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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Price and Wage Controls

The much publicized regulations for controlling prices and wages finally were issued January 26, 1951, by the Economic Stabilization Agency. The new regulations provide that, in general, ceiling prices for all sellers will be the highest prices at which commodities or services were delivered during the base period, which is December 19, 1950, to January 25, 1951. However, for new commodities and those not sold during the base period, maximum prices are to be determined by a cost-plus-mark-up procedure, using the mark-up on a comparable commodity as a basis. As a last resort, direct application to the Director of Price Stabilization is possible.

Agricultural commodities, the prices of which have not "reached the highest of the 'legal minima,'" are not affected by the regulations until such levels have been reached. If during the base period the prices of agricultural commodities were at or above their (1) parity price or (2) the highest price received during the period from May 24 to June 24, 1950, the highest price reached will be the ceiling price. For manufacturers and distributors, who process or resell "in substantially the same form one or more of the listed agricultural commodities * * * or a commodity processed from them," if the cost to the manufacturers or distributor is increased, they may increase their "ceiling price * * * for the commodity by the dollars and cents difference per unit between the highest prices paid * * * during the base period and the cost * * * of the most recent customary purchase."

Many commodities and services, as well as agricultural commodities selling at prices below their "legal minima," are excluded. Among the excluded items are rents, rates and fees for professional services and those charged by common carriers and public utilities, prices of published books and other materials, insurance, and securities.

The wage regulations that were issued with the price order provided that "No employer shall pay any employee and no employee shall receive 'wages, salaries, and other compensation' at a rate in excess of the rate at which such employee was compensated on January 25, 1951, without prior approval or authorization of the Wage Stabilization Board. New employees shall not be compensated at rates higher than those in effect on January 25, 1951, for the jobs for which they are hired." Presumably wages will be stabilized only in the "industry or business producing the material or performing the service" on which a price ceiling has been imposed. The latter provision was contained in the Defense Production Act of 1950.

The regulations issued obviously were hastily prepared, and many loopholes and inequities are already apparent. Both the price and wage-stabilization directors have indicated that amendments clarifying and correcting the original orders are being drafted. Nevertheless, the directors have announced that enforcement will be attempted, in spite of the lack of enforcement personnel. A penalty of $10,000 or 1 year in prison, or both, may be imposed for noncompliance.

Resort to price and wage controls apparently was directly attributable to two important developments, one economic and the other political. The economic motivating factor probably was the "flight from the dollar," which had become especially marked in recent weeks. Many prominent Government and financial officials have expressed great concern regarding the "scare buying" and the general rush to convert dollars into goods. Price Stabilization Director Di Salle stated that "scare buying and profiteering were major factors in the sharp price advances which occurred in the last half of 1950." He added that "the danger confronting us is immediate." The concern of Mr. Charles E. Wilson, director of the Office of Defense Mobilization, was indicated by his statement, "The power of law must be invoked."

The political motivating factor has been the reaction of the public to the continued rise in prices and the cost of living. Apparently, Congressional and White House mail has been flooded with letters urging that something be done. *The New York Times* recently reported, "The White House, under heavy public pressure to stop price rises, was said to have sent out firm orders that the deadline for action was the week end, come what may."

Fortunately, the public's confidence in controls is not shared by many public officials. All of the principal officials concerned, including the President, Mr. Wilson, Mr. Johnston, and even Mr. Di Salle himself, have emphatically expressed complete lack of confidence in price controls as a means of combating inflation.

For example, Mr. Eric Johnston, in his testimony before a joint Congressional committee, said that price and wage controls would be "temporary" if the public cooperated and if specified steps were taken to curb inflationary forces at the roots. He added that "We will have to balance the Budget, not just for one year but for two or three years at least. We will have to restore confidence in the dollar * * * in the purchasing power of the dollar. We will have to curb credit. If we do those things, I think we can remove wage and price controls." Later he asserted that "Wage and price controls will not be effective for long. It is essential that we begin to cure the reasons that have made wages and price controls necessary. It is also necessary to preserve freedom in this country, which means that we must get rid of wage and price controls at the earliest practical moment* * * . Any controls must be temporary, because these controls lead to other controls."

The editors of *Newsweek* described Mr. Wilson's reaction in their statement that "In the present situation, he recognizes that prices and wages may run away before production gets really rolling and taxes can be raised. That was the reason he decided to impose controls on prices, wages, and allocation of materials."

Although Mr. Di Salle asserted that "the dire need of the moment is to stop the onrushing price advance in its tracks," he also said, "The fact that prices have been frozen by this regulation should not be interpreted as ending the danger of inflation. This would be to confuse controling the symptoms of a disease with its cure. The effect of price controls is not to eliminate inflation, but to 'suppress' it. Inflation comes about as a result of a gap between the available supply of goods and the amounts which consumers, business firms, and governments would like to buy and can pay for. It is the job of other measures to narrow this gap and thus reduce the degree of inflationary pressure. *Major reliance must be placed upon vigorous taxation and strong credit policy.*" [Italics supplied.]

The viewpoints of these officials responsible for the functioning of price and wage controls are encouraging. Fortunately, others in responsible positions share their views and desire to invoke further restrictions on credit expansion and to prevent expansion of the money supply.

Temporarily, the price controls may cut short the "flight from the dollar" that seems to have begun. In the longer run, however, we are sure that price controls will be either ineffectual or unnecessary: if the Government resorts to deficit financing again, no penalties can make price controls effective; on the other hand, if some deflation is forced and the rearmament program is maintained on a "pay as we go" basis, price controls will be wholly unnecessary, a sheer waste of manpower.

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 101.3 percent of capacity for the week ended February 3, 1951, was slightly more than that in the preceding week and was 14 percent more than that in the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1950*	*1951*
Percent of Capacity†	85	27	79	33	93	101p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	1.91	2.00
Production (Million Tons)	1.17	.41	1.19	.51	1.78	2.02

Automobile and truck production in the United States and Canada during the week ended January 27, 1951, was estimated at 166,176 vehicles, compared with a revised total of 162,405 during the previous week. Stockpiles of steel and other materials not consumed during the retooling period probably will enable producers to increase production in February.

	1929	*1932*	*1937*	*1938*	*1950*	*1951*
Vehicles (000 omitted)†	109	29	74	60	141	166p

Electric-power production in the week ended January 27, 1951, increased to 6,969,566,000 kilowatt-hours from 6,908,818,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1950*	*1951*
Billion Kilowatt-Hours†	1.73	1.59	2.22	2.10	5.97	6.97

Lumber production in the week ended January 20, 1951, decreased. *The New York Times* seasonally adjusted index was 1 point below that for the preceding week but was 64 points above that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1950*	*1951*
The New York Times Index†	145	39	87	79	67	131

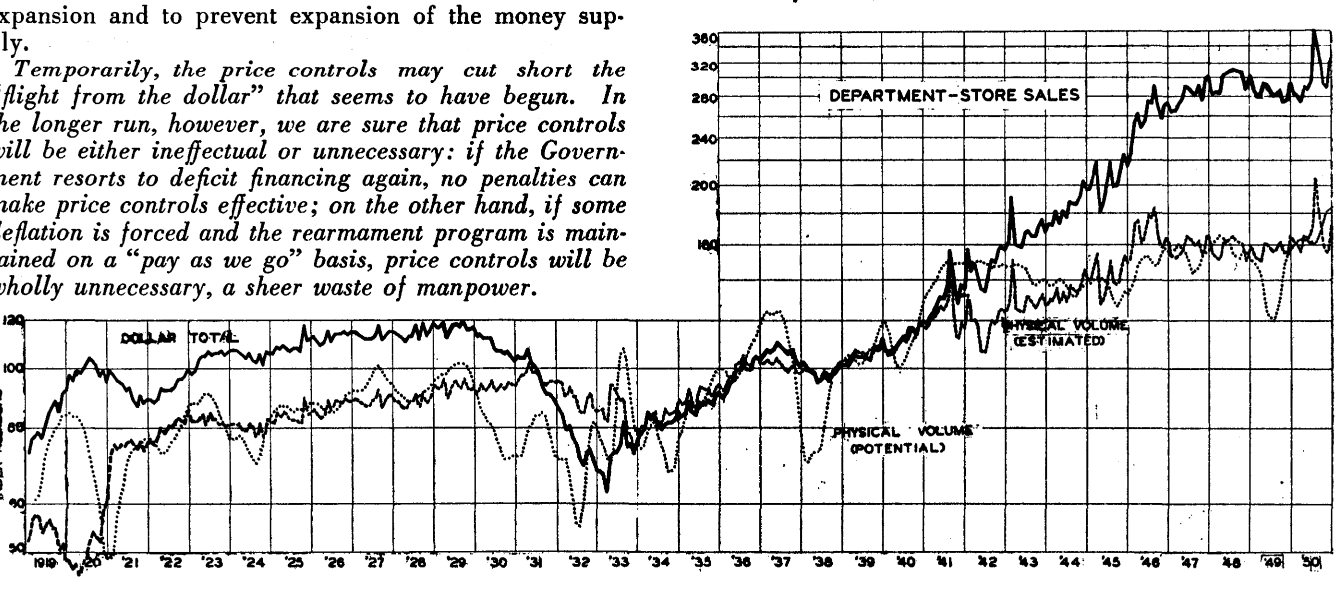
†Latest weekly data; corresponding weeks of earlier years
p=preliminary

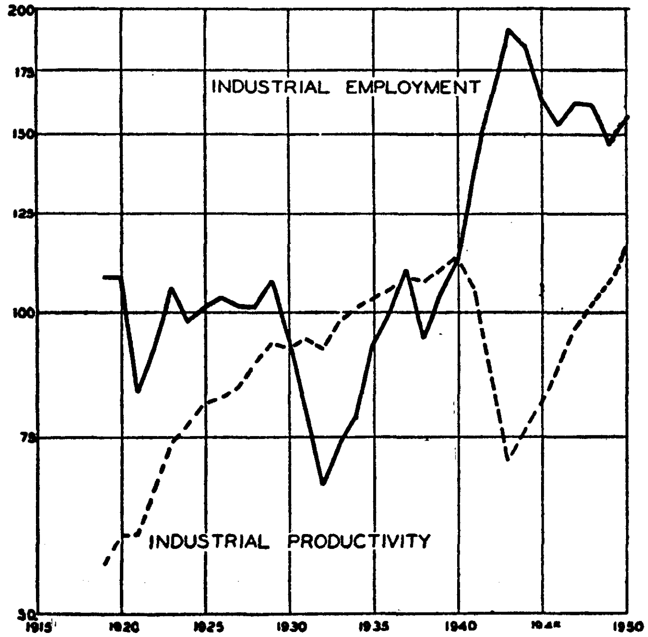
DEMAND

Department-Store Sales

The December seasonally adjusted index of department-store sales (based on dollar value) was 11 percent above that for November but was 10 percent below the all-time peak reached in July 1950. The December index was nearly 11 percent above that for the corresponding month last year.

A preliminary estimate of the January index, based on weekly sales, indicates that a substantial increase





probably occurred. Sales during the first 4 weeks of January were 39, 31, 31, and 25 percent more than those of the corresponding weeks of January 1950. If total sales for the month exceeded those of January 1950 by 30 percent, the January sales index was slightly above the all-time high reached in July.

Our price index of goods sold in department stores (based on prices of apparel, housefurnishings, and piece goods) rose nearly 1 percent during December to within 2 percent of the all-time high reached in October 1948. Because of the increase in prices, the physical volume of goods sold in department stores in December increased slightly less than the index based on dollar value. The physical-volume series increased nearly 11 percent but was still 16 percent below the all-time high reached last July. Although the dollar value of sales in 1950 was 5 percent above that in 1949, generally lower prices during 1950 were responsible for a 7-percent increase in physical volume.

As we have mentioned in previous articles, a significant relationship exists between the physical- and potential-volume series. Based on the trends of the two series in December, inventories probably did not increase during that month. Moreover, in view of the fact that the two series probably crossed last month, inventories presumably decreased in January.

In concluding last month's department-store sales article we said, "Department-store sales have increased in each of the first quarters of 1947, 1948, 1949, and 1950. We assume that those decreases reflected the substantial deflations that occurred in each of those periods, especially in view of the fact that the decreases in 1947 and 1948 were temporary reversals of a marked upward trend. A similar decrease, at least, is probable in the next several weeks unless a flight from the dollar gains increasing momentum." The unusually large volume of sales during January was primarily the result of this "flight from the dollar" or "scare buying." Because of the similarity of present conditions with those during World War II, a review of developments then may be enlightening.

The first evidence of "scare buying" prior to World War II occurred in July and August 1941. During those 2 months the indexes of the dollar value and the physical volume of sales rose 20 and 16 percent respectively. However, the "scare buying" ended quickly; and sales decreased rapidly. A second buying spree occurred in January 1942 immediately following Pearl Harbor, when the dollar value of sales rose 16 percent. This rise occurred in spite of the deflation during that month. However, by June 1942 sales had decreased to the pre-January level. A third surge of "scare buying" occurred in February 1943, when the beginning of shoe rationing was followed by rumors of general clothes rationing. From that time until the end of the war the trend of department-store sales was generally upward.

The trend of department-store sales since June 1950 has been in many respects similar to that described above. The first "scare buying" occurred in July 1950, when the dollar-sales and the physical-volume index rose 21 and 20 percent respectively to all-time highs. Sales decreased immediately afterwards and by November had fallen below the pre-July level. The intervention of Red China, however, apparently stimulated a second period of "scare buying" in December. Although some signs of a change have appeared, the excessive buying apparently continued through most of January.

Based on experience during World War II and certain influences now present, we expect the recent "scare buying" to subside in the near future. First, an unusual increase such as that which occurred in December and January has never been sustained for more than 1 or 2 months; second, the deflation expected in the next several weeks may remove from circulation as much as $6,000,000,000 of purchasing media. Third, much of the present "scare buying" apparently was accomplished by withdrawing savings from the banks; and we believe that, unless a major "flight from the dollar" occurs, people will be reluctant to withdraw a major portion of their savings. Fourth, the price "freeze" may diminish the fears of many persons who have bought in anticipation of further price increases. Fifth, many consumers have obligated themselves to pay future installments for goods already bought; consequently, they will have less to spend in future months.

In view of the foregoing we expect department-store sales to decrease substantially below recent levels. However, if the Government fails to force some deflation or if deficit financing is resumed, a renewed "flight from the dollar" might greatly increase department-store sales for a short period to levels even higher than the January and July levels.

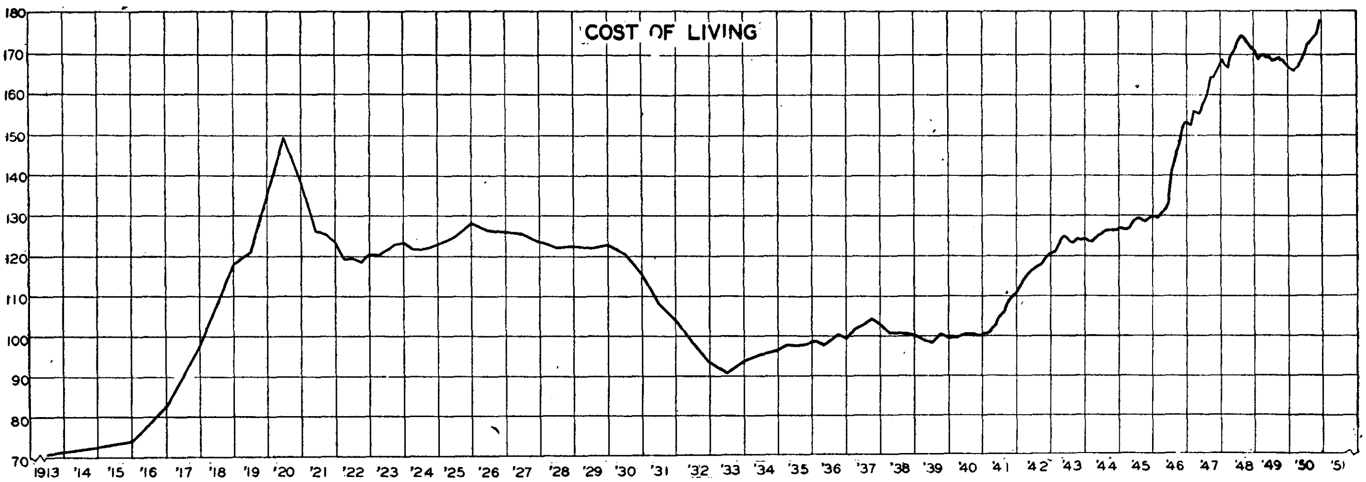
Latest Weekly Data

Department-store sales for the week ended January 27, 1951, were 8 percent less than sales for the previous week but were 25 percent more than sales in the corresponding week last year.

BUSINESS

Industrial Employment and Productivity

The Federal Reserve Board's seasonally adjusted index of factory employment, which had been rising steadily throughout most of 1950, decreased slightly during December. Nevertheless, the index was 12 percent greater than that for December 1949, when employment was nearly at the postwar low. The December figure was 16 percent below the all-time high reached during World War II in November 1943.



Our index of average monthly factory employment during 1950, which is shown on the accompanying chart, was 6 percent above that for 1949. Annual average monthly employment has not yet regained the peak post-war levels of 1947 and 1948.

Industrial Productivity

Our index of industrial productivity per man-hour, which is shown on the accompanying chart, increased 7.5 percent in 1950 to an all-time peak. The productivity figure was 64 percent above the low reached in 1943, when employment was at an all-time high, but was nearly 1.5 percent above the previous peak reached in 1940.

In contrast with the steady increase of employment during 1950, productivity apparently decreased during the last half of the year. The average monthly level of productivity for the last 6 months of 1950 was 2 percent below that for the first half; the index reached its 1950 peak in June and by November and December had fallen 5 percent.

Our estimates of industrial productivity reflect both changes in total factory employment and the number of hours worked per week. The average number of hours worked each week in manufacturing during December was 41.6, an increase of 0.5 hours compared with the November average. The workweek has been increasing intermittently since April 1950 and by December had risen nearly 5 percent. Nevertheless, the workweek is 5 to 6 percent shorter than that during most of World War II.

This series, average hours worked per week in manufacturing, is one of the 18 statistical indicators of business-cycle changes. Changes in this series usually have led changes in over-all business activity by an average of 3.8 months at cyclical peaks and 2.6 months at cyclical troughs. The general upward trend of the series since April was interrupted in September and again in November. However, there is no indication as yet that these interruptions were more than temporary.

As the rearmament program is accelerated during the next several months, as more men are taken from industry into the armed forces, as the average hours worked per week increases, and as more women and other unskilled workers enter industry, industrial productivity probably will decrease. Moreover, if the defense mobilization becomes an "all out" effort, we should expect industrial productivity to decrease substantially.

PRICES

Consumers' Prices

The Bureau of Labor Statistics' price index of goods and services bought by moderate-income families in large cities increased 1.6 percent during the month ended December 15, 1950, and was 2 percent above the previous high reached in August 1948. Since the low reached in February 1950 the consumers' price index has increased 7 percent.

The increase in December was the sharpest reported "in more than 3 years." Thus in only 10 months the decrease in prices that began in 1943 has been more than counterbalanced, and to date the rise does not seem to have abated.

Primarily responsible for the increase of the over-all December index was a rise of 2.8 percent in food prices. Although this component has increased nearly 11 percent in 10 months, the index of food prices was 0.5 percent below the peak reached in August 1948.

Prices of housefurnishings increased 1 percent during December to a new high. Since the Korean War began, this component, which reflects prices of refrigerators, stoves, and other household appliances (television sets are not yet included) has increased 10 percent. Miscellaneous items increased 1 percent during December; apparel, rent, and fuel and electricity all increased slightly.

In the immediate future we expect moderate deflation; the index of inflation may decline as much as 15 points by the end of March. The cost of living is believed to be near the maximum that can be maintained with the present volume of purchasing media in circulation. Consequently, if the deflation is as extensive as we now expect it to be, the cost of living probably will not increase in February and March; and a decrease would not be surprising. Later this year controls in any form probably will not be able to prevent further increases in the cost of living unless additional inflation is avoided by paying for rearmament on a pay-as-we-go basis.

Commodities at Wholesale

	1950	*1951*	
(August 1939=100)	*Feb. 1*	*Jan. 25*	*Feb. 1*
Spot-Market Prices (28 basic raw materials)	248	386	389
Commodity Futures Prices (Dow-Jones Daily Index)	297	434	444