas, who have not
moved to war centers or changed their habits of buy-
ing or living, who carefully confine their purchases
to items priced by BIS, who never "eat out", who are
able to avoid purchasing above OPA ceiling prices,
and who are able to obtain articles of prewar quality.
Even if the BIS Index is an accurate measure of this
limited concept, it remains of no value as a measure
of wartime living costs."

The definition of the Index constructed in the CIO Study
(page 17) follows:

types of changes which have affected living: (1) changes in retail prices of specified commodities and services; (2) shifts of several times in the distribution of purchases; (3) deterioration in quality. A satisfactory index of living costs must take all these factors into account."

Thus the BIS Index only attempts to cover item one above, and during the war has only succeeded partially.

WLB Steel Panel Report

Lastly, the public members of the War Labor Board Steel Panel (WLB Case No. III-6230-D 14-1 et al), after several months of hearings, agree with the CIO, Mitchell Committee, BIS, and the American Statistical Association. They found:

"The BIS index indicates average changes in retail prices of selected goods, rents and services bought by families of wage earners and lower-salaried workers in certain large cities. It does not show the full wartime effect on the cost of living of such factors as lowered quality, disappearance of low-priced goods and forced changes in housing and eating away from home. It does not measure changes in total living costs - the total amount families spend for living.

"Although certain types of revisions have been made by the BIS to keep its index abreast of the changing war economy, as an accurate index of retail prices under present conditions it requires some upward revision. The amount of this revision has been estimated by the Mitchell Committee at 3 to 4 points ($3\frac{1}{2}$ to $4\frac{1}{2}$ in small cities), but the Panel does not state any specific number of points because that would involve making an estimate for which the Panel lacks sufficient data and because the Panel has made no field studies.

"In addition, the BIS index is inadequate as a measure of changes in the cost of living of wage earners in the sense of reflecting necessary family expenditures resulting from involuntary changes in living habits. The index point value of this factor cannot be estimated with any fair degree of accuracy by this Panel, but this factor is real nevertheless. The BIS index was not intended to reflect changes of this character."

The foregoing unanimity of opinion demonstrates the merit of the CIO definition of the cost of living, distinct from retail prices.

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