

REPORT ON THE COST OF LIVING... AND  
HOW THE INDEX FIGURE IS ARRIVED AT,  
WHETHER ANY CHANGES SHOULD BE MADE  
IN ITS COMPONENT PARTS OR OTHER IMPROVEMENTS.

November 10, 1944

Dear Mr. President:

In a memorandum to me on October 22, 1943 you said:

"There is so much controversy and dispute as to what the cost of living is that I told the labor leaders yesterday I thought it might be a good thing for the War Labor Board to appoint three of its members (labor, business and government) to look into the question and try to answer and make clear how the index figure is arrived at, whether any changes should be made in its component parts, or other improvements. If such a committee could agree in a statement, I think it would have a salutary effect all over the country, because today all kinds of exaggerated statements are made."

The War Labor Board immediately appointed such a committee, enlarged to a membership of five with your approval. 1/

At its first meeting, on November 8, 1943, the committee unanimously agreed, on motion of Mr. Meany, that it would investigate the following questions:

1. What is the cost of living (October 1943) compared to (a) January 1, 1941; (b) May 15, 1942; (c) September 15, 1942?
2. How is the index figure arrived at?
3. Should there be any changes made in the present method of securing or computing the figures? This is to include method of collecting data and choice of component parts of index.
4. What, if any, concrete suggestions have we for improving the method of securing figures?

The Material Examined: The Bureau of Labor Statistics has been publishing its "Cost of Living Index" for a quarter of a century. The Index has been one of the most important statistical tools of government and the social services. It has been widely used in wage negotiations and in observing the effects of fiscal and other governmental policies. Indexes of similar scope and purpose are generally maintained in the industrialized countries of the world, and the B.L.S. Index has enjoyed a high reputation among them.

By the spring of 1943 the changes in our economy due to huge governmental expenditures, and the abnormal changes in our manner of

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1/ William H. Davis, Chairman, Horace B. Horton and George Batt to represent industry, and George Meany and R. J. Thomas to represent labor.

living under wartime strains and distortions, led to much questioning of the accuracy of the Index. Because of this the Bureau of Labor Statistics, through the Secretary of Labor, asked Dr. E. A. Goldenweiser, then President of the American Statistical Association, to appoint a committee to "review and appraise" the cost of living index. The committee appointed by Dr. Goldenweiser consisted of six members <sup>2/</sup> with Professor Frederick C. Mills as chairman. The Mills Committee report, <sup>3/</sup> released on October 10, 1943, a few days before your letter to me of October 22, concluded (p.388):

"First, that within the limitations established for it, the cost of living index provides a trustworthy measure of changes in prices paid by consumers for goods and services. Second, that many of the difficulties and doubts which have arisen concerning the index have their origins in attempts to use it uncritically for purposes to which it is not adapted."

To the specific question "Does the Bureau's index provide an acceptable approximation to recent changes in the cost of living for urban workers," the Mills Committee answer was "Yes" with the following explanatory statement (p. 399):

"With this statement we repeat two necessary explanations and two necessary qualifications.

- (a) The index relates to living costs for wage earners and lower-salaried workers in large cities.
- (b) The index is primarily a measure of changes in the average unit prices of consumer goods and services. It does not measure changes in family expenditures resulting from changes in income or in the place or manner of living. The general effect of the shifts in incomes and in ways of living that have occurred since 1939 has been to advance total family expenditures at a rate greater than that shown by the Bureau's index of living costs.
- (c) The index does not measure the full effects of quality deterioration in certain consumer goods and services and in housing.
- (d) The kinds of goods and services used by the average family have changed somewhat under the impact of war and will continue to change. The Bureau has made changes in the list of goods that it prices and has altered the relative importance of component items to take account of the disappearance of goods and changes in consumption resulting from rationing. These shifts are reflected in the index. Their effect on the actual course of the index has not been great. Checks made by us show that price changes have dominated the movements of the index in recent years."

<sup>2/</sup> Frederick C. Mills, chairman, E. Wight Bakke, Reavis Cox, Margaret C. Re Theodore W. Schultz, Samuel Stratton.

<sup>3/</sup> "An appraisal of the U.S. Bureau of Labor Statistics' Cost of Living Index" published in Journal of the American Statistical Association, December, 1943, Vol. 33, pp. 387-405, and Appendix, March, 1944, Vol. 39 pp.57-95.

Immediately after it was set up, following your letter of October 22, 1943, our committee after consultation with the Secretary of Labor asked the Bureau of Labor Statistics for a statement of the way the index figures are arrived at and the existing method of securing or computing the figures including the method of collecting data and the choice of component parts of the index. The Bureau gave us such a statement on November 16, 1943 4/

On January 25, 1944, Messrs. Thomas and Meany submitted a report which they recommended for adoption by the committee as a whole. 5/ That report asserted that by December 1943 the cost of living in the United States has risen at least 43.5% above the level of January 1941, whereas the B.L.S. index figure had risen only 23.4%. The Meany-Thomas report was immediately submitted to the Bureau of Labor Statistics and to the Mills Committee of the American Statistical Association for comment.

On February 25, 1944, Mr. A. F. Hinrichs, Acting Commissioner of Labor Statistics, submitted to the committee a comprehensive comment on the Meany-Thomas report. 6/ In this report, Mr. Hinrichs said:

"The claim of the Meany-Thomas report that the cost of living has risen 43.6% is not supported by their data. Rather there is conclusive evidence that they are absolutely wrong in asserting that the rise in the cost of living is nearly twice as great as the Bureau of Labor Statistics shows it to be."

On March 22, 1944, I received a communication from the Mills Committee 7/ saying:

"The central criticisms contained in the Meany-Thomas report were before us when we prepared our report. The various tests we made were designed specifically to evaluate these criticisms. After study of the Meany-Thomas report and the Bureau of Labor Statistics' reply thereto, we reaffirm the major conclusions of our report of October 10th, 1943."

Here was a clear case of technicians disagreeing as to quantitative measurements in a special field involving expert knowledge and skill.

4/ "Description of the Cost of Living Index of the Bureau of Labor Statistics", November 16, 1943.

5/ "Cost of Living" by Messrs. Meany and Thomas published January, 1944.

6/ "The Cost of Living Index of the Bureau of Labor Statistics. A Review and Appraisal of the 'Cost of Living' by George Meany and R. J. Thomas, Labor Members of the President's Committee on the Cost of Living, Made by the Bureau of Labor Statistics at the Request of the Chairman of the Committee, Mr. William H. Davis," published February 25, 1944.

7/ Letter of March 22, 1944 from Mr. Frederick C. Mills to William H. Davis

The publications of the Meany-Thomas report and of Mr. Hinrichs' comment thereon had brought into the foreground of public discussion every aspect of the current criticisms of the B.L.S. Index. I felt that the situation presented to the committee an opportunity and a duty to make a comprehensive study of the Index and to evaluate if it could each of these criticisms and so put an end to the controversy and dispute, and to the exaggerated statements, referred to in your memorandum to me of October 22, 1943.

The wide discrepancy of twenty percentage points between the figures of the B.L.S. and of the Meany-Thomas report represented a difference in quantitative result so important that I thought we should not attempt to evaluate it without the aid of technical experts. I felt it my duty to seek the advice of the most authoritative experts I could find. I wanted a group whose study would be without bias and whose judgments on the technical matters in their own field would be generally accepted. After most careful consideration I asked Dr. Wesley C. Mitchell, Dr. Simon N. Kuznets and Dr. Margaret C. Reid 8/ to serve as a technical committee, with Dr. Mitchell as chairman. On March 1, 1944 I requested this technical committee to examine the Meany-Thomas report, the B.L.S. reply, and all other data submitted to our committee or that the technical committee might itself consider pertinent, and to give me an independent opinion. The technical committee, aided by a highly competent staff, 9/ made the requested study and submitted to me its report 10/ dated June 15, 1944.

In the meantime the industry members of our committee, Messrs. Horton and Batt, had asked the National Industrial Conference Board to examine the Meany-Thomas report, and the Conference Board's comments 11/ has been filed with our committee in April, 1944.

On June 22, 1944, at my request, the B.L.S. and the B.A.E. submitted a joint analysis of changes in the cost of living index of the B.L.S. and the index of prices paid by farmers for commodities used for family living of the B.A.E. 12/

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8/ Dr. Wesley C. Mitchell, Director of Research of the National Bureau of Economic Research; Dr. Simon N. Kuznets, Professor of Economics and Statistics at the University of Pennsylvania and at the time Director of the Bureau of Planning and Statistics of the War Production Board; Dr. Margaret G. Reid, Professor of Economics at Iowa State College and at the time working with the Division of Statistical Standards of the Bureau of the Budget.

9/ Messrs. Solomon Fabricant, Everett E. Hagen, George H. Hildebrand, Jr., Lloyd A. Metzler, and Arthur Smithies.

10/ "Report of the Technical Committee appointed by the Chairman of the President's Committee on the Cost of Living." June 15, 1944

11/ "A Critical Analysis of the Meany-Thomas Report on the Cost of Living" published by the National Industrial Conference Board, Inc., in April, 1944.

12/ "A Comparison of Changes in the Cost of Living Index of the B.L.S. and the Index of Prices Paid by Farmers for Commodities used for Family Living of the B.A.E. (Joint Analysis by the Bureau of Agricultural Economics and the Bureau of Labor Statistics)" prepared by Dorothy S. Brady and Roger F. Hal under the direction of Arynase Joy Wickens and Oris V. Wells, Mimeographed June 14, 1944. The report in preliminary draft had been available to the Mitchell Committee.

On June 22, 1944, Mr. Thomas filed with the committee a document published by Mr. Philip Murray and Mr. Thomas 13/ which includes discussion of the B.L.S. reply to the Meany-Thomas report as well as certain supplementary statistical material, the collection of which had not been completed when the Meany-Thomas report was submitted.

Following the submission of the Meany-Thomas report, and at the suggestion of Mr. Harold Rутtenberg, temporarily acting as Mr. Thomas' alternate on our committee during the absence of Mr. Thomas in Europe, Dr. Reid and Miss Margaret Martin, who assisted her in the Mitchell Committee work, met with Mr. Rутtenberg, Mr. Lincoln Fairley of the UAW-CIO Research Department, and Miss Margaret Scattergood of the AFL, on August 16, 1944. There was a full discussion of the points of difference between the Mitchell Committee report and the Meany-Thomas report. Dr. Reid then submitted a report 14/ to Dr. Mitchell and to our committee. Thereafter, on August 24, 1944 Mr. Thomas through Mr. Rутtenberg, submitted to the committee a seven page letter and a twenty page document dated August 23, 1944, commenting on the Mitchell Committee report and the Murray-Thomas report. 15/ Dr. Mitchell replied to these comments in a letter to Mr. Rутtenberg and Dr. Reid reviewed them in a memorandum to the labor experts and in correspondence with Dr. Mitchell. 16/

My study of all these comments on the Murray-Thomas report in relation to the Mitchell Committee report, with an eye out for anything significant in the Murray-Thomas report not covered by the Meany-Thomas report, led me to give particular attention to a field study conducted by the Research Department of the CIO, (not completed when the Meany-Thomas report was submitted) of the current prices of food items not priced by the Bureau of Labor Statistics. This field study was critically examined by Mr. Everett E. Hagen on behalf of the Mitchell Committee. 17/

The submission of evidence to our committee was finally completed on October 7, 1944 by Mr. Hagen's report to me on this field survey of food prices.

From a painstaking study of this rich mine of material there emerges, in my judgment, a clear picture of the B.L.S. Cost of Living index, its purpose and intended scope, its statistical methods, its degree of accuracy and its limitations.

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13/ "Living Costs in World War II" by Messrs. Murray and Thomas, published by Congress of Industrial Organizations, June, 1944.

14/ Dr. Reid's letter to Dr. Mitchell, August 19, 1944.

15/ "Comments of the June 15, 1944 Report of the Mitchell Committee by Technical Staff of Mr. R. J. Thomas . . . "August 23, 1944 and Mr. Rутtenberg's letter of August 24, 1944 to William H. Davis.

16/ Dr. Reid's memorandum to Miss Margaret Scattergood and Messrs. Rутtenberg and Fairley, dated September 1, 1944; Dr. Reid's letter of September 2, 1944 to Dr. Mitchell.

17/ The United Steelworkers of America-CIO Survey of Prices of Certain Foods: An Evaluation, Everett E. Hagen, October 7, 1944

The Common Sense Meaning of "Cost of Living" and Standard of Living: In the public discussion of this much discussed subject there has not even been agreement on what the expression "cost of living" means. Change in the cost of a fixed standard of living has been confused with the cost of a changed standard, or manner, of living. But I think almost everyone understands the common sense idea that the cost of living is something everyone would like to see go down, while the standard of living is something we should all like to see go up. Any housewife who has to manage a budget on a fixed income month after month knows that when prices go up of the things she customarily buys for the family's living, then the family's standard of living must go down. On the other hand, she knows that if by an increase in income her allowance is increased she can improve the family's standard of living -- unless prices go up too. Every head of a family knows that an increase in his total family expenditure may be a forced increase to cover a rising cost of living or it may be a voluntary increase to cover an improved standard of living or it may be a mixture of both. Every good citizen wants to improve his family's living and, even when his income is rising, resents expenditures forced by rising prices that tend to defeat this objective that he works for every day. Indeed in any period of generally rising prices he is likely to get so that he responds to each price increase as a sore thumb responds to a blow; his emotional reaction leaves him temporarily allergic to statistics. But in our calmer moments we can all understand these simple relationships between total expenditures, cost of living and standard of living when we really want to understand them.

The Meaning of the Index: In the expression "Cost of Living Index" the word that is really not generally understood is, I think, the word "Index".

The purpose of the B.L.S. "Cost of Living Index" is to measure changes in the cost of a constant (observed and measured) standard of living. The B.L.S. tries to prevent changes in income from changing its Index. The Index rests upon observed changes in prices of the goods and services that go to make up a previously measured standard list of goods and services. It does not rest upon measurement of changes in family expenditure, which may reflect either a better or a worse standard of living.

Any statistical "index" of change must have reference to a predetermined standard. The first step in setting up such an index of changes in living costs is to choose a standard list of goods and services that fairly represent a normal cost of living. In taking this first step the Bureau had to decide what people the standard should represent. The Index is a workingman's index, as distinguished, for example, from the farmer's index maintained by the Bureau of Agricultural Economics. The Bureau of Labor Statistics chose families of urban wage earners and lower-salaried clerical workers as representing the average conditions of self-supporting workingmen's families in our society.

In order to find out what goods and services this average family buys, the Bureau made by direct observation in the years 1934

to 1936 a careful study of what was actually bought by about 15,000 such families living in the principal large cities of the country. A typical standard workingman's annual family budget of goods and services was thus established.

Having thus established by direct observation a standard living budget representative of urban families who live on wages or modest salaries, the Bureau proceeded (1) to keep track from month to month and year to year of changes in the prices paid for the items that go to make up the total budget of goods and services, and (2) to keep up to date by continuous revision the list of items included in the budget so that it continues to be representative of the goods and services which wage earners and clerical workers can actually find in the market and buy.

The Statistical Methods of the Bureau of Labor Statistics: The statistical methods used by the Bureau to keep track of these changes are described over and over again in the documents attached to this report and need not be repeated here. In so far as they have been criticized they will be referred to below. It is, however, important to note that the total list of goods and services that go to make up the standard of family purchases is divided by the Bureau of Labor Statistics into six groups:

- (1) food
- (2) clothing,
- (3) house furnishings,
- (4) rent,
- (5) fuel, electricity and ice, and
- (6) miscellaneous items, of which the leading items were car fares, automobiles, medical care, recreation, personal care, (such as haircuts and tooth paste), water rent, laundry and postage.

The prices of these different components change very differently and the relative importance (weight) of the different components in the total cost of living is also very different, as we shall see (post pp.18-19)

The requirements of war production and military consumption substantially speeded up the normal rate of change in the cost, and also in the kind, of goods and services which wage earners and lower-salaried clerical workers could buy. The Bureau of Labor Statistics met this abnormal situation by intensifying its observation of prices actually paid for goods of specified quality; by eliminating from the Index items that wholly disappeared from the markets such as automobiles, radios, washing machines, electrical refrigerators, silk products, etc <sup>18/</sup>: by picking up

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<sup>18/</sup>It should be noted that dropping such items from the Index does Not make the Index drop. It is assumed that families spend on something else any money that would have gone for the articles that have disappeared from the markets and for which there is no immediate substitute. For example, part of the peacetime weight for automobiles and tires has been divided among automobile repairs and fares on streetcars and busses. The weights on silk stockings and yard goods have been transferred to similar articles made of cotton and rayon. The balance of the normal costs of missing articles is shifted to the miscellaneous group and credited with a price advance equal to the average for the whole Index.



new items such as rayon stockings, cotton socks, cotton felt mattresses, etc; by shifting the weight in the standard family budget to reflect significant increases or decreases in the available supply, and by keeping track of the changes in buying habits forced by the disappearance of certain commodities and services and noting the current prices of the substitute items of nearest equivalent quality, so far as such quality determinations are possible.

All of these adjustments to wartimes conditions have been made by approved statistical methods and with technical competency. The object has been at all times to make the Index represent each month changes in the total cost of a bill of goods and services corresponding as nearly as may be in cost and value with the previously established standard of goods and services, but including only things which direct observation of the markets shows that urban wage earners and clerical workers can actually buy.

The Mills Committee reported that:

"After a careful investigation of the relevant evidence we believe that the index records with a satisfactory degree of accuracy what has happened to unit prices paid for consumers' goods by city families of moderate income.

"We have been much impressed during our investigation by the integrity, alertness, intelligence and technical competence of the Bureau's staff. We feel that, on the whole, working under very trying circumstances, they are doing an excellent job of carrying out the task assigned to them." (p. 389)

"We have said that the Index provides an acceptable approximation to recent changes in living costs. We believe that as a measure of price changes affecting urban workers in large cities it is a good approximation." (p. 399, emphasis theirs)

The Mitchell Committee reported (Part I, p. 19) that:

"Our examination of the methods used by the BLS and the other information we have gathered, including the BAE index of the cost of living of farm families, leads us to conclude that the BLS has done a competent job, under very difficult market conditions, in providing a measure of price changes for goods customarily purchased by families of wage earners and lower-salaried workers living in large cities."

The Specific Criticisms of the B.L.S. Index Figures: Item 1 of the Meany-Thomas report 19/ is the principal criticism of the B.L.S. methods of pricing reflected in the 20 percentage points of difference between the Meany Thomas figures and the B.L.S. figures. This criticism asserts that food items in the worker's budget not priced by the B.L.S. have increased in price more rapidly than the food items that are priced by B.L.S., and that a similar result has occurred in connection with the rent components of the Index. In connection with the rent component the Meany-Thomas charge takes into account an alleged under-reporting of rents due to the fact that the B.L.S. Index of changes in rents is based on returns from only 34 of the largest cities and is therefore, it is asserted, not typical of all urban areas because wartime industrial congestion has been most serious in smaller cities. 20/

To these alleged defects of the B.L.S. measurement of food prices and rents the Meany-Thomas report attributes approximately 7 points (7.22) of the 20 percentage points of the difference between the B.L.S. Index figures and the figures of the Meany-Thomas report.

The Mitchell Committee made a thoroughgoing examination of these alleged defects, carefully weighing all the assertions and evidence in the Meany-Thomas report and other available evidence. 21/

As to the alleged difference in the price changes of priced and non-priced foods the Mitchell Committee concluded (Part III A, p. 18).

"We conclude that no adjustment of the BLS food index is justified on this account."

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19/ Meany-Thomas Report, Summary p. 4:

"1. The government's price control efforts and subsidy programs have been concentrated upon food items which are important in workers' budgets and which are currently priced for inclusion in the Index. In consequence, according to special surveys in a number of cities, the prices of other foods, also important components of workers' budgets, have risen twice as fast as those priced by BLS. Thus, while the Food Index has been held down, the actual cost of food as a whole has risen sharply. A similar result has occurred in connection with the rent component of the Index. Notwithstanding this finding, the Committee wishes to commend the OPA for its efforts to control prices. We need more, price control, not less." (emphasis theirs)

20/ Meany-Thomas Report, Summary, pp. 4-5:

"4. The Index is based on returns from only 34 of the largest cities (56 in the case of food prices). Retail price changes in these cities are not typical of price changes in all urban areas because the congestion resulting from wartime military and industrial activity has been most serious in smaller cities. In such areas, heavy immigration has produced such pressure on limited housing, stores and other facilities that prices have been driven up faster than in the more stable metropolitan areas. Our findings are conservative for the reason that they do not take this factor into account, except in the case of rent."

21/ See the summary at page 25, Part II; the details of their food price analysis in Part III A, Subsection (c) at pages 8 to 18 inclusive, and as to rents, Part III C.

As to rents, the Mitchell Committee concluded that an allowance of one-half percent in the rent index would be sufficient to cover the omission of rooming houses and trailers, and as to the failure of the B.L.S. Index to adequately cover new housing units they said (Part III B. p. 4):

"Although, for reasons just stated, we cannot accept the 5 percent upward correction suggested by Meany-Thomas for this factor, some adjustment seems to be necessary. We set it tentatively at one percent. It may well be an over-generous allowance since in the light of the relative numbers of new and old dwelling units, it implies an average rental of new units some 15 percent higher than that of old."

This possible downward bias in the B.L.S. Index of rents tentatively estimated in the Mitchell report to amount to an understatement of the increases in rental costs of 1.5 percentage points becomes, when multiplied by the factor allocated to rent in the total budget, an understatement of the overall cost of living figure of .30 percentage points.

Thus the analysis of the Mitchell Committee reduced the 7.22 percentage points attributed in the Meany-Thomas report to alleged differences in the price changes of priced and non-priced foods and rents by the B.L.S. to an amount not more than .30 percentage points.

The evaluation by us of this conclusion of the Mitchell Committee seems to me to present no substantial difficulty. I think the conclusion can be said to be free from reasonable doubt. The tentatively estimated correction of the rent item, affecting the overall figures by .30 percentage points at the most, does not impair the Mitchell Committee conclusion that "the PLS has done a competent job, under very difficult market conditions, in providing a measure of price changes for goods customarily purchased by families of wage earners and lower-salaried workers living in large cities" (Part I, p. 19). That conclusion is reinforced by the conclusion of the Mills Committee that within the limits established for it, the B.L.S. Index provides a trustworthy measure of changes in the prices paid by consumers for goods and services (p. 388), and that it does provide an acceptable approximation to recent changes in the cost of living for urban workers (pp. 398-9).

Thus we have the statistical work of the B.L.S. experts, within the area of direct observation continuously made by them, confirmed by the three outstanding experts of the Mitchell Committee and by the six experts of the Mills Committee, all persons whose life work has been in the field of statistics and whose professional standing rests upon accuracy of judgment in such matters.

Furthermore, that part of the Mitchell Committee's conclusion that finds no justification for any adjustment of the food index because of the price of foods not priced by the B.L.S. is confirmed by the final results of Mr. Hagen's study of the survey reported in the Murray-Thomas report. That report, dated October 7, 1944, shows that an error was made

in arithmetic procedure in calculating the result of the Murray-Thomas food price survey. This error was recognized by Mr. Lincoln Fairley of the UAW-CIO and acknowledged in a letter to me of October 6, 1944. Correction of that arithmetic error and the application of refinements and necessary corrections in statistical technique led Mr. Hagen to the conclusion that "the margin of difference between the increase indicated by the B.L.S. data and that shown by the USA-CIO data is not significant. I therefore conclude that the USA-CIO survey does not constitute evidence that the B.L.S. Index understates by any amount whatever the rise in the prices of foods not directly priced for that Index." (p. 3)

It is clearly quite safe, therefore, to accept the conclusions of the Mitchell Committee that (Part I, p. 15):

"The detailed evidence presented in Part III confirms confidence in the accuracy and representiveness of the price changes shown by the B.L.S. Index. On the other hand, the evidence submitted by the Meany-Thomas report in support of these charges does not withstand critical examination."

The unmistakable conclusion is that we must accept this elimination by the Mitchell Committee of approximately seven of the alleged twenty percentage points of understatement of the cost of living increase in the B.L.S. figures.

Substantially all of the remaining 13 percentage points of difference between the B.L.S. figures and the figures of the Meany-Thomas report have to do with (1) the disappearance of cheaper consumption items and the shift toward higher priced lines (the so-called trading up), (2) quality deterioration <sup>22/</sup>, (3) decline in special sales, and (4) increases in under-reporting of prices actually charged. <sup>23/</sup> All of these criticisms deal with alleged increases in the cost of living imposed upon the purchasing consumer when there is a shortage of consumer goods and the merchant is less eager to sell than the buyer is to buy. The Meany-Thomas estimates of the amount of under-reporting in the B.L.S. Index due to these items of alleged hidden increase stated in the order of their importance are as follows:

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<sup>22/</sup> The items here numbered (1) and (2) are covered by items 2 and 3 of the Meany-Thomas Report Summary p. 4

"2. The construction of the Index is such that it does not take adequately into account the disappearance of cheaper consumption items and the shift toward higher priced lines. This deficiency is most striking in the case of clothing where "trading-up" has been most clearly visible, but it is a factor also in the case of house furnishings, food and even housing.

"3. The effect of quality deterioration, which has been very marked during this period, is almost completely neglected by the BLS."

<sup>23/</sup> These items here numbered (3) and (4) are treated in the Meany-Thomas Report Part I, (p. 7) as deficiencies of the BLS procedure.

Quality deterioration - 6.95 percentage points in the total index;  
Disappearance of cheaper consumption items (trading-up) - 3.62 percentage points;  
Decline in special sales - 1.35 percentage points, and  
Increase in under-reporting of prices actually charged - .98 percentage points.

In Part III of the Mitchell Committee report these allegations of the Meany-Thomas report are taken apart and carefully examined for each one of the separate components of the Index to which the allegations apply. On the basis of this examination the Mitchell Committee proceeded to estimate the possible downward bias of the B.L.S. Index because of the alleged hidden quality deterioration, disappearance of cheap consumer items, decline in special sales, and increase in under-reporting of prices actually charged.

The Mitchell Committee realized, as we all do, that among the many inconveniences and dislocations brought on by the war are included many inconveniences to shoppers which we all have to put up with but which are not reflected in the amount of money that we have to spend to keep up a given standard of living. And it pointed out that what people are most concerned about is the cost of a given quantity of utility or serviceability; that the deterioration of goods and services that cannot be offset by spending more money to buy more units does not increase the cost of living.

In presenting the result of its analysis and estimates the committee warns that the estimates made by it should not be taken to mean "that the Bureau of Labor Statistics could, or should, take account of the rather intangible factors we have stressed" (Part I, p. 20). The Committee said:

"Even if we are right in thinking that the index does not represent the full increase in the price of a list of customary supplies, kept as constant as wartime conditions allow, it may not follow that the Bureau of Labor Statistics could, or should, take account of the rather intangible factors we have stressed. An official fact-finding agency is properly reluctant to state conclusions it cannot support by evidence that any fairminded critic must accept.

And throughout its detailed analysis in Part II and Part III the committee repeatedly notes that the methods used by it in making the estimates are not suitable for use in preparing an official index and are not recommended for use by the BLS in the work of keeping up its index. 24/

More than half of the under-reporting of the BLS index estimated by the Mitchell Committee is attributed to hidden quality deterioration. As to this the committee said: (Part I, p. 17)

"Because we are convinced that some estimates of the greater expenses incurred because of poorer quality are much too high we are willing to contribute our guess. We believe that family expenditures in general have not been pushed up by deterioration of qualities and price increases for the full range of qualities, more than two or three points beyond the increase indicated by the BLS index. In making this guess, we isolated the items for which reduced quality tends to force the purchase of increased quantity. We took into account the importance of these goods in the total index and the BLS method of pricing, and studied market data on both quality and quantity. And we considered the probable effect of the BLS's failure to cover the entire range of qualities."

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24/ Part II, p. 39 --

"The methods used by us in estimating the shortcomings of the present index are for the most part not suitable for an official index that must be based on measurable phenomena."

Part III A, p. 26 --

"We wish to emphasize as was done in Parts I and II, that this appraisal of possible downward bias in the index is in part based on a guess, and that we do not recommend that the BLS use similar methods in preparing the official index."

Part III B, p. 19 --

"Again it seems desirable to point out that the methods used in making the estimates in this appraisal are not suitable for use in preparing an official index."

Part III, C. p. 12 --

"We would like to emphasize here, as in preceding sections, that some of these estimates are based on limited data, that some of them are no more than crude guesses, and that the methods used by us are not suitable for use in an official index."

and again it said: (Part II, p. 23)

"Where the evidence is inconclusive, the committee has attempted an informed guess. All guesses are based on assumptions that have been examined and stated as systematically as has been possible, within the time available to us. The committee has seen fit to include those guesses because it believes that certain other guesses have greatly exaggerated the shortcomings of the index."

The Bureau of Labor Statistics has always recognized the difficulty of measuring quality changes, which exist whether the change in quality has been for the better or for the worse. Under normal competitive conditions these hidden quality changes tend toward improvement of quality and give advantages to the consumer not reflected in the B.L.S. Index figures. In times when there is a shortage of consumer goods and lessened competition among the sellers the tendency is toward quality deterioration. The reason why it has been hard for the B.L.S. to keep track of quality when pricing consumer goods is that for a great many things we buy there is no fixed standard of quality. Standard articles like cotton bed sheets, for instance, are priced by the B.L.S.'s agents on the basis of rigid specifications. For such items the quality is fixed and any change in price is fully reflected in the index free from any question of quality enhancement or quality deterioration. Although the B.L.S. in all its work makes use of carefully prepared specifications as far as is possible to do so, there are many items in which there is some change in quality that is not reflected in the index. Under normal market conditions this difficulty of measuring price changes arises mainly from improvements in quality. Each year automobiles, electric refrigerator radios, and various other goods got a little better but neither the B.L.S. nor the manufacturers ever found any satisfactory way of measuring these quality changes. In practice, the B.L.S. was forced to stick to the prices charged, and the admitted improvement in quality was what may be termed an unearned increment of advantage to the consumer. When there is a shortage of consumer goods, as in the present wartime seller's market, this normal advantage to the consumer is turned into a disadvantage, temporary in its nature but nevertheless real.

It is this temporary disadvantage of the buyer in a seller's market that is covered by the Mitchell Committee estimated allowance for quality deterioration in the wartime cost of living; and the same temporary character is shared also by the estimates for disappearance of cheaper consumption items, declines in special sales, and increases in under-reporting of prices. In this connection it is to be noted that part of the rise in the BLS index that has occurred since December, 1943, is due to the fact that goods of pre-war qualities are again to be found in stores - for example, spring-filled furniture and all-wool blankets.

There is no need to repeat here the detailed estimates made by the Mitchell Committee with respect to quality deterioration, disappearance of cheaper consumption items, decline in special sales and increases in under-reporting of prices within each of the six categories of the index. It is enough to set forth the committee's over-all conclusions as to each of these alleged causes of downward bias. Their estimates were as follows:

Quality deterioration --- 1.46 to 2.69 percentage points  
in the total index;

Disappearance of cheaper  
consumption items (trading-up) .06 to .11 percentage points  
Decline in special sales ---- .44 percentage points, and

Increase in under-reporting  
of prices actually charged -- .24 to .43 percentage points

It will be seen that the sum of these estimated allowances is from 3.20 to 5.72 percentage points. When the estimated allowance for under-reporting of rents is added, these estimates become 2.50 to 4.02 percentage points.

The final conclusions of the Mitchell Committee are summarized at Part I, page 20 of its report as follows:

"If the RIS had obtained strictly accurate reports of all the prices it tries to collect; if it had caught the change in average prices caused by their reduction in bargain sales; if it had priced the qualities bought by families with very low income and the qualities bought by the most prosperous of wage earners as well as those in the middle groups; and if it had made full allowance for increases in expenditures forced on families by quality deterioration that can be offset by buying more goods, its index would probably not be higher than it is now by more than three to four points."

This figure, 3 to 4 percentage points, is the figure that the careful quantitative analysis of the Mitchell Committee finally substitutes for the Meany-Thomas estimate of 20 percentage points.

Here again we have to choose between the estimates made by the Mitchell Committee and the estimates of the Meany-Thomas report. Quite aside from the weight properly given to the conclusion of these unbiased experts in their special field, a careful study of the detailed analysis of Part III of the Mitchell report and comparison item by item with the Meany-Thomas report reveals the fact that this analysis which, after all, deals with data and processes of reasoning well within the comprehension of a reasonably experienced person of average intelligence, is utterly convincing.

A careful reading of the Mitchell Committee report leaves a deep impression at every point of meticulous, methodical, and objective technique. At no time are sweeping generalizations or judgments made. When evidence is scanty and inconclusive the committee in reporting its estimates specifically says so. The full scope and penetration of the analysis is evident throughout. All intricacies of the problem are thoroughly gone into in far greater detail than can be reported or even summarized here. I feel sure that the Mitchell Committee's estimates and conclusions may confidently be relied upon.



On all the evidence, the fair conclusion is that the cost of living in December 1943 was not 43% above the level of January 1941 as alleged in the Meany-Thomas report; that it had increased 23% as shown by the direct pricing methods of the Bureau of Labor Statistics, and that there had been an additional hidden increase of not more than 3 or 4%, more than half of which is due to quality deterioration not directly measurable but painstakingly estimated by the Mitchell Committee, and practically all of which results from the disadvantage of the buyer in a seller's market. This disadvantage can be expected to disappear as soon as we can resume full production of consumer goods and services in a competitive market.

Finally, the Mitchell Committee report analyzes (Part I, p. 14) the criticism that prices have risen faster in small cities which the F.L.S. Index does not cover than in the large cities which it does cover. As we have seen, the Meany-Thomas report in its alleged understatement of 20 percentage points does not take this factor into account, except in the case of rent. This criticism is discussed in the Mitchell Committee report as follows (Part I, pp. 17-18):

"The last criticism in our list is that the BIS does not collect prices except for food, in small cities, where it is claimed the increase has been faster than in the 34 large cities covered by its index. Clearly, the more representative the sample of places included, the more representative will be the national index. But whether prices really have risen appreciably faster in small than in large cities is not certain. However, we do have a little information on that head, for the BIS has begun the construction of a small city index. As yet too few places have been included to provide a stable average, but the indications are that the price rise has been somewhat more rapid in the smaller cities. If the smaller cities where prices have been collected are included, the additional increase in the total index (would) not exceed one half of one point."

This conclusion, which I think should be accepted, is drawn from the considerations more fully discussed in Part II of the Mitchell report (Part II, pp. 23-24) as follows:

"In addition to its large city indexes, the BIS has a sample of small cities (those with a population of five to fifty thousand persons), which covered 1.6 percent of the total population in small cities as defined, and 1.1 percent of the number of all such cities. While the sample is carefully selected, it is small, and in the judgment of the BIS requires expansion to provide an adequate coverage of small cities. At the request of the ASA Committee, the small city indexes so far available have been appropriately weighted and combined with the index of large cities, for a selected period. The all-city index so prepared indicates that the present BIS index is a good approximation to an index for families of wage earners and lower salaried clerical workers

in all cities. The BIS index in September of 1943 was 23.0 percent above December 1940. For all cities combined, including small cities, the estimated corresponding rise is 23.6 percent.

"Some people have questioned whether the index adequately represents war centers, large or small. Under-representation of these has been held to cause a downward bias in the index, especially in the rent component. The following findings bear on the sample of cities:

"(1) Since the BIS sample of cities covers two-thirds of the population living in cities of over 50,000 population, it thereby includes many war production centers. In fact, the sample includes cities in eight of 14 areas designated as congested areas.

"(2) The BIS reports that its rental index for large cities is only one point below a rent index that may be computed for small cities. The committee has no reason to doubt the accuracy of this statement.

"(3) As indicated above, it seems probable that the BIS index would not be raised by more than one-half of one percent if prices and rents were secured from an adequate sample of small as well as large cities." (emphasis theirs)

Acceptance of the estimate of the Mitchell Committee that including smaller cities would not increase the total B.L.S. Index figure more than one-half of one point, and making an upward correction of the over-all figure in that amount, would answer for the time being the criticism that the B.L.S. Index does not represent the urban workers in small cities as well as large cities. A more extended measurement of price changes in small cities by the B.L.S. will test the accuracy of this estimate and permit correction, if necessary, of this relatively insignificant adjustment.

The Answer to the Basic Question: The foregoing discussions bring us to a point where we are able to answer categorically the first question our committee agreed to investigate:

"What is the cost of living (October 1943) <sup>25/</sup> compared to (a) January 1, 1941; (b) May 15, 1942; (c) September 15, 1942?

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<sup>25/</sup> The October 1943 date was put into the resolution as the date of the latest available statistics at the time the motion was made. The Meany-Thomas report and the Mitchell report deal with the cost of living up to and including December 1943.

The answer that emerges from a study of all the material before this committee is:

(1) The accuracy of the B.L.S. Index figures for what they are intended to measure is confirmed. They are entitled to the good reputation they have long enjoyed. They constitute a competent measure of price changes for goods customarily purchased by families of wage earners and lower-salaried workers living in large cities. They provide from month to month an acceptable approximation to changes in the cost of living for urban workers. They are good basic figures for use in the formulation of fiscal and other governmental policies and for observing the effects of such policies.

(2) Under the exceptional market conditions which exist in wartime, and so long as we have a seller's market, allowance should be made for a hidden increase in the cost of living of probably as much as 3 and certainly not more than 4 percentage points, due to quality deterioration, disappearance of cheaper goods, decrease of special sales and increases in under-reporting of prices actually charged. Unlike the price changes recorded by the B.L.S., these items of temporary disadvantage of the buyer in a seller's market are not directly measurable but they have been soundly estimated by the Mitchell Committee.

(3) If the Index is to be used to represent changes in the cost of living of urban workers in small as well as large cities there should be an upward adjustment of the Index figures by not more than one-half of a percentage point. This item is estimated from the results of data from only a few small cities. It, also, reflects wartime conditions. It should be replaced by a figure based on direct observation when the B.L.S. has extended its pricing to a more adequate coverage of small cities.

The chart and tabulation attached to this report show the B.L.S. figures for the cost of living, and for its components, from January 1941 to September 1944. The tabulation gives the figures for the changes in the overall cost of living from January 15, 1941 to May 15, 1942, the date of the Little Steel formula; September 15, 1942, the stabilization date of the Act of Congress of October 2, 1942; April 15, 1943, the nearest date to the issuance of Executive Order 9328, the so-called "hold the line" order; April 15, 1944, the anniversary of Executive Order 9328; December 15, 1943, the date covered by the Keany-Thomas and Mitchell reports; and September 15, 1944, the latest available date for B.L.S. statistics.

For all components combined the cost of living rose approximately 15% from January 15, 1941 to May 15, 1942. It rose about 2% more from May 15 to September 15, 1942. It continued to rise at about the same rate to April 15, 1943, when it amounted to an increase of about 25%. There was some minor fluctuation but no further significant rise in the twelve months from April 15, 1943 to April 15, 1944. The increase up to December 15, 1943 was approximately 23%. It was 25.5% on September 15, 1944.

To this figure 25.5% should be added the Mitchell Committee estimate of 3 to 4 percentage points for the hidden increases in a seller's market, and 1/2 percentage point if the Index is to be used to represent changes in the cost of living of urban workers in small as well as large cities.

The final figure for the overall increase in the cost of living from January 1941 to September 1944 would thus be found to be 29 to 30 percent.

It can also be seen from the chart and table that the present 25.5% increase since January, 1941, for all components of the cost of living combined represents quite a considerable variation of increase in the several components. Thus, while the combined average has risen about 25% the cost of food has risen 40.1%. Since food constituted 34.3% of the standard budget priced for the Index in January, 1941, increase in food prices has contributed about 14 of the 25 percentage points of overall increase. Clothing has increased in cost 40.4%. It represents 11% of the total budget in January 1941 and has contributed about 4 percentage points to the total increase. Rent, which constitutes 19.6% of the total budget in January 1941, has increased only 3 percentage points and contributes a little more than one-half percentage point to the total increase. Fuel, electricity and ice, which constituted only 6.7% of the total budget in January 1941, have increase only about 8.9% in cost and also contributed a little more than one-half percentage point to the 25% increase in the combined figures. House furnishings have increased 40.6% but they constituted only 4.4% of the total budget in January 1941 so that this increase has contributed a little less than 2 percentage points. Miscellaneous items have increased in cost 20.1% and, since they constituted 24% of the total budget in January 1941 this increase shows up as more than 4 percentage points of increase in the combined figure.

Figures for the estimated correction of each of these components as of December 1943 are given in Part II of the Mitchell report at page 38.

The Answer to the Subsidiary Questions: The second question of our Committee's resolution of November 8, 1943 was:

"How is the index figure arrived at?"

We have already summarized the procedure by which the B.L.S. arrives at the index figure (ante pp. 6-9). Anyone interested in the details of these methods should consult the document accompanying this report entitled "Description of the Cost of Living Index of the Bureau of Labor Statistics" which was supplied to our committee by the Bureau of Labor Statistics on November 16, 1943, and Part II of the Mitchell Committee's report.

Questions 3 and 4 of our committee's resolution of November 8, 1943 (ante p. 1) inquire whether any changes should be made in the present method of securing or computing the figures (including methods of collecting data and choice of component parts of the index), and whether we

have any concrete suggestions for improving these methods. Specific answers to those questions are given at the end of the following review of some changes in our manner of living and of some things that the B.L.S. Index does not cover.

Wartime Changes in our Manner of Living and some Things that the Bureau of Labor Statistics Index does not do

The Mitchell Committee found that it could not appriase the BIS Cost of Living Index until it had considered the underlying changes in our manner of living in wartime. Speaking of the "real costs of living in wartime" the committee said: (Part I, p. 2)

"The controlling fact is that when war was forced on the United States our people agreed with rare unanimity to subordinate their diverse individual aims to a single national aim until victory should be won. That decision meant risking the lives of millions of our young men, working long hours to equip the armed forces, giving up many goods we like to consume, reorganizing our system of free enterprise along lines laid down by an over-all governmental plan, paying heavy taxes and putting billions of current earnings into government bonds. All loyal citizens accept the national decision and are ready to take their fair shares of the many sacrifices involved."

and after mentioning the additional fact that "families by tens of thousands have left their old homes and moved to places where there is greater need for their services but where living conditions are less comfortable", the committee added (Part I, p. 2):

"These are real costs - deaths, maimings, and interference with promising careers; families left without husbands, fathers or sons; long hours of work, a lower standard of home care, interrupted schooling, shifting to strange communities, deprivation of goods. Nothing that happens in the way of money income or outgo can make up for these costs." (emphasis theirs)

and went on to say that what does make up for these real costs of war are "the equally real results of the nation's effort."

Taking one step closer to the problems of family expenditures, the committee noted (Part I, p. 5) that according to official estimates made by the Department of Commerce "personal incomes have increased much faster and much more than consumer expenditures." The fact is then noted that those whose money incomes went up rapidly might have smashed the price controls by wild bidding for the limited supply of goods if they had been reckless spenders, but they did not do so. Further emphasizing this fact that not all the increased income of civilian wage earners and salaried employees has been spent, the committee notes

(Part I, p. 6) that a study of expenditures by wage earners and low salaried clerical workers in cities showed that savings in this group had increased from less than 1% of their money incomes in 1934-1936 to 3% in 1941 and to 8% in the first three months of 1942. 27/ This section of the committee's report concludes with the following remarks:

"These various materials seem to justify the statement that, on the average, American wage earners and low salaried workers have improved their financial position notably since 1941. Average family incomes have risen faster still because of the increase in the average number of earners per family. This conclusion emphatically does not mean that all families have increased their money incomes. There are industries in which average incomes have declined, and in every industry some families are worse off financially than before the attack on Pearl Harbor. But unless the foregoing evidence is altogether misleading such cases are the exception -- not the rule." (emphasis theirs) (Part I, p. 7)

Pointing out that in peacetime families whose money incomes increase usually raise their standard of living (Part I, p. 7) 28/ the committee notes that in wartime the housewife, even though on the average

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27/ The committee here refers also to the recent study by Mr. N. Arnold Tolles of the Bureau of Labor Statistics (Spendable Earnings of Factory Workers", 1941-43, "Monthly Labor Review", March 1944) of the effect of federal taxes and bond purchases on take home wage, in which Mr. Tolles found that while the average weekly earnings of some 14 million factory workers increased 68% between January 1941 and October 1943, social security taxes, income and victory taxes and purchases of government bonds have also increased, so that a factory worker with a wife and two children gives up on the average nearly a quarter of this addition to his income to meet these heavier taxes and bond demands. Mr. Tolles concludes that although such a man's take home earnings have indeed risen rapidly yet the real spendable increase is about 45%, not 68%, and that for single workers who get no tax credit for dependents the increase in take home earnings after taxes and bond purchases has averaged only 24%.

28/ The fact that money incomes for all our citizens have greatly changed, and generally for the better was the basic reason that, in the opinion of the Mitchell Committee, prevented any useful application of the so called "derived indexes" which the Meany-Thomas report made use of in estimating changes in the prices of food (See discussion by Mitchell Committee, Part III A, pages 6 to 8) and in the prices of clothing (See Mitchell Committee report, Part III B, pages 7 and 8). To complete the record of this discussion certain correspondence on the subject is included among the papers submitted with this report.

she has more money to spend than ever before, faces puzzling problems because under wartime conditions many changes have been made in materials and methods of manufacture and there have been many substitutions in the market so that "if anyone asked her to figure out what part price changes play in her family's living expenses, she would find the question hard to answer because she buys different goods, partly from choice and partly from necessity" (Part I, p. 8). This "housewife's puzzle about the relation of price changes to the cost of living is the puzzle that the Bureau of Labor Statistics must solve as best it can."

Having thus reviewed the important wartime changes in our manner of living and after reiterating the fact that "the B.L.S. tries to prevent changes in income from changing its index" and has, for the most part, attempted to measure only price changes, the committee says (Part I, p. 8) "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."

Emphasizing again that the B.L.S. Index measures average changes in the price of goods and services that go to make up a standard market basket the committee said (Part I, p. 10):

"On the contrary, the B.L.S. went as far as it could toward pricing a list of family supplies that remained constant in type of goods, quality of goods, and quantity of goods. It 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."

Again contrasting this purpose of the B.L.S. Index with any attempt to measure changes in total family expenditures, the committee finds (Part I, pp. 12 and 13):

"No doubt most families have increased their expenditures by more than the price advances indicated in the Index. That is the result to be expected from the very rapid increase in family incomes shown by the Department of Commerce estimates and other data we have cited. A wide discrepancy between changes in the amount of money families are actually spending and changes in the B.L.S. index of the cost of living discredits nothing in the latter except its ambiguous name."

It is in this context that one should read the Committee's statement that" (Part I, p. 21)

"The widespread opinion that the B.L.S. 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 and services it buys."

But the committee says again and again, and always with approval, that the Bureau "never has tried, and does not now try, to measure the cost of living in this sense"; that this "is not the kind of index the B.L.S. makes" and that the B.L.S. index should not try to measure changes in the total amount of family expenditure. They fully agree that the B.L.S. should try to prevent changes in income from changing its index. They say "One of the things we need to know is how living costs are being influenced by changes in retail prices. Otherwise, we should have no means of judging whether the governmental price controls are effective or not; nor could anyone compare changes in wage rates with retail price changes;" that "What the B.L.S. now tries to supply is highly desirable" and that to mix additional factors into the things measured by the index would only impair its usefulness. (Part I, p. 14)

As a matter of fact it seems to me highly important, particularly from the standpoint of those who have to battle for better standards of living in America, that it should be generally understood that the thing measured by the B.L.S. Index is the change from time to time in the aggregate cost of a fixed typical family market basket, so that urban workers may know whether their wage dollar has kept its real value in the market. Their interest is in how much goods and services a given amount in the pay envelope will buy. If prices go down but the workers, through their unions, manage to keep wages stable, then they have won an increase in real wages and can improve their standard of living. If prices are held steady and wages go up, again an improved standard of living is made possible. If prices go up, then an equivalent increase in wages must be achieved if the workers' standard of living is to be maintained. If the B.L.S. permitted changes in income to change its Index these people would have no way to measure either the gains or the losses in the value of the dollars for which they work. With a great falling off of real income, and the inevitable reduction of total family expenditure, they might be asked to believe that the "cost of living" had declined as their incomes fell off and that they were really as well off as before.

It seems quite clear from all this that the proper purpose of the BIS Index is to record from month to month and quarter to quarter the changes that actually take place in the amounts of money required by urban wage earners and lower salaried employees to buy those items of goods and services which go to make up a fixed standard of living; and that such an index is not to be confused with, or changed to become, an index set up to measure from time to time changes in total family expenditures.

In its summary of finding (Part I, p. 20) the Mitchell Committee says:

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



Although I believe, as I have already said (ante p. 6), that most people understand the difference between "cost of living" and "standard of living" and know that an increase in total family expenditure may cover a rising cost of living or an improved standard of living or both, I would nevertheless be inclined to go along with the Mitchell Committee's suggestion that the B.L.S. Index might well be given another name, particularly if the new name could emphasize that the B.L.S. Index measures changes in the total cost of a fixed standard of living, not changes in total family expenditures due to changed standards of living. Appropriate studies of changes in total family expenditures would, I think, be very useful for many statistical purposes, but an index of such changes certainly should not be called a "Cost of Living Index".

The People for Whom the B.L.S. Index is Significant: The B.L.S. Index is, as we have seen, a workingman's index as distinguished from the farmer's index maintained by the Bureau of Agricultural Economics. The joint analysis by the Bureau of Agricultural Economics and the Bureau of Labor Statistics of these two indexes <sup>29/</sup> points out that the difference in the figures reported by them are chiefly due to the fact that farm and city families do not live alike and that price movements differ in parts of the country where farm and city workers live in the larger numbers. Although there are, of course, some items of living essentials common to the two indexes, the total list of items included in the basic standard of the B.A.E. Index for farm families is not by any means the same as the list of items included in the basic standard of the B.L.S. Index for urban workers, because the living essentials for farm families are different from the living essentials of city families and because farm families in general have had lower incomes. The joint analysis led to the conclusion (p. 1) that "If due allowance is made for these differences, analysis of price data collected by the B.A.E. and the B.L.S. for similar articles shows surprisingly close agreement." It is altogether proper, therefore, that in formulating fiscal and other governmental policies with respect to farm families, use should be made of the B.A.E. Index and in formulating such policies for workingmen's families use should be made of the B.L.S. Index. On the farms the B.L.S. Index is inappropriate and in the cities the B.A.E. Index is inappropriate.

As to the scope of coverage of urban workers in the B.L.S. Index, it has already been noted that when we make the allowance of not more than one-half of one per cent for price changes in small cities as estimated by the Mitchell Committee and recommended above, the effect is to make the over-all average cost of living figures representative of the workers in both large and small cities. It should not be forgotten, however, that this extension of the coverage of the cost of living figures brings into the over-all average an increased range of

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<sup>29/</sup> "A Comparison of Changes in the Cost of Living Index of the BLS and the Index of Prices Paid by Farmers for Commodities used for Family Living of the BAE." mimeographed June 14, 1944.

variation in the particular cost of living figures for individual communities. If, for any reason, we are concerned with the cost of living increases in a particular city or particular geographical area it is, of course, necessary to refer to the B.L.S. figures for that particular city, rather than to the general over-all average; and these figures show substantial variation of the increase in the cost of living since January 1941 in different cities and areas.

The B.L.S. basic standard list of goods and services -- the family market basket -- for urban wage earners and lower salaried employees is based, as we have seen, on the survey made in 1934 - 36 of about 15,000 families in large cities, that is, cities with a population of 50,000 or more in 1940. The survey did not include families who lived in smaller cities, towns, or rural surroundings. It did not include single individuals. It was limited to families of two or more persons who had been in the community where they lived for at least nine months. It did not include families who had received any relief or whose chief breadwinner had worked less than thirty weeks in the year or whose incomes were under \$500. The average income for the group of families in the survey was \$1,524.00 at the time the survey was made. Thus the families covered were among those relatively well off as conditions went in 1934-36. Whenever we are particularly concerned with the cost of living of single persons, or of families who have recently moved into the community, or of families living on or near the level of relief, we must bear in mind that the B.L.S. figures do not adequately reflect changes in the cost of living of these particular groups.

Of course, this does not mean that the stores discriminate in price against single individuals or against families who have recently moved into the community or against families living on relief or on sub-standard incomes. What it does mean is that the market baskets of these individuals and families differ from the market basket of the average urban wage earner or lower salaried employee, and because of the difference in the market basket the B.L.S. figures, which report average price changes in a constant (observed and measured) average list of goods and services do not adequately reflect the actual change in the cost of living of these particular individuals and families.

In fact it may be said in general that in the formulation of policy with respect to any special group there needs to be special consideration of their particular living costs. But that does not mean that the B.L.S. figures are not useful in the formulation of policy affecting the great mass of urban wage earners and lower-salaried employees. On the contrary, the pricing of the standard market basket established and maintained by the B.L.S. is of basic economic significance. It represents the hard core of American workers who live in urban communities.

But, it should never be forgotten that no over-all average figure, either for urban workers as a whole or for the workers in any particular community, directly represents the changes in the cost of living of a

particular family. This is true even when family expenditures for an improved standard of living are excluded and the measurement is limited to changes in cost of the items which go to make up the fixed standard list of items established and maintained by the B.L.S. Even two families of the same size living in the same community and trying to maintain the same standard of living, may not have the same change in their cost of living because they meet in different ways the various puzzling problems that war conditions give rise to. And what workingmen's family does not know the value of a thrifty housewife?

The Cost of Living of Workers in the Lowest Income Groups: The rise in the cost of living for families in the very low income groups is certainly greater than the B.L.S. Index figures would indicate. This fact has long been recognized by the B.L.S. There are at least two basic reasons for it:

- (1) That food and clothing costs represent a greater part of the low paid worker's budget than they do of the high paid worker's budget, and food and clothing prices have risen considerably more than the average for all items.
- (2) The pricing of consumer goods by the B.L.S. tends to be based upon the items and grades of items most frequently purchased. This tends to diminish the weight of low priced items in the index, since the lowest priced items are not those most frequently purchased by the average wage earner. It may be assumed that the lower paid workers tend to buy the lower priced items. It is the very low priced items that have been most frequently eliminated from the market, and even for lower priced items that remain in the market the percentage increase in cost has been greater than in higher priced items.

On this subject the Mitchell Committee says (Part I, p. 16) "there seems little doubt that the BIS Index understates considerably the rise in prices encountered by the families at the bottom of the income scale" and "The greater price rise experienced by those with lowest income is...an important fact that should be kept in mind by those who use the Index." The fact that the B.L.S. has no index that reflects the true rise in prices for families with lowest income is also referred to several times by the Mitchell Committee in the detailed study of Section III of their report. 30/

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30/ See Mitchell report, Part I, p. 15, Item b; and p. 16; Part II, p. 23, Item a, and p. 26, Item c. (1); Part III A, footnote on p. 24; Part III B, p. 1, last paragraph

Some Wartime Changes in Manner of Living Excluded from the Index

When we come to consider the workers who have changed their manner of living because they have migrated into the centers of war production it may be assumed, I think, that for these migrant workers the cost of living is greater on the average than the cost of living of the workers who are permanent residents of the community. But the special cost of living incurred by these migrant workers is very properly excluded from the B.L.S. Index. <sup>31/</sup> To include their special cost of living in the general average would result only in a false figure for the cost of living of the migrant workers and also for the workers who did not migrate. This does not mean that the additional cost of living of the migrant workers is unreal or that the migrant workers do not have to pay the added cost out of their wages. But if any government agency needed to consider policies with respect to migrant workers as a special class, that consideration would have to be based on a special study of the cost of living of migrant workers.

Of somewhat the same nature as the cost incurred by the change in the manner of living of migrant workers, are extra expenses incurred because many wives have taken paid jobs and cannot do so much housework as formerly. These too are properly excluded from the index, as the Mitchell Committee points out at Part I, page 14. Another related change in the manner of living has been that many families have increased their patronage of restaurants and higher priced stores. As to this the Mitchell Committee said (Part I, p. 19):

"These actions should not affect an index of changes in prices.

"True, patronage of restaurants and higher-priced stores may have been forced by scarcity of transportation and war changes other than those connected with higher incomes and the decisions of housewives to have paid jobs; and in that sense represent uptrading that has been forced on families living in the same communities and not attempting to improve their level of living. . . . But in our opinion its effect (i.e. the effect of "forced" increase in eating out) on the total index is negligible."

Another illustration of how the B.L.S. must exclude changes in manner of living if its index is to continue to perform the intended purpose of recording how living costs are being influenced by changes in retail prices, is found in the treatment by the B.L.S. of goods which have disappeared from the market, such as automobiles, washing machines, refrigerators and radios. This instance may be said to be on the other side of the ledger, since the elimination of the normal cost of those items from the index to reflect the change in the manner of living which

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<sup>31/</sup> It should be noted that after migrant workers have established themselves in a new city, changes in their living costs are reflected by the B.L.S. Index for that city.

comes about when we have to do without those things, would have resulted in a lowering of the level of the index. The B.L.S. did not do that. It allocated, so far as possible, the normal cost of these items to the estimated increase in family expenditures which resulted from their disappearance. The balance of the allocated cost of the articles which disappeared was transferred by the B.L.S. to the miscellaneous category of the index. The Mitchell Committee estimated that if this balance had been eliminated from the index instead of being transferred to the miscellaneous category the decline for the index would have amounted to as much as 5%, that is, the index would have been 5% below what it now is. The purpose of this statement was not to suggest that such a reduction is appropriate in the Index considered as a cost of living index. The conclusion of the Mitchell Committee was expressed as follows (Part III, Appendix F, p. 2):

"This means, simply, that the non-availability of goods has increased individual savings, in some cases; and in others, the resulting forced economies have enabled families who do no saving to meet increases in other cost more easily than would otherwise have been possible. The fact that the B.L.S. has not permitted decreases in its index because of forced reductions in expenditures should be taken into account when considering whether factors operating in the reverse direction should be permitted to increase the index."

We come finally to the specific question whether any changes should be made in the present methods of securing or computing the B.L.S. figures and whether we have any concrete suggestions for improving these methods.

No substantial criticism of the BLS methods has survived the searching studies presented to this committee. Certain minor ways in which the BLS methods might be improved if it had more ample funds are discussed below. It is evident, however, that the BLS Index is entitled to the high reputation it has long enjoyed and that it should be regarded as the standard measure of changes in the cost of living for wage earners and lower-salaried employees.

I agree wholly with the Mitchell Committee that the methods applied by the committee to estimate the hidden increase in living costs in a seller's market are not suitable for use in preparing an official index and should not be adopted by the B.L.S.

The only concrete suggestion made by the Mitchell Committee is that the B.L.S. Index might well be given another name. I would approve of that suggestion if the new name could emphasize the fact that the B.L.S. Index measures changes in the total cost of a fixed standard of living, not changes in total family expenditures due to changed standards of living.

At page 39 of Part II of their report the Mitchell Committee, however, said:

"But something might be done to improve the index. A more extensive sample of small cities would give greater assurance that price was being measured for wage earners and lower salaried clerical workers in general. The pricing of a somewhat wider range of qualities for some items might make it possible to get a better measure of average price change for these groups of families, within the limitations of the fact that as the number of qualities priced increases so does the difficulty in identifying the quality. Occasional checks might be made of the importance of sales at markdowns and special discounts not included in the pricing. There is no evidence that these affect the index much, so there would be a question whether the increased accuracy of the index would be worth the additional costs. An expenditure survey would be valuable in bringing expenditure weights in line with present spending patterns.

"On the matter of finding identical qualities and minimizing quality deterioration of items in the index, two changes seem to have merit: (i) to have more information labels, and (ii) to have quality floors for items for which serviceability is important and to allocate materials to manufacturers in such a way that adequate supplies of these are available in the market. But effecting these changes is outside the province of the BLS.

"These suggestions have all been considered by the BLS. Recommendations bearing on them appear in the report of the ASA Committee and the BLS has testified before Congressional Committees concerning the need for and possible ways of providing more adequate data. The controversy which has given rise to the present report indicates their significance."

In the report of the Mills Committee of the American Statistical Association at pages 403 to 405 inclusive a number of recommendations were made to the Bureau of Labor Statistics. We are informed that the Bureau has given careful consideration to these recommendations. The Mills Committee recommendations are more specific than the coverage of the above quoted extracts from the Mitchell Committee Report, but they point in the same direction.

We note particularly that both the Mitchell Committee and the Mills Committee recommend further study by the BLS of family expenditures and spending patterns, and the Mills Committee advises (p. 404, "Journal of the American Statistical Association, December, 1943"):

"That frequent small-sample studies of family expenditures and incomes be conducted, and that once in 5 years a comprehensive study be made to provide data on local differences in income and consumption habits among occupational groups in the

"United States. Furthermore, that adequate analyses and integration of these studies and existing data be planned and regularly provided for. Since these kinds of studies provide the weights which reflect the changes in consumption habits and are important in keeping the cost of living indexes in line with current economic development, it is essential that they be made periodically." (emphasis theirs)

These suggested improvements in the methods and scope of the B.L.S. work would involve, of course, additional expense and therefore additional budget appropriations. It is my opinion that the suggestions should be given careful consideration by all of the government agencies involved and that action upon them should be left to recommendations of the B.L.S., review by the Bureau of the Budget, and action by the Congress.

Respectfully submitted,

William H. Davis,  
Chairman,  
President, Cost of Living  
Committee

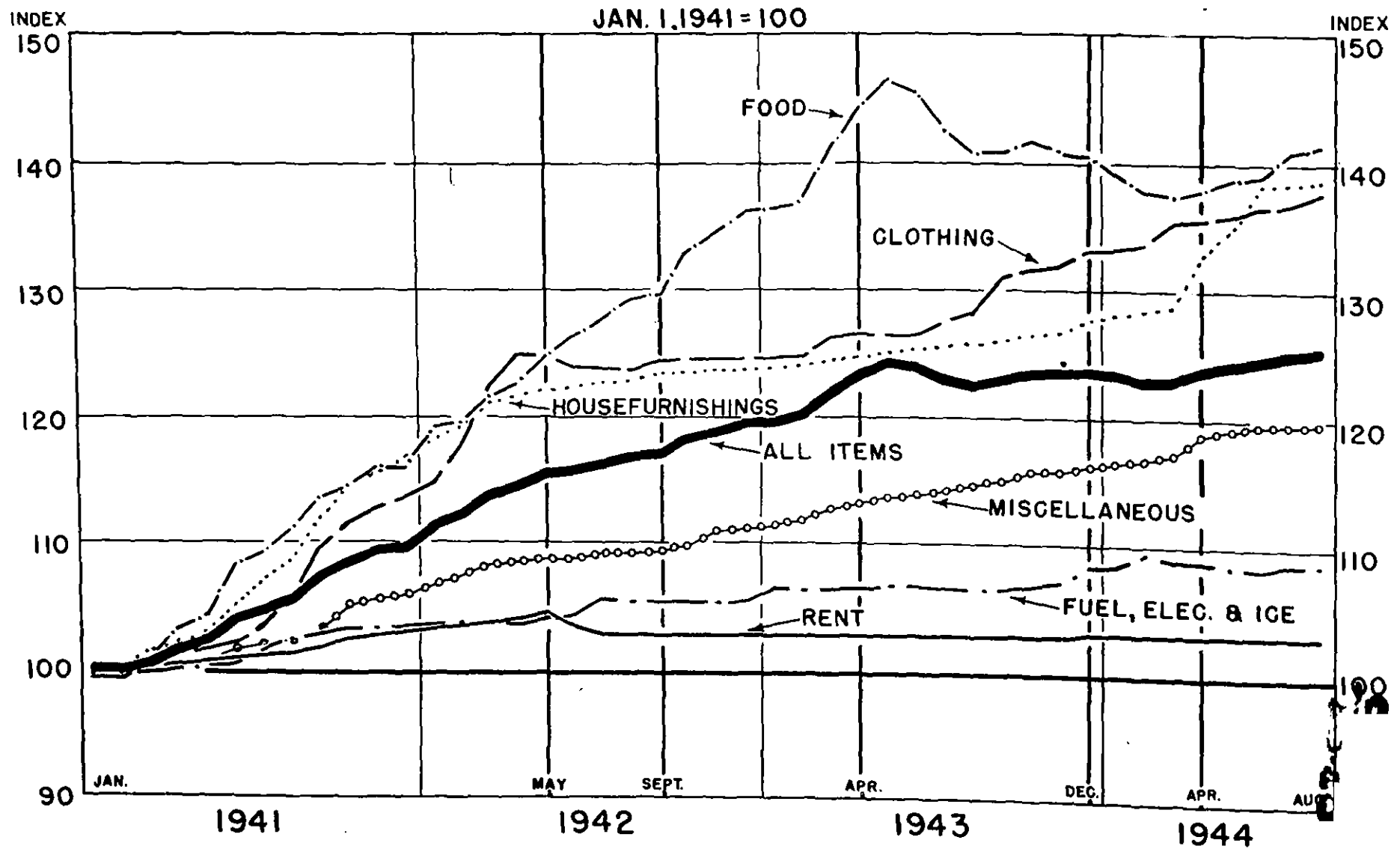
The Bureau of Labor Statistics Cost of Living Index  
 (Based on Retail Prices and Rents Charged Wage Earners and  
 Clerical Workers in Large Cities)

Rate	All Items	Food	Cloth- ing	Rent	Fuel, electricity and ice	House- furnish- ings	Mis- cella- neous
Jan. 15, 1941	100.0	100.0	100.0	100.0	100.0	100.0	100.0
May 15, 1942	115.1	134.6	124.7	104.7	104.1	122.0	108.9
Sept. 15, 1942	116.9	129.7	124.3	102.9	105.4	123.4	109.4
April 15, 1943	123.1	144.1	126.4	102.9	106.6	124.6	112.9
Dec. 15, 1943	123.4	140.5	133.0	103.0	108.5	127.6	116.0
April 15, 1944	123.6	137.9	135.5	103.0	109.0	132.6	118.8
Sept. 15, 1944	125.5	140.1	140.4	103.0	108.9	140.6	120.1



# CHANGES IN THE BUREAU OF LABOR STATISTICS COST OF LIVING INDEX

BASED ON RETAIL PRICES AND RENTS CHARGED WAGE EARNERS  
AND CLERICAL WORKERS IN LARGE CITIES



UNITED STATES DEPARTMENT OF LABOR  
BUREAU OF LABOR STATISTICS