

**SHOULD PRICE CONTROL  
BE RETAINED?**

BY  
HAROLD G. MOULTON  
AND  
KARL T. SCHLOTTERBECK



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1945

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**U**NDER conditions of total war, government control of the economy is accepted as necessary in directing the use of national resources to achieve maximum war production. With the cessation of hostilities, obtaining a high level of peacetime production with a minimum loss of time becomes of paramount importance. Government policies must be judged by their contribution toward the achievement of this goal.

In many circles—in government, industry, labor, and agriculture—the view is widely held that price stabilization will be indispensable until the transition period has been completed. The Administration has recently announced that price control will be continued in order to “restrain a further rise in the cost of living.” The revision of the Price Control Act in June of this year extended the period of control to June 30, 1946. Congress may, however, in its discretion terminate the price control machinery before that date. The legislative body will thus have to determine whether the rapid resumption of peacetime production will be furthered or deterred by the continuation of the price control machinery.

The purposes of this study are to analyze the character of the price control problem in the period of transition and to test the desirability of maintaining the price control machinery. In making this evaluation, two principal criteria will be used: Will the continuation of price control promote or retard the rapid resumption of business activity and employment? Can the controls be readily administered and enforced?

In order to sharpen the presentation and confine the discussion to issues of crucial importance, the analysis is organized around a series of leading questions.

## 1. WHAT ARE THE ARGUMENTS FOR THE RETENTION OF PRICE CONTROL?

Those who advocate the continuation of price control during the transition period base their argument primarily upon the great accumulation of expendable funds in contrast to the limited supplies of goods available for purchase. They fear that this distorted demand and supply situation, unless controlled, will result in a quick inflation of prices, followed after a year or so by a collapse of prices and a depression of catastrophic proportions. Our experience in 1919-20, following the First World War, is cited in confirmation of the thesis. The tenor of these arguments is best shown by means of quotations from both public and private sources:

Speaking as president of the American Bankers Association, A. L. M. Wiggins puts the case as follows:

Price control must continue or should continue until the supply of goods begins to meet the demand for goods. Our experience . . . proves that, because we had our real inflation . . . following the last war . . .<sup>1</sup>

Marriner S. Eccles, chairman of the Board of Governors of the Federal Reserve System, makes the following statement:

Inflation seldom gets out of hand during wartime, but the danger carries over after peace comes and war weary people, tired of wartime controls and restraints,

<sup>1</sup> *Extension of Emergency Price Control Act of 1942, Hearings before the Senate Committee on Banking and Currency, 78 Cong. 2 sess., p. 572.*

are eager to throw them off. The enormous store of funds which so far exceeds the supply of goods available now . . . could result in a ruinous inflation if prematurely spent. . . .<sup>3</sup>

The Postwar Planning Committee of the CIO expresses itself as follows:

The last war taught us a dramatic lesson. We learned that war is followed by rising prices and the boom ends in collapse. There is danger that this will be repeated. Civilian goods will continue scarce for some time, and people will have huge savings to spend. Businessmen, eager to reconvert, may compete for an inadequate supply of equipment and raw materials. Speculation and hoarding would intensify difficulties. Without effective controls over scarce goods and prices, an inflationary spiral might arise.<sup>4</sup>

Chester Bowles, Administrator of the Office of Price Administration, has made the following official pronouncement:

We must never forget that nearly half the increase in World War I prices took place after the Armistice.<sup>5</sup> Controls then were quickly dropped, and there was a wild scramble for goods both for personal use and for building up business inventories. . . .

Today we have all the makings of an inflation and eventual collapse on a far greater scale than anything we knew in 1918. Inflationary pressures are vastly greater.<sup>6</sup>

John W. Snyder, the new director of the Office of

<sup>3</sup> *Extension of Emergency Price Control Act*, Hearings before the House Committee on Banking and Currency, Vol. 2, 78 Cong. 2 sess., pp. 1562-63. See also Marriner S. Eccles, "Possibilities of Postwar Inflation and Suggested Taxation," *Federal Reserve Bulletin*, March 1944, p. 222.

<sup>4</sup> *As We Win*. Report No. 1, p. 17.

<sup>5</sup> This statement is not in accordance with the facts. Wholesale prices rose 102 per cent between August 1914 and November 1918, and 21 per cent from November 1918 to May 1920.

<sup>6</sup> Aug. 28, 1944.



War Mobilization and Reconversion, reported to the President that :

The greatest single danger to an orderly reconversion lies in the threat of inflation. We cannot and must not repeat our folly after World War I. A firm stabilization program must be continued.\*

## 2. IS CONSUMER DEMAND THE INITIATING FACTOR IN INFLATION?

In the quotations above, the disparity between available supplies of consumer goods and available purchasing power is stressed as a primary source of inflation. It is assumed that with the quantity of funds available exceeding the quantity of goods offered for sale, prices will inevitably rise, unless controlled by law. During the war period this developing situation was defined as the "inflationary gap"; and it was contended that unless the excess of purchasing power over available civilian supplies could be eliminated by taxation and bond purchases, prices would inevitably skyrocket. In the words of the Price Administrator, Mr. Bowles, "We all felt they [the public] couldn't have all that hot money rolling around in their pockets without spending it and forcing prices up through black market operations."<sup>1</sup>

Despite the *ever-increasing* "inflationary gap" and cumulative piling up of consumer purchasing power, we have not had a runaway price inflation; and although black market operations have occasionally been of distressing magnitude in a few

\* "From War to Peace: A Challenge," *Report to the President*, Aug. 15, 1945.

<sup>1</sup> *Extension of Emergency Price Control Act*. Hearings before the House Committee on Banking and Currency, Vol. 2, 78 Cong. 2 sess., pp. 2272-73.

lines and areas there occurred no general breakdown of price control.

There has been an interesting contradiction in all the official discussions of the price control problem. On the one hand, it is urged that the absorption of unused purchasing power is indispensable. On the other hand, it is contended that wage and raw material cost controls—the hold-the-line policy—is the foundation of price stabilization.

An abundance of purchasing power of course makes price advances possible; for without it the goods could not be sold. But the cases are rare indeed in which consumers may be said to compete with one another for the available goods thereby bidding up prices. Consumer goods, generally speaking, are not sold at public auction—to the highest bidder. Most commodities which individuals buy are marketed through retail establishments, with the sales prices determined well in advance and marked on the products. When the items desired are not available, people usually do not search for others on which to spend their last cent. Nor do people like to be “gouged”; when they believe prices are too high or have risen too rapidly, they go without rather than pay what are regarded as exorbitant prices.\* The most that can be said is that abundant consumer purchasing power is a permissive inflationary factor and may be an invitation to profiteering.

On the other hand, when costs rise we have a positive force pressing toward inflation. Unless rising

\*To be sure, there are always some who disregard price in the case of greatly desired commodities. The existence of black markets in special areas and in cases of acute shortage provides evidence that a small minority will pay almost any price asked.

costs can be absorbed by expanding volume, price advances are necessary in order to protect essential profits. The hold-the-line policy—which meant stabilization of wage rates and farm prices—in the spring of 1943 marked the beginning of the successful price control program in this country. Experience in this and other countries has demonstrated that, once wages and other costs were stabilized, prices could be reasonably well controlled despite the unabsorbed purchasing power.

In short, price control became successful only when emphasis was shifted from ceilings on retail prices to production cost foundations. A clear appreciation of this fact is indispensable to an understanding of the price control problem, either during war or peace.

We should summarize the inflationary process by saying that the slight pull toward higher prices from the consumer demand side is inconsequential as compared with the powerful push that operates from the cost side.\*

\*The present situation, however, is said to be altogether unique in that the carry-over purchasing power of the war years is superimposed upon normal purchasing power. Since new postwar production will generate purchasing power sufficient to take the new goods off the market, it is held that the accumulated purchasing power must in due course inevitably pull prices upward; hence the need for price control. One who follows this line of argument must conclude that price control must be permanent—because whenever removed this carry-over of purchasing power would manifest itself.

The truth of the matter is that there are possible offsets to these accumulated funds so far as the money equation is concerned. To the extent that business enterprises have accumulated reserves, they may borrow less in the future than would otherwise be the case. The same is true of individuals. The fact of course is that during the period when these funds have been accumulating nearly all types of private credit extension have declined. From the point of view of the quantity theorist, the increase in these funds could readily be offset by corresponding changes in the volume of credit or in the velocity of circulation.

### 3. WHAT WAS THE INFLATION EXPERIENCE OF 1919-20?

The facts as to trends following World War I may be briefly summarized as follows:

For the first five months following the war, business remained hesitant and slightly depressed. During this period the index number of industrial production declined about 7 per cent, and the index of wholesale prices of all commodities about 5 per cent, reaching a low in February 1919. Business recovery began in the early spring, but it was not until autumn that boom conditions developed. The business boom continued until May 1920; and the ensuing depression lasted until the autumn of 1921. Commodity prices turned upward in March 1919, but it was not until June that the wholesale index was up to the level of November 1918. The over-all rise from the end of the war to May 1920, when the break came, amounted to 21 per cent.

The very rapid rise in prices did not begin until September 1919. Between then and May 1920 agricultural products rose 30 per cent and minerals 26 per cent. Producers' goods as a group rose 30 per cent and consumer goods only 15 per cent.

It is evident from these figures that the accumulated purchasing power at the end of the war did not immediately and automatically result in a sharp inflation of prices. The fact is that prices declined for several months, and it was almost a year before inflationary conditions prevailed. The crucial question in the early postwar months was not whether prices would rise but whether, and how much, they might be expected to fall.

In the spring of 1919 the government announced support of the price of wheat at \$2.26 a bushel, thus ensuring prosperity for a very important section of

the agricultural industry. At the same time business groups were gradually reaching the conclusion that satisfactory profits could be made at the existing cost level and that the threatened decline of prices would be arrested if agreements could be reached among leading producers to go forward on a broad front. An elaborate plan had been worked out by private and government interests for price stabilization agreements to be participated in by leading industries with government sanction. While no formal agreements were actually made, the leading industrial corporations decided in the spring to proceed with production programs.

The striking feature of the business boom of late 1919 and early 1920 was the extraordinary accumulation of business inventories. As soon as business recovery was well under way, a widespread fear of raw material shortages—not founded on adequate statistical evidence—led to inventory acquisitions beyond immediate needs. Once prices began to rise, large additional advance orders were placed with a view to being ahead of further rises. Moreover, the practice developed of placing orders with a large number of suppliers, in quantities greatly in excess of requirements. While full deliveries were not expected, these excess orders were nonetheless important from the price equation standpoint. The shortage fear was in due course accentuated by labor unrest and strikes and by uncertain transportation conditions. This situation of course offered a great opportunity to commodity speculators. The accumulation of inventories in the hands of manufacturers, wholesalers, and retailers late in 1919 and early 1920 indicates that production was running at a level above current

consumption of finished products. At the end of the boom period, the excessive inventories of both raw materials and finished goods constituted a primary source of economic and financial difficulty.

In the agricultural field, the rise in prices was accentuated by large foreign purchases, made possible by extensive government and private credits. Here also speculative activities played a very important role. "Speculative zeal resulted in the piling up of a 'wall of lard' and a mountain of bacon, hams, and other products in the neutral countries and on the frontiers of Germany and other central European states long before these countries were actually opened to trade."<sup>10</sup> This movement of food products into distributive channels served for a time to prevent the appearance of gluts and even to give the illusion of scarcity. But within a year it had become apparent that the ultimate markets were not sufficient to absorb the current volume of agricultural production at prevailing prices. The peak of meat prices was reached as early as mid-1919. Wool prices reached a peak in January 1920, sheep in April, and cotton in May. Cereals held up for a month longer.

Meanwhile, during the boom period, wages in general had been rising at about the same pace as the prices of commodities. Thus as the boom progressed, there was in operation the familiar characteristic of the inflationary spiral—rising prices, rising costs, rising prices, and again rising costs and prices.

That the boom movement was not being led by insistent or excessive buying on the part of ultimate

<sup>10</sup> E. G. Nourse, *American Agriculture and the European Market*, (1924), p. 69.

consumers is evidenced by two facts. First, as already noted the prices of consumer goods rose only 15 per cent as compared with 30 per cent for producers' goods. Second, as early as the autumn of 1919 consumers were protesting the high cost of living. By early 1920 there had developed a nationwide consumer movement against "profiteering." The Attorney General launched a corrective crusade. Government stocks of food were sold in bargain-counter style through the post offices, and government wool was sold for what it would bring in auction markets. The programs of both political parties contained planks pledging effective steps to lower the cost of living for the protection of helpless consumers. The consumer resistance movement culminated in the so-called "buyers' strike" of May 1920, which led numerous retail establishments to make substantial horizontal reductions in retail prices. It was this break which initiated the cancellation of advance orders, followed by the curtailment of production and the drastic process of liquidation which marked the depression of 1920-21.

#### 4. WHAT IS THE PRESENT SUPPLY SITUATION?

In reviewing the 1919-20 episode, we found that shortages of raw materials and supplies—actual or fancied—was an important factor contributing to the extensive and rapid price advance. In what sectors of the economy are shortages to be found today? It will be necessary to canvass the situation with respect to raw materials, foodstuffs, productive capacity, and finished goods.

*Raw materials.* In analyzing the raw material situation we must consider: first, the stocks on

hand, which will show where there may be immediate postwar shortages; and, second, recent production data, which will disclose whether there is any prospect for their early elimination. We do not have available current 1945 data with respect to raw material supplies and production. In the accompanying table we use the production data for 1944 and the supplies as of January 1, 1945. In view of continuing war demands in the first half of the current year there is little reason for believing that there was any great change in the first half of 1945.

In the table on page 12 stocks on hand and new supplies are measured in terms of monthly industrial consumption requirements, assuming a level of business activity 20 per cent above that for 1940.<sup>22</sup> The underlying data for stocks on hand are for January 1, 1945, and for new supplies available monthly, the figures are average monthly production (plus imports) for 1944.

If the war-end stocks and the flow of new supplies are roughly comparable to those shown in the table, there is little cause for concern with respect to shortages. On the contrary, the problem in sev-

<sup>22</sup> We have arbitrarily increased the 1940 industrial consumption rate by 20 per cent to make allowance for raw material requirements with a high level of production and employment. This higher rate of consumption means that manufacturing employment would average roughly 13.5 millions, as compared with 11.3 millions in 1940. In an earlier study we have estimated that with reasonably full employment there would need to be 13.5 millions employed in manufacturing industries. It should be noted that we are assuming a return to a scheduled 40-hour week, that man-hour output in the first postwar year or so averages at least as high as in 1940, and also that the character of demand for finished goods—and thus for raw materials—will be roughly the same as for that year.



PROSPECTIVE SUPPLIES AS COMPARED WITH REQUIREMENTS <sup>a</sup>

I. Mineral Raw Materials

Commodity	Stocks on Hand Times Monthly Requirements <sup>b</sup>			New Supplies Times Requirements (Monthly) <sup>c</sup>
	Owned by U. S. Industry	Owned by U. S. Govt.	Total in U. S.	
Aluminum ingots .....	5.7	3.9	9.6	4.1
Bauxite .....	10.2	27.6	37.8	2.6
Bismuth .....	6.4	15.2	21.6	2.0
Cadmium .....	2.8	1.8	4.6	1.2
Chromite:				
Refractory .....	4.6	12.7	17.3	1.7
Chemical .....	6.8	11.6	18.4	0.6
Copper .....	5.1	3.2	8.3	1.3
Lead .....	2.5	1.2	3.7	1.1
Manganese ore .....	3.7	10.9	14.6	1.0
Mercury .....	4.9	32.8	37.7	1.8
Molybdenum <sup>d</sup> .....	7.1	1.5	8.6	1.3
Nickel .....	1.1	0.8	1.9	4.5
Tin .....	2.6	4.2	6.8	0.9
Tungsten .....	2.9	32.0	34.9	2.3
Zinc <sup>e</sup> .....	3.4	1.4	4.8	1.1

II. Other Raw Materials

Cattlehides .....	6.4	0.0	6.4	1.0
Jute .....	4.0	9.4	13.4	0.9
Manila fiber <sup>f</sup> .....	0.3	0.5	0.8	(g)
Sisal and hennequin <sup>f</sup> .....	1.8	0.2	2.0	0.1
Wool-apparel .....	11.7	2.4	14.1	1.5
Kapok .....	0.7	3.2	3.9	(g)
Lumber:				
Hardwood .....	2.7	0.0	2.7	1.2
Softwood .....	1.9	0.0	1.9	1.0
Castor oil .....	...	...	5.8	0.0
High lauric acid oils.....	...	...	20.7	0.2
Linseed oil .....	...	...	6.7	1.6
Oiticica oil .....	...	...	8.5	0.0
Tung oil .....	...	...	3.4	(g)
Shellac .....	...	...	4.2	0.4

<sup>a</sup> The basic data are from the War Production Board and the U. S. Department of Agriculture. Requirements are assumed to be 20 per cent above industrial consumption in 1940.

<sup>b</sup> Supplies on hand assumed as large as on Jan. 1, 1945.

<sup>c</sup> Basic data are average monthly domestic production and U. S. imports for 1944. Postwar supplies assumed equally as large.

<sup>d</sup> Domestic consumption in 1940 assumed to equal U. S. production of concentrates less exports.

<sup>e</sup> These data are based on official estimate for 1940 domestic consumption.

<sup>f</sup> U. S. consumption in 1940 assumed equal to imports.

<sup>g</sup> Less than 0.1.

eral cases is one of surpluses. As may be seen from the table, supplies owned by United States industries are adequate to meet business needs for a high level of production immediately following the war—except in the case of nickel, hard fibers, and softwood lumber. That the situation appeared at least as good in August as in January is evident from the following statement by Mr. J. A. Krug, chairman of the War Production Board: “For most things we will have materials running out of our ears. The important thing is to have industry moving fast enough to use up these materials.”<sup>12</sup>

Even in the shortage lines a rapid easing of the situation may be expected. In the case of nickel, for example, current production is apparently ample to meet prospective peacetime requirements. It should be noted that government stocks of strategic minerals and metals are also available to supplement and maintain industry’s raw material inventories at a level not to exceed six months’ requirements for nonwar production.<sup>13</sup>

There are some other commodities for which figures are not shown, such as wood pulp, where new supplies may be increased as soon as additional shipping and labor become available. The recent tightness in the lumber situation was due to the enormous prospective timber requirements in connection with the furnishing of supplies and the building of essential facilities for the Pacific phase of the conflict. With the sudden ending of the Japanese war, the whole lumber situation should improve rapidly. The Army has already cut its lumber requirements by a billion board feet, and

<sup>12</sup> *New York Times*, Aug. 16, 1945.

<sup>13</sup> See Surplus Property Act of 1944 Public No. 457, Sec. 22 (b), 78 Cong. 2 sess.

controls were lifted in softwood lumber in late August.

Chemicals have long been important raw materials. Normal butyl alcohol, aniline, benzene, phenol, methanol, and many others—strangers to the average individual—are essential to American industry. While we are unable to compare recent supplies and production with 1940, available statistics show increases in production in 1944 over 1942 ranging from 25 to 50 per cent. Although some of these have been under allocation orders during the past two or three years, there appears to be no danger of widespread shortages among the various basic chemicals.

The supplies of agricultural raw materials will in most cases be superabundant. Cotton production is greatly in excess of current or prospective requirements and a full year's carryover supplies are on hand. Wool stocks on hand are also equal to almost a year's requirements. Thus the basic agricultural raw materials used in textile manufacture are adequate to meet all potential requirements—especially in view of the growing importance of synthetic fibers. The hide and leather situation should show rapid improvement. The recent tight situation was due, on the one hand, to extraordinary Army demands incident to the equipping of more than 7 million service men in the Pacific theater, and, on the other hand, to the restricted movement of cattle to the markets. The end of the war has already enormously reduced the shoe requirements for the armed forces; moreover, cattle have begun to move from the ranges in increasing quantities. Within a few months the shortage of leather may be expected to disappear.

That the general demand and supply situation is officially regarded as very satisfactory is evidenced by the quick release of most material controls by the War Production Board. The only important prospective shortages appear to be in tin and sugar.

The abundant prospective supplies of both mineral and agricultural raw materials clearly suggest the possibility of declining prices in these lines. This is certain to be the case with agricultural raw materials unless government price support is continued at wartime levels or unless production is artificially reduced.

In any case, the raw material situation is not such as to furnish any ground for the fear that inflation might be initiated at that spot, through competitive bidding for scarce supplies. With the evidence now available, there appears not the slightest reason for price advances and speculative acquisition of basic commodities.

*Foodstuffs.* The postwar outlook for foodstuffs is no less favorable than that for agricultural raw materials. In the years 1942-44 domestic food output averaged about 32 per cent above the prewar level 1935-39. This great accomplishment was in part the result of intensive effort, but perhaps more largely of the unusually favorable weather conditions for the country as a whole. After the war, with more labor and more and better machinery available, the prospect is for continuance of a high level of production—assuming reasonably favorable weather conditions.

The consensus among the agricultural experts is that, with the disappearance of abnormal wartime

and relief demands, domestic food supplies, except in a few lines, will be abundant. Indeed, the present problem is to prevent the recurrence of an agricultural crisis accompanied by drastic declines in prices; and various types of plans designed to ease the situation are now being discussed—including production controls, the maintenance of high urban employment and consumption, a great extension of the food stamp plan, and the subsidization of exports.

Under existing law the support of agricultural prices at not less than 90 per cent of parity will be continued for two calendar years after the cessation of hostilities. A decline to this level would mean a drop of about 20 per cent. There is of course a strong movement for supporting prices at at least full parity. It is of note, however, that Mr. Byrnes and Mr. Vinson, former directors of the Office of War Mobilization and Reconversion, have suggested that it would be better to let farm prices fall to their natural level—even below 90 per cent of parity—and for the government to give compensating subsidies to producers. At this juncture no one knows what the outcome will be.<sup>44</sup>

*Industrial capacity.* Conceivably, the nation could be surfeited with raw materials, but the productive plant might be still so inadequate as to comprise a serious bottleneck to a vast flow of goods to consumers. In considering the productive capacity, it should be noted that in 1940 the existing plant in many lines was operating much below capacity, and also that during the war there has been a considerable expansion in some manufacturing industries.

<sup>44</sup> Fred M. Vinson, *The Road to Tokyo and Beyond*, 3rd Report to the President, the Senate, and the House of Representatives, July 1, 1945, pp. 64-65.

Thus there are two factors which should enable industry to surpass the 1940 level of production by a good margin—once reconversion has been achieved.

With practically no increase in capacity, freight handled by railroads in 1944 was roughly 100 per cent greater than in 1940. Electrical power generated showed a 60 per cent increase in 1944 over 1940—with only a 20 per cent expansion of installed capacity. The steel ingot and finished steel capacity has been increased approximately 15 per cent. With full utilization, output would be nearly 50 per cent greater than in 1940. According to a WPB official, there will be no problem with respect to steel for consumer goods; “in a few months, the steel mills will be looking for orders.”<sup>28</sup> Coal production in 1944 was 34 per cent above that for 1940. In the farm machinery industry, production of the important items of equipment in 1944 was as large or larger than in 1940—although part of the total plant was still engaged in the production of war goods. During the war there has also been a large expansion in the capacity of the machine tool industry.

Productive capacity is also large in consumer goods lines. Cotton textile production during the war has with practically the same physical plant continually surpassed 1940 output. For example, the output of cotton broad-woven fabric totaled about 9 billion linear yards in 1940 and 11.2 billions in 1942. It has been estimated that with full utilization of the existing plant, production would total roughly 12 billion yards. Production in the boots and shoes industry could exceed 1940 production

<sup>28</sup> *Evening Star*, Washington, D. C., Aug. 13, 1945.

by 25 per cent. Without further plant expansion the automotive industry can produce substantially above the level of 1940; moreover, capacity will be rapidly expanded.

In some industries the achievement of a high level of production does not depend on the raw material situation but on the availability of additional labor. This is particularly true in the textile field. Shortage of experienced labor may also temporarily restrain a vast expansion in housing and other divisions of the construction industry.

The shipping capacity available is of course an important factor. This should not prove a bottleneck restricting imports, despite extension of the United Nations pooling agreement until six months after the war. In an executive session of a House Committee, Admiral Land stated<sup>10</sup> that we can expect the postwar world shipping supply will be greater than in 1939. In fact, United States owned shipping alone will by the end of 1945 at least equal the total tonnage possessed by the whole group of United Nations in 1939.

Looking forward, industrial plant capacity and electric power and transportation facilities are adequate to permit a very large expansion of production over prewar levels.

##### 5. WHERE ARE THE SHORTAGES?

The shortages are confined primarily to durable consumer goods. Domestic consumption of many types of civilian products was greatly curtailed during the war, especially durable consumer goods. The OPA lists about thirty products in this category.

<sup>10</sup> Testimony given in an executive session of the Special House Committee, on Postwar Economic Policies and Planning, 78 Cong. 2 sess., Sept. 25, 1944.

Ordinary housing construction was also largely suspended. Hence it is in these fields that the acute shortages exist.

It should be borne in mind that the unfulfilled desires of the war period do not fully carry over and manifest themselves in postwar demand. For example, the curtailment of clothes purchases from three suits a year to two suits over a period of four years does not mean that in the first postwar year the individual will purchase four plus three suits. The economies and sacrifices of wartime have largely gone with the wind; we will not purchase all of the goods that would have been bought in the absence of the war.

It should also be noted that the shortages in consumer goods will not have to be made good immediately or within the first year. Owing to the gradual character of demobilization, the purchase of civilian attire will be staggered over a one to two-year period. Similarly, the purchase and construction of new houses will be spread over a considerable period of time; and the same is true of the acquisition of household equipment and furnishings. Even in the automobile field, the economy in the use of cars during the war period has lessened the necessity of immediate replacements—however great the desire for a new car may be.

The extent of the deferred demand for durable consumer goods is difficult to measure. The OPA has estimated that the actual production for the three-year period 1942-44—at the 1941 rate of output—would have been as follows :

11,000,000 automobiles	8,000,000 toasters
10,500,000 refrigerators	41,000,000 radios
6,000,000 washing machines	10,000,000 furnaces and heaters
6,000,000 vacuum cleaners	14,000,000 stoves and ranges
17,000,000 electric irons	



As already indicated, there is no reason for believing that *all* postponed purchases will be forthcoming. There will, of course, be a large bulge in demand in these lines; but it is impossible to estimate its magnitude.

The situation is similar in housing. Construction has been subnormal, while the increase in the number of families has been abnormal. Moreover, housing construction was at a low level all during the decade of the thirties. The arrearages are thus very great; and given a satisfactory cost and price situation, construction may be expected to be unusually large for several years.

#### 6. WHY CHANGING COSTS MUST BE CONSIDERED IN READJUSTING PRICES

If the essence of the postwar price control problem were merely to prevent prices from rising in consequence of competitive bidding for scarce products—as the quotations given above suggest—it would seem that price control need be centered only in the field of durable consumer goods—where the only important shortages are to be found. But the program of the OPA is comprehensive in character. It contemplates the maintenance of ceilings over nearly all types of commodities—at least for some time to come.

The reason is that it is recognized that after all the price control problem is much more complex than merely preventing price rises where there are acute shortages and a badly distorted demand and supply situation in special lines. There is no reason for believing that the expenditures of excess purchasing power would be confined to the lines where the shortages are acute. According to the inflationary gap theory, goods in general are short

*relatively* to purchasing power. Moreover, as has already been pointed out, wage and other cost factors are involved in the price stabilization program. And because of the interrelations within the complex structure, what happens to prices in any one sector of the economy rapidly affects other sectors. In the words of James F. Brownlee, deputy administrator for price:

Prices must be set with an eye to supply problems, and in proper relation to costs, earnings, business and marketing practices and a host of related factors. Especially important is the fact that every price and every change in price affects directly or indirectly many other prices. The nation's price structure is like a vast cobweb; touch any part of it and the whole fabric is affected."

The ending of the war makes necessary a review of the entire structure of prices. During the war period, there were very great increases in labor and raw material costs. From December 1941 on, wholesale prices of industrial raw materials rose approximately 28 per cent and labor costs in manufacturing industry increased 33 per cent, as measured by average hourly earnings. Meanwhile, wholesale prices of manufactured products had risen only 8 per cent. The added costs were absorbed in some instances by larger volume and improved operating efficiency, and in other cases they were met by the special prices obtained from war orders.

With the cancellation of war contracts and the resumption of peacetime production in competitive markets, the price situation is profoundly altered. In some lines the volume of production will be very

<sup>17</sup> *Extension of Emergency Price Control Act*, Hearings before the House Committee on Banking and Currency, Vol. 1, 78 Cong. 2 sess., p. 50.

large; in other cases it will be greatly reduced. In some industries productive efficiency may have increased considerably, while in others it may have declined. Some industries will find so active a demand for their products that marketing costs will be relatively low; the reverse will be true in other cases. Some lines may need to pay higher wages in order to attract sufficient labor or because of the power of labor unions; in others, where labor organization is weak, wages may be reduced. In some industries the wage item counts for as much as 60 to 70 per cent of the total costs; in others the wage element is of relatively minor importance. With some products the cost of raw materials may decline considerably; in others there may be little if any change. In this situation every industry is inevitably confronted with a new cost and price calculation. Under competitive conditions and in the absence of control machinery, extensive readjustments of the price structure would inevitably occur.

The OPA, in its postwar price control program, recognizes that changes in costs during the war period have to be taken into account. In order to simplify the administrative problems involved in readjusting prices, the OPA has developed a formula applicable to reconversion industries, where peacetime production had been wholly or largely suspended. In brief, this formula would fix manufacturing prices on the basis of 1941 costs, with some adjustment for subsequent net legal increases in raw material prices and wage rates. However, no account is taken of certain wage advances, such as those resulting from upward shifts within wage rate brackets. This control program is intended to prevent the manufacturer from succumbing to the

temptation to charge as high prices as competing buyers would willingly pay. It is believed that the prospective volume of output will be high enough in these lines to permit reasonable profits on the basis of partially adjusted 1941 wage and raw material costs.

While recognizing the necessity of increases in the prices of manufactured products in consequence of increased costs, the OPA nevertheless intends to prevent these increased costs from being passed on to the consumer. In the words of Mr. Bowles:

During this critical reconversion period . . . the cost of rent and food will remain at present levels; clothing prices will be firmly held, and household goods and appliances will come back into the stores at about the same prices that were in effect when the war shut down production. . . . We have our teeth set in the cost of living, and we are going to hold on like a Boston bull pup until our services as inflationary watchdog are no longer necessary."

In no case will manufacturers price increases be passed on to consumers "unless there are overwhelming reasons why distributors cannot carry the full absorption load." It is believed that in view of large volume and active demand customary distributors' margins will be unnecessary, and that the slightly higher manufacturing costs can be readily absorbed by the trade.

With industries where peacetime production was not largely suspended during the war, a different procedure has to be followed. Here current costs, prospective volume, and the general profit situation of the industry are taken into account. If, in the view of the industry, the present ceilings are inadequate, immediately speaking, it will be neces-

"As reported in the *New York Times*, Aug. 24, 1945.

sary for the OPA to review the situation. If subsequent changes occur in raw material or wage costs or in the volume of output, the case will have to be reconsidered.

#### 7. COULD PRICE REVISIONS BE ADMINISTERED EXPEDITIOUSLY?

The OPA's comprehensive price control program is designed to promote "rapid and orderly reconversion," as well as to prevent unnecessary rises in the cost of living. Is there reason for believing that the program can be carried out expeditiously?

If the price control problem were confined to a few selected products in the durable goods field and the setting of prices once and for all, the administrative problem would not present overwhelming difficulties. But the program is not confined to these selected lines, and there is no good reason for believing that in a rapidly changing situation price revisions will not quickly be necessary.

On June 15, 1945, Mr. Bowles stated:

We don't know, business men themselves don't know, what the actual cost of production is going to be once reconverting industries get into production. At the same time, no manufacturer can really get going until he knows what his prices are going to be."

This being undoubtedly true, it is clear that there is every prospect that the price structure will have to be in process of continuous readjustment. Price changes will be necessary because a general formula cannot, in the nature of the case, be applied in a wide range of varying circumstances. Moreover, as Mr. Brownlee has pointed out, once a change has been granted in any given line, a suc-

\* Address before Hartford Chamber of Commerce.

cession of adjustments throughout the inter-related price structure may be necessary.

That the OPA program contemplates extensive revisions of prices in the light of changing costs and other factors is evident from the following statement by Mr. Bowles :

We are going to bend our every effort to extend individual adjustments not only to reconverting firms but to firms which have been producing goods right through the war, as far as it is humanly possible to do so.<sup>20</sup>

These adjustments are apparently to be made not only on an industry basis but for individual companies as well.

Already many of our price regulations include individual adjustment provisions which afford the individual high-cost producer the opportunity to secure a price which meets his individual needs. In the very near future we expect to make a big forward move in this direction.<sup>21</sup>

Mr. Bowles adds that "Our personnel is still limited and . . . frankly we don't know how ambitious a job we are undertaking."

The time involved in making price adjustments may be illustrated by a few examples from our war experience, when the problem was on the whole easier than it can be during the uncertain period of readjustment. The experience of stove and furniture manufacturers may be cited.

Owing to shortages of raw materials in 1943 and 1944, several stove producers were forced to make slight changes in design. In consequence of the resulting higher costs, they filed applications for new

<sup>20</sup> The same.

<sup>21</sup> The same.

price ceilings.<sup>28</sup> During the period from January 1, 1943 through September 1944, decisions had been made by the OPA on 78 applications for new ceilings on stoves. In 50 per cent of these cases, 31 to 90 days were required from the time the request was received until a decision was rendered. For 30 per cent of them the elapsed time ranged from 91 to 286 days. Only 20 per cent were decided in 30 days or less.

In the furniture industry there are some 4,000 individual concerns. Although a considerable number of these continued to manufacture furniture during the war, they received a large volume of government orders. In many cases they were able to continue production at 1942 ceilings only because of the satisfactory profits on war business. Some, however, were forced to apply for price adjustments. In the 28-month period—November 1942 through February 1945—decisions were reached on 49 applications. Thirty-seven per cent of these required from 43 to 90 days and 63 per cent of them required 91 to 334 days.<sup>29</sup> No decisions were made in less than 43 days.

Although stoves and furniture are relatively simple products, nevertheless the bulk of the adjustment decisions required more than 30 days. Assuming no greater time necessary to review adjust-

<sup>28</sup> Because of certain technicalities in the situation, the OPA wrote a new regulation covering cases where the change in design was considered sufficient to be classed under a "new product pricing" formula. The regulation covering stoves is MPR 64.

<sup>29</sup> The basic data for the two examples given above were compiled from the records of the OPA. Cases which required WLB decisions on wage increases prior to review by the OPA and the Office of Economic Stabilization have been excluded. The cases included were those where a price revision only was under consideration without regard to whether an increase was granted or refused.

ment applications by manufacturers of various civilian goods, of which many are far more complex than furniture and stoves, the restraint on a rapid expansion of production and employment becomes immediately apparent.\*

We are not here so much concerned with the problem of initial postwar prices as with the readjustments that will be necessary when fuller information becomes available as to cost, volume, and so forth, in the postwar period. Go-ahead prices for the reconversion industries in accordance with the formula referred to above may, in the light of studies hitherto made, be announced with sufficient promptness to prevent serious delays. But these prices cannot possibly take account of future changes in the costs of such materials as steel, glass, lumber and textiles, or changes in wage rates in the reconversion industries themselves. The crucial difficulty will arise in connection with the prompt readjustment of prices throughout the complex industrial structure.

Under the principles enunciated for the reconversion industries, control at the retail level becomes of especial importance. In wartime with prices of manufactured goods stabilized, the retailer usually had little ground for advancing prices. Now that he is obliged to absorb increases in the cost of manufactured goods, the temptation to evade the regulations by one device or another will be greatly increased. Thus the enforcement and policing machinery of the OPA must be greatly extended if

\* It should be noted in passing that this time factor may be further adversely affected by a failure of the OPA to hold its price experts, and also by any inability to expand its staff with additional people trained for this type of work. There is considerable doubt that the OPA will be able to retain its present number of price executives.



control is to be effective. The device of having the retail price stamped on the product by the manufacturer—if buyers are bent on having the product at any price—cannot prevent evasion in the form of secret deals with favored customers. Involved also would be the problem of controlling trade-in prices allowed on old equipment.

#### 8. CAN RETAIL PRICE CONTROL BE EFFECTIVE WITHOUT RATIONING?

The wartime experience in this and other countries has shown that retail price control of scarce commodities is dependent upon a successful rationing system. Everyone knows from personal observation what would have happened in the case of gasoline, meat, shoes, and so forth without rationing. Not only would the distribution have been altogether inequitable, but price control itself would have been impossible. What rationing does is to restrict market demand and bring it in line with the supply situation.

A rationing program is very much easier to enforce in wartime than in periods of peace. Patriotism and public sentiment are powerful inducements to compliance while the war is on. Once the war is over, the social compulsion is removed, and there is an inevitable disposition on the part of large sections of the population to ignore restrictions.

It is significant that no rationing program has been announced for the scarce durable goods commodities. For example, priorities are to be granted to government officials and the medical profession for the first 100,000 automobiles, but beyond that no control of distribution is apparently contemplated.

The answer to the question raised above is that, without rationing, the problem of control of retail prices would be very greatly complicated. To have any chance of success a veritable army of policing agents would be required.

#### 9. CAN PRICES BE STABILIZED WITHOUT WAGE CONTROL?

In the development of our wartime price control mechanism, it was finally recognized by the Administration that the establishment of price ceilings could not be effective without controls extending down to the foundations. With the passage of the Stabilization Act on October 2, 1942, control over wage costs was for the first time authorized. During the ensuing six months, however, the control system was loose and wage costs continued to rise somewhat. Meanwhile also, the prices of farm products had not been stabilized. The rise in the cost of living was not halted until after the President issued the executive order in April 1943 to "hold the line." "Hold the line" meant chiefly standing fast with respect to wage rates and raw material costs. Control of cost foundations became the key to the entire price stabilization program.

Since wage readjustments upward were still permitted in some instances, and since it was felt that the return to farmers in connection with certain products should be increased as a stimulus to enlarged output, the use of subsidies was conceived as an essential supplement in the firm maintenance of the price line set in April 1943.

Although labor costs continued to edge higher, the rate of increase was in fact greatly reduced. During the twelve months between the establishment of price control in the spring of 1942 and April

1943, average hourly earnings increased 15 per cent; in the two years following the "hold the line" order, the wage rise was only about 10 per cent.<sup>14</sup> In the year preceding the adoption of the hold-the-line policy, the cost of living climbed 8 per cent; in the two years following, the advance was held to only about 2 per cent.

The significance of wage rates in the stabilization problem during the transition period was recently stated by Fred M. Vinson, then director of the Office of War Mobilization and Reconversion, as follows: "Since wages and salaries are the largest single element in costs, wage controls must be maintained if the price line is to be held. . . . Upward wage adjustments cannot be granted without considering their effect on the price level."<sup>15</sup>

As James F. Brownlee of the OPA expresses it:

We now have a kind of balance between cost of living, farm prices, and wages. This balance is the line which has been held for nearly a year past. It is a precarious balance which can be dynamited by a relatively small increase in any one of the three elements. If this happens, the lid is off. It is most probable that no new balance, no new line, could be established anywhere near the present level.<sup>16</sup>

Administration policy with respect to wage controls during the transition was announced in an ex-

<sup>14</sup> The continued rise in average hourly earnings since the hold-the-line order has not resulted from an increase in the number of hours worked at time-and-a-half pay. Presumably it can be explained chiefly by wage adjustments to correct "inequities"—which are permitted under the Stabilization Act.

<sup>15</sup> *The Road to Tokyo and Beyond*, 3d Report to the President, the Senate, and the House of Representatives, by the Director of the Office of War Mobilization and Reconversion, July 1, 1945, pp. 38-39.

<sup>16</sup> *Extension of Emergency Price Control Act*, Hearings before the House Committee on Banking and Currency, Vol. 1, 78 Cong. 2 sess., p. 80.

ecutive order by the President on August 18, 1945. In brief, the new policy provides that: (1) employers may voluntarily increase wages or salaries without obtaining the approval of the War Labor Board—upon condition that such increases shall not be made a basis for compensating price adjustments; (2) the War Labor Board is empowered to approve such increases in wages as may be necessary to correct maladjustments or inequities which would interfere with the effective transition to a peacetime economy.

Meanwhile it was announced that the War Labor Board should be terminated as soon after the conclusion of the forthcoming Industry-Labor Conference as the orderly disposition of the work of the Board permitted and as soon as new facilities for handling labor problems have been provided.

The President stated that:

With the return to a peacetime economy and the elimination of the present temporary wartime agencies and procedures, we must look to collective bargaining, aided and supplemented by a truly effective system of conciliation and voluntary arbitration, as the best and most democratic method of maintaining sound industrial relations.<sup>2</sup>

The new policy thus outlined obviously constitutes an abandonment of the firm wage control policy. This is indicated by the President's emphasis upon collective bargaining, conciliation, and arbitration; and it is especially apparent from the provision that henceforth the War Labor Board may grant wage increases to correct maladjustments or inequities *which would interfere with the effective transition to a peacetime economy*. This opens the

<sup>2</sup> *New York Times*, Aug. 17, 1945.

door to increases in wage rates for such purposes as to sustain purchasing power. Some increases in wage rates in the interest of sustaining purchasing power were recommended by Mr. Vinson in his recent report as director of the Office of War Mobilization and Reconversion, where he says: "We must be prepared to make some upward adjustments to compensate for severe declines in take-home pay"<sup>29</sup>; and the same point with respect to the maintenance of purchasing power is specifically alluded to in Executive Order No. 9599.

The new program thus involves raising wages to prevent decreases in purchasing power and keeping wages down in order to prevent prices from rising. In the words of Mr. Vinson: "Our task continues to be one of holding the line without, however, permitting a deflationary drop in purchasing power."

Pressure for wage increases is already in evidence. In line with this policy, nearly every labor group may be expected to argue that increases are necessary to maintain purchasing power and facilitate the transition. Some 130,000 workers in the lumber industry are now seeking a wage increase. The War Labor Board has directed interested parties to settle the matter by collective bargaining. It is reported that the CIO is exerting pressure on the Board to increase the rates in order to prevent a retardation of expansion in construction activity.<sup>30</sup> The CIO United Automobile Workers have forwarded a demand to the General Motors Corporation for a 30 per cent increase in wage rates. It is

<sup>29</sup> *The Road to Tokyo and Beyond*, 3d Report to the President, the Senate, and the House of Representatives, by the Director of the Office of War Mobilization and Reconversion, July 1, 1945, p. 38.

<sup>30</sup> The same, p. 39.

<sup>31</sup> *Washington Post*, Aug. 21, 1945.

argued that such an increase would require no increase in the price of cars since "the profit and reserve position of General Motors provides ample margin for absorption of the wage adjustment without necessitating price increases."<sup>22</sup> Since the postwar price for General Motors cars permitted by the OPA is based on the assumption that present wage rates will continue, it is apparent that if this increase were granted, the price schedule would have to be revised.

In the very near future we may expect demands for wage increases in such basic industries as coal mining, steel production, and transportation. If granted, in whole or in part, the whole price stabilization program from the cost end will break down.

We are not here arguing that the wage controls should be continued now that the war is ended. There seems to be little possibility that any political administration would be willing to undertake the rigid enforcement of wage controls in peacetime. Even during wartime, wage control was dependent upon patriotic appeals and voluntary co-operation. Even in wartime, strikes as a means of enforcing wage demands could not be outlawed; nor was there any effective machinery for enforcing penalties against labor. In any event denial of the right to strike would appear to be unconstitutional.

The basic issue with which we are concerned is whether any postwar price stabilization program can succeed without effective control over the primary element in cost. Wartime experience, both in this and other countries, teaches that it cannot. If wage rates are advanced, because of government policy, the power of labor organizations, or com-

<sup>22</sup> *Evening Star* (Washington, D. C.), Aug. 19, 1945.

petition for scarce labor in certain industries, extensive cost and price readjustments will inevitably become necessary. It should be clearly borne in mind that these readjustments can be forced even without a horizontal or universal increase in wage rates. An illustration drawn from the current situation will serve to indicate what is involved:

In the early postwar period, iron and steel foundries expect a greater volume of business than during the war, when foundry production was somewhat restricted. In consequence, they need increased labor, and the industry contends that it is unable to attract such labor at existing wage schedules, which were frozen during the war period. Higher rates would require compensating increases in prices of foundry products. But since in this industry there are no wholesale or retail distributors who might be made to absorb the advance in cost at the manufacturing level, such price increases would necessarily be reflected in production costs in industries using foundry products. This is the sort of thing Mr. Brownlee evidently had in mind when he said that "Every change in price affects directly or indirectly many other prices." (See page 21.)

In a situation like this, the OPA cannot hold the price line without seriously interfering with production and employment in a basic industry and in a whole series of related industries. Moreover, if after time-consuming review of the cost situation in the foundry industry an advance in prices is permitted, then it will become necessary to review price schedules in a large number of industries which are consumers of foundry products. Such a revision of price schedules might not be seriously time-consuming if the OPA were content automatically to

permit compensating price advances ; but the OPA's method is to review all the cost factors in the situation with a view to determining whether the increased costs cannot by one means or another be absorbed. This is why the price control regulatory machinery retards the process of business recovery and expansion.

In concluding this phase of the discussion it must be pointed out that the postwar price control programs in Great Britain and Canada include wage stabilization. It is recognized that without wage stabilization it is impossible to maintain price stability.

At this place consideration must be given to the conception of the OPA as to the length of time price control machinery would have to be maintained. The official position of the OPA was expressed by Mr. Bowles on July 7, as follows :

We must drop controls just as rapidly as we can. . . . As our peacetime production is stepped up, supplies will gradually come in balance with demand, first in one field then another. As quickly as this occurs price controls in that area will be eliminated. . . . It is my belief that during the coming year you will see price control eliminated on many products. During the last few months of the fiscal year, you will probably see these controls dropped at a faster and faster rate.<sup>2</sup>

In accordance with the policy thus announced, it would appear that price control could be abandoned as soon as the accumulated shortages in all lines have been eliminated. In the case of automobiles, housing, and some other durable goods lines, several years would presumably be required.

<sup>2</sup> Memorandum to Newspaper Editors, Columnists, and Radio Commentators.



There is, however, a fallacy underlying this line of reasoning. Assuming the OPA is successful in preventing the accumulated purchasing power from pulling up prices, such purchasing power would continue to overhang the markets even though the positive shortages might have been eliminated. According to the inflationary gap theory, the shortages are *relative* shortages; the aggregate of goods is short in relation to the aggregate of purchasing power. Since current postwar production will generate purchasing power proportional to the value of the goods produced, the accumulated excess would not be absorbed. With the inflationary pressure thus remaining, it would appear necessary to continue price control indefinitely.

If, on the other hand, one emphasizes cost factors as of primary importance, it also appears that price control could not be dropped as soon as supplies caught up with demand in the various lines. If wage rates should rise sharply, the supplies would come into the market on a higher cost basis; and, unless costs and profits are to be ignored, upward price adjustments would have to be permitted. The policies of OPA, as we have seen, recognize that increased costs must be taken into account. Hence there can be no assurance that the price problem is solved the moment acute shortages have been eliminated. Moreover, the OPA would no doubt regard it as necessary to continue its controls during a period of rising costs in order to prevent prices from rising more rapidly than the increasing costs justified.

That the OPA conceives that it may be necessary to retain general controls beyond the period of readjustment and reconversion is indicated by a state-

ment of Mr. Bowles on August 24, 1945. He stated that if prices follow the same pattern after this war that they did after World War I, OPA would find inflationary pressures strong by January or February 1946. "After the last war they sagged until March, and then got completely out of control. . . . Nobody knows what the pattern is going to be this time. . . . OPA must be prepared to suspend or clamp down as the occasion demands." "

The implication of this statement is that if, as happened in 1919, an inflationary spiral of rising costs and prices should develop, say, nine months or a year after the war, OPA should be prepared to hold it in check.

#### 10. HOW IMPORTANT IS PRICE CONTROL IN THE DURABLE GOODS FIELD?

Since the postwar price control program is focused first and foremost upon the control of prices where acute shortages exist, it will be of interest to inquire how important such products are from the standpoint of the cost of living. In 1941 expenditures for durable consumer goods, excluding housing, aggregated 6.5 billion dollars. These figures include automobiles, refrigerators, washing machines, vacuum cleaners, electric irons, toasters, radios, clocks and watches, furnaces and heaters, and stoves and ranges. This 6.5 billions represented only 8.5 per cent of total consumer expenditures. Even if prices were doubled in these lines, the effect upon the over-all cost of living would not be great.

It now remains to inquire whether there is any reason for believing that without price control on durable goods prices would skyrocket in these lines.

<sup>a</sup> *Washington Post*, Aug. 24, 1945.

It so happens that this is the very area where industrial price policy operates at its best. The automobile industry, for example, has never followed a policy of charging day-by-day or month-by-month all that the traffic could possibly bear. Rather, the automobile companies have followed a low-price policy designed to sustain and expand markets. Moreover, this industry is one in which there is intense competition among the major companies; and there is no disposition to invite extensive new competition by pushing prices up during a temporary interval when demands are exceptionally large. The obviously sound policy is to set prices at a level which will sustain demand for several years, rather than to gouge consumers while the opportunity exists. It is of course possible, perhaps probable, that in the absence of OPA regulation, prices of new cars would have been slightly higher than the 1942 level. But there is no reason to believe that they would have been 50 per cent or 100 per cent or 200 per cent higher. We repeat that automobile prices are not made primarily on the basis of a temporary demand and supply situation.

Of the 6.5 billions of durable consumer goods mentioned above, 80 per cent was produced by 20 companies, and the balance by 25,000 companies.<sup>10</sup> Thus in the durable consumer goods industry as a whole, prices are determined primarily by the policies of major companies. That is to say, the prices set by the big companies determine in the main the prices that can be charged by the little fellows.<sup>11</sup>

<sup>10</sup> *Our Pricing Objectives in the Reconversion Period*, Memorandum to All Members of OPA Advisory Committees from Chester Bowles, October 1944.

<sup>11</sup> The situation in housing is essentially different. Such construction is in the main undertaken either by individual homeowners or

Even though prices of durable goods were not raised at the manufacture level, the question must still be faced whether the distributors could be kept in line without price control at the retail end. In the automobile field and in some other lines, the manufacturer can exert considerable pressure upon dealers to stay in line and not spoil the subsequent market. There can be little doubt, however, that the temptation will be great to make secret arrangements with insistent customers, especially through the device of small trade-in allowances on used cars or other products. Such practices could not be wholly prevented by the manufacturers.

Nor, for that matter, could such evasion be prevented by the OPA. Experience during the war with respect to ceilings on used cars, radios, and so forth, affords sufficient evidence on this point.

#### SUMMARY AND CONCLUSIONS

The inflation outlook as a whole appears to involve some restraining factors and some danger tendencies.

The favorable elements in the situation are as follows:

- (1) Agricultural production and supply are, or shortly will be, so large in all except a few lines that extensive price declines will occur—unless prices are artificially supported at present levels. A fall to the present legal support level at 90 per cent of parity would mean a drop of approximately 20 per cent.

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by companies which engage in small and semi-speculative operations. OPA control could, however, be only partially effective because it does not have control over the largest element of cost, namely, wages in the building trades.

- (2) Mineral raw materials, with few exceptions, will be abundant. Supplies on hand, plus potential production, are adequate to meet any prospective demands.

With large supplies of raw materials available, the danger of inventory speculation is slight. All that is required is to make public at frequent intervals full information as to the supply situation. The government is also in a position to check any speculative tendency by releasing some of its own accumulated supplies.

With abundant food supplies in prospect, there would seem to be little reason for food profiteering. Again the government is in a position to check speculative buying by releasing government supplies. The supply and price situation in foodstuffs is of course of primary importance from the standpoint of the cost of living.

- (3) Industrial capacity in general is large enough to permit production schedules very much above the levels of 1940-41. Supplies of a wide range of semi-finished and finished products can thus be increased very rapidly. In most lines there would appear to be no occasion for consumer scrambling for short supplies.

The principal danger spots are as follows :

- (1) There are acute shortages in the durable goods field which might encourage profiteering. This situation, however, is safeguarded by the fact that as much as 80 per cent of the production is in the hands of some 20 companies, which are subject to strong competition and which have long had low-price policies.

- (2) There is a powerful movement for higher wage rates. If wage rates generally are increased with a view to maintaining wartime purchasing power after work schedules have been reduced, costs would be increased pretty much all along the line in the field of industrial production. Or if they are increased in special lines, a whole series of readjustments in the interrelated cost and price structure will become necessary. The major inflationary danger at the present time lies in the possibility of rapid wage advances.

In summary, this analysis has established the following points:

- (1) The rapid advance in prices in 1919-20 was rooted in the fear of shortages of raw materials and foodstuffs, which led to speculative buying and inventory accumulation on a vast scale. In the acute stage, we had the familiar spiral of rising prices, rising costs, and again rising prices. Consumer goods prices rose less than the prices of producer goods, and we eventually had a consumers' strike against the high cost of living.

- (2) Today we are faced with surpluses rather than shortages of most raw materials and food products. With the information as to supplies now available, business men have little reason to engage in speculative buying of raw material inventories. Moreover, the government is in a position to check inventory speculation, whether in foodstuffs or raw materials, by releasing supplies now controlled by the Services and the Surplus Property Board.

- (3) The acute shortages are confined chiefly to the field of durable consumer goods, where 80 per

cent of the production is accounted for by 20 companies which have consistently exemplified the principle of mass production, low unit costs, and low prices to consumers.

(4) War experience in this and other countries has demonstrated that the control of wage rates, the most important element in costs, is indispensable to price stabilization. In the light of the newly announced policy of relaxing wage controls and increasing wage rates in order to sustain purchasing power, firm control over costs, and hence over prices, has been surrendered.

(5) The transition from war to peace affects the cost-price situation quite differently in the various divisions of industry. Accordingly, the whole price structure has to be reviewed. Moreover, since rising costs in any particular industry will affect costs in related industries, continuous review and readjustment of prices is necessary to meet the needs of a rapidly changing situation. The time required for any administrative agency to make wise and equitable price readjustments is so great that the expansion of production and employment would be seriously impeded.

(6) Without effective control over wage costs, all that the OPA can hope to accomplish is to retard price advances by delays in granting price relief or by applying "the squeeze" somewhere along the line.

(7) The announced policy of requiring distributors to absorb increased costs at the manufacturing level greatly magnifies the problem of price control at the retail end. War experience indicates that rationing is essential to the control of retail prices in lines where there are acute shortages. But it is apparently recognized that a rationing system

for durable consumer goods in peacetime would not be tolerated.

(8) The principal argument advanced for the continuation of price control is that it is necessary to prevent the excess purchasing power from pulling up prices where shortages exist. We have shown that if the price stabilization program were successful, the excess purchasing power would not have disappeared; hence it would be necessary to continue the price control indefinitely. Similarly, we have shown that if prices are adjusted upward because of wage or other cost increases, there is no foreseeable stopping place; price control would have to be retained as long as inflationary pressures from the cost side existed.

In the light of this analysis we reach the conclusion that, beyond the setting of initial prices for products whose manufacture was suspended during the war, the continuation of price control is impracticable. Without wage stabilization and without rationing, the OPA is not in any case in a position to hold the price line. And the process of continuously reviewing and readjusting a multitude of prices to meet the needs of a rapidly changing situation would be so time-consuming that the expansion of production and employment would inevitably be retarded.



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