

Comments on the Chairman's Report
on
the Cost of living

by

R. J. Thomas

Congress of Industrial Organisation,
Member of ^{Presidents} Cost of living Committee

November 13, 1944

COMMENTS ON THE CHAIRMAN'S
MEMBER ON THE PRESIDENT'S

DEAR MR. PRESIDENT:

Your memorandum of October 22, 1943 to Mr. Davis spoke of the "controversy and dispute as to what the cost of living is" and expressed the hope that a tri-partite committee might agree on a statement concerning both the nature of the cost of living concept and its measurement.

Your Committee has functioned now for a full year and has accumulated a mass of evidence which, in my judgment, provides the basis for substantial agreement among all concerned. In these comments I should like to set forth what seem to me to be the essential conclusions established by the evidence, and to comment on the treatment of these points in the Chairman's Report. With much of his report the CIO is in hearty agreement. I regret that on certain portions we must differ with it.

The name of the BLS "cost of living" index should be changed.

The CIO is delighted that Mr. Davis has accepted the sole recommendation of the Mitchell Committee which reads as follows: "The Technical Committee, however, does venture one suggestion: the index should be given a less misleading name". (Part I, page 20 of their report). Throughout its report, the Committee emphasizes that the index is simply an index of retail prices. It says, for example: "It seems highly desirable to describe its (the BLS) 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". (Part I, page 8).

This conclusion is directly in agreement with that of the CIO. The material we have submitted to your Committee demonstrates in convincing detail that the BLS index is simply a price index, reflecting changes in the prices of a constant market basket of goods and services.

The Bureau of Labor Statistics itself has now recognized the misleading character of the name of its index, and is actively seeking one which will more accurately reflect its actual character. Even the steel companies concede that it is "unfortunate that the (BLS) index should have been designated as a 'cost of living' index". ^{1/}

It is, therefore, well established, in answer to your query, that the BLS index is not a measure of changes in living costs. This is a unanimous finding of your Committee.

^{1/} Employers' Dissent from the WLB Steel Panel Report, Page 18; September 12, 1944.

Changes in the cost of living are not to be confused with changes in retail prices.

As the Mitchell Committee says: "To most people 'cost of living' means the amount of money a family spends". (Part I, page 18). This common sense conception of the cost of living is the one utilized by the CIO. It is what workers mean by the phrase.

The BLS index does not measure changes in the cost of living in this sense, and this fact is now admitted by the Bureau. All of its "cost of living" releases now carry the following statement of limitations:

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

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

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

On this point also, we believe that there is unanimous agreement among all parties to the present controversy. I am submitting, as Appendix "A", a summary of the positions - all in substantial agreement of the various parties. Changes in living costs and changes in retail prices are two very different things. It was living costs which you requested the Committee to look into.

A measure of changes in living costs should include changes in the "manner of living", but not in the "standard of living".

The Mills Committee of the American Statistical Association has described clearly the various strands which must be kept separate in thinking about changes in the cost of living:

"The phrase 'cost of living' is ambiguous.... In every-day speech families are apt to think of their cost of living as the total amount they spend for consumer goods and services. Several different factors may cause such expenditures to change. Thus, they may change because the unit prices of goods and services rise or fall. Again, they may change because families are forced by circumstances beyond their control to alter their manner of living, as when the exigencies of war make some goods unavailable. Yet again, they may change because families have experienced an increase in income...."

The CIO has contended throughout that, in addition to changes in unit prices, changes in the manner of living, as distinguished from changes in the standard of living, should appropriately be included in the measurement of cost of living changes. Workers' families have incurred a great variety of extra expenditures because of wartime conditions. In order to make their contribution to the war effort, many of them have had to move to war centers where, because of congestion, prices have been abnormally high. Some have even had to maintain homes in two places. Wives of servicemen have had to take jobs and in consequence have of necessity greater expenditures for child care, for laundry service and for meals away from home. Similar added costs have been faced when, in response to wartime appeals for additional workers, the housewife has joined her husband in working outside the home. In the case of many articles there has been a great deal of forced "trading-up"; because of the disappearance of the cheaper articles, workers have had to buy in higher price lines than formerly. The figures show, to cite but one example of a similar phenomenon, a very sharp rise in expenditures for meals away from home - a much more expensive way of getting necessary nutrition than if meals are prepared at home.

The Chairman does not believe that such changes in the manner of living should be included in measuring wartime changes in living costs. His failure to do so appears to result in part from a confusion between such changes and those which reflect a higher standard of living. Mr. Davis says: "Change in the cost of a fixed standard of living (i.e., in retail prices) has been confused with the cost of a changed standard, or manner, of living". But he himself, as this quotation shows, confuses "manner" and "standard" of living.

We agree, of course, that improvements in the standard of living should not be reflected in a cost of living index. To include forced changes in the manner of living, of the sort described above, however, is not to fall into such an error. This is true because, during the period with which we are concerned, from January 1941 to the present time, there has on the average been no improvement in workers' real income in terms of the actual quantities of goods and services purchased.

This fact is clear from an analysis of statistics prepared by the War Production Board, the Federal Reserve Board, the Department of Agriculture, and the Department of Commerce. The latter agency, in a recent statement, concludes that the quantity of goods purchased in retail stores in 1944 was about 5 percent less than that purchased in 1941.^{1/} Wholly independent data from the other agencies make it equally clear that the rise in consumer expenditures over this period has been the result of price rises, not the result of increases in quantities of goods and services consumed.

The money incomes of workers have, of course, increased. But after deducting taxes and bond purchases and other savings, the resultant money income has not, because of limitations of supply, resulted in the purchase of more goods and services. Indeed, allowing for quality deterioration, there has been some reduction.

^{1/} Survey of Current Business, October 1944, p. 5.

A second reason offered by Mr. Davis for his exclusion of changes in the manner of living, (he is using as an example the extra expenses of workers who have moved to war centers) is that their inclusion "in the general average would result in a false figure for the cost of living of the migrant workers and also for the workers who did not migrate". If by "cost of living" he means only retail prices, then his argument is irrelevant except insofar as price rises have been greater in war centers. If he is measuring changes in family expenditures, then it is obviously correct to include expenditures by all types of workers' families, including those with added costs resulting from wartime conditions. To exclude them simply because they would raise the average is as incorrect as it would be for the BLS to exclude Savannah or Birmingham from its index because retail prices in these cities have risen considerably more than the average.

On this point, therefore, I must disagree with Mr. Davis. The cost of living, as the CIO understands it, includes changes in the manner of living. To limit the concept to changes in retail prices is greatly to understate the real rise in living costs as we define them.

The Mitchell Committee agrees that this is the case. They say:

"The widespread opinion that the BLS 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."

Retail prices have risen at least 29 to 30 percent between January 1941 and September 1944.

On this conclusion, there is substantial agreement among all concerned. The Mitchell Committee, as Mr. Davis points out in his report, found that the BLS index - considered simply as a retail price index - understates the rise during this period by 3.5 to 4.5 percentage points. Since the index (January 1941 = 100) had risen to 125.5 by September 1944, the actual percentage rise since January 1941, using the Mitchell Committee adjustments, has been 29 to 30.

In view of this finding by the Mitchell Committee, supported by Mr. Davis, we find it difficult to understand the fulsome praise which Mr. Davis accords to the BLS index. The 3.5 to 4.5 point understatement by the index amounts to an error of from 14 to 18 percent. If the Gallup Poll were guilty of an error of this magnitude in predicting the outcome of the Presidential election, it would be completely discredited.

Our studies indicate that the conclusion of the Mitchell Committee is most conservative. We believe that the factors of quality deterioration, disappearance of cheaper items, decline in special sales and increase in under-reporting of prices actually charged, - the factors which, according to the Mitchell Committee, result in an understatement of from 3.5-4.5 percentage points - account for a much larger error. The conclusion of the Mitchell Committee must be regarded as a minimum.

The cost of living has risen by 44.4 percent.

Mr. Davis, following the lead of the Mitchell Committee, has confined his discussion to the rise in retail prices. He makes no estimate of the increase in total living costs.

Only labor has made investigations into the cost of living, the most complete one being the CIO Study "Living Costs In World War II", made by myself and Philip Murray, President of the Congress of Industrial Organizations, and completed in June 1944. I am attaching a copy for your benefit which I request be made a part of the official report of the Committee's work. This shows an increase in living costs of 44.4 percent from January 1941 to March 1944.

This conclusion is in accord with what every housewife knows about wartime increases in living costs. In the course of our studies we interviewed many workers and their wives. The conviction was widespread that costs were up more nearly by 50 percent than 25 percent. Enthusiastic response to our findings by the labor press throughout the country is further confirmatory evidence of the essential correctness of the magnitude of the rise found by our studies.

We conclude that the BLS index is not a satisfactory measure of living costs for use in adjusting wage rates.

It is apparent from the foregoing that the BLS index cannot appropriately be used for wage adjustment purposes. It is a measure of price changes only; it does not measure the full rise in living costs.

Mr. Davis does not draw this conclusion. Nor does he draw the contrary conclusion: that the index is satisfactory for this purpose. The Mitchell Committee says that the index, as it is, permits the comparison of "changes in wage rates with retail price changes". But it does not say that such a comparison is an appropriate one. Our conviction is, definitely, that it is not an appropriate comparison; the true comparison is between wage rates and the cost of living.

You will find in Mr. Davis' report no reference whatever to the true setting of this whole controversy over the cost of living. Your request that a committee be established to study the cost of living must obviously be interpreted in the context of Labor's request for modification of the "Little Steel" formula. Nevertheless, a reader who was unacquainted with the history of this matter could study Mr. Davis' report without learning this essential fact. There is a studied avoidance of the central issue: the utility of the BLS index for the purpose of wage adjustments.

Recommendation.

The necessary and just action required on wages is clear. On September 7, 1942, you said that with rising living costs wage earners "have a right to an increase in...wages" as a matter of "essential justice and...practical necessity".

Further, in connection with the passage of the October 2, 1942, Price Control Law, you said:

~~CHECKED~~
2003-04

"If this (cost of living) rise should be permitted to continue, the increased cost of food to wage earners next May would be more than 15% over the level which existed when the ceilings were set. This would be equal to imposing a sales tax on all food purchases by wage earners. Obviously no one would consider imposing such a tax...."

You were right, Mr. President. The 44 percent rise in total living costs has imposed a 30 percent sales tax upon American workers, and the 29-30 percent rise in retail prices which Mr. Davis reports has imposed at least a 15 percent sales tax upon American workers. No one, as you said, Mr. President, "would consider imposing such a tax"; yet it has been imposed - and more.

American wage earners and lower salaried employees place their confidence in you. They know that you will correct - and promptly - the great inequity that they are suffering as a result of the mounting increases in the cost of living.

R. J. Thomas, CIO Member
Presidential Committee On The Cost of Living