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Food Subsidies and Inflation Control

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Food subsidies and inflation control

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ARM *and* FOOD POLICY

— Pamphlet No. **10** in the Series —

FOOD SUBSIDIES and INFLATION
CONTROL

by

W. GALE JOHNSON and O. H. BROWNLEE

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SUMMARY

1. The effectiveness of food subsidies as a means for controlling inflation grows out of several factors in the current economic and political setting. Important among these are (1) the way in which upward changes in wage rates have been implicitly tied to upward changes in the cost of living,¹ (2) the establishment of 100 per cent of parity as a minimum for setting price ceilings on agricultural products, and (3) the way in which changes in the prices of goods purchased by farmers are reflected in changes in parity prices. These factors limit the extent to which an increase in one price or wage rate can be made without leading to increases in other prices or wage rates—unless subsidies are applied. These and other factors also limit the extent to which prices can be lowered. Consequently, few price decreases can be made to compensate for price increases and thus enable maintenance of the general level of prices.

Another factor of importance is the large volume of liquid holdings (cash and demand deposits) now in the hands of individuals. These holdings are potentially a very important factor in the upward pressure upon prices. Unless individuals expect a reasonably stable level of prices, they may try to convert their cash and demand deposits into such goods as are available. A further increase in prices might result in widespread attempts to convert these liquid holdings into real goods and render the maintenance of effective price ceilings extremely difficult.

2. Although farm price ceilings probably could be held at present levels if there were no changes in other prices and in wage rates, the commitments made to labor in the Stabilization Act of October, 1942, are considered by some author-

¹ This relationship between wages and the cost of living may not be directly implied in the Little Steel Formula, but one may read such a relationship into the Stabilization Act of October, 1942.

ities to implicitly necessitate a reduction in the cost-of-living index² from its present level of 124 to approximately 118—if wage rates are to be kept from advancing. Such a reduction in the cost of living cannot be accomplished without additional subsidies. A total annual expenditure of between 2.5 and 3 billion dollars probably would be required to operate such a program.

A more extensive food subsidy program, however, cannot be effective in controlling inflation unless labor is willing to consider existing wage rates and a cost-of-living index of 118 as satisfactory. The recent attack upon the index raises some doubt as to whether labor will accept such a relationship between wage rates and the index.

3. Although subsidies are an important part of inflation control, they are but one of the techniques which need to be utilized. Increased taxes to help drain off excess purchasing power together with the continuance of price control and rationing are also essentials. Heavier taxes in themselves, however, cannot be effectively utilized to reduce prices, for taxes can hardly be increased (because of political factors) to the point where they will drain off current excess purchasing power. "Pay-as-you-go" taxes, in particular, are not effective in cutting into accumulations of cash, demand deposits, and other liquid holdings built up during the past 3 years.

4. Opposition to subsidies has arisen on ethical and political as well as economic grounds. The economic argument centers around the effectiveness of food subsidies as an inflation control. Many of those individuals who oppose food subsidies believe that wage rates can be held independently of changes in the cost of living. Some of the proponents of food subsidies believe that unless the cost of living is kept from advancing, wage rates will advance. Others contend that wages cannot be held unless a more extensive subsidy program is undertaken so that the cost-of-living index is reduced to the level prevailing in September, 1942.

² The cost-of-living index referred to throughout this study is that prepared by the Bureau of Labor Statistics, U.S. Department of Labor.

The validity of the economic arguments thus depends upon the realism of the assumptions on which these arguments are based. In this analysis it is assumed that wage rates and farm prices cannot be kept from advancing without food subsidies. If wages and prices can be held at current levels with the aid of subsidies but could not otherwise be kept from advancing, a subsidy program as extensive as that suggested in this study would be a definite preventive to inflation and would more than "pay for itself" in terms of lower prices to consumers and a lower national debt than would otherwise prevail.

5. Criticism of food subsidies from an ethical standpoint revolves around such issues as whether income should be received entirely through the regular market channels or through such supplementary channels as subsidies, and whether, since food costs now supposedly represent a smaller proportion of consumers' income than at any previous time, farm and food prices should be allowed to increase. The validity of these arguments can be evaluated only in terms of their factual content. The "right" or "wrong" in particular choices cannot be determined except in relation to expected efficiency in achieving given ends.

6. Opposition to subsidies on political grounds arises primarily from a fear that subsidies may be used to obtain support for certain political groups. Where prices are administered, as they are during the war, changes in the price pattern can be charged with the same sort of political bribery.

I. INTRODUCTION

Few issues in the current political arena have aroused more controversy than the food subsidy program. This program, involving an annual expenditure of more than a billion dollars and embracing more than 20 foods, has been one of the measures adopted by the administration to aid in the control of inflation. The federal government has attempted to keep food prices at a lower level than would otherwise prevail by making direct payments to some producers and processors of food items to supplement returns received through regular market channels, by absorbing part of the costs of transporting some food products, and by buying some products directly from farmers and reselling them to processors at a loss.

A. Definition of Subsidy

Although subsidies do not comprise a new economic technique, the term subsidy implies different things to different people. As used in this discussion, the term subsidy will be restricted to payments made by the government to private individuals or corporations in lieu of or in addition to returns which could be obtained in regular market channels. This definition does not include tariffs or excise taxes used to shift income from one group to another without payment from the federal treasury. Nevertheless, it does cover most of the payments in the category of food subsidies.

B. Background of Food Subsidy Program

Food subsidies employed to hold retail food prices at lower levels than would otherwise prevail are strictly a war phenomenon. However, there were numerous prewar subsidy programs, some of which applied to agriculture. Subsidy payments to farmers during the decade following 1933 (largely AAA payments) aggregated more than 5 billion dollars. Part of the prewar agricultural subsidies have been carried into

the war. Payments by the Agricultural Adjustment Administration in 1942 and 1943 totaled more than 1.4 billion dollars. Wheat has been and still is being sold for feed at a lower price than it is being sold for human food, the difference being made up by the Commodity Credit Corporation. Sugar producers have been and are receiving several forms of subsidy.

Several subsidies on nonfood items have been inaugurated during the war. In fact, the earliest of the war subsidies designed to aid in inflation control were on commodities other than food. Some of these were introduced to make more uniform in a given area the prices for specific commodities and thus facilitate price control. For example, some distributors of petroleum on the Atlantic coast have had to use rail rather than the less expensive water transportation in order to secure at least part of their petroleum. Instead of establishing different price ceilings for petroleum transported by different methods, prices were made uniform by paying subsidies on the high-cost product. Similar subsidies have been paid to high-cost producers. The subsidy being paid to some copper producers is an example. Instead of increasing the price of copper to encourage these marginal or high-cost producers to operate, a subsidy is paid to them. Subsidies have also been extended to some imported products.³

One of the basic administrative decisions necessitating the introduction of a relatively extensive food subsidy program, particularly the subsidies to reduce the retail prices of some foods, was made in July, 1942, with the announcement of the Little Steel Formula by the War Labor Board. This formula, with some minor exceptions, limited *future* wage rate increases to 15 per cent of the basic wage rate which prevailed on Jan-

³ The Office of Price Administration has estimated that these three broad types of subsidies with an annual cost of \$350,000,000 have saved the government \$1,290,000,000 on its purchases and consumers \$370,000,000 on their collective purchases (see Hearings, United States Senate, Committee on Banking and Currency, on S. 1458 and H.R. 3477, p. 398). The estimates were based on the assumption that without the subsidy the price of all output would rise to the full extent of the subsidy. The estimated savings arise because the subsidy was paid on only a small part of the total purchases, while a price increase would apply to all purchases.

uary 1, 1941. The 15 per cent figure was adopted because it represented the change in cost of living between January, 1941, and May, 1942. The adoption of this formula, as pointed out below, indicated that the principle of tying changes in wage rates to changes in the cost of living was being considered by the administration in its wage program just as a similar parity principle for pricing farm products had been established by legislation.⁴

In September, 1942, both the Executive and the Congress declared that, wherever practical, prices and wages should be frozen at the levels prevailing at that time. Certain exceptions were made. Substandard wages were to be raised if necessary. Farm price ceilings were not to be set at levels below the highest price between January and September, 1942, or below 100 per cent of parity (whichever was the higher), and in establishing farm price ceilings, the Office of Price Administration was to take account of changes in the cost of production from January 1, 1941.

Prices were not held at the September level. From Sept., 1942, to May, 1943, the Bureau of Labor Statistics cost-of-living index rose from 118 to 125.⁵ Because of the rise in cost of living, there was a strong demand for the abandonment of the Little Steel Formula. The coal crisis was a part of the pressure. Both of the major labor organizations were demanding that either wage rates be increased or prices be reduced to the September 15, 1942, level. As a consequence of this pressure and as a means of trying to hold wages, the Administration, in May, 1943, announced the roll-back subsidies for meat and butter to reduce their retail prices and thus reduce the cost-of-living index.

These subsidies, together with certain seasonal price reductions and decreases in the prices for some fresh vegetables,

⁴ As was indicated previously, the Little Steel Formula usually is interpreted only as a "we will go this far, but no farther" policy toward changes in wage rates. It is the Stabilization Act of 1942 into which one can more easily read the implication of a tie between wages and the cost of living.

⁵ The base years for this index are 1935-39. The index stood at 100.6 in January, 1941. The cost-of-living index for selected periods is given in Appendix Table I.

reduced the cost-of-living index from 125 in May to 123 in August. Since that time the index has risen to 124.5 in April, 1944. Additional subsidies, however, have been inaugurated in order to prevent the cost-of-living index from rising at a more rapid rate. A summary of the food subsidies in operation as of December 1, 1943, is presented in table 1.

C. Issues in the Discussion

The current food subsidies came under Congressional scrutiny almost upon their inception. The desirability of continuing them has been questioned by many groups and emphasized by others. Congress has threatened to limit the way in which the agencies financing food subsidies may spend their funds. For the most part, funds have been granted for relatively short periods of time, so that the controversy over the program has been almost continuous.

The issues in this controversy are not clear cut. However, they can be divided into two classes: (1) economic and (2) political and ethical. The economic issues center around (a) the relationship of food subsidies to the control of inflation, (b) the effects of subsidies upon the national debt, and (c) the way in which these subsidies are likely to distribute the burdens of financing the war between the current civilian population and the future civilian population which will include present members of the armed forces. Whether such subsidies constitute a form of political bribery intended to bring various groups more closely in sympathy with the present administration seems to be the core of the political issue. The ethical issues center around judgments as to the way in which income "should" be distributed among the various broad economic or social groups.

II. INFLATION CONTROL AS AN OBJECTIVE OF WARTIME ECONOMIC ORGANIZATION

The economic controversy over food subsidies revolves around the expected effectiveness of food subsidies as an inflation control. Although there are opponents of subsidies who believe that "a little inflation will not hurt anyone" and

that we should not expend too much effort in controlling prices, most subsidy opponents sincerely believe that we should try to avoid inflation, but that techniques such as food subsidies will not aid in the fight and may actually aggravate a potentially inflationary situation.

In this analysis it is assumed that the United States wants to organize its wartime economy so as to produce in the necessary quantities those goods needed to win the war. A second objective is that of distributing equitably the goods available

TABLE 1

ESTIMATED GROSS ANNUAL COST TO THE SUBSIDIZING AGENCY, DATES OF INAUGURATION, AND RATES OF PAYMENT OF FOOD SUBSIDIES IN EFFECT ON DECEMBER 1, 1943

Commodity	Estimated Gross Annual Cost to Paying Agency (Millions of Dollars) ¹	Date of Inauguration	Rate of Payment ²
Apples.....	4	11-1-43	..... 3
Butter.....	82	6-1-43	5c per lb. 4
Canning fruits & vegetables	27	3-13-43	..... 5
Cheddar cheese.....	29	12-1-42	3¾c per lb. 6
Corn price adjustment.....	5	4-14-43	5c per bu. 7
Dried beans.....	10	4-7-43	70c to \$1 cwt. 8
Flour.....	100	12-1-43	..... 9
Meat.....	436	6-1-43	..... 10
Cattle.....			1.1c per lb. 4
Hogs.....			1.3c per lb. 4
Sheep and lambs.....			.95c per lb. 4
Milk.....			
Dairy feed payments.....	200 ¹¹	10-1-43	..... 11
Fluid milk.....	5	10-1-42	..... 12
Hay for drought areas.....	2	9-1-43	..... 13
Peanuts.....	10 ¹⁴	4-7-43	..... 14
Peanut butter.....	15	11-1-43	4½c per lb. 4
Potatoes.....	25	2-1-43	..... 15
Prunes.....	7	8-2-43	2¼c per lb. 6
Raisins.....	6	8-2-43	2¼c per lb. 6
Soybeans.....	10	9-22-43	..... 16
Sugar beets.....	11	2-10-43	\$1.50 per ton 17
Sugar transport.....	43	3-16-42	..... 18
Truck crops.....	6	1-26-43	..... 19
Wheat for livestock feed.....	68	1-19-42	..... 20
Total.....	1,101		

Source: Data presented in Hearings, Committee on Banking and Currency, U.S. Senate, 78th Congress, 1st Session, on S. 1458 and H.R. 3477, pp. 52-64, 135-63, 181-83, 261-63. Data came from material submitted by OPA and CCC and testimony of Jean Carroll, Director, Food Price Division of OPA.

for civilians. Both consumer rationing and price control have been established for this purpose. A third objective is the organization of the economy so that we can return to peacetime production with a minimum of economic and social dislocations.

The first objective has been and is being achieved reasonably well. Sufficient incentives for getting resources employed and for moving resources into war production have been established. Our resources—particularly labor and equipment—are now virtually fully employed, and requirements

Footnotes to table 1

¹ Gross annual cost to the paying agency is estimated on the assumption that the program is continued for one year, and that the rate of payment is unchanged during the year.

² Where a single rate of payment is indicated, the same rate of payment is made to all producers, with certain exceptions for small processors of butter and meat.

³ A transportation subsidy on movements from western areas to eastern centers.

⁴ Paid to processor.

⁵ Involves payments for additional costs of four canning vegetables (corn, green peas, snap beans, and tomatoes) on civilian pack in 1943 compared to 1942. This subsidy will cost \$17 million. Includes also a payment to cover additional costs for labor to extent of wage increase granted by War Labor Board or amount necessary to return a reasonable profit, whichever is lower.

⁶ Paid to processors through a buy and sell program.

⁷ Discontinued with announcement of new corn ceilings.

⁸ Paid to country shippers at rates of \$1.00 for red kidney beans, 80 cents for baby lima beans, and 70 cents for all other types. No payment on standard lima beans.

⁹ Paid to millers with rates based on types and grades, and averaging about 18 cents a bushel.

¹⁰ Changed, effective Dec. 25, 1943, to payments by grades as follows: choice (AA) \$1.00 per cwt., Good (A) \$1.45 per cwt., Commercial \$0.90 per cwt., all other grades \$0.50 per cwt. A payment to nonprocessing beef slaughterers of \$.80 per cwt. has been in effect since November 1, 1943, and is included in the above costs.

¹¹ A payment directly to farmers of 35 to 50 cents per cwt. for whole milk and 5 to 6 cents a pound for butterfat. The annual cost covers the rates in effect on Dec. 1, 1943.

¹² Paid only to handlers in milksheds surrounding Washington, Philadelphia, Baltimore, and Omaha-Council Bluffs.

¹³ Paid to hay feeders in drought area around Washington, D.C.

¹⁴ Paid through support programs on peanuts. Gains on peanuts sold for edible purpose amount to \$30 per ton and losses to processors for oil amount to \$50 per ton. The annual cost is the net loss on this operation.

¹⁵ A payment of 50 cents a bushel on normal yield of potatoes on acreage planted in excess of 90 per cent but not exceeding 110 per cent of individual farm goal.

¹⁶ A subsidy paid to cover certain costs of transportation and a differential subsidy paid to processors. Subsidy runs to 2 cents per pound of oil.

¹⁷ Paid on sugar beets. There is also a payment of 33 cents per ton on sugar cane.

¹⁸ Transportation subsidy on both domestic and foreign sugar.

¹⁹ A subsidy paid to growers of \$50 an acre on acreage planted in excess of 90 per cent but not exceeding 110 per cent of individual farm goal.

²⁰ Loss in selling wheat for feed at less than market price.

for war production are being met. From now until the end of the war we will be concerned primarily with shifting resources from one line of production to another as our needs change.

Attainment of the other objectives is closely linked with inflation control. Unless all incomes advance as rapidly as prices advance, there is a shift in purchasing power from individuals with relatively fixed incomes to individuals with rising incomes. Consumer rationing merely assures that certain quantities of rationed goods will be set aside for an individual. He must still be able to pay the prices in order to get the goods. Consequently, inflation is usually considered inconsistent with equitable distribution of civilian goods during wartime.

Minimization of economic and social dislocations is also closely tied to inflation control. If values of capital items, particularly land, rise markedly during the war as a result of increased incomes, individuals purchasing such items in the war period may find themselves attempting to pay for such items out of smaller incomes after the war, assuming that product prices fall. Furthermore, pressures to maintain prices and wages at wartime levels after the war may result in a much lower level of employment, if these prices and wages are too high—unless appropriate monetary action is taken.

The objective of not permitting any increase in prices may have conflicted with bringing all available manpower and materials into production in the early phases of the war when we had considerable unemployment. However, since we have now reached a condition of virtually full employment of our resources, these objectives are no longer inconsistent. We can avoid inflation without in any important way interfering with the organization of the economy for war production.

III. THE ECONOMIC FRAMEWORK WITHIN WHICH WARTIME OBJECTIVES ARE TO BE ATTAINED

In appraising alternative means which might be used to attain wartime objectives, one must also consider the econ-

omic setting within which these objectives are to be reached. Before the subsidy issue can be discussed intelligently, it is necessary to have clearly in mind certain features of the present economic and political framework of the nation. The kinds of inflation control programs which we might employ depend partially on conditions which are largely unalterable. Whether the conditions now existing should have been permitted to arise is no longer a significant question. Inflation control in 1944 cannot be made effective by bemoaning what was or was not done in 1942 or at any other time, unless there is some chance to correct past mistakes by current action.

A. The Inflexibility of Prices

One of the most important characteristics of the framework within which we are trying to get needed war production and at the same time avoid inflation is the rigidity of our price structure. Most prices are rather narrowly strait-jacketed; either a reduction or an increase in a price is extremely difficult to achieve.

The difficulties in reducing a price so that labor, materials, and other productive agents might be encouraged to move from one line of production to another arise partially from the various minimums which have been established, together with the way in which various prices have been tied together by legislation or by administrative direction. For example, the Second Price Control Act (October, 1942) established the minimum level of a price ceiling on most agricultural products at 100 per cent of parity. Wage ceilings are also more or less implicitly tied to other prices—notably to changes in the cost of living. In July, 1942, the National War Labor Board accepted the principle that changes in wage rates should reflect the changes in the cost-of-living index that had occurred between January, 1941, and May, 1942—an increase of 15 per cent. This has been interpreted as inferring that no wage ceiling should be placed lower than 15 per cent above the wage rate prevailing for a particular type of labor in a particular plant in January, 1941. More recent administrative action further infers that if the rise in the cost of liv-

ing is appreciably greater than 15 per cent, wage stabilization policy may have to take such changes into account.

The various "hold-the-line" orders which have been given to OPA by Congress and by the administration, combined with the way in which prices tend to be bound together, make it very difficult to alter relative prices by increasing any price. For example, if one farm price ceiling is increased this increase may raise the parity prices of other farm products and necessitate an upward revision in their price ceilings. Such items as costs of food and feed purchased by farmers are included in determining the parity price of any agricultural product. Hence, increases in farm prices which result in increases in costs of feed and food purchased by farmers raise the parity prices of other agricultural commodities.⁶

Similarly, since labor costs enter into the determination of most retail prices, increases in a wage rate may be reflected in increased retail prices and hence in an increase in the cost of living. Even without such parity price and wage relationships, an increase in one price may tend to increase costs of some other products and necessitate upward revisions in price ceilings.

The significance of this situation—namely, that few prices can be reduced because of political pressure or legislatively and administratively established parities, and few prices can be increased because of the repercussions upon other prices and the consequent danger of breaking the line against inflation—should not be underestimated. It means that unless the parity principles are abandoned or the line is allowed to be broken, the price pattern cannot be as effectively used to direct production as it could be in peacetime. It means that we may have to rely more upon other incentives in order to alter the pattern of production to meet more nearly our changing needs.

⁶ For example, the index of prices paid by farmers (including interest on mortgage obligations and property taxes) changed from an average of 129 in 1935-39 to 170 on March 15, 1944—a rise in the index of 41 points. Of this change 13 points, or a third, were due to increases in the costs of food and feed purchased by farmers. Between September 15, 1942, and September 15, 1943, the index rose by 12 points, 7 points of this increase being due to a rise in feed and food costs.

B. Weak Tax Program

A second important feature of the framework within which we are trying to carry on the war and yet avoid inflation is that we have had and still do have a tax program inadequate to drain off excess purchasing power which could easily be used to bid prices far above established ceilings. A relatively inflationary program of war finance may have aided in rapidly achieving full employment of our resources in the early part of the war. But such a weak tax program now makes effective price control extremely difficult.

The failure to impose heavy taxes early in the course of the war has resulted in rapid growth of the national debt, the sale of a relatively large proportion of war bonds to banks with the consequent creation of additional money in the form of additional bank deposits, and the building up of private liquid holdings (largely cash and bank deposits) which individuals may at any time try to convert into goods. For example, in the fiscal year 1943-44, it is estimated that there will be a gap of nearly 40 billion dollars between income which could be spent on goods and services and the total available goods and services which could be bought (valued at current prices). There were also large gaps between disposable income and the value of available goods and services earlier in the war.

If a disastrous inflation is to be avoided, given a situation where we have had a weak tax program, the desirability for maintaining relatively stable prices is unquestionable. Regardless of what we do in the way of taxation from now until the inflationary pressure has subsided, we will not capture by current taxation the huge backlog of liquid holdings that has accumulated during the past 3 years. However, we do need a much stronger current tax program to keep the situation from getting worse. The flow of excess purchasing power has been and may continue to be partially spent on war bonds. The rest of it has gone into building up individuals' liquid holdings. What individuals do with their accumulated liquid holdings and with currently accumulating excess purchasing power depends upon their expectations of the future

course of prices. If prices are expected to remain relatively stable, bond sales may be relatively high and bank deposits may continue to be built up. But, if individuals expect prices to increase, they may attempt to convert their cash and deposits into goods as rapidly as they can. Avoidance of inflation under such circumstances would be extremely difficult.

IV. ALTERNATIVES IN INFLATION CONTROL

Given the objectives of effectively organizing the economy for the production of goods needed to prosecute the war and at the same time avoiding inflation, what alternative procedures might be employed in accomplishing these objectives?

1. Freeze all prices and wages at their current levels.

Adoption of this alternative means that price and wage changes cannot be used to direct production. As a consequence any change in production must be induced by other means—the payment of subsidies or direct allocation of labor, materials, and other productive agents by the government are examples.

Many may question whether adoption of this alternative actually entails discarding the use of prices in directing production. Proponents of freezing prices believe that such adjustments in production as are needed can be achieved by minor price changes. OPA has been making such adjustments, and since July, 1942, the cost-of-living index has risen by nearly 8 points. Adjustments in a few prices almost inevitably lead to other price changes—particularly when many prices are tied together—and the accompanying upward spiral effect.

The implications of this procedure can be indicated by an illustration from the food production field. An increase of 2.5 million acres in soybean production is desired for 1944. If this cannot be encouraged by changing relative prices or by the payment of subsidies, the only way in which this higher acreage might be attained would be by a governmental agency directing each farmer as to the acreage of soybeans he should

plant and harvest. Similar governmental direction probably would be necessary to induce other production changes. This procedure is unlikely to be generally acceptable.

2. *Adjust some prices and wages upward and others downward to alter price relationships but at the same time maintain a particular general level of prices and wages.*

From an economic point of view this procedure is the most desirable of any of the alternatives. It would enable effective use of the price mechanism—which is perhaps the most impersonal and generally acceptable of the various techniques—to direct production. However, given the way in which prices are strait-jacketed, this alternative cannot be utilized. In order to alter relative prices and wages to get the kind of production pattern we want and yet maintain the present general level of prices, the legal minimums below which certain price ceilings cannot be established would have to be scrapped. Support prices for some farm products probably would have to be adjusted downward. And some wage rates would require reduction.

Although this alternative appears politically unacceptable, some of the adjustments which it implies should be discussed more fully. Not only would the present general level of prices have to be held, but the level within each broad group in the economy—agricultural prices, wages, and industrial prices—probably could not be reduced. This means that the price adjustments would have to be made within each of these broad groups. For example, if the general level of agricultural prices was raised, in order to keep the level of all prices from increasing, the compensating adjustment would have to be a reduction in the general level of non-agricultural prices—an adjustment which would hardly be politically feasible.

If the present level of farm prices were to be maintained but the price pattern altered to stimulate needed production, prices for soybeans, vegetable oils and meals, whole milk, dried skim milk, potatoes, and some vegetables would be among those which should be increased. Reductions in the

prices for grains, cotton, hogs, and butterfat would probably be necessary. Such price changes could not be accomplished so long as parity is used as a guide for establishing price ceilings. A reduction in certain price floors, particularly those for butterfat and hogs, would be required. The provision in the price control law that the ceiling price for a farm product cannot be below the highest price received during the period January 1 to September 15, 1942, would have to be scrapped. And the provision that price ceilings shall reflect increases in costs that have occurred since January 1, 1941, would have to be removed.

Similar adjustments in wage rates—some upward and some downward—probably would be required. Although it is doubtful whether many groups whose wages might be reduced would experience undue economic hardship, nevertheless such adjustments probably would be politically impossible.

3. Discontinue or modify price control and allow prices and wages to rise gradually.

Acceptance of this alternative implies that the fight against inflation should be at best a delaying action. It is very likely that an acknowledged delaying action against inflation would turn into a disastrous defeat, particularly since there is a large accumulation of cash and bank deposits which individuals may try to convert into goods if prices are expected to increase.

4. Increase taxes sharply to reduce excess purchasing power.

Although much higher personal taxes are desirable and perhaps necessary to reduce the supply of currently disposable funds and consequently the pressure on price ceilings, the effectiveness of increased taxes as the sole preventive to inflation has probably been overestimated. There are two important reasons why stepping up taxes probably would not be sufficient to keep prices from increasing, if price controls were at the same time relaxed: (1) increased taxes collected currently on personal incomes will not reduce the large

amount of bank deposits and cash held by individuals, and (2) increased taxes, particularly if they are sales taxes, may in themselves bring higher wages and prices.

Taxes could conceivably be high enough to dig into holdings of cash and bank deposits built up during the past three or four years.⁷ However, as a practical measure, this seems in the realm of the impossible. Consequently, any break in prices might easily lead to the release of a flood of this "hot money" in an attempt to exchange it for goods.

Both the A.F. of L.⁸ and the C.I.O.⁹ in their official publications have definitely indicated that they consider *income after taxes* the most important factor in determining the adequacy of wage incomes.¹⁰ The A.F. of L. has also repeatedly considered not only income after taxes, but income after taxes and expenditure on war bonds as the item to be viewed in determining the adequacy of income. Sales taxes increase directly both the cost of living and cost of goods purchased by farmers. Hence, such taxes would automatically lead to upward adjustments in some farm price ceilings and could easily become the basis for proportionately higher wages.

Given these considerations, taxation as the sole force in inflation control is likely to prove very inadequate. It appears questionable, however, whether subsidies without increased taxes would serve to hold the line against price advance. As is indicated below, the immediate effect of such

⁷ At the time they are paid, taxes (other than those collected currently) obviously cut into individuals' holdings of cash and bank deposits. However, if incomes (after deducting for taxes collected currently) and expenditures are at the same levels during the subsequent period as they were during the period for which the tax is computed, these holdings are rebuilt. Their level at the end of any tax period, assuming unchanging incomes and expenditures from period to period, will never be lower than at the end of the previous period, unless the tax is greater than the excess of income over expenditure.

⁸ See *Labor's Monthly Survey*, Nov., 1943, pp. 5-6; Oct., 1943, pp. 7-8; and Aug., 1943, p. 4.

⁹ See *The Economic Outlook*, Sept., 1942, p. 3.

¹⁰ The mention of this position does not indicate any acceptance by the authors of its validity. Carried to an extreme this position means that members of labor unions should be able to obtain income increases sufficient to offset any changes in taxation necessary to finance the war. In other words, the real burden of taxation should fall upon other groups in the economy, and these particular groups of wage earners should be permitted to maintain the same scale of living as before the war, or at least to increase their savings commensurate with any fall in the scale of living. Obviously this position cannot be considered as a socially desirable one.

subsidies is a net addition to excess purchasing power and to holdings of such liquid claims as currency and bank deposits. This increases further the potential danger of a break in prices, for individuals will have even more "dangerous dollars" which they may try to exchange for goods. In the 3 years, Jan. 31, 1941, to Jan. 31, 1944, the amount of United States money in circulation increased from \$8,593,000,000 to \$20,529,000,000, and demand deposits rose very sharply.¹¹ Individuals were much more willing to hold such liquid claims than most authorities had anticipated. Part of this willingness may have been due to an expectation of a drastic postwar deflation, for it seems plausible that the willingness of an individual to hold liquid claims rather than goods decreases as the ratio of the value of his liquid claims to his goods increases, unless he expects a future decrease in prices. We might be able to continue to increase the amount of liquid claims and still hold the price line. But the probability of successfully keeping prices down under such circumstances seems to be rather small.

V. SUBSIDIES AND GENERAL PRICE STABILIZATION

In the preceding section we have presented the major alternatives¹² to the use of subsidies (in conjunction with present price and wage control measures) as means for controlling inflation. In order for some of these alternatives to be workable, various features of the framework within which price control is now operating would have to be altered. This would be true if the general level of prices were held, but relative prices were altered to encourage needed pro-

¹¹ The increase in demand deposits during the same period was more than \$22 billion. See recent issues of *The Federal Reserve Bulletin*.

¹² Another alternative frequently advanced is that of increasing production, thus providing more goods and keeping prices from rising. When virtually all available resources are already employed, increased production of goods for civilians can be attained only by shifting men and materials out of war production and into producing for the civilian market, or by increasing the efficiency with which resources are used—producing more goods with the same resources. It hardly seems wise to cut down sharply on war production at the present time. Furthermore, an increase of at least 40 per cent in the aggregate output of civilian goods probably would be necessary to absorb current excess purchasing power if prices are to be kept from rising above current levels.

duction. Discontinuing or modifying price control to allow prices to rise would prove inconsistent with the objective of maintaining a stable level of prices. And increased taxation will not in itself serve to stave off inflation, although a stiffer tax program is desirable as an aid to price control.

Do subsidies offer a greater probability for effectively achieving price control than do the other alternatives? Under what conditions are subsidies likely to be workable? What are the major limitations of subsidies in inflation control? These are some of the questions which should be considered in adequately discussing the role of subsidies in an inflation control program.

A. Basic Assumptions in the Economic Arguments For and Against Food Subsidies

The most important assumption underlying the argument for food subsidies is that upward changes in the cost of living will lead to upward changes in farm price ceilings and in wage rates. As has been pointed out above, price ceilings for agricultural products are explicitly tied to parity prices. Consequently, farmers have been given a guarantee that price ceilings for their products will be automatically increased as other prices increase. There is, of course, a ceiling on wage rates. The Little Steel Formula established by the War Labor Board limits increases in straight-time or basic wage rates to 15 per cent above the levels of January, 1941. Some wage rates had advanced more than 15 per cent before the Little Steel Formula was put into operation. And additions to wages have been granted through increased pay for overtime, "portal-to-portal pay," and on other similar grounds. However, if the Little Steel Formula were held, wage rates probably could rise relatively little above their present levels.¹³

¹³ There is considerable confusion and misunderstanding in the terminology used in discussing change in labor earnings or wage rates. The following terms are defined as used in this pamphlet: *Average weekly earnings* is the average amount paid to employees, prior to any deductions for taxes, bonds, etc., during a specified week or period of weeks. *Average hourly earnings* is the result of dividing weekly earnings by the average number of hours worked during the week. Changes in these two measures of earnings include changes in overtime, upgrading, shifts from lower to higher paid jobs, individual promotions, piece work rates, the

Why, then, might it be assumed that our ability to hold the cost of living enters into the holding of wage rates at about present levels?

Political as well as economic factors have entered and will continue to enter into the establishment of both wage and price ceilings. The tying of farm price ceilings to parity is a notable example. Labor groups ask why labor should not have a guarantee similar to that granted to farmers. The advocates of food subsidies ask if the War Labor Board can be expected to maintain the Little Steel Formula in view of the treatment given to farmers and the promises to labor (in the Stabilization Act of 1942), unless living costs can be kept from advancing.

Some proponents of food subsidies believe that if the cost-of-living index can be held at its present level, the Little Steel Formula can be maintained. Others believe that the index will have to be reduced to 118—the level of September, 1942. Both groups are in agreement that living costs cannot be either reduced or held at current levels without subsidies. Distributors' margins might be reduced somewhat, but not enough to offset the increases in costs which would result if the subsidies were discontinued. If food subsidies were withdrawn, it is estimated that the cost-of-living index would immediately rise from its present level of about 124 to about 128.

The basic assumption underlying the economic arguments against food subsidies is that changes in wage rates are largely independent of changes in the cost of living. It is believed that wages can be held at present levels even though food subsidies were withdrawn and the cost-of-living index rose.

Both cases are logically constructed, given the assumptions

¹³ *Continued*

effects of incentive plans, as well as changes in basic wage rates. As used here, *basic wage rates*, or simply wage rates, refer to the schedules of pay for specified jobs. The War Labor Board is concerned largely with the stabilization of these schedules and not with any of the other measures of earnings, except as the War Labor Board policy affects individual promotions. For the first two measures, accurate data are available; for the third, data are practically nonexistent. In some cases, average hourly earnings exclusive of overtime for work in excess of 40 hours a week are used as an indication of changes in wage rates, but they are a very poor indicator and cannot be used to measure the success of the stabilization efforts of the War Labor Board.

on which they are based. Consequently, appraisal of the relative validities of these arguments must be made in terms of the realism of these basic assumptions.

In this analysis it is assumed that existing wage and farm price levels cannot be held independently of increases in the cost of living. This assumption is based upon the authors' interpretation of the current economic and social framework within which the economy is to function.

B. Are Subsidies Inflationary?

In analyzing the effects of subsidies upon inflation it is desirable to distinguish between the effects of the two general types of subsidies: (1) those designed primarily to increase the effectiveness of specific price controls, including those paid to marginal or high-cost producers; and (2) those used to prevent general price increases, of which most of the food subsidies are examples.

Subsidies used to increase the effectiveness of specific price control measures have proven to be distinctly noninflationary. An example of such a subsidy is that paid to cover high costs of transporting gasoline to the east coast by tank car. Another is the payment to cover additional costs of importing products which must supplement domestic production in order to provide an adequate supply. If these subsidies were not paid, the price structure might be so complex as to make evasion of price ceilings a rather simple matter. Furthermore, with the aid of subsidies, ceiling prices may be established at levels considerably below those which could otherwise be set. This means that if the government is a purchaser of goods whose prices are affected by such subsidies, its outlay for such goods is reduced, thus contributing to a lower inflationary gap than would otherwise exist.

Subsidies to marginal or high-cost producers, if properly administered, have effects similar to those mentioned above. Payments are usually made on a small proportion of the total output of a particular commodity. This small proportion of total production could be obtained without subsidies only by

increasing the price paid for all of the commodity produced. Savings to purchasers as a result of such subsidies may be very large relative to the expenditure on the subsidy, particularly where the marginal output is a small proportion of the total.¹⁴

The issue, however, is the inflationary effects of a flat payment per unit of output paid to all producers of a particular commodity in order to reduce retail prices or to prevent price increases. The major proportion of the food subsidies falls in this category.

As was pointed out above, it is impossible to give a categorical answer as to the inflationary effects of these subsidies. Any answer that is given depends upon the assumptions that are made regarding the relationship of wages and particular prices to the cost-of-living index.

The primary or immediate effect of such subsidies tends to be inflationary in that such payments add to excess purchasing power—unless they encourage proportionate increases in production or are offset by additional taxes. Neither of these conditions is likely to be realized. There is little possibility, for example, that 10 per cent higher returns to meat producers would encourage a 10 per cent increase in meat production. Furthermore, it seems very unlikely that tax rates will be higher with than without a subsidy program.

In most cases, however, maintenance of price ceilings by means of subsidies does not add to total purchasing power by the full extent of the subsidy—if the government is a purchaser of the subsidized commodity. For example, reduction in average wholesale meat prices by 2 cents per pound in-

¹⁴ The subsidy to copper producers is illustrative of the way in which these savings arise. A subsidy of 5 cents per pound was paid, primarily to mines which were formerly not in operation. The output of these producers constituted about 4 per cent of the total copper produced. Had this 4 per cent been induced by paying the same price to all producers, the additional expenditure on copper would have been about 25 times as great as the subsidy.

However, not all of the additional expenditure which would have been necessitated, had the additional copper production been induced by increased prices, would have been inflationary. A large proportion of the additional expenditure would have been recovered by the government through excess profits taxes. The amount which would be recovered varies directly with the proportion of mines operating at profits taxable at excess profits rates. If all of the mines were in this category, about 80 per cent of the additional expenditure would have been recovered. This means that, at best, inducing the additional output by increased prices rather than by subsidies would be 5 times as costly.

volves an annual cost of 436 million dollars. During 1943-44, the government will purchase about 37 per cent of the total meat supply. Thus, 37 per cent of the expenditure on the subsidy is the equivalent of a book transaction between the Treasury and the various war procurement agencies. The net addition to consumer purchasing power as a result of the subsidy on meat is consequently about 275 million dollars annually.

Those who argue that food subsidies are inflationary carry the argument only to this point. They claim food subsidies add to the inflationary gap by the total amount of the subsidy payments minus the subsidy on commodities purchased by the government.¹⁵ This position is correct, *if wages and all other prices would be the same whether or not food subsidies were paid*. It is the validity of this assumption which is in question.

Those who contend that food subsidies are an aid to the control of inflation base their argument primarily upon the consequences which failure to hold or reduce the prices of subsidized articles would have upon other prices and upon wages. It is consideration of these "secondary" effects which is of most importance in determining whether subsidies are inflationary.

The political and social factors bringing forth secondary price increases, if specific prices are not kept from increasing (or are not rolled back), are very potent. The coal strike, the steel walkouts, the threatened rail strikes, and many expressions of labor leaders indicate dissatisfaction with the Little Steel Formula. Labor leaders argue that the administration has broken faith with them by not stabilizing the cost of living while wage rates have been frozen.¹⁶

¹⁵ Comparisons of relative sizes of the inflationary gap under various alternative conditions may yield few insights into the inflationary effects of various policies. In a true inflationary situation, the inflationary gap may be zero.

¹⁶ Labor members of President Roosevelt's Cost-of-Living Committee have filed a joint report claiming that the cost of living has increased at least 43.5 per cent from January, 1941, to March, 1944. The report claims that only the BLS cost-of-living index, not the cost of living itself, has been stabilized—that many price advances in items not listed in the index have occurred and that the index does not take into account quality deterioration. In general this criticism is partially correct. The BLS index or any other similar index, however, cannot be a measure of changes in everyone's cost of living, particularly the living costs

Given these current political and social factors, failure to maintain a satisfactory subsidy program may lead to two sorts of inflationary effects: First, the level of income payments may be immediately increased by an amount equal to the additional cost of goods purchased by the government, this increase in costs being brought about by higher wages and prices.¹⁷ Second, such a change in wage rates might cause an immediate rise in the cost-of-living index by perhaps 3 per cent. This would result in further readjustments of wage rates and so on and on. This is the sort of spiralling effect arising from price and wage increases. An increase in an individual's own wages or in the prices received for his products can thus become an excuse for a further increase because of its effect on the cost of things he buys as a consumer.

It is analysis of these secondary or spiralling effects of price increases which leads many authorities to conclude that subsidies are less inflationary than price increases, even though subsidies may add somewhat to current excess purchasing power. The whole question of whether subsidies tend to be inflationary resolves into estimates of the ability of price and wage administering agencies to hold wages and prices at existing levels with and without subsidies. If the War Labor Board and the Office of Price Administration could, without the use of subsidies, hold wage rates and prices at current levels (except for those few adjustments needed to obtain production changes), employing subsidies to lower the cost of

¹⁶ *Continued*

of those individuals who have to travel greater distances to their places of work, who cannot secure living quarters comparable to those occupied by them prior to the war, or who by choice have switched to purchasing higher quality goods. These items are important. But they are not and probably should not be included in the BLS index. A more reasonable approach for labor might be a request for special adjustments because of factors not covered by the index—adjustments which would not apply to all workers—rather than a somewhat invalid criticism of the index.

¹⁷ If the Little Steel Formula were changed, for example, to explicitly tie wage rate changes to the cost of living, the increased wage bill for the nation would be about \$5.5 billion. Since the government is buying about half of the gross national output, this would increase the annual cost of the war procurement program by about two and three-quarters billion dollars. The remaining \$2.75 billion presumably would be a current annual transfer of purchasing power between various income earners.

living would be inflationary. However, if wages and prices cannot be held unless the cost of living is stabilized, the expenditure of sufficient governmental funds on subsidies means that not only will the increase in the national debt be smaller, but the level of prices will be lower than it would be without the subsidies.

C. Subsidies and the National Debt

Given the present political setting, using subsidies to hold prices probably will result in a national debt lower than that which would result without a subsidy program. This conclusion is based on the following assumptions: (1) That prices cannot be reduced (without compensating subsidies) to meet the commitments implicit in the Little Steel Formula and the Stabilization Act (maintenance of the cost of living at the level of September 15, 1942)—because of the political and social factors; (2) without an extension of the subsidy program to embrace more commodities and reduce prices further, price rises are inevitable and further increases in the cost of living will occur; (3) the removal of the present food subsidy program would immediately increase the cost-of-living index from its present level of approximately 124 to a new level of 128; (4) if subsidies are discontinued the Little Steel Formula will have to be revised to permit basic wage rates to rise to at least 28 per cent over the January, 1941, levels or about 11 per cent above the current maximum established by the Little Steel Formula.

Even though not all of the reduction in the cost of living can be achieved by rolling back prices (without a subsidy program), there may be some opportunity for reducing margins and farm returns on some fruits and vegetables. In addition, better understanding and enforcement of existing price regulations can reduce the cost of living by perhaps 1 per cent. It is estimated that these two steps will reduce the cost of living by about 2 per cent (2.5 points on the BLS index)¹⁸ be-

¹⁸ See testimony of Richard V. Gilbert, Economic Adviser to the Price Administrator, before House Committee on Banking and Currency, September 29 to October 12, on H.R. 3477, pp. 523-24.

low the present level, leaving a further 3.5 per cent (4.2 points on the BLS index) reduction in order to reach the September, 1942, level.

Experience with the meat and butter subsidies indicates that an annual expenditure of about \$350 million will lower the cost-of-living index 1 per cent. If this relationship can be maintained, an additional subsidy expenditure of about \$1.2 billion will be required to meet the commitments imputed to the Stabilization Act of 1942. Added to the present subsidy program of \$1,400 million annually,¹⁹ the total annual cost of the program would run slightly more than \$2.6 billion. If any contingency fund is established for additional price increases required to alter the production pattern during the year, perhaps \$3 billion would be the sum required.

The \$3 billion used to finance a subsidy program as extensive as that suggested would probably be borrowed. Does this mean that the national debt would be \$3 billion more than it would be if subsidies were not used to hold the cost of living?

To answer this question one must also analyze the effect of such an expenditure upon relative costs of goods purchased by the government under the subsidy program and compare it with expected expenditures without food subsidies. These comparisons must be based upon estimates of the levels of wages and prices which might prevail under these two sets of conditions.

It is extremely difficult to estimate accurately the changes in wage rates which might occur if the cost of living were allowed to rise as a result of discontinuation of the subsidy program, or even to estimate the changes which might occur if the cost-of-living index were held at present levels. If the subsidy program were discontinued, the cost-of-living index probably would rise by about 4 points to 128—a level more than 10 per cent above that involved in the Little Steel Formula. However, this does not mean that wage payments would increase by 10 per cent. Revising wage rates to allow for this change in the cost-of-living index would not increase

¹⁹ Excluding AAA payments, but including subsidies on industrial products which amounts to about \$350 million annually.

all wage rates by 10 per cent above their current levels. Although the War Labor Board has done a remarkable job in holding increases in wage rates to within 15 per cent of the January, 1941, level, many wage rates had risen more than 15 per cent before the establishment of the Little Steel Formula. It is estimated that the average increase in wage rates would be about 6 per cent, if food subsidies were discontinued.²⁰

On the basis of these data, the index of factory workers' average wage rates would be increased by an average of 6 per cent, if wage rates were adjusted to the cost of living, and if all factory workers' wage rates had risen by the same amount from January, 1941, to October, 1943. Some wage rates of factory workers have increased more than 28 per cent. Others have increased 15 per cent or less. Consequently, the exact changes which would follow in the wage rates of these workers cannot be estimated without knowing more about the various changes that have already taken place. However, on the basis of almost any conceivable distribution of these changes, an average increase of between 5.6 per cent and 6.6 per cent in these wages is to be expected if wage rates were tied to the cost of living.

Since wage rates of factory workers have increased more on the average than have wage rates of non-factory workers, the adjustment for non-factory workers would be greater than that for factory workers.

Accepting a 6 per cent increase in wage rates as a reasonable approximation of the change which would take place in basic wage rates if wages were adjusted to the cost of living (the

²⁰ We have no accurate information on changes in basic or straight-time wage rates. Changes in average hourly earnings are very poor indicators of changes in basic wage rates, since they include shifts to higher paid jobs, overtime pay, premiums for night work, increased pay due to incentive plans and piece work rates. Chairman Davis of the War Labor Board estimates that in the year September, 1942, to September, 1943, rates of factory workers increased by 1.2 per cent (see Hearings, U.S. Senate, Committee on Banking and Currency, 78th Congress, 1st session, on S. 1458 and H.R. 3477, p. 489). The Bureau of Labor Statistics estimated average hourly earnings exclusive of overtime in October, 1942, at 20.8 per cent above the average of January, 1941. Thus, if these estimates are comparable (those of the BLS include premiums for night and Sunday work and increases due to upgrading and promotions and incentive plans which are not included by the WLB), the average basic wage rate of factory workers was approximately 22 per cent higher in October, 1943, than in January, 1941.

change in wages paid would be about 6.5 per cent when increased overtime pay is also taken into account), the increase in the nation's wage bill would be about 5.5 billion dollars annually.²¹

The government is now purchasing about one-half of the nation's gross output. An increase of 5.5 billion dollars in the annual wage bill would increase by approximately 2.75 billion dollars the annual cost of goods purchased by the government.²²

Of the total output of foods on which subsidies were being paid as of December 1, about 25 per cent was purchased by the government. If this relationship were maintained and the total annual expenditure on food subsidies were expanded to 3 billion dollars, the total annual subsidy on goods purchased by the government would be approximately 750 million dollars.

Thus, the annual expenditure on food subsidies necessary if the program were expanded to roll back the cost-of-living index to the level committed by the Stabilization Act of 1942, would be cancelled by the "savings" accruing to the government as a result of lower prices than would otherwise prevail for goods purchased by the government. An annual expenditure of about 3 billion dollars would be required for the subsidy program. But since 750 million dollars of the subsidies would be paid on foods purchased directly by the government and would consequently involve only the equivalent of an inter-agency transfer, the annual net cost would be about 2.25 billion dollars. The saving to the government as a result of lower wages and consequently lower prices than would

²¹ The nation's annual wage and salary bill, at present rates of pay, is about \$100 billion (excluding pay to the members of the armed forces). The upper limit of the increase would be 6.5 per cent of this figure, or 6.5 billion dollars. However, an important part of the wage and salary bill goes to individuals whose annual salaries are \$5,000 or more and who can receive increases only on the basis of promotion. Many unorganized workers, including public employees, would probably not receive an increase. Consequently, even if the War Labor Board followed a very liberal policy in granting increases, the total national wage bill probably would not be increased by more than 5.5 billion dollars per year.

²² This estimate assumes that the proportionate increases in wages in industries from which the government is making purchases will be equivalent to the proportionate increases in other industries.

otherwise prevail on goods purchased by the government but not directly subsidized, would be about 2.75 billion dollars—an amount slightly larger than the estimated net cost of the subsidy program.

The immediate effect of adequate food subsidies, under the assumptions made in this analysis, would be to bring about no increase in the national debt.

However, this is only the primary or immediate effect. If food subsidies were discontinued and prices and wages rose to the level estimated in this study, consumer expenditures would again be increased—this time by between 2.5 and 2.75 billion dollars. The cost of goods and services purchased (and the cost-of-living index) would thus be increased by about 3 per cent. Some farm price ceilings would automatically rise. And there would be demands for increased wages—demands which would have to be met if wage rates were to be adjusted in line with changes in the cost of living.

The conclusion which obviously follows is that there is no definite limit to an inflationary spiral—and consequently to the increase in the national debt—resulting from tying wages to the cost of living and farm prices to the cost of goods purchased by farmers.²³ Since one general wage increase provides the basis for further increases because the cost of living advances, it is impossible to estimate the total effect of a subsidy program upon the national debt.

D. *Additional Savings to the Public as Consumers*

In addition to holding the national debt at a level lower than would otherwise prevail, there are other savings to the public from a food subsidy program.²⁴ Even though wage

²³ Whether the inflationary spiral has a limit depends upon the proportion of prices which are tied together and which thus advance simultaneously and upon the effect which such price increases have upon expectations of future prices. If all prices were explicitly tied together, there obviously would be no theoretical limit to the increases in prices resulting from an upward adjustment in one price. However, even though all prices are not explicitly tied together, an increase in one price may lead to the expectation of general price increases and all prices may advance.

²⁴ The savings as a result of food subsidies are a transfer of purchasing power from producers to consumers. For the economy as a whole, the savings are offset by lower money incomes to resource owners. The savings, in a real sense, accrue to those individuals whose incomes would increase less than prices, if there were no subsidy program.

rates would not change if there were no food subsidies, the subsidy program would result in lower costs of goods purchased by consumers than would be possible if there were no subsidies, the difference in costs being greater than the cost of the subsidy program. There are at least three important reasons for this. One is that most distributors' margins are on the basis of a given percentage markup, established by the Office of Price Administration. If the subsidy is paid early in the distributive chain—e.g., directly to producers or to processors—the net effect upon the costs of goods purchased by consumers may be a saving of from 20 to 40 per cent in excess of the cost of the subsidy program. The subsidies on meat illustrate this point. By paying a subsidy of 2 cents per pound at the wholesale level, the retail price was reduced by 3 cents per pound. Thus, during 1943-44 the estimated 275 million dollar expenditure on that portion of the meat supply going to civilians reduced civilian meat costs by 410 million dollars. A second reason lies in the way in which subsidies can be paid to high-cost (marginal) firms. If the price ceiling on a particular good was increased, all of that good could be sold at the higher price and additional expenditures on the good would be considerably higher than the cost of the subsidy program. A third reason is that subsidy payments may prevent a marked percentage rise in the cost of goods whose prices advance by full cents. This is true of the flour subsidy which prevented a 1 cent rise in the price of bread. A payment of \$100 million a year is in this case saving consumers 3 or 4 times that amount.

The Office of Price Administration has estimated that the government's food subsidies are reducing the costs of goods purchased by consumers by approximately \$1,150,000,000 annually. The total cost of these subsidies is \$1.1 billion annually, of which nearly \$270 million applies to goods purchased by the government.²⁵ The net expenditure on food sub-

²⁵ These estimates do not include the prospective cost of the additional subsidies announced in connection with the 1944 agricultural price support program; they include only the subsidies in effect at the end of the calendar year 1943.

sidies is thus running at about \$840 million annually, leaving an estimated net saving of about \$310 million.²⁶

This saving is again only the primary one. If the secondary effects are also taken into account, the savings are likely to be considerably in excess of those estimated by O.P.A.

E. *Additional Subsidies Needed to Roll Back
the Cost of Living*

In the above analysis the estimates of changes in prices were based upon the assumption that the Little Steel Formula cannot be held unless the Administration meets its commitment to roll back the cost of living to the level specified in the Stabilization Act.

Two comments are appropriate: (1) It should again be emphasized that this assumption may be in error. If the cost of living can be firmly held at current levels, labor groups may be willing to accept the Little Steel Formula and press no further demands. Much of the current agitation arises out of the fears of workers that the cost of living will not be held. Their demands may be largely anticipatory. (2) There is no absolute assurance that the Little Steel Formula can be maintained even though the cost-of-living index is reduced. The current attack upon the index raises doubts as to labor's acceptance of a sort of parity between the cost of living and wage rates. If this attack is successful, claims for wage increases can be instituted merely by changing the concept of the cost of living. Consequently, before the Administration and Congress embark upon an extension of the subsidy program they should have a commitment from the major labor groups that there will be no further demands for wage rate changes or demands for increased pay through various circumventions of the Little Steel Formula. Though it is apparently true that the coal miners did not receive increases which were outside the letter of the formula, such pay increases as were received have resulted in increased coal prices. Unless such a commitment can be obtained and adhered to, an extension of the subsidy program will be of little

²⁶ Data on costs of food subsidies in effect as of December 1, 1943 are given on page 8.

or no value, might discredit the use of subsidies, and lead to a greater increase in prices than if no subsidy program had been inaugurated.

What extensions of the subsidy program are both feasible and desirable? They may be divided into two parts: (1) those subsidies that will be desirable to add to the present list even though prices are not reduced but are merely held at current levels, and (2) additional subsidies that will be needed if the cost of living is to be rolled back to the level of September 15, 1942.

Because of limits of space, we cannot adequately deal with the first type. Subsidies in this category are necessary to adjust returns to producers in order to achieve desired production adjustments. The necessary subsidy expenditures in this field vary as needs change. Early in the spring of 1944, two important farm products which seemed to require increased subsidy expenditures were dry skim milk²⁷ and soybeans. The announced support price of \$2.04 for soybeans appeared inadequate to increase soybean acreage from 11.4 to 14 million acres. A price of about \$2.50 would have been required. But, due to the close competitive relationships among the oil seeds, a subsidy would have been the only adequate means for increasing returns to producers without setting up a chain of related price increases on related products.

It was estimated earlier that the additional gross subsidy expenditure, when accompanied by certain other measures to reduce the cost of living, would be about \$1.5 billion. Further extensions of the subsidy program admittedly run into important administrative difficulties. At present, with an expenditure of about \$1.1 billion, almost two-thirds of all the foods included in the cost-of-living index are covered by subsidies. A question which arises, and which has not been answered, is "what specific new subsidies should be inaugurated and what extensions should be made of present subsidies?"

Our purpose is not to outline the specific subsidies, but to indicate only what commodities might be suitable for exten-

²⁷See the Revised Edition of Pamphlet No. 5 in this series.

sion of subsidies. The commodities chosen should either be those the consumption of which is limited by rationing or the supply of which is sufficient to meet demands at the lower price. In the food field this limits subsidies to meats, butter, fats and oils, sugar, canned fruits and vegetables, potatoes, eggs, poultry, cereals, bread, beans, peas, flour, and milk. Of these practically all are now subject to subsidy payments, though the expenditure of subsidies on cereals, bread, beans, peas, flour, evaporated milk, potatoes, canned fruits and vegetables, sugar, and fats and oils (except butter) could be increased. If the prices of these foods were lowered by 10 per cent, the cost of living would be reduced by a little more than 1 per cent. Somewhat greater reductions in the prices of cereals, beans, peas, and potatoes might be practical in order to encourage their consumption. Reducing the prices of these foods (cereals, beans, peas, and potatoes) by 20 per cent would reduce the cost of living by about one-half of 1 per cent.

The cost of further reductions in food prices by means of subsidies is difficult to estimate. On the basis of previous experience it would cost each year approximately \$600 million to reduce by 20 per cent the prices of peas, beans, cereals, and potatoes and by 10 per cent the prices of the other foods listed above. Of this expenditure \$120 million would apply to government purchases of these foods. This would leave a net annual cost of \$480 million.²⁸

Extending subsidies to other foods and more rigorous enforcement of price control would still leave the cost of living about 2 per cent above the September, 1942, level. The index would stand at 120 as contrasted to 117.8 as of September, 1942. Unless the subsidy program were extended to nonfood items, the index probably could not be reduced below 120. Although eggs, fish, and poultry constitute about 11.5 per cent of the index of food costs (4.5 per cent of the total cost-

²⁸ Since a fairly large part of the subsidy would be on bread, which is not purchased in large volumes by the government, the proportion of the payment on governmental purchases would be nearer one-fifth rather than the one-fourth of subsidized commodities now being bought by the government.

of-living index), application of subsidies to these commodities is almost impossible because of administrative difficulties.

The non-food items which might be subsidized are limited in number. Men's work clothes and underwear, the so-called white goods, shoes, soap, and cleaning supplies are commodities to which subsidies might be applied. However, these items constitute only about 3 per cent of the total cost-of-living and reductions in price would have to be very marked in order to obtain any important reduction in the cost of living.

Given these limitations, the only practical solution to extension of subsidies may be to obtain a general agreement between labor, the Administration, and Congress as to what commodities should be subsidized and to what extent. There should also be a commitment that no further increases in the retail prices of goods which are generally purchased should be permitted. If such agreements could be reached, total subsidy expenditures probably could be limited to something less than our estimates.

F. *Limitations of Subsidies*

Subsidies are subject to several limitations, some of which are unique and some of which are inherent in any method of direct price control. If subsidies are to be successful they must be accompanied by strong wage and price controls. Unless wages and prices are rigidly controlled, holding the line will necessitate larger and larger subsidy expenditures. In fact, the indiscriminate use of subsidies can give the general impression that the line is being held, while at the same time the inflationary pressure is being given impetus by allowing prices and wages to rise.

Subsidies also may be applied to the wrong commodities (in terms of production needs). However, this limitation is inherent in direct price control since price adjustments may be made in terms of the extent of pressure applied rather than on the basis of obtaining the needed production. Because of what appears to be a genuine desire on the part of most producers to avoid subsidies, it may be that subsidies are less

objectionable in this connection than adjusting price ceilings.

The payment of subsidies involves additional administrative costs to the government. However, these costs are often overestimated. Experience of the Commodity Credit Corporation in 1943 was that the cost of administering subsidy payments of \$350,000,000 was \$3,410,000, or approximately 1 per cent.²⁹ In some cases, these programs involved the actual handling of commodities, such as feed wheat and potatoes. In such instances the costs of administration were relatively high. In the case of buy and sell programs where only a paper transfer is made, the cost is low.

The cost of paying a \$25,000,000 cheese subsidy was only \$10,000.³⁰ No evidence is available to indicate the cost of administering the meat and butter subsidies, but it is probable that the relative costs were similar to those of administering the cheese subsidy. The Office of Price Administration has established one-fourth of 1 per cent as the limit of the ratio of cost of administration to the savings to consumers resulting from any subsidies which they will recommend for price stabilization purposes.³¹

Subsidies sometimes result in increasing the costs of the businesses to whom they are paid. This increase results from the expense of any additional record keeping and the interest on the money between the time it would ordinarily be received through prices and when it is paid by the government. In some cases little or no additional record keeping is required since companies in many industries have had to keep and file detailed reports in connection with various rationing and distribution orders.

In some cases it has been necessary for administrative reasons to limit subsidy payments to firms doing more than a certain volume of business. In such instances small operators

²⁹ Statement filed by the Commodity Credit Corporation before Senate Committee on Banking and Currency, U.S. Senate, 78th Congress, 1st Session, Hearings on S. 1458 and H.R. 3477, Nov. 30 to Dec. 3, 1943, p. 263.

³⁰ *Op. cit.*

³¹ Hearings, House Committee on Banking and Currency on H.R. 3477, Sept. 29 to Oct. 12, 1943, p. 537.

have been discriminated against. However, as some of the programs have developed, subsidy payments have been made to smaller operators. In the case of meat, any individual slaughtering more than 2,500 pounds live weight of all classes of livestock monthly may receive a subsidy payment. On this basis, practically any slaughterer is included.

Because of the political setting in which subsidy funds are created and paid, some subsidy payments may not have as great effects on production as would a price increase of the same or smaller amount. This is probably quite true of the present dairy feed payments. The payments were not announced until a few days after they were to be effective and were for only a three-month period. The effectiveness of the 1944 support price program in guiding production was undoubtedly hampered by the fact that support prices could not be announced until the Commodity Credit Corporation had received an appropriation for its operations beyond February 17, 1944. If subsidies are to be effective in guiding and stimulating production, this sort of uncertainty should be eliminated.

There is grave danger that the present price control and subsidy program, operating with a weak tax program, may only postpone inflation until after the war. This, of course, does not constitute adequate grounds for discontinuing the present efforts, but it does raise a question as to the necessity of extending price control, and perhaps subsidies, into the postwar period for a considerable time. Had the nation fought the inflation battle with major reliance upon an effective tax program, postwar extension of price and rationing controls would be of much less importance.

The root of the evil, however, does not lie in price control and its related programs. Such programs would undoubtedly have been required even if a far larger share of the funds for financing the war had been obtained from taxation. The postwar inflation difficulties which the nation may face will arise out of the reliance upon borrowing from banks, and to a lesser extent from individuals, as a major means of financing the war. As long as there is reliance upon monetary expansion

through borrowing from banks as a means of war finance, there will be a distinct possibility of postwar inflation unless fairly rigid price and rationing controls are maintained.

VI. ETHICAL AND POLITICAL ARGUMENTS ON THE SUBSIDY ISSUE

Many of the arguments for and against food subsidies are ethical and political in nature. That is, they turn upon such issues as the proportion of the war costs borne by various elements in the population, relative changes in incomes due to the war, the small proportion of the national income being spent on food, and the political bribery which might be involved in allocating subsidies. None of these arguments can be analyzed in a definitive fashion since they revolve around ethical issues which depend largely upon personal viewpoints. All that is attempted here is to present some of the points frequently enunciated and to provide information which might be helpful to the reader in evaluating the validity of the various arguments.

A. *Pro-Subsidy Arguments*

Some of the major arguments of an ethical and political nature that have been advanced for subsidies are the following:

1. "*Wage rates have been frozen by the Little Steel Formula, but the cost of living has continued to advance.*"

Implicit in this argument is the assumption that wage rates have been limited to increases of 15 per cent above the level of January, 1941, while the cost of living has risen more than 15 per cent. Consequently, the purchasing power of an individual wage earner's wage rate has decreased, if payments for overtime and increased productivity are not considered.

The cost-of-living index has risen from 115 in May, 1942, to about 124 at present (see Appendix Table I). However, as has been previously indicated, not all wage rates were frozen at 15 per cent over those of January, 1941. Many wage

rates had already advanced beyond this level before the Little Steel Formula was put into effect. Furthermore, the Little Steel Formula has been applied to basic wage rates—not to overtime or to various other factors affecting the hourly average earnings. In the aggregate, hourly earnings, exclusive of time and a half for overtime, in manufacturing advanced 17 per cent between January, 1941, and July, 1942, and 30 per cent from January, 1941, to November, 1943.³² However, workers who by July, 1942, were not receiving basic wage rates in excess of 15 per cent above January, 1941, rates generally have been limited to increases of 15 per cent over January, 1941. Such workers constitute about one-half of all workers in manufacturing industries and a much larger proportion in nonmanufacturing industries. Data on changes in wage earnings are presented in Appendix Table II.

As has been indicated previously the implications of this contention—namely, that employed workers should be able to maintain the same standards of living during the war as before the war—are probably socially untenable. During the war, the total per capita supply of goods available for civilians has been reduced. Consequently, every civilian cannot expect to maintain consumption of all goods at prewar levels. The manner in which the reduction in available goods and the consequent cuts in consumption should be distributed is a personal judgment. Nevertheless, reductions in all standards except those of wage earners is probably not considered by the workers themselves to be the most desirable way of cutting consumption.

³² Appendix Table II shows a comparison of various categories of wage earnings. Three types of wage data are given in the table—average weekly earnings, average hourly earnings, and average hourly earnings exclusive of time and a half for overtime, weighted by 1939 employment. None of these types is strictly comparable to the wage rates used by the War Labor Board in its operations. The wage rate calculated by eliminating overtime for more than 40 hours a week does not eliminate premiums for night or Sunday work, individual promotions, piece work rates, and other incentive plans. Since Sunday and night work and incentive plans have become increasingly important during the last 18 months, the movement of the Bureau of Labor Statistics estimate of straight-time wage rates gives little indication of changes of actual basic wage rate schedules.

2. "Farm income has advanced proportionately more during the war than have other incomes; consequently, farmers should not oppose consumer subsidies."

Comparisons of the broad categories of farm income, wage incomes, and corporate income, indicate that net farm income has increased proportionately more than the other two items since the beginning of the war. Net farm income, after deducting for wages paid to farm laborers, has increased 187 per cent since 1939; the income of the average wage earner in manufacturing, mining, and railways had increased by about 80 per cent; and corporate profits after taxes were 112 per cent of those of 1939. Nonagricultural proprietors had an increase in income of 68 per cent between 1939 and 1943, while incomes from interest and rents have risen by 32 per cent. Total salary and wage payments, which include the incomes of new entrants into the labor force and the members of the armed forces have increased by 131 per cent. (See Appendix Tables III and IV.)

It has been contended that farmers were in a relatively unfavorable financial situation in the period immediately preceding the war, and that consequently changes in relative incomes and prices since 1935-39 do not constitute a fair basis for comparison. Although *farm prices* averaged lower than parity in the years 1935-39, *farm income* in this period averaged almost exactly 100 per cent of parity income as defined by congressional legislation (See Appendix Table V). Consequently the prewar years 1935-39 may not have been a particularly unfavorable period for agriculture and might provide a legitimate base for making comparisons with current income, if the legal definition of a "fair" income is accepted.

If comparisons are made between current incomes and the averages for the years 1910-14, the proportionate increase in the average farmer's income has been at least as large as that of the average industrial worker. The increase in per capita agricultural income between 1910-14 and 1943 was 280 per cent, while that for industrial workers was 267 per cent. (See Appendix Table IV.)

The increased incomes of both agricultural proprietors and

nonagricultural workers have been the result of increased output as well as increased rates of return. Farm prices advanced by 103 per cent from January, 1939, to February, 1944, while wage rates, exclusive of overtime, in manufacturing industries increased 37 per cent from January, 1939, to February, 1944. Average hourly earnings, including overtime, in these industries increased by 59 per cent between January, 1939, and February, 1944, and average weekly earnings increased by 93 per cent. Thus the rates of return have increased proportionately more in agriculture than for workers in manufacturing industries. (Compare Appendix Tables II and VI.)

Comparisons of proportionate changes in the average incomes of various groups do not yield a complete picture, since there are important differences within these groups. For example, of the approximately 43 million workers in nonagricultural establishments, less than 22 million are employed in industries in which weekly earnings increased more from August, 1939, to September, 1943, than did the cost of living. In manufacturing and in mining, weekly earnings had increased 26 per cent more than the cost of living; in construction the net gain was 15 per cent. The 3.5 million workers in transportation and public utilities have had an increase of 2 per cent in real earnings. The remaining 21 million workers have had weekly increases in earnings that have been smaller than or only about equal to the increase in the cost of living. Almost 6 million government employees have experienced an average reduction of 7 per cent in real earnings; 7.5 million employees in wholesale and retail trades have had an average reduction of 1 per cent; real earnings decreased by an average of 2 per cent for the 8.3 million workers in finance, service, and miscellaneous. The average weekly earnings of workers in these fields is about \$25, or an annual wage of \$1,300, assuming 52 weeks of employment. The position of these workers—nearly 50 per cent of the total nonagricultural labor force—has not been improved relative to the cost of living or to average incomes received in agriculture or to wage earnings of industrial, construction, and mining workers. (See Appendix Table VII.)

A large number of individuals and families have experienced no increase or have had decreased *money* incomes since 1939. It has been estimated that there are about 16 million individuals, many with families, who are recipients of fixed money incomes,³³ although not all of this group are receiving exactly the same income as in 1939. It seems very likely that there are at least 10 million families, comprising from 20 to 30 million persons, who had the same money incomes in 1943 as they had in 1939. In addition to these families, there are soldiers' families that undoubtedly have suffered a loss of income. A further group, whose money incomes may have increased but probably are inadequate, is the approximately 6 million workers receiving 40 cents or less per hour.³⁴

There is, of course, considerable variability in the increases in income that have occurred within agriculture. Although the proportionate increases may be rather uniform, the absolute changes generally have been greatest for the largest farms. Many small farmers still have incomes too small to provide them with what might be considered an adequate standard of living. However, such discrepancies are unrelated to whether or not farmers receive part of their incomes from food subsidies or from higher prices paid by consumers.

B. *Anti-Subsidy Arguments*

Some of the ethical and political arguments frequently expressed in opposition to the use of subsidies in inflation control are examined below.

1. "*Farmers should receive fair prices in the market place.*"

This argument has been advanced by representatives of some of the major farm organizations. It reflects a number of ethical concepts, among them that income should be "earned" and that subsidies comprise a "handout" from the government. It is unfortunate that a term other than "subsidy"

³³ Richard Gilbert, Testimony, Committee on Banking and Currency, U.S. House of Representatives, 78th Congress, 1st Session, on H.R. 3477, Sept. 29, Oct. 12, p. 566.

³⁴ Richard Gilbert, *ibid.*, p. 582.

could not have been applied to these payments. However, in an emergency such as that now facing the nation, whether a farmer receives a part of a given income through prices or subsidies so long as it is equally conditional upon production and involves no differences in costs, might reasonably be expected to be a matter of indifference to him. The bulk of the food subsidies are administered through the market and are received by farmers as part of the price paid for the product. Farmers receive few additional direct payments in the form of subsidies (the dairy feed payments are one exception) as a result of the food subsidy program.

One of the difficulties of evaluating the argument is that "fair price" has not been explicitly defined. Presumably, a "fair price" might mean parity price, since that is a goal toward which many farm organizations have been working for the past two decades. At present farm prices average about 115 per cent of parity. Of this, not more than 5 per cent is due to subsidies which enter directly into the prices. In the case of almost any of the agricultural products on which a subsidy is now being paid, the subsidy could be removed and the price would not drop below parity.

2. *"Food costs now represent a smaller proportion of consumers' income than at any time on record."*

The crucial question in this issue is whether food expenditures should constitute the same, a larger or a smaller proportion of total national income now than in some prewar period. Agriculture is through time continuously contributing a smaller part of the national income, because of increases in the efficiency of producing agricultural products and the relatively stable consumption of these products. The percentage of the total population employed in agriculture (and the absolute numbers of people so employed) is declining. Although national income is a somewhat arbitrary concept, the proportion contributed by agriculture has fallen off considerably during the war. Agricultural output has increased by about 21 per cent from 1939 to 1943, while the total national output increased by about 60 per cent.

There is, however, also some question as to the validity of the contention that food costs now represent a smaller proportion of consumers' income than at any time on record. Whether this contention is true depends upon how "food costs" and "consumers' income" are defined. If *actual food expenditures* are compared, the proportion of income spent for food has been about the same during the war as the average for the years 1935-39. If *actual food expenditures* are computed as a percentage of *expenditures for all goods and services*, this percentage has risen from 25 in 1935-39 to 31 in January, 1944. On the other hand, the average consumer can now purchase with about 15 per cent of his yearly income the same collection of foods as he purchased on the average in 1935-39 with 23 per cent of his total income. (In 1919, purchase of this collection of foods would have required 33 per cent of his income).³⁵

The contention that food costs now represent a smaller proportion of consumers' income than at any time on record is thus based not on actual expenditures for food but upon comparisons of what a given collection of foods would cost.

3. "*Subsidies constitute political bribery.*"

The validity of this argument cannot be judged except by the individual. Implied in the contention is a fear that the subsidies are in some way being used to "buy" consumers' votes and that the threat of withdrawal of these payments may be employed to influence political action.

The same arguments might also be applied to tariffs and to numerous other subsidies, many of which have gone to agriculture, or to virtually any governmental policy for that matter. It may be noted that the farm organizations have been on record as favoring most of the prewar subsidies, particularly those being paid to agriculture during the period 1933 to 1942.

4. "*Subsidies force the returning members of the armed forces to pay an excessive share of the cost of the war.*"

Although the war is "paid for" largely as it is being fought through the reduction in consumption occasioned by the di-

³⁵ Data relative to changes in actual food expenditures, expenditures for a given collection of foods, income, etc. are presented in Appendix table VIII.

version of resources into producing for the war, there is no question that the way in which the war is being *financed* is "unfair" to members of the armed forces. Since more than half of the cost of the war is being financed by borrowing, there probably will be an important transfer of income from soldier veterans to others in the economy after the war.³⁶

However, whether food subsidies add to this income transfer depends almost entirely upon whether the national debt would be higher or lower if subsidies were paid than if they were not. In the preceding analysis it was pointed out that, given the various factors in the economic and political framework within which various policies must be formulated, it is very probable that an effective subsidy program to aid in inflation control would leave us with a smaller national debt at the end of the war.

Acknowledgments

The authors wish to acknowledge the comments and criticisms of Professors Kenneth Boulding, Edward D. Allen, W. G. Murray, W. H. Nicholls, and Geoffrey Shepherd.

³⁶ Members of the armed forces and their families also purchase bonds. However, since their incomes are generally lower, the average purchases per family where family heads are in the armed forces probably is below that of civilians.

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APPENDIX

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TABLE I
CHANGES IN INDEX OF COST OF LIVING AND ITS COMPONENT PARTS, 1935 TO 1944 (1935-39=100)

Month and Year	Total Index	Food	Clothing	Fuel, Electricity and Ice	House- furnishings	Rent	Misc.
1935.....	98.1	100.4	96.8	100.7	94.8	94.2	98.1
1936.....	99.1	101.3	97.6	100.2	96.3	96.4	98.7
1937.....	102.7	105.3	102.8	100.2	104.3	100.9	101.0
1938.....	100.8	97.8	102.2	99.9	103.3	104.1	101.5
1939.....	99.4	95.2	100.5	99.7	101.3	104.3	100.7
1940.....	100.2	96.6	101.7	99.7	100.5	104.6	101.1
1941.....	105.2	105.5	106.3	102.2	107.3	106.2	104.0
1942.....	116.5	123.9	124.2	105.4	122.2	108.5	110.9
Jan. 1941.....	100.8	97.8	100.7	100.8	100.1	105.0	101.9
Jan. 1942.....	112.0	116.2	116.1	104.3	117.2	108.4	108.5
May 1942.....	116.0	121.6	126.2	104.9	122.2	109.9	110.9
July 1942.....	117.0	124.6	125.3	106.3	122.8	108.0	111.1
Sept. 1942.....	117.8	126.6	125.8	106.2	123.6	108.0	111.4
Jan. 1943.....	120.7	133.0	126.0	107.3	123.8	108.0	113.2
May 1943.....	125.1	143.0	127.9	107.6	125.1	108.0	115.3
Aug. 1943.....	123.4	137.2	129.6	107.7	125.9	108.0	116.5
Dec. 1943.....	124.4	137.1	134.6	109.5	127.9	108.1	118.1
Apr. 1944.....	124.5	134.6	136.9	109.9	133.0	108.1	120.7

Source: Bureau of Labor Statistics, Department of Labor, *Monthly Labor Review*, Feb., 1944, p. 412, and *Survey of Current Business*, Dec., 1942, p. S-3, Jan., 1942, p. S-3 and weekly Supplement, May 25, 1944.

TABLE II
AVERAGE MONEY EARNINGS OF WORKERS IN MANUFACTURING INDUSTRIES

Month	Average Weekly Earnings			Average Hourly Earnings			Average Hourly Earnings, Excluding overtime ¹			Weighted Hourly Earnings, Excluding overtime ²		
	All	Dur. ³	N.D. ⁴	All	Dur. ³	N.D. ⁴	All	Dur. ³	N.D. ⁴	All	Dur. ³	N.D. ⁴
Jan. 1939..	23.19	25.33	21.57	.632	.696	.583	.623	.688	.574	.623	.688	.574
Jan. 1940..	24.56	27.39	22.01	.655	.717	.598	.644	.703	.589	.635	.697	.589
Jan. 1941..	26.64	30.48	22.75	.683	.749	.610	.664	.722	.601	.648	.711	.600
July 1941..	29.62	33.90	25.16	.735	.815	.645	.708	.780	.630	.689	.771	.628
Jan. 1942..	33.40	38.98	26.97	.801	.890	.688	.762	.835	.670	.729	.810	.667
July 1942..	36.43	42.51	28.94	.856	.949	.725	.809	.856	.701	.759	.846	.694
Oct. 1942..	38.89	45.31	30.66	.893	.990	.751	.839	.919	.723	.782	.869	.716
Jan. 1943..	40.62	46.68	32.10	.919	1.017	.768	.859	.941	.733	.794	.886	.724
April 1943..	42.48	48.67	33.58	.944	1.040	.790	.881	.957	.752	.808	.897	.741
July 1943..	42.76	48.81	34.01	.963	1.061	.806	.904	.983	.769	.823	.920	.751
Aug. 1943..	43.52	49.61	34.47	.965	1.060	.811	.897	.976	.769	.822	.911	.755
Sept. 1943..	44.39	51.06	34.73	.993	1.098	.823	.925	1.012	.783	.843	.942	.767
Feb. 1944..	45.54	51.48	36.33	1.003	1.100	.841	.931	1.012	.795	.851	.943	.781

Source: *Monthly Labor Review*, Nov., 1943, p. 879 and May, 1944, p. 1069.

¹ Derived from average hourly earnings by eliminating overtime pay for work in excess of 40 hours per week.

² Weighted by employment as of January, 1939. Does not include shifts from lower to higher wage industries.

³ Durable goods industries.

⁴ Nondurable goods industries.

TABLE III
CHANGES IN NATIONAL INCOME BY DISTRIBUTIVE SHARES, 1939 TO 1943
(BILLIONS OF DOLLARS)

Share	Year				
	1939	1940	1941	1942	1943
Total.....	70.8	77.8	95.6	119.8	147.9
Employees ¹	48.1	52.4	64.6	83.7	105.2
Salaries and wages.....	44.2	48.7	60.9	80.3	102.0
Other.....	3.8	3.7	3.7	3.4	3.2
Agricultural Proprietors.....	4.3	4.4	6.2	9.7	12.3
Nonagricultural proprietors..	6.9	7.8	9.3	10.4	11.6
Interest and rent.....	7.4	7.5	7.9	8.4	9.8
Net corporate profits.....	4.2	4.0	7.7	7.6	8.9
		Percentage Increase Since 1939			
Total.....		9.9	35.0	69.2	107.6
Salaries and wages ¹		10.2	37.8	81.7	130.8
Agricultural proprietors.....		2.3	44.2	125.6	186.8
Nonagricultural proprietors..		13.0	34.8	50.7	68.1
Interest and rent.....		1.4	6.8	13.5	32.4
Net corporate profits.....		-4.8	83.3	81.0	111.9

Source: Department of Commerce, *Survey of Current Business*, April, 1944, p. 13.

¹ Includes members of armed forces, whose salary income during 1943 was about \$8 billion (estimated by authors).

TABLE IV
AVERAGE INCOME PER WORKER IN AGRICULTURE AND INDUSTRY, UNITED STATES, 1910-43

Year	Average Net Income per Person Engaged in Agriculture ¹	Wage Income per Employed Industrial Worker ²	Index Nos. (1910-14 = 100)		Year	Average Net Income per Person Engaged in Agriculture ¹	Wage Income per Employed Industrial Worker ²	Index Nos. (1910-14 = 100)	
			Average Net Farm Income per Person Engaged in Agriculture	Wage Income per Employed Industrial Worker				Average Net Farm Income per Person Engaged in Agriculture	Wage Income per Employed Industrial Worker
	<i>Dollars</i>	<i>Dollars</i>				<i>Dollars</i>	<i>Dollars</i>		
1910...	371	473	101.3	98.4	1928..	616	1,323	168.1	227.1
1911...	348	562	95.0	96.5	1929..	649	1,334	177.1	229.0
1912...	371	575	101.3	98.7	1930..	489	1,249	133.5	214.4
1913...	382	600	104.3	103.0	1931..	322	1,130	87.9	194.0
1914...	360	603	98.3	103.5	1932..	218	929	59.5	159.5
1915...	381	622	104.0	106.8	1933..	289	900	78.9	154.5
1916...	465	694	126.9	119.1	1934..	400	983	109.2	168.7
1917...	690	818	188.3	140.4	1935..	468	1,058	127.7	181.6
1918...	882	1,064	240.7	182.6	1936..	536	1,130	146.3	194.0
1919...	969	1,188	264.5	203.9	1937..	565	1,219	154.2	209.2
1920...	753	1,411	205.5	242.2	1938..	490	1,134	133.7	194.6
1921...	417	1,234	113.8	211.8	1939..	504	1,205	137.6	206.8
1922...	453	1,182	123.6	202.9	1940..	526	1,273	143.6	218.5
1923...	532	1,274	145.2	218.7	1941..	726	1,495	198.1	256.6
1924...	559	1,273	152.6	218.5	1942..	1,062	1,847	289.8	317.0
1925...	642	1,293	175.2	221.9	1943 ³	1,392	2,138	380.0	367.0
1926...	609	1,318	166.2	222.2					
1927...	621	1,311	169.5	225.0					

Source: BAE, USDA, 1944 Agricultural Outlook Charts, p. 6.

¹ Aggregate net income of farm operators (excluding value of inventory changes) plus wages of hired laborers divided by average farm employment.

² Annual earnings of factory, railroad, and mining workers divided by average employment.

³ Preliminary.

TABLE V

INCOME PER FARM, INCOME PER PERSON ON FARMS AND NOT ON FARMS, AND INCOME PARITY INDEX, UNITED STATES 1910-1943

Year	Net Income from Agriculture per Farm	Net Income from Agriculture per Person on Farms	Income per Person not on Farms	Ratio per Capita Farm to per Capita Nonfarm (1910-14 = 100)
1910..	699	139	482	105
1911..	613	122	468	95
1912..	675	135	483	101
1913..	680	136	521	95
1914..	697	140	484	105
1915..	674	135	502	97
1916..	771	155	580	97
1917..	1274	258	640	146
1918..	1482	304	671	164
1919..	1527	319	762	152
1920..	1298	265	878	109
1921..	584	119	720	60
1922..	745	153	718	77
1923..	876	180	815	80
1924..	876	180	792	82
1925..	1078	223	812	100
1926..	1044	216	858	91
1927..	1009	209	820	92
1928..	1067	222	830	97
1929..	1072	223	871	93
1930..	813	170	761	81
1931..	545	114	605	68
1932..	350	74	442	61
1933..	445	93	419	81
1934..	522	111	488	83
1935..	742	159	540	107
1936..	807	171	626	99
1937..	943	197	671	107
1938..	798	165	622	96
1939..	847	173	663	95
1940..	887	179	722	90
1941..	1279	252	850	108
1942..	1956	386	1039	135
1943..	2453	491	1243	143

Source: Bur. Agr. Econ., *Net Farm Income and Parity Report*: 1943, July, 1944, pages 12 and 16.

TABLE VI

INDEX OF PRICES RECEIVED BY FARMERS, PRICES PAID, INTEREST AND TAXES
AND RATIO OF PRICES RECEIVED TO PRICES PAID, INTEREST
AND TAXES, 1930 TO 1944 (1910-1914=100)

Year and Month	Prices Received	Prices Paid, In- terest and Taxes	Parity Index
1930.....	128	160	80
1931.....	90	142	63
1932.....	68	124	55
1933.....	72	120	60
1934.....	90	129	70
1935.....	109	130	84
1936.....	114	128	89
1937.....	122	134	91
1938.....	97	127	76
Jan. 1939.....	96	124	77
1939.....	95	125	76
1940.....	100	126	79
1941.....	124	133	93
1942.....	159	151	105
1943.....	192	164	118
Feb. 1944.....	195	170	115
Apr. 1944.....	196	170	115

Source: BAE, USDA, *Index Numbers of Prices Received by Farmers, 1910-43*
p. 36, and *Agricultural Prices, April, 1944*.

TABLE VII
AVERAGE HOURLY AND WEEKLY EARNINGS FOR ALL EMPLOYEES OF NONAGRICULTURAL ESTABLISHMENTS
AND CHANGES IN REAL EARNINGS

Type of Employer	Aug. 1939	Jan. 1941	May 1942	Sept. 1942	Sept. 1943	Percentage Change in Real Earnings Jan., 1941, to ²		
						May 1942	Sept. 1942	Sept. 1943
<i>Hourly Earnings</i> ¹								
All non-ag.....	.660	.699	.785	.811	.885	-2.3	-0.7	2.9
Manufacturing.....	.624	.683	.835	.892	.993	6.3	11.7	18.3
Durable.....	.688	.749	.925	.997	1.098	7.4	13.8	19.2
Nondurable.....	.576	.610	.712	.743	.823	1.3	4.2	9.7
Non-manufacturing.....	.675	.706	.756	.763	.812	-6.9	-7.7	-6.5
Mining.....	.833	.848	.988	1.004	1.093	1.2	1.2	4.8
Construction.....	.892	.945	1.050	1.067	1.180	-3.5	-3.5	1.5
Transportation and PO.....	.742	.765	.838	.846	.873	-4.9	-5.6	-7.3
Trade.....	.600	.606	.678	.696	.766	-2.7	-1.9	-2.9
Government.....	.671	.732	.700	.684	.732	-16.9	-20.1	-18.6
Finance.....	.652	.685	.716	.725	.819	-9.1	-9.4	-2.7
Service and Misc.....								
<i>Weekly Earnings</i>								
All non-ag.....	26.06	27.88	33.27	34.39	38.91	3.7	5.5	13.5
Manufacturing.....	23.77	26.64	35.82	37.80	44.39	16.8	21.3	35.5
Durable.....	26.63	30.48	41.81	44.45	51.06	19.2	24.7	36.2
Nondurable.....	21.77	22.75	28.55	29.53	34.73	9.1	11.0	24.2
Non-manufacturing.....	27.08	28.51	31.79	32.32	35.22	-3.1	-3.0	.5
Mining.....	26.12	27.28	35.39	36.70	45.68	12.7	15.1	36.2
Construction.....	28.71	31.78	39.69	42.28	44.76	8.5	13.8	14.5
Transportation and PO.....	31.81	33.03	37.87	38.40	41.46	-.4	-.6	2.1
Trade.....	23.93	24.22	26.58	27.09	29.70	-4.6	-4.4	-.3
Government.....	25.59	30.37	32.04	31.52	34.63	-8.4	-11.2	-7.3
Finance.....	27.40	28.65	30.07	30.52	34.44	-8.8	-9.2	-2.2

Source: Hearings, Committee on Banking and Currency, U.S. Senate, 78th Congress, 1st Session on S. 1458 and H.R. 3477, Nov. 30—Dec. 9, 1943, pp. 190-91.

¹ Average hourly earnings is equal to average weekly earnings of all employees divided by average number of hours worked.

² Change in average earnings from January, 1941, divided by change in cost of living index. See Appendix Table I for changes in cost of living

¹ Average hourly earnings is equal to average weekly earnings of all employees divided by average number of hours worked.
² Change in average earnings from January, 1941, divided by change in cost of living index. See Appendix Table I for changes in cost of living.

TABLE VIII
 AVERAGE PER CAPITA FOOD COSTS AND EXPENDITURES COMPARED WITH TOTAL INCOME AND TOTAL EXPENDITURES
 FOR GOODS AND SERVICES FOR SPECIFIED PERIODS, 1919-44.

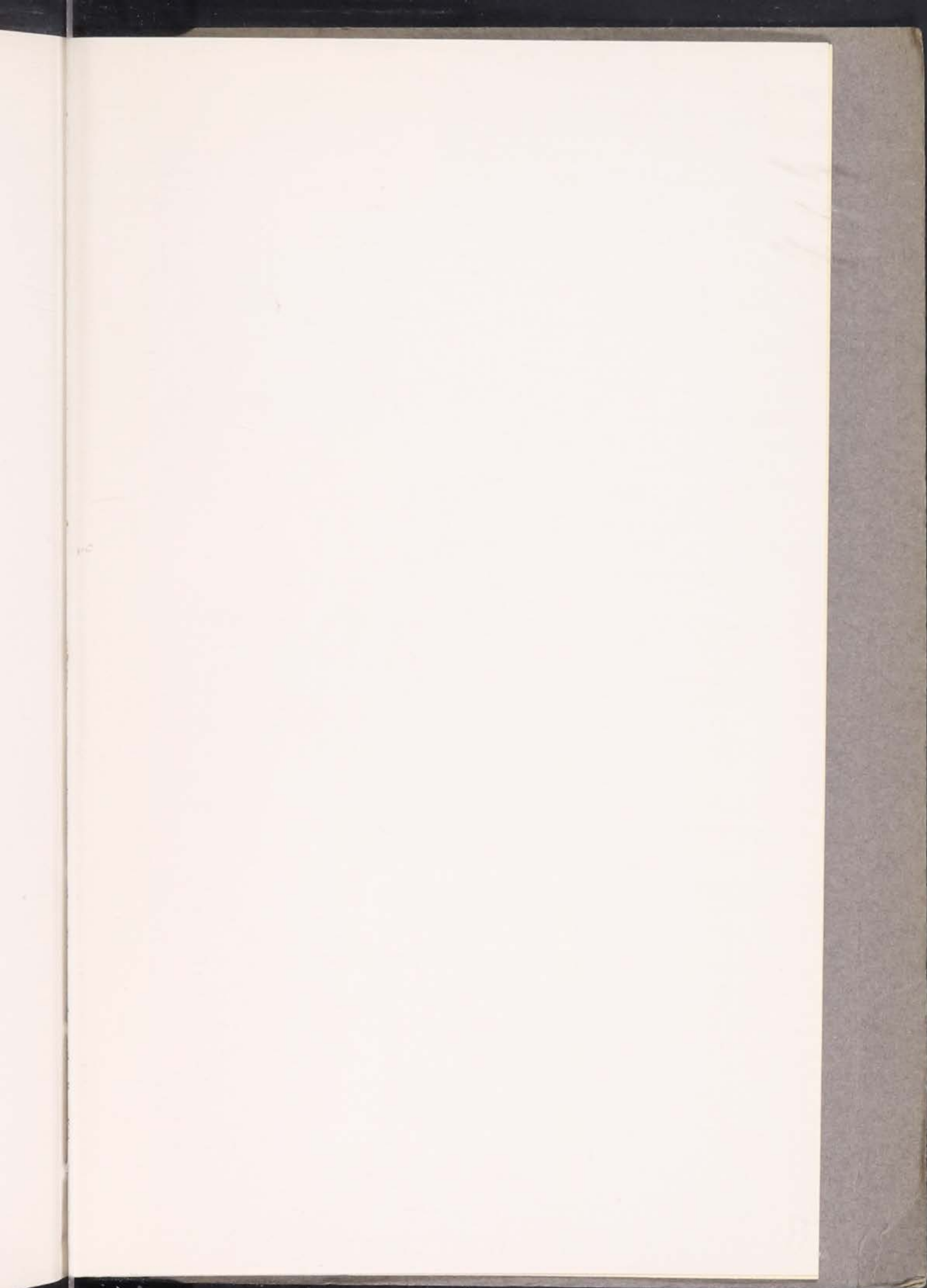
Year and Month ¹	Total Income ¹	Total Expenditure for Goods and Services ¹	Food Expenditure			Cost to Consumer of Fixed Quantities of Foods Representing Consumption per Person, 1935-39		
			Actual ¹	As Percentage of		Actual ²	As Percentage of	
				Total Income	Total Expenditure for Goods and Services		Total Income	Total Expenditure for Goods and Services
	Dollars	Dollars	Dollars	%	%	Dollars	%	%
1919.....	579					192	33	
1929.....	679	583	156	23	27	149	22	26
1930.....	595	527	143	24	27	139	23	26
1931.....	500	437	120	24	27	112	22	26
1932.....	380	345	94	25	27	92	24	27
1933.....	368	341	91	25	27	93	25	27
1934.....	418	377	100	24	27	105	25	28
1935.....	460	410	105	23	26	116	25	28
1936.....	531	461	113	21	25	115	22	25
1937.....	561	485	119	21	25	119	21	25
1938.....	509	451	113	22	25	108	21	24
1939.....	541	471	114	21	24	106	20	23
1935-39 (av.)	520	456	113	22	25	113	22	25
1940.....	579	497	121	21	24	107	18	22
1941.....	692	560	140	20	25	121	17	22
1942.....	857	612	176	21	29	144	17	24
1943.....	1,040	685	206	20	30	163	16	24
Jan. 1943.....	973	660	196	20	30	155	16	23
Apr. 1943.....	1,023	668	193	19	29	166	16	25
July 1943.....	1,048	709	217	21	31	164	16	23
Oct. 1943.....	1,069	707	217	20	31	163	15	23
Jan. 1944.....	1,113	724	222	20	31	163	15	23

Source: BAE, USDA, *Marketing and Transportation Situation*, April-May, 1943, p. 3; Jan. 1944, p. 13; and April, 1944, p. 11.

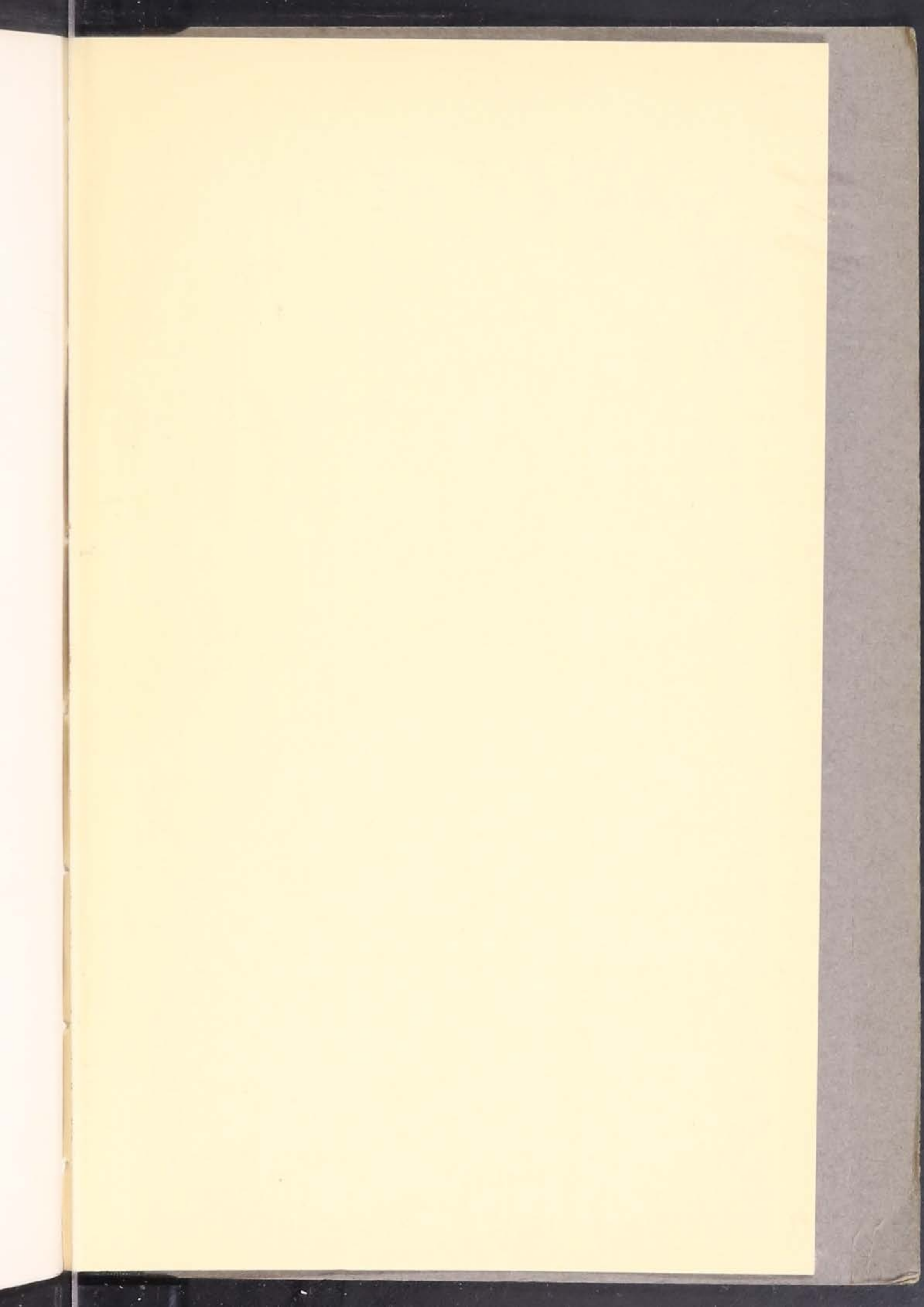
¹ Total income is average national income payments to individuals, including members of armed forces. Total expenditures on same basis. Actual food expenditures is total amount spent for food (excluding alcoholic beverages) in retail stores and eating places, plus allowance for home-produced foods per capita for civilian population.

² Cost to consumers of quantities of foods representing average annual per capita consumption for 1935-39.





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