INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

HEARINGS

BEFORE THE

TEMPORARY NATIONAL ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

SEVENTY-SIXTH CONGRESS

SECOND SESSION

PURSUANT TO

Public Resolution No. 113
(Seventy-fifth Congress)

AUTHORIZING AND DIRECTING A SELECT COMMITTEE TO MAKE A FULL AND COMPLETE STUDY AND INVESTIGATION WITH RESPECT TO THE CONCENTRATION OF ECONOMIC POWER IN, AND FINANCIAL CONTROL OVER, PRODUCTION AND DISTRIBUTION OF GOODS AND SERVICES

PART 21

WAR AND PRICES

DECEMBER 4, 5, 6, 7, AND 8, 1939

Printed for the use of the Temporary National Economic Committee

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(Created pursuant to Public Res. 113, 75th Cong.)

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CONTENTS

SCHEDULE OF EXHIBITS

Number and summary of exhibits	Introduced at page	Appears on page
1450. Chart: Wholesale prices, all commodities, yearly average, 1801–1939. Supported by statistical data in appendix, p. 11333	11022	11023
1451. Chart: Wholesale prices in the War period, 1913–1922. Supported by statistical data in appendix, pp. 11334–11337	11022	11024
1452. Chart: Prices of farm products and food in the War period, 1913–1922. Supported by statistical data in appendix, p. 11334	11024	11025
1453. Chart: Prices of textiles and hides & leather in the War period, 1913–1922. Supported by statistical data in appendix, p. 11335	11025	11026
1454. Chart: Prices of chemicals and drugs and building materials in the War period, 1913–1922. Supported by statistical data in appendix, p. 11336	11027	11028
1455. Chart: Prices of metals & metal products and bituminous coal in the War period, 1913–1922. Supported by statistical data in appendix, p. 11337	11029	11030
1456. Chart: Changes in commodity prices in the War period, 1913, 1917, 1920, 1922. Supported by statistical data in appendix, p. 11338	11032	Facing 11032
1457. Chart: Cost of living, 1914–1921. Supported by statistical data in appendix, p. 11338	11035	11036
1458. Chart: Average hourly earnings, 1914–1921. Supported by statistical data in appendix, p. 11339	11038	11038
1459. Chart: Real wages, Federal employees in the District of Columbia, 1914–1921. Supported by statistical data in appendix, p. 11339	11040	11040
1460. Chart: Real wages, teachers, 1914–1921. Supported by statistical data in appendix, p. 11340	11041	11041
1461. Chart: Real wages, building trades, 1914–1921. Supported by statistical data in appendix, p. 11340	11042	11042
1462. Chart: Real wages, railways, 1914–1921. Supported by statistical data in appendix, p. 11340	11042	11043
1463. Chart: Real wages, bituminous coal mines, 1914–1921. Supported by statistical data in appendix, p. 11341	11043	11044
1464. Chart: Real wages, group of 8 manufacturing industries, 1914–1921. Supported by statistical data in appendix, p. 11341	11045	11044
1465. Chart: Real annual earnings, all manufacturing, 1914–1921. Supported by statistical data in appendix, p. 11341	11045	11046
1466. Chart: Real annual earnings, selected manufacturing industries, 1914–1921. Supported by statistical data in appendix, p. 11342	11048	11048
1467. Chart: Pre-war commodity prices, 1913–14 and 1938–39. Supported by statistical data in appendix, p. 11342	11049	Facing 11049
1468. Chart: War-time changes in commodity prices, July 1914 to January 1915. Supported by statistical data in appendix, p. 11343	11051	Facing 11051
1469. Chart: War-time changes in commodity prices, August 1939 to December 2, 1939. Supported by statistical data in appendix, p. 11343	11051	Facing 11051

Number and summary of exhibits	Introduced at page	Appears on page
1522. Chart: Wholesale price fluctuations during World War I: livestock, poultry, vegetables, vegetable oils, tea and coffee, soaps and paper	11288	11369
1523. Summary of State price control laws issued by the American Retail Federation, Nov. 3, 1939	11303	11370
1524. Newspaper article by Bruce Catton, Washington correspondent, praising the work of the Antitrust Division of the Department of Justice in its building industry investigations	11315	11373
1525. Memorandum, dated Dec. 7, 1939, prepared by Thurman Arnold, Assistant Attorney General, containing excerpts from bulletins published by a cost surveying agency in a large American city under a so-called State unfair trade practice law	11326	11374
SUPPLEMENTAL DATA		
1683. Balance sheet of the Great Atlantic & Pacific Tea Co. for Feb. 28, 1938, submitted by Dr. Albert Haring in response to a request by Clarence Avildsen, a member of of the committee, during Dr. Haring's testimony	-------	11380

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

MONDAY, DECEMBER 4, 1939

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:35 a. m., pursuant to adjournment on Wednesday, November 15, 1939, in the Caucus Room, Senate Office Building, Senator William E. Borah presiding.

Present: Senator Borah, acting chairman; Representative Reece; Messrs. Arnold, Henderson, Lubin, Hinrichs, O'Connell, Avildsen, and Brackett.

Present also: Edward J. Noble and Willard Thorp, Department of Commerce; Walter Keim, Saul Nelson, Aryness Joy, and Edwin Martin, Department of Labor; and Theodore J. Kreps, economic adviser to the committee.

Acting Chairman BORAH. The committee will be in order.

Owing to the necessary absence of the chairman I have been requested to preside, which I am very pleased to do. We are opening at this time a hearing on the general subject of the current price situation. While we have been and will continue to study the subject of price in its broadest aspects, this particular hearing is one step we are taking in response to the President's request that this committee maintain constant surveillance of prices because of the war situation.

Our intention is to present an over-all picture at this time for the purpose of increasing our awareness of the basic factors which may be expected to influence prices. I think the President's letter has already been inserted in the record, but I desire to insert it here again.

Dr. Lubin, we are going to ask you to address the committee on this subject.

TESTIMONY OF ISADOR LUBIN, COMMISSIONER OF LABOR STATISTICS

Dr. LUBIN. In presenting the problem of price changes and their effect upon the economy it is my intention today to present the picture of the effect of war emergencies upon price structures in the past, the effect of these price rises upon the economy as a whole, and give particular emphasis to what has happened in the past 3 months in the light of past experience and throw some light upon what might happen in the event that these price changes that occurred during the past 3 months continue to broaden.

EFFECT OF WARS ON PRICES

Dr. LUBIN. The first chart, which is entitled "Wholesale Prices, All Commodities—Yearly Average" gives a picture of what happens to prices in cases of war. You will note, for example, that the War of 1812 sent the price level up from about 94 to 155 in a very short period of time. The Mexican War had relatively little effect, due primarily to the shortness of time and due also to the fact that the war was waged at quite a distance from the source of manufacture. In other words, it was almost a war in another world.

(The chart referred to was marked "Exhibit No. 1450" and appears on p. 11023. The statistical data on which this chart is based are included in the appendix on p. 11333.)

Dr. Lubin. The Civil War sent prices up from 61 in 1860 to 132 in 1865; the World War sent prices up from about 85 to 154 in a period of 3½ years.

The significant thing is not only that the wars brought these tremendous price changes with them at a very fast rate, but immediately after these wars prices collapsed very, very rapidly, in nearly every instance to below the point at which they had started their real upward rise, and with these collapses came readjustments in the economy that brought difficulties to every class in the population.

One can point to the last war, where you had a drop in a few months from about 154 to 98; most of us remember all too well the effects of that price crash upon agriculture, upon employment, wages, upon industry as a whole. As a matter of fact, the price drop that started during that period has left its effect upon that whole period up to the present date. As a matter of fact, I think that there is very good authority for the statement that we are still, in part, in the period of readjustment that followed from the extensions of production, the overcapacity that was developed because of high price rises, the new agricultural acreage brought into existence, and the resultant rise in the prices of farm lands and mortgage indebtedness. All of those things haven't yet been washed out of the economy. We are still paying part of the price.

PRICE TREND 1913 TO 1922

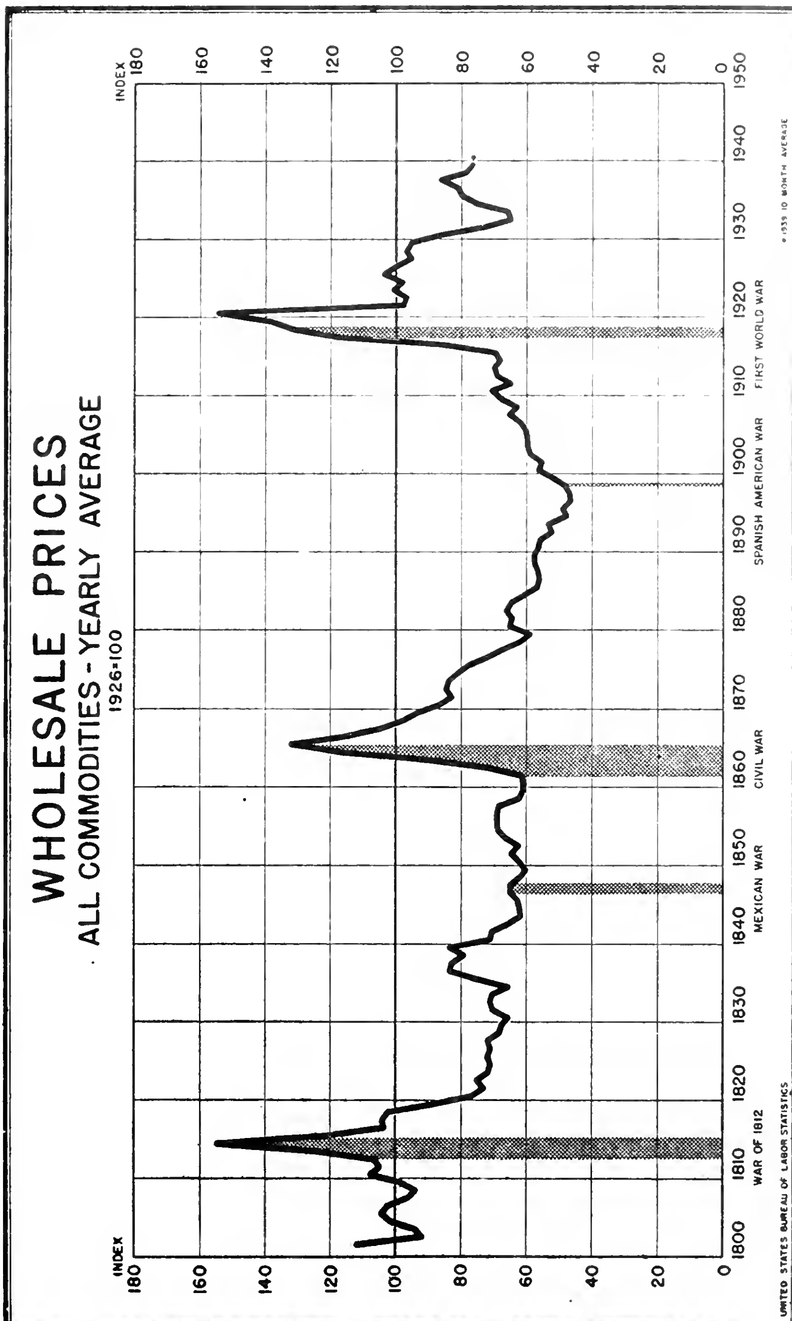
Dr. Lubin. Now the next chart is "Wholesale Prices in the War," showing what happened to prices during the period 1913 to 1922.

(The chart referred to was marked "Exhibit No. 1451" and appears on p. 11024. The statistical data on which this chart is based are included in the appendix on pp. 11334–37.)

Dr. Lubin. It is rather significant that in 1913 and 1914, indeed until October 1915, the general price level remained virtually unchanged. War was declared at this point here (1914), and there was a period of almost a year and a half in which there was virtually no change in the general price level. However, about the end of October 1915 prices took a marked upward trend, and jumped 63 percent in a period here between October 1915 and April of 1917; the whole economic situation had felt the pressure of this upward trend in prices.

You will note that after we entered the war there was a tendency for prices to level off. That was partly due to the fact that American industry had expanded to the point where it was meeting part of the demand for larger supplies. It was partly due, also, to war control of prices. Through the War Industries Board, the Food Administration, and the Fuel Administration, definite controls were put into effect which resulted in leveling off that price level.

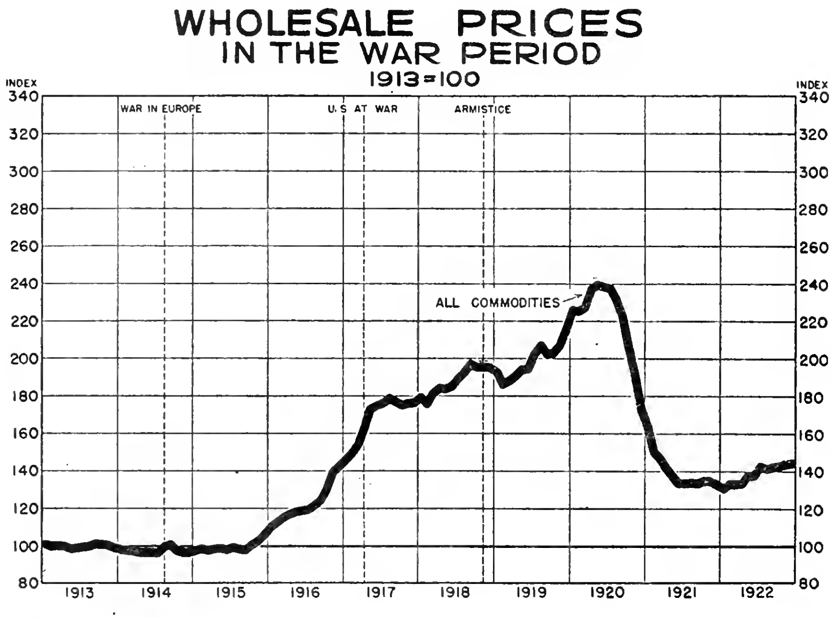
EXHIBIT No. 1450



However, in order to get more production, more production and more production, it was necessary, apparently, at least with the devices that were existent at that time, to increase prices still higher, as we went further into the war to call forth more resources, with the result that just about the time of the armistice prices were at 195 as compared to 1913, which meant in this period from October 15 to November 1918, a period of 3 years, prices just about doubled.

Now with the armistice, you will note a relatively slight decline in prices. That decline did not last very long, and you will note during most of 1919, indeed right up to May 1920, the trend of prices was steadily upward, and by May of 1920 we had reached an index of 240, which meant that prices had increased about two and a half times in this period from 1913.

EXHIBIT NO. 1451



With the collapse that took place in the summer of 1920 came this terrific drop in prices, and between May 1920 and the summer of 1921, prices dropped from 240 to about 134, reaching the low point in January 1922, when they were 131 or about 30 percent higher than they were during the prewar period. The next chart breaks this solid black line which I showed you on the other chart,[1] showing all commodities, into two important constituents, namely, food and farm products.

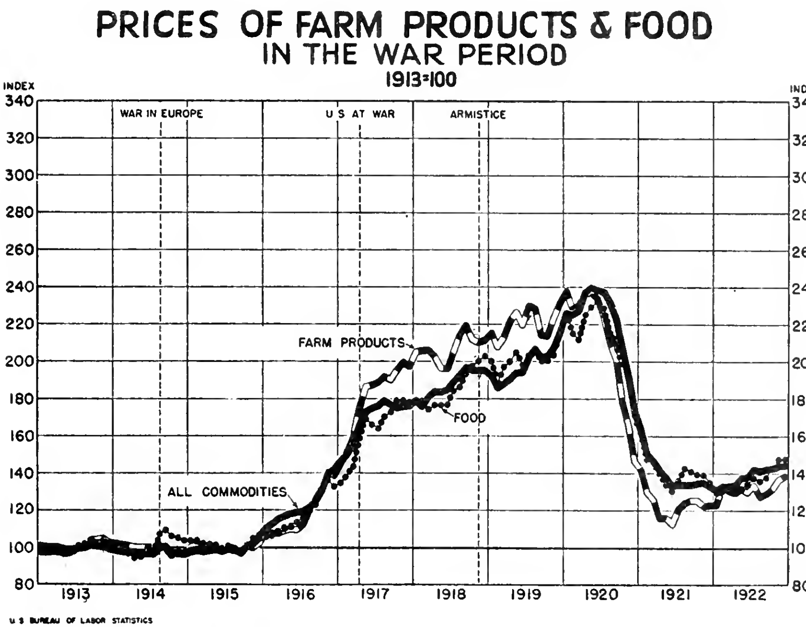
(The chart referred to was marked "Exhibit No. 1452" and appears on p. 11025. The statistical data on which this chart is based are included in the appendix on p. 11334.)

Dr. LUBIN. You will note very definitely that both food and farm products followed the trend of all prices during the period up through the fall of 1916. When we entered the war, however, farm products

[1] See Exhibit No. 1451, above.

took a rather sudden jump, and in April 1917, were at 175, or about three-fourths above the level of this period. They continued upward, and in November, at the time of the armistice in 1918, were at 210, or slightly more than twice as high as they had been before the war started. Although there was a slight sag immediately after the armistice and another in 1919, prices continued to rise, and reached a level of 238 in January of 1920. Then, like other commodities, they took a very precipitant fall, falling substantially below the level of all prices by June of 1921. In other words, whereas prices as a whole in the summer of 1921 had fallen to about 134, farm prices had fallen to 113.

EXHIBIT No. 1452



In other words, the farmer found himself in a position where what he got for his products was relatively less than what other people got for their products, thereby causing a rather appreciable gap in his ability to purchase the products of other industries.

Food, on the other hand, which is really the farm product after it has been processed, followed very closely the trend of all commodities, with no marked diversion from the trend of prices as a whole.

In the next chart this general price level that we saw in a previous chart [1], this black line, is broken down into other commodities on the same basis as we have broken it down into the prices of foods and farm products.

(The chart referred to was marked "Exhibit No. 1453" and appears on p. 11026. The statistical data on which this chart is based are included in the appendix on p. 11335.)

[1] See "Exhibit No. 1451," supra, p. 11024.

Dr. Lubin. You notice that farm products, although they did not move with all commodities, moved up rather faster at the beginning and fell rather faster toward the end; in the case of textiles and leather you notice very marked diversities from the general trend of prices. In other words, by looking at the general price level you can't tell what is happening to prices of given goods in the economy as a whole.

Taking this case of textiles, this dotted line on this chart which is entitled "Prices of Textiles and Hides and Leather," you will note that up until the time in which general prices rose, textiles were selling at a level lower than all commodities, and then during the period from October 1915 to the time of our entry into the war, they moved almost exactly with commodities as a whole.

Exhibit No. 1453

When we entered the war in April of 1917, textile prices were about 54 percent above where they had been in 1913. You will note, however, that after we entered the war, they took a course entirely different from those of other prices. There was a tremendous demand for textiles. There was need for clothing for the Army, there was need for blankets, and let's bear in mind that by and large, the average man in the Army is better dressed in terms of the amount of textiles he consumes than he is in times of peace. Every soldier had to have a new suit, and every soldier had to have a new overcoat and every soldier had to have a certain number of blankets, whereas, in time of peace, there are many hundreds of thousands, indeed millions, that don't have an overcoat and have suits that they have had in their possession for 4, 5, 6, or 7 years.

The result was that in order to get the output from industry, prices rose to the point in the late summer of 1918 for textiles of 253; in other words, textile prices had gone up one and one-half times. Shortly before the armistice there was a very marked rise, but in the early spring of 1919, textile prices had fallen to about 200, but note that even after this sharp drop, they were still higher than commodities as a whole.

This drop was relatively short-lived, and again in the summer of 1919, textile prices started rising and reached a level in April of 1920 of 340, an increase of two and a half times above the level of 1913.

Once this inflationary bubble had been burst, textile prices collapsed, fell to 157 in August of 1921, and rose slightly thereafter.

Now, hides and leather, on the other hand, acted very much as prices in general during this period, with the exception of the 6 or 8 months before our entry into the war. One factor that affects the price of hides is shipping, because we are large consumers of imported hides of various types. The result was that when we entered the war, hide prices were not quite double where they had been in 1913, whereas prices as a whole were up only about 60 percent. But thereafter, during the war period, hide prices followed the prices of commodities as a whole.

After the armistice, however, the speculative fever hit the hide and leather industry, as it did others, and by August of 1919 hide and leather prices were at 307 or about three times where they had been before war was declared, and when the collapse came—and incidentally it came sooner than it did in textiles—hide and leather prices fell to the low levels of 1921–22. But it should be noted that neither textiles nor hides and leather fell as much as commodities as a whole during the years 1920, '21, and '22.

Now a further evidence of the inability to tell what is happening to prices and to the economic structure as a whole, from the general price level, is this chart entitled "Prices of Chemicals and Drugs and Building Materials in the War Period."

(The chart referred to was marked "Exhibit No. 1454" and appears on p. 11028. The statistical data on which this chart is based are included in the appendix on p. 11336.)

Dr. Lubin. Here, again, you note the tremendous divergences between the general price level and chemicals and drugs and building materials.

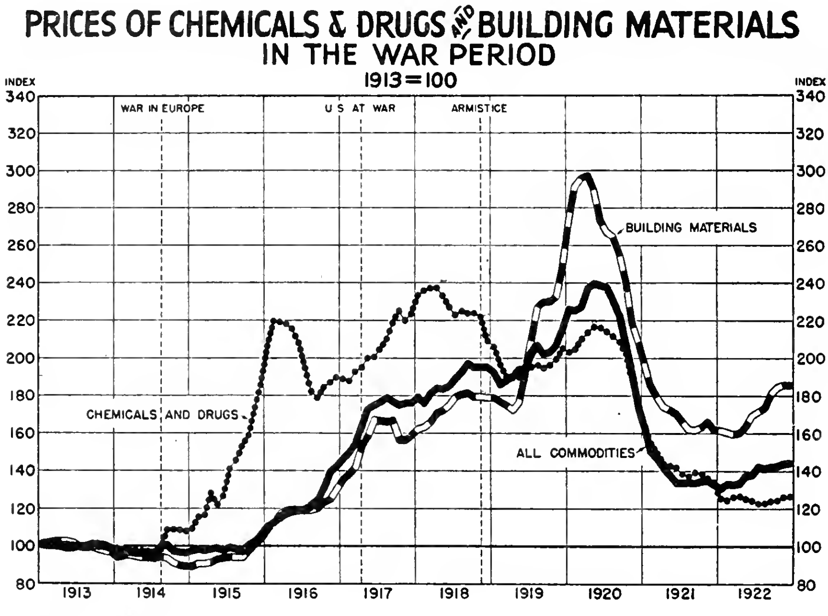
You will note, for example, that immediately upon the declaration of war, chemicals started running away, and by the spring of 1916 were 220, or more than twice the level of the pre-war period. The reason, of course, was the import situation. We were dependent upon certain European countries for a large part of our chemical consumption, and due to their being shut off from our markets and due to other types of shipping difficulties, the market situation resulted in a sky-rocketing of these prices in a very short period of time.

By 1915, the end of 1915 and early in 1916, the situation had improved a bit through the development of certain types of production in the United States, largely as the result of the fact that these prices had gone so high.

And by September 1916, there was a rather marked drop from 220 to 179 in the price of chemicals. That, however, was short-lived and chemical prices started the upward trend, reaching their peak in the spring of 1918, when in March and April they were 237 percent of their pre-war level. They started downward again, and reached the level of commodities as a whole in April 1919 and in 1920 experienced the price collapse of other commodities.

In contrast to chemicals and drugs, which you will note stayed above all other prices during the war period, and then fell below all prices in the post-armistice period, are building materials, which you will note stayed below the level of other prices, right through the war period and didn't start rising really markedly until after the armistice. You will note that building materials from the middle of 1916 until the middle of 1919 were below the level of all commodity prices. In

EXHIBIT No. 1454



the spring of 1919, they started a very marked upward rise, and reached a point three times as high as their pre-war level in April of 1920. The reason, of course, is obvious. During the war we controlled building construction. We limited the market of building materials. The result was that with a restricted demand, the price situation is pretty well controlled, that restriction of demand, of course, being purposeful by the Government itself. Once the ban was off, the price structure ran away and, as I said, reached a level three times that of the pre-war period, and like other commodities suffered a very marked drop between the middle of 1920 and the end of 1921.

But again one should emphasize the fact that building materials did not fall below 160, whereas prices as a whole fell to about 130.

Not only that, but having reached that low point of 160, they immediately started upward again, so by the end of 1922 they were

186, which was 86 percent higher than they had been at the beginning of the war period.

The chart entitled, "Prices of Metals and Metal Products and Bituminous Coal in the War Period," is still further evidence of the fallacy of attempting to determine the industrial and economic situation by your general price level. Here you have the picture of metals and metal products, and bituminous coal during the same period from 1913 to 1922, the period of the last war, that is immediately preceding and immediately following, as has been shown in previous charts.

Bituminous coal, for example, showed a very interesting trend during this period. You will note, for example, that after the war had been on for about a year, bituminous coal prices were at a level lower than they had been before war had been declared.

(The chart referred to was marked "Exhibit No. 1455" and appears on p. 11030. The statistical data on which this chart is based are included in the appendix on p. 11337.)

Dr. Lubin. In fact, there was no rise of any significance. The trend was entirely downward until July of 1915. At that time, bituminous coal prices were at 84, or in other words, 16 percent lower than they had been before war was declared in Europe. You will note that in the winter of 1915–16 there was a slight rise in coal prices and coal prices passed the level of the black line which represents commodities as a whole, and reached a point about 20 percent above where they had been before war had been declared. That was a sudden situation due to a relatively unimportant shortage, and immediately they fell again to below where they had been before war was declared.

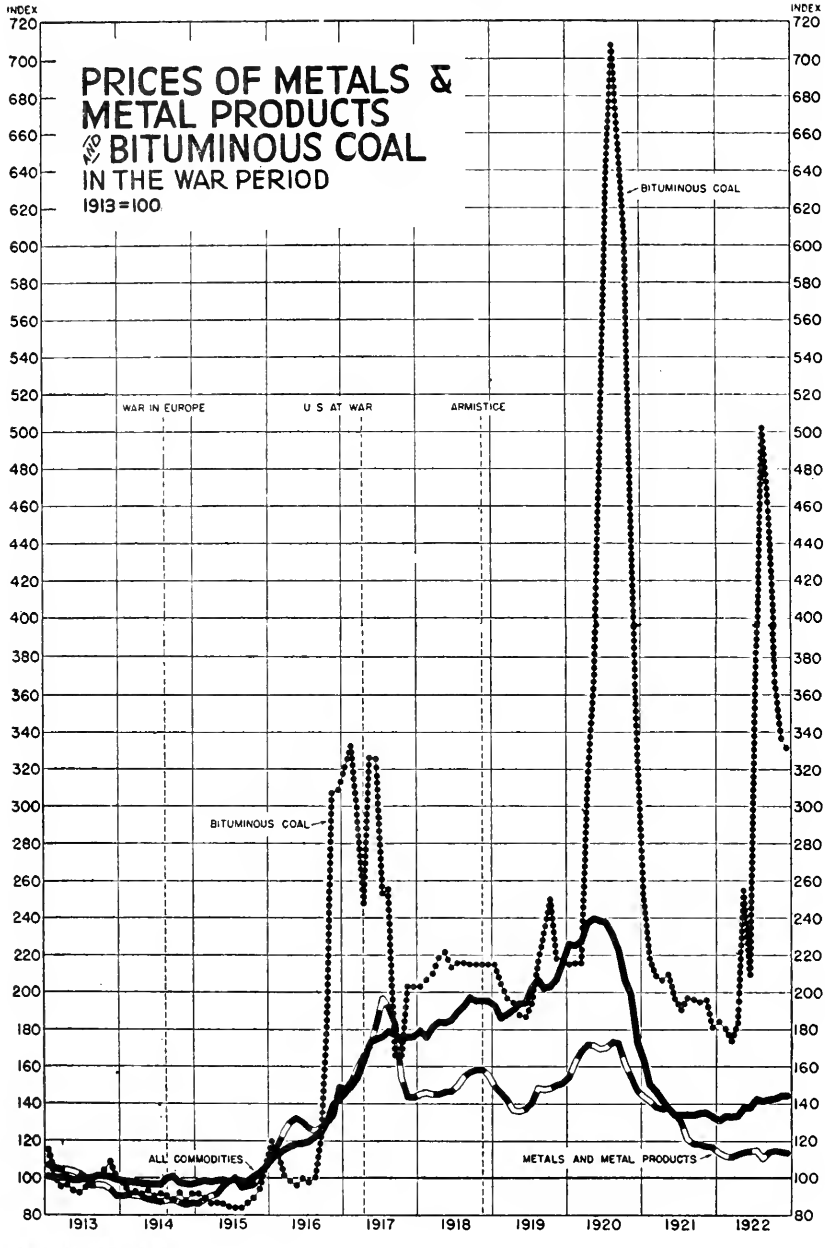
However, with the industrial activity that started in 1916, which brought with it a tremendous demand for coal for fuel and power purposes, you had a sudden jump in bituminous coal prices from about 98 in the summer of 1916 to 333 in February of 1917, 2 months before we entered the war.

Now, the effect of this price rise was evidenced in the employment situation and the production situation in the bituminous coal industry. As a matter of fact, it is pretty hard to say what was cause and what was effect. During this period here in 1913, when prices were at this level [referring to "Exhibit No. 1455"] we produced 478,000,000 tons of coal. The next year, 1914, production fell by 50,000,000, and that fall is evidenced in that price situation, the actual production in the year being 423,000,000.

1915 didn't witness any real large demand for coal either, production being 443,000,000 as compared to 478,000,000 2 years previously. This increased demand, and a rather sudden increased demand, brought with it, of course, an increase in production, and in 1916 we produced 503,000,000 tons, which you will note is about 24,000,000 tons greater than in the 1913 period.

In 1917, however, the cumulative demand of 1916, plus the price situation which brought into production thousands of mines that otherwise wouldn't have operated, gave us a production level of 552,000,000 tons, one of the highest that has ever been attained in American history. That price rise, however, was brought to a rather quick stop by Federal control in the summer of 1917. When Federal control came into the picture there was a sudden drop from 327 to 166 in a period of 3 months.

EXHIBIT No. 1455



However, apparently the price fixed was not sufficient to bring out sufficient coal to meet the demand. The result was there were various adjustments in coal prices, and from the middle of 1918 or late spring, 1918, to the time of the armistice, these prices were set at 215, which was slightly twice the level that we found there in 1913-15.

You will remember, of course, that immediately after the armistice all control disappeared, and here again one gets an interesting insight into the effect of other aspects of the economy upon specific industries. In the spring of 1920 there was a switchmen's strike, and with this switchmen's strike went a car shortage. The result was that coal prices jumped from a level of about 216 to a level of 708. In other words, prices more than tripled in the short period of a few months.

However, one should note the fact that these prices are spot prices; in other words, the price people had to pay when they went out in the market and wanted coal. A lot of coal, the great bulk of coal, of course, is sold under long-time contracts, but if you look at the average realized prices the mines received for their coal, you will note that this tremendous increase had a very definite effect upon contract prices as well, with the result that the average realized price in coal mines of spot and contract coal was considerably higher than it had ever been prior to that date, or than it has been since.

The collapse in 1920 in the price level was felt by the coal industry, of course, although prices never fell to anywhere near the low levels of prices as a whole, the low point being in March 1922 when the price level was 174.

In 1922 came a coal strike, an attempt by the miners to maintain the wage levels that they had secured through negotiation during the earlier years. With that coal strike came the coal shortage and coal prices again did a skyrocketing act, jumping to 502 in August of 1922.

In contrast to your coal is the metal and metal products group. There you will note that virtually nothing happened back during the early period of the war, war being declared at this point here [referring to "Exhibit No. 1455"]. For almost a year metal prices were below the level of prices as a whole. There was a slight spurt in 1916, but by and large metal prices followed the pattern of all prices until we entered the war. After we entered the war, metal prices followed a path which was below that of prices as a whole except for the summer of 1917, the factor here of course again being control by the Government of metal prices. With the collapse in 1920, metal prices fell faster than prices as a whole, and by August of 1922 were only 11 percent above where they had been before war was declared.

This large chart gives you a further picture of what may happen to the economy, and after all, when you talk about any economy you are talking about specific industries—the clothing industry and the coal industry and the steel industry and a thousand and one different industries, and those industries in order to survive must meet conditions which face them at any given moment. And although the price level as a whole gives you some picture of where we may be going, the fact that the price level may have increased only 40 percent is little consolation to the manufacturer who has to buy coal which is selling at 500 percent above the price it formerly had been. In chart 7 we have attempted to show what happened to a group of prices during the war period.

(The chart referred to was marked "Exhibit No. 1456" and faces this page. The statistical data on which this chart is based are included in the appendix on p. 11338.)

Dr. LUBIN. The preceding charts attempted to show what happened to the general price level and break it down into important groups like steel and coal and building materials and so forth. In this chart we have attempted to bring out some of the dramatic aspects of what may happen in times of world emergency.

You will note that the general price level [referring to "Exhibit No. 1456"] never got much above 240, and by 1922 was about 40 percent above where it had been in 1913. In other words, this was the course of general prices. Yet see what happened to a lot of individual commodities.

Here is caustic potash, which is used in our chemical industry—is used, I think, in many branches of war industry, and is rather important to certain segments of our economy. The price of potash jumped from 100 to 2,423, in other words, rose 24 times between 1913 and 1917, which is this center point.

Acting Chairman BORAH. What were the elements which caused that shooting up of price?

Dr. LUBIN. For the most part our dependence on foreign supply, primarily Germany, and Germany just couldn't ship goods here. Incidentally, as I hope to point out later, the development of a chemical industry in the United States since the last war is going to protect us against certain things happening this time that happened last. That is particularly true of certain basic chemicals. It is not true of a lot of other specialized chemicals which already have been acting up rather markedly in the past 2 or 3 months.

Mr. HENDERSON. You mean by that, so far as the supply factor is concerned——

Dr. LUBIN (interposing). Very definitely.

Mr. HENDERSON. In other words, there would be no necessity for enormous price increases because of any shortage in these products. There is no protection against what might be done in some of these commodities, however.

Dr. LUBIN. When I say "protection" what I really mean is that the supply is here which will not make it possible for anybody to justify raising prices abnormally because of shortages.

Mr. HENDERSON. But a large number of these commodities are very closely controlled.

Dr. LUBIN. But the capacity is a protection to us in the sense that we know that the causes that existed prior to our entering the last war do not exist at the present time.

Mr. ARNOLD. That means in effect that there is a better opportunity for us to put effective brakes on prices today than there was in the last war.

Dr. LUBIN. I think very definitely upon certain commodities the capacity of producing has been increased very markedly.

Mr. THORP. We do have, then, a situation which can be controlled if desired?

Dr. LUBIN. I think so.

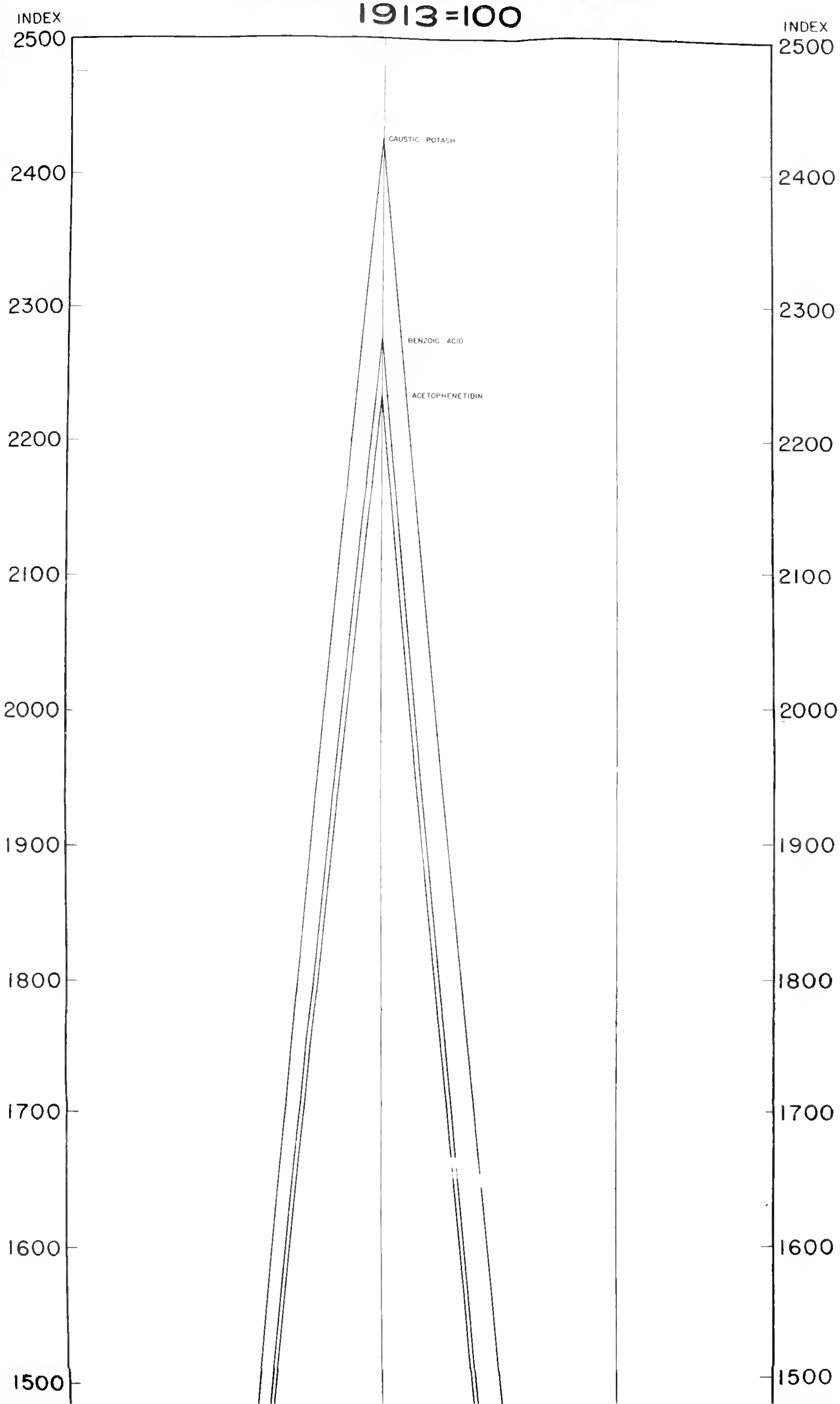
Acting Chairman BORAH. I would like to follow the question of Mr. Arnold a little further. In what respect can we control the situation differently from what it was controlled?

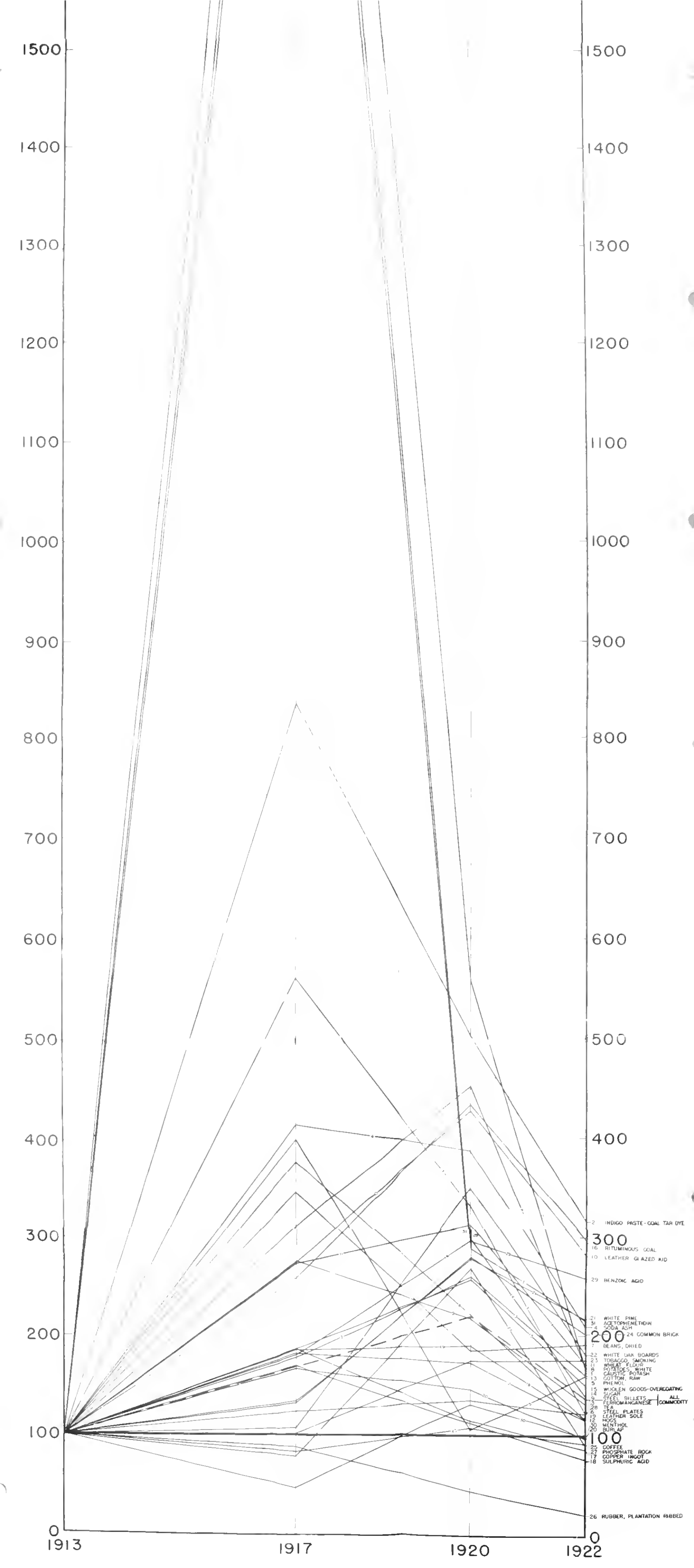
Exhibit No. 145[illegible]

CHANGES IN COMMODITY PRICES IN THE WAR PERIOD

1913, 1917, 1920, 1922

1913=100





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Acting Chairman Borah. I would
Mr. Arnold a little further. In what respect can we control the
situation differently from what it was controlled?

Dr. LUBIN. Personally, insofar as these price rises are the result of controlled output, and we know that the capacity is here, I think that we do have an approach to the problem through the Sherman law, very definitely, insofar as such control is purposeful and by agreement among given producers.

Now you will notice other commodities jumped at very terrific rates in the early days of the last war. Benzoic acid jumped from 100 to 2,275. That is the second line there. Acetophenetidin, a chemical, jumped from 100 to 2,232; in other words, went up about 22 times in price in the period of 1913 to 1917. At this point here you have indigo paste, a coal-tar dye, for which we depended primarily upon Germany, the price rising eight times; and at this point here you have ferromanganese, a very basic factor in steel production [referring to "Exhibit No. 1456"].

And so one can go down the line. Soda ash went up 4 times, phenol went up 4 times, steel plates went up from 100 to 376, dried beans went up from 100 to 346, potatoes, white potatoes, went from 100 to 311, steel billets went up from 100 to 275, and one can go down the line mentioning all of these commodities that went up rather markedly in price between 1913 and 1917.

However, again getting back to the significance of the general price level, while all these prices were doing these gymnastics, we want to bear in mind that a lot of prices were going down, and between 1913 and 1917 rubber fell to 88, coffee to 83, phosphate rock to 78, menthol to 47. There were very definite downward tendencies in the prices of certain commodities.

Now, not only is this terrific increase in prices that came with the war significant, but it is further significant to note that after the war came to a close and prices started rising again in 1919, many commodities were selling in 1920 at levels higher than they had been in 1917.

I might cite a few instances of commodities that went up rather markedly after the war came to an end. Potatoes jumped from 311 in '17 to 453 in 1920. Glazed kid leather jumped from 275 in '17 to 429 in 1920. Wheat flour jumped from 273 to 312. Woolen overcoatings jumped from 187 to 256, sole leather jumped from 185 to 191. Sugar jumped from 181 to 297. Raw cotton jumped from 178 to 260, and so one could go down the list showing commodity after commodity. One might mention, for instance, common brick, which during the war, and for the year 1917, averaged about 132, more than doubling in price between '17 and '20, reaching 279 in 1920; or white pine, which jumped from 133 in 1917 to the average for the year 1920 of 277, again more than doubling during that period.

On the other hand, one should note too that during this period from '17 to '20 some prices also fell—rubber, plantation rubber, being the most significant case, due primarily to the fact that during that period plantation rubber for the first time really kept coming into the market in tremendous quantities. Prior to the war virtually all of our rubber came from Brazil. It was natural rubber in the sense that it came from the jungle areas, and the plantations that were planted prior to the war started bearing fruit during the war years, which resulted in a fall in rubber prices.

Acting Chairman BORAH. Dr. Lubin, as I gather from your statement, in a study of the increase and fall of prices, you have got to take into consideration almost entirely each commodity. The general rise and fall doesn't solve the question.

Dr. LUBIN. Exactly. Getting back to the question Commissioner Henderson raised, what we have to do is watch these individual commodities and see whether there is any justification for their prices being raised.

Acting Chairman BORAH. Listening over the radio Saturday night to someone speaking from Dublin, he spoke about the increase of living prices, things which were necessary for daily living, and said they had shot up from 20 to 25 or 50 percent. Such condition as that in Europe will in time affect us, won't it?

Dr. LUBIN. Senator, I think very definitely if this price trend that has started—and it hasn't been very marked except in certain areas—continues that way and broadens—in other words, after all, the man who buys ferromanganese or burlap and has to use it in making steel or rugs and other floor coverings—after all that is an importana factor in his cost of production—has to add that additional price that he has to pay for his raw materials to his cost of production. In the case of clothing, if wool goes up, the cost of manufacturing a man's suit has to go up, because the manufacturer who buys this wool at a higher price is going to figure that additional cost in the cost of production. If that thing should spread and widen, it must be reflected ev ntually in cost of living. I don't see any way of that not happening.

Mr. HENDERSON. Before you go on there, Dr. Lubin, I understood Senator Borah to ask whether the price increases in the war countries might eventually affect us. The conditions of supply over there are affecting the price, but we have an abundance of supply.

Dr. LUBIN. We have a very definite abundance of supplies, yet on the other hand, one could conceive of the belligerent nations coming into our market and purchasing sufficiently large quantities of goods to have some effect upon domestic wholesale prices.

Mr. HENDERSON. Not on the whole broad list of prices.

Dr. LUBIN. No. There again it gets back to watching individual commodities.

Mr. ARNOLD. Of course, their purchases would tend to create an imbalance of price by concentrating on war-boom industries.

Dr. LUBIN. You have hit the kernel of the whole thing. Every time this happens to one commodity, it causes an imbalance at least so far as that industry is concerned, and those industries that buy those things that people want. I am going to come to the case of burlap later. I might mention it at this point. Burlap has gone up 100 percent in the last 3 months. It is being reflected in the price of feed the farmer has to pay. He buys his feed in burlap bags, consequently the price of that feed has gone up to reflect that increase in burlap bags. Fortunately, we do have an alternative. We have already begun to shift, I understand, to cotton bagging for feed. They will feel that same problem, of course, in fertilizer. In the spring, because most fertilizer is sold in burlap bags, either fertilizer is going to reflect the increased cost of burlap, or they are going to use a cotton bag for making deliveries. In talking to some of the automobile men last week, I found that some of the purchasing agents, fearing this imbalance, have a list of substitutes ready. If commodity A gets beyond a certain price, don't use it any more, shift to commodity B. It is that imbalance that throws the whole thing out of gear. The farmer having to pay more for his feed, can he get more for the livestock he sells? If he can't, he is out of luck.

Mr. Arnold. I pursue that further because I have heard so much talk about the advantage of the stimulus to creating general prosperity. It would be quite possible for the price of fertilizer to go up very materially because of foreign purchases, and the price of cotton and tobacco and the other products which the farmer sells as a result of the fertilizer actually to go down.

Dr. Lubin. It is very possible.

Now, I want to point out one further fact which bears upon this question of imbalance; namely, that after you had this terrific collapse of prices in 1920, and you will notice that virtually all are going down from this time on, you still find yourself in 1922 with some prices higher than they had been at the peak of the war level.

For instance, glazed kid leather jumped from 275 during the war period to 281 in the depression period in 1922. White pine, which was selling at a level of 133 in 1917, was selling at 217 during the depression period, when prices as a whole were going down.

Of course the answer is simple. These folks who were getting lower prices for their commodities, had to pay higher prices for white pine during that period, which affected their costs and threw them out of balance. Common brick, which averaged 132 during 1917, averaged 202 during the depression period of 1922. White-oak boards, which averaged 107 during 1917, were selling at 182 during 1922.

Coffee, which of course had been selling abnormally low, did increase slightly. Phosphate rock increased rather slightly, and menthol, which was selling very low throughout this whole period, doubled in price.

In other words, even a fall in prices doesn't bring these things back into line. Certain things stay even higher than they have been at the peak of the high point.

The chart, which is entitled "Cost of Living," attempts to show what happens when these wholesale prices start moving in a given direction, when they become reflected in retail prices, and consequently upon the cost of living of the average person.

(The chart referred to was marked "Exhibit No. 1457" and appears on p. 11036. The statistical data on which this chart is based are included in the appendix on p. 11338.)

Dr. Lubin. These figures, incidentally, are a new series of figures of the Bureau of Labor Statistics based upon quarterly periods from 1914 to 1922.

If you look at all items, the cost of living as a whole here, you will note that one must come to the same conclusion there that he came to in talking about wholesale prices. In other words, this will tell you what has happened to the cost of living as a whole, but it doesn't tell you what is happening to the things that enter into the cost of living. You will note, for example, that the cost of living was unchanged from 1914 to the fall of 1915. If you remember, our wholesale prices started rising about November of 1915. Cost of living started rising shortly thereafter, and by the spring of 1917 they are about 19 percent above where they had been when war was declared in Europe.

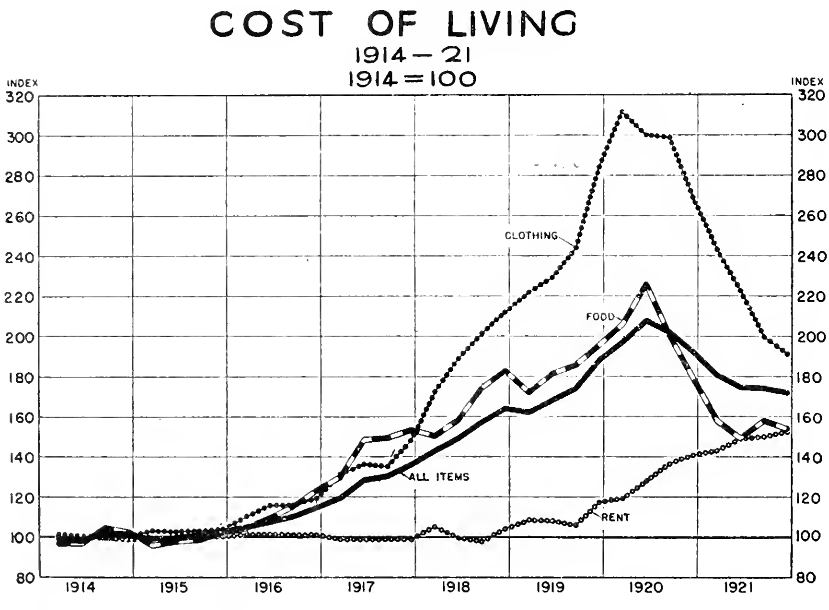
By the time we entered the war, cost of living was up to about 125, or about 25 percent higher than it had been before war was declared in 1914.

From that time on there was a continuous rise, and at the time of the armistice the cost of living was 160. There was a slight, almost insignificant drop after the armistice was declared, and there was no fall anywhere near proportionate or equal to the fall of wholesale prices. Cost of living hardly dropped at all. Wholesale prices took a temporary drop during this period.

This continued upward to 208 in the summer of 1920, made the turn shortly after wholesale prices made their turn, and fell to a level of 172 at the end of 1921.

Now, contrast that course of the cost of living as a whole to what happened to clothing prices during that period, clothing being one of the items in the budget running something around 10 to 13 percent of the total family expenditures.

EXHIBIT No. 1457



Or contrast your cost of living as a whole to rents, and see the tremendous differences in the courses of these prices.

Getting first to the question of rents, you will notice that there was no change in rents until after the armistice—virtually none at all.

What did that mean to property owners for whom clothing costs were going up, for whom food costs were going up, for whom transportation costs were going up, for whom all other costs were going up? Evidently, in terms of what they were getting for their properties during this period for the country as a whole, there was virtually no change in their income, only insofar as they had more rentals, that is, their properties were more fully occupied, but in terms of the actual rental there was virtually no change. The real change in rents came almost with the armistice, although even then for the next year it was relatively slight, and rents really started their upward trend in the fall of 1919.

However, it should be borne in mind that even in this period 1919–20, the rate at which these rents increased was in a sense cushioned by rent laws in various cities. Some cities passed laws actually limiting the percentage increase in rents. The result was that even at the end of 1921 rents were 152, or 52 percent above the level at which they had been almost throughout the whole war period, as compared to the cost of living as a whole, which was up to 172.

Now, clothing, you will notice, acted in exactly the opposite manner.

These clothing prices reflected the wholesale trends of textiles. When war was declared in 1917, clothing already was up by 31 percent above its prewar levels. At the time of the armistice, clothing was just about double its prewar levels. In the spring of 1920, it was more than three times its prewar level, having jumped to 312.

The depression of 1920–21 had its effect upon clothing prices, but even at that, at the end of 1921 clothing prices were almost double where they had been before war was declared, in contrast to the cost of living as a whole, which was up only by 72 percent.

Food acted more like all items in the cost of living, of course the main reason being that it is the most important item in the index of cost of living, accounting for pretty close to a third of the total expenditures of your family.

But, the significant thing that should be pointed out is the fact that there is this lag between your wholesale prices and your cost of living items, and that certain commodities in the cost of living acted very much like the wholesale prices for the raw materials which were the basis for their production.

Mr. Thorp. May I ask a question at that point. From the point of view of the attitude of people toward the cost of living, whether or not it is a basis for dissatisfaction or discontent, does it matter whether some of the indexes remain rather flat, as the rent index did. My impression is that most people are talking about cost of living in terms of a very limited number of commodities, so that actually from the point of view of general attitude, if a few commodities rise conspicuously, there is an alleged rise in the general cost of living, at least from the point of view of impact on people's contentment, if not in terms of impact on their actual economic situation.

Dr. Lubin. I think that the average person, the man on the street, and let me put it better, the woman on the street, for after all she is responsible for the way we think about these things for the most part, is the same as that of an employer when workers ask for a 20 percent increase in wages. It is going to ruin them. It may be, after you sit down and negotiate the thing, the 20 percent increase in wages may mean a 2 percent increase in cost. The 20 seems like a lot and at the moment they get very much upset about it.

You get exactly that same situation in the cost of living. When Mr. Jones comes home at night and his wife tells him pork chops were 10 cents a pound higher today than they were a month ago, he is very much upset about it. Her cost of living is running away from her. It may be the difference in price of pork chops may not mean a dollar a month or a dollar a year to her, she may buy them so rarely, but the fact remains she knows she had to pay 40 percent more for them today than she did last month.

That is particularly true of rents. We are not accustomed to rents changing. We pay the same rent month after month, frequently year after year, and then all of a sudden the landlord asks 20 percent more and you hit the ceiling about it, and immediately you visualize your cost of living jumping so high that you can't do anything about it.

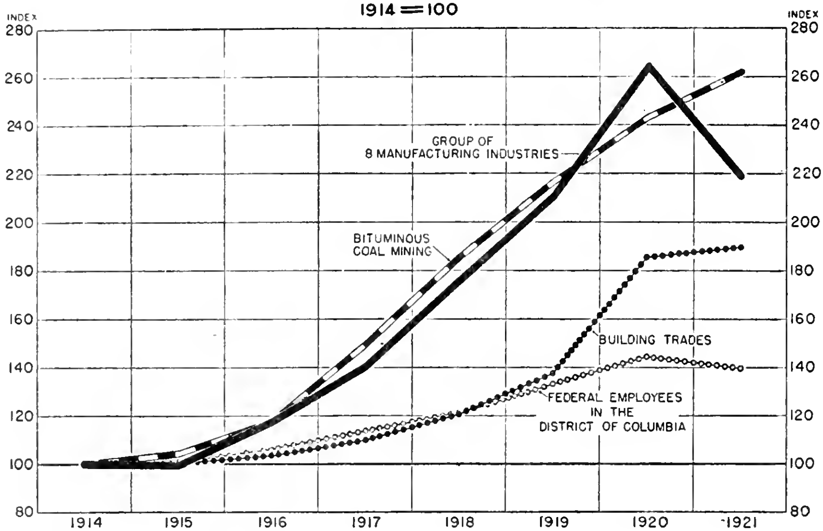
In other words, there are particular types of commodities, certain food commodities I think are very definitely in the category that you mentioned, I mean an increase in their price makes the housewife temporarily feel that the cost of living is running away with her, but the most important of those items, I think psychologically, are the rent items, and as I say, you might have dozens of these commodities changing in price and yet the effect upon the cost of living may be only a fraction of 1 percent.

Exhibit No. 1458

AVERAGE HOURLY EARNINGS

1914—21

1914 = 100



DOUGLAS, PAUL - REAL WAGES IN THE UNITED STATES 1890-1926

Now the question arises as to what this change in the cost of living during this war period has meant to the economy as a whole, and after all, those increased living costs are reflected in the economy by demands on the part of workers for higher wages. As their cost of living goes up, they demand higher wages in order that they might maintain their existing standards.

The next few charts show what happened to the average hourly earnings of workers during this same period that we have covered in the cost of living chart.

The chart which shows average hourly earnings, with 1914 equaling 100, gives you an interesting picture of how living costs play their part in wage rates, and of course if one goes a step further, we will show later how wage rates again become reflected in production costs, which again become reflected in living costs.

(The chart referred to was marked "Exhibit No. 1458" and appears on this page. The statistical data on which this chart is based are included in the appendix on p. 11339.)

Dr. LUBIN. This chart shows the average hourly earnings from 1914 to 1921 for workers in a group of eight manufacturing industries, in bituminous coal mining, in the building trades, and for Federal employees in the District of Columbia. If you take bituminous coal mining first, you will note that there was a gradual upward trend in their wage rates right up to the period of the armistice. In the year of the armistice, bituminous coal miners had had an increase in hourly wage rates of 85 percent as compared to what they had been in 1914. They continued increasing after the armistice and reached a level of 262 in 1921. It was to maintain this wage level, of course, or as much as that wage level as they could maintain, that the strike of 1922 was called.

If you contrast the trend of bituminous coal mining wages with the trend of wages in this group of eight manufacturing industries, they include cotton textiles, boots and shoes, clothing, hosiery and knit goods, woolens, lumber sawmills, iron and steel, and slaughtering and meat-packing—you will note that up to 1919, manufacturing hourly earnings moved just about the same as did bituminous coal mining. After that point they moved much more rapidly and reached a point of 263 in 1920 as compared to 100 in 1914, whereas in 1920 the coal miners were at a level of about 243. However, manufacturing wages fell much more quickly from 263 to 219 between 1920 and 1921, whereas bituminous coal wages continued their upward trend.

Now contrast those wage rates with the wage rates of the building tradesmen. As we noted previously, wholesale prices of building materials were down fairly low during the war period, the reason of course being restricted demand due to Government activity.

The result, of course, was relatively less building, consequently less employment and less demand for workers. The result was that building trades wages didn't rise very markedly up to the time of the armistice; as a matter of fact, in the year of the armistice building trade wages were only 21 percent higher than they were in 1914, yet at that time the cost of living was 57 percent greater.

It wasn't until the armistice was declared and the restrictions on building were removed, that the demand for building trades workers increased and their hourly rates went up. You will note that they reached a point of about 190, at their peak, at least in the 1921 period, as compared with 262 for coal mining and 263 for manufacturing.

But even in 1920, when they were about 186, you will note that the cost of living was 208 or twice as high as it had been. In other words, even having gone through this period of higher cost of living and relatively lower wages, when they had their wage increase it wasn't relatively as high as the cost of living had risen.

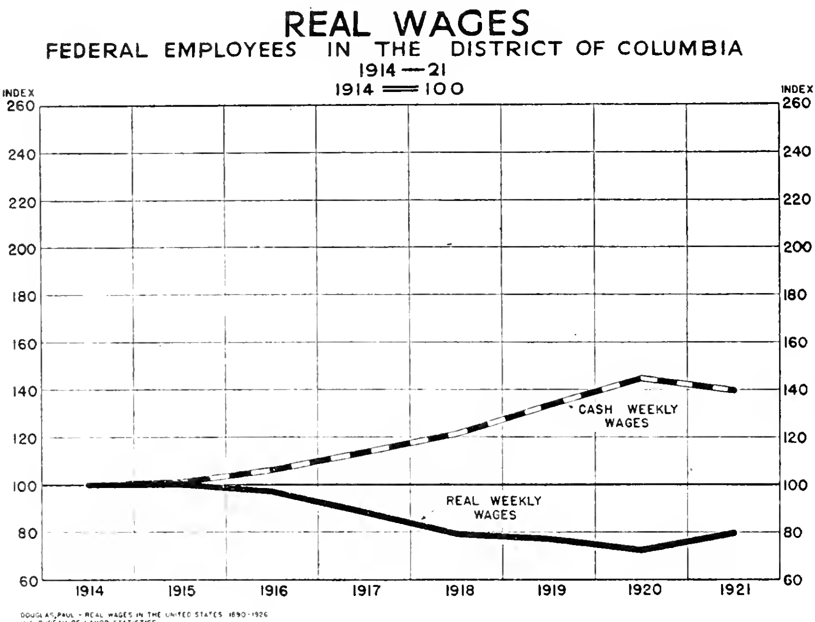
Another group are the Federal employees of the District of Columbia, whose wages, of course, are fixed by law, and you will note that they never passed 144, although the cost of living doubled, their wages never increased more than 44 percent, although they didn't show much of a decline after that period.

The next chart converts the hourly earnings of chart 9 into real wages. In other words, if you divide the wages by what happened to cost of living, you get a picture of what has actually happened to real wages, or putting it in these words, what the workers actually get in terms of food, clothing and rent, and all of the rest that enter into the standard of living.

(The chart referred to was marked "Exhibit No. 1459" and appears on this page. The statistical data on which this chart is based are included in the appendix on p. 11339.)

Dr. LUBIN. This chart shows what happened to the actual real wages and the standard of living, its byproduct, of Federal employees of the District of Columbia. You will notice their cash wages did get up to 145. However, cost of living was going up all of this time. The result was that there was a gradual downward trend in the actual real income in terms of food, clothing, rents, housing, and everything that goes into the standard of living of the worker. In the year we entered the war, it had fallen by 12 percent; by the next year it had

EXHIBIT No. 1459



fallen by 21 percent, and by 1920 it had fallen by 28 percent, despite the fact that there was a gradual increase in the cash weekly wage.

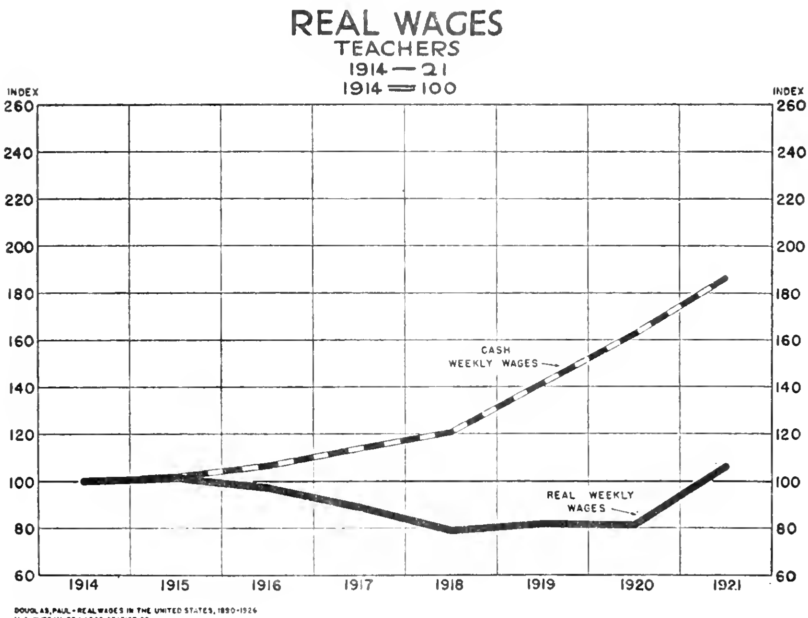
Acting Chairman BORAH. The wages measured in the things which the workman had to have to live lagged behind.

Dr. LUBIN. Very definitely for certain groups, not for all groups. It did for Federal employees and I am going to show other groups and show how they came out. Here are teachers who again have their salaries fixed by law. You will notice that their weekly cash wages went up to 114 here, 121 here, 186 here, but while these are going up, this curve here, cost of living, was going up faster. The result was they could buy even less with their income than they formerly could, so by the time we entered the War these teachers of the country as a whole had suffered a decline in their standard of living of about 11 percent, and at the time of Armistice, suffered a decline of 21 percent. It wasn't until 1921 when the cost of living was coming down and their wages were coming up, that they broke even. They ended up 6 percent better due to the fact that with the lower cost of living, they got more for these wages than they formerly could.

(The chart referred to was marked "Exhibit No. 1460" and appears on this page. The statistical data on which this chart is based are included in the appendix on p. 11340.)

Dr. Lubin. The next chart shows what happened to the standard of living and the real wages of the building trades workers. You noted that their average hourly earnings did not rise very markedly, despite the fact that the cost of living was going up. We know too

Exhibit No. 1460

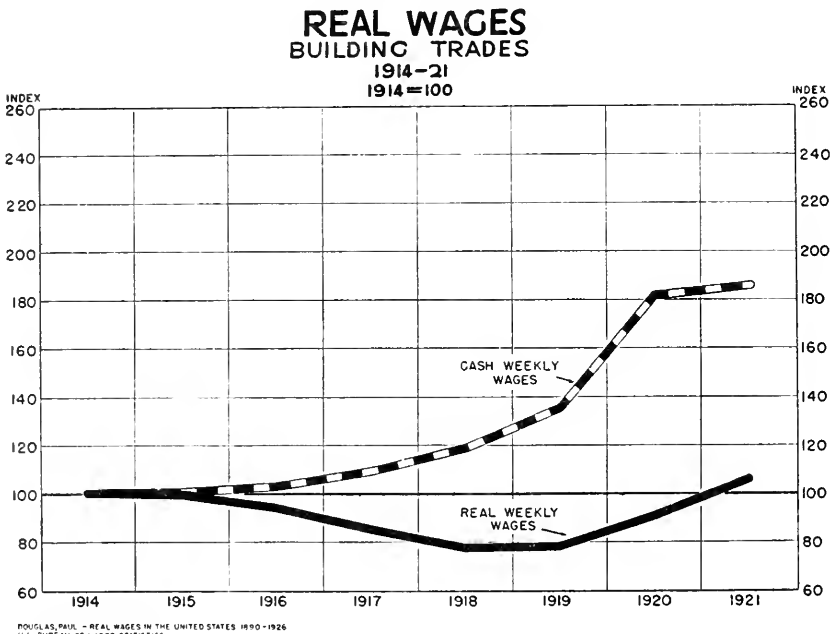


their employment didn't increase, due to the fact that there was restriction on building. And you will note that starting at the beginning of 1916, there are virtually no increase in wages, there was an increase of 9 percent by 1917 but the cost of living had gone up much faster, so that in the year we entered the war their real wages had fallen 15 percent. By the next year their real wages had fallen by 22 percent. At the peak of industrial activity in 1920, their real wages were still 9 percent below where they had been before the war. They were 9 percent worse off. And again it was only when prices had fallen very markedly that they really got the advantage of the so-called boom period. By that time the depression hit them, and those people who were working in 1921 in the building trades were 6 percent better off than they had been in 1914. But their wages did not catch up with the cost of living until 1921.

(The chart referred to was marked "Exhibit No. 1461" and appears on this page. The statistical data on which this chart is based are included in the appendix on p. 11340.)

Dr. LUBIN. Here you have a picture of what happened to the standard of living of railroad workers. The picture is slightly different than you have seen for teachers and building workers and others. You will notice there was a gradual upward trend in cash wages, so that in the year we entered the War, they were getting 23 percent more than they were here. However, the cost of living was moving much faster, so their dollar bought them at the time we entered the war about 4 percent fewer goods than they could formerly have gotten

EXHIBIT No. 1461

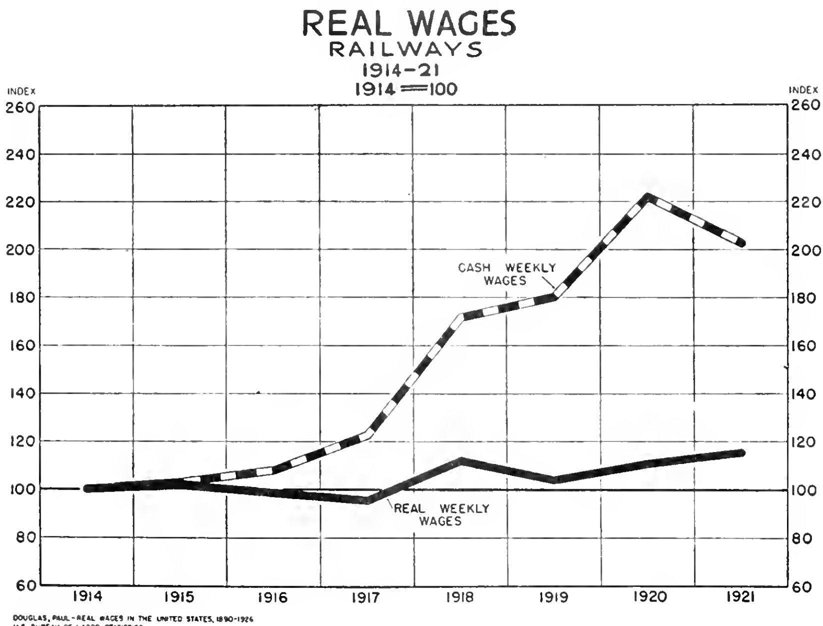


with their lower salaries. By 1918 their wages had gone up 72 percent. The cost of living, however, had also gone up, but not quite so fast. The result was in the year of the Armistice they were 12 percent better off than they were here in 1914 when they were getting a lower wage rate. There was a slight decline here, because this wage increase was not equal to the cost of living, and a gradual rise here, and in 1920, they were getting 122 percent more in wages. That increase in wages bought them 11 percent more goods than they had formerly bought at this period here. In 1921 they were getting twice as much in wages, but that increased wage amount only bought them 16 percent more than they formerly had received before the war was declared.

(The chart referred to was marked "Exhibit No. 1462" and appears on p. 11043. The statistical data on which this chart is based are included in the appendix on p. 11340.)

Dr. LUBIN. Here are the wages in the bituminous coal industry. Here is the curve you saw previously for average hourly wages. Here it is computed in terms of weekly wages and we notice by 1917 an increase of 45 percent in these cash weekly wages from 1914, and yet when these weekly wages were spent for goods, when we entered the war they were getting 12 percent more goods than they were in 1914, that is their real earnings were 12 percent greater. By 1918 they were 14 percent greater, and this increase in wages at this point, coupled with a downward trend in the cost of living, increased their real wage in 1921 to 140; in other words, during 1921 the high wage rate and the lower cost of living meant the miners were 40 percent

EXHIBIT No. 1462



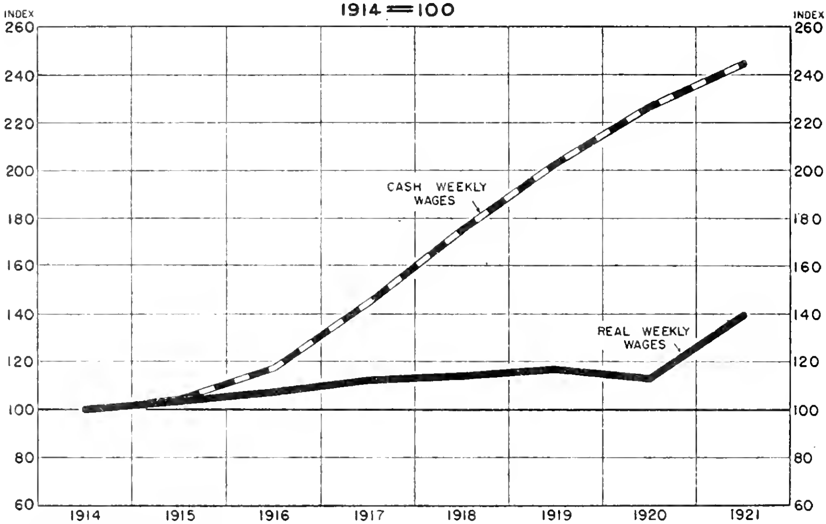
better off, those that had jobs at that time, than they had been in 1914.

(The chart referred to was marked "Exhibit No. 1463" and appears on p. 11044. The statistical data on which this chart is based are included in the appendix on p. 11341.)

Dr. LUBIN. This is the manufacturing industry. This curve is very similar to the one you saw recently, showing actual hourly earnings. This is cash weekly earnings. The cash weekly earnings moved a little faster than average hourly wages because there was more work to be done. You got more hours of employment during this period of time so at the end of the week there is relatively more in the pay envelope. But even these manufacturing workers who experienced that steady, constant increase in wages, weekly wages, from 1915 to 1920, even at the height of their prosperity when all these so-called silk shirts were being purchased, were only getting 21 percent more in

EXHIBIT No. 1463

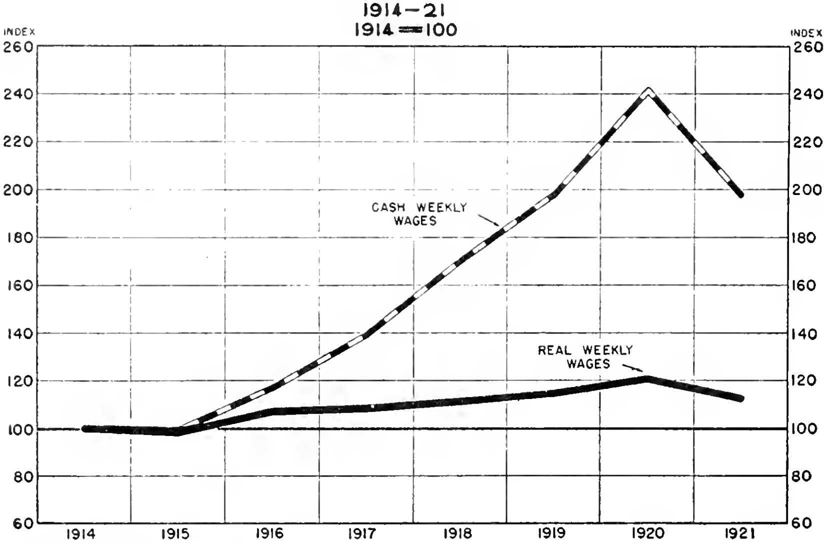
REAL WAGES
BITUMINOUS COAL MINES
1914—21
1914 = 100



DOUGLAS, PAUL REAL WAGES IN THE UNITED STATES 1890-1926
U S BUREAU OF LABOR STATISTICS

EXHIBIT No. 1464

REAL WAGES
GROUP OF 8 MANUFACTURING INDUSTRIES
1914—21
1914 = 100



DOUGLAS, PAUL - REAL WAGES IN THE UNITED STATES, 1890-1926
U S BUREAU OF LABOR STATISTICS

real goods, in actual real earnings then they had been at this period of time, although their actual cash earnings had gone up by 142 percent.

(The chart referred to was marked "Exhibit No. 1464" and appears on p. 11044. The statistical data on which this chart is based are included in the appendix on p. 11341.)

Mr. AVILDSEN. Are those hourly earnings or total? Do they have to work longer hours, put in more actual work than in 1914 to get that extra money or is that hourly rate?

Dr. LUBIN. These are all cash weekly earnings. The first chart [1] I showed you shows average hourly earnings. These are all cash weekly earnings. You will note, for example, here that bituminous coal, let's say, at this period here, 1920, about 243 was the actual hourly earning rate. Here it was 227.[2] In other words, in these instances they were doing less work. On the other hand, if you look at building trades,[3] at this period the real weekly wages were 91, their cash weekly wages were 182, their actual hourly earnings were just about the same. It will vary from industry to industry. Your weekly cash earnings are a function of what you get per hour plus the number of hours you work. In many instances the increase in the weekly earnings is due to the fact that you are actually doing more work.

Mr. AVILDSEN. That is strictly true of the manufacturing industry of that period then?

Dr. LUBIN. Yes. Now here we have a picture not of weekly earnings but of the annual earnings, which is a function not only of the number of days worked per week, hours per day, but weeks per year, which is really the most significant factor in our wage structure. It is after all what a man earns per year that determines how he can live. Here you will note that taking your manufacturing industries as a whole, the workers in the manufacturing industries during the first 2 years of the World War, 1914–16, showed no actual increase in their real earnings.

(The chart referred to was marked "Exhibit No. 1465" and appears on p. 11046. The statistical data on which this chart is based are included in the appendix on p. 11341.)

Dr. LUBIN. In other words, they could buy just about as much in 1916 for the dollars they earned as they could in 1914. With this very marked increase in wages in 1916–17, with wages jumping by a third to 133, there was a slight gain in their real earnings due to the fact that the cost of living was not going up quite as fast; the fact is, about this time the cost of living had gone up to about 128. The result was they could get 4 percent more goods for their money at this point than they could here.

Then you had a rather sharp increase with wages at 169 percent of this level in the year of the armistice, the cost of living having risen markedly, and the result is they were 10 percent better off. You had a sharp increase up to 1920, but your cost of living had also risen very sharply, so even if you take all of the increased employment, all of the increased wages, put them all together into these cash annual earnings, when you were through at the peak of this prosperity you were only 17 percent better off, than you were at the time the war broke out.

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[1] See "Exhibit No. 1458", supra, p. 11038.
[2] See "Exhibit No. 1463", supra, p. 11044.
[3] See "Exhibit No. 1461", supra, p. 11042.

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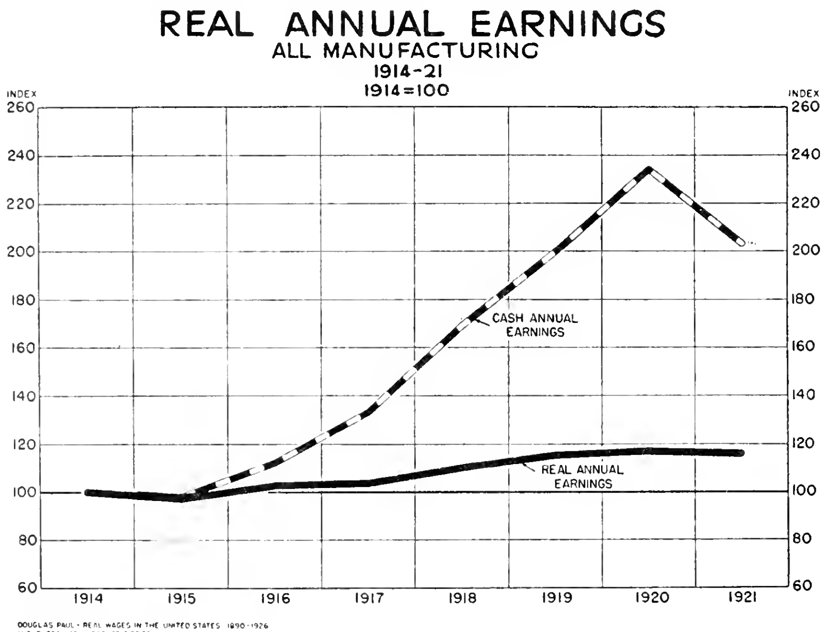
So I think it is quite evident from these figures that as far as labor itself is concerned, they didn't profit tremendously from the war. Certain groups lost very, very definitely; particularly those groups in those industries where there was no organization, or where there was controlled demand, and where wages were fixed by law, there was a very definite lowering of the standard of living, and in those instances like manufacturing and mining where there was a fairly large increase in wages, the net addition to the workers' incomes in terms of goods was at no time more than 17 percent.

Mr. HENDERSON. This covers the current cost of living for wage earners. To the extent that he was paying off debt, the debt burden was somewhat lessened, isn't that correct?

EXHIBIT No. 1465



Dr. LUBIN. Oh, I think very definitely. I think there is no denying that, but the question is, here you have a tremendous increase in prices.

Mr. HENDERSON. That is, suppose he was taking on debt, suppose he was building a house or something like that, then he was getting a larger debt which would be a bigger burden at a later time.

Dr. LUBIN. Very definitely so.

Mr. HENDERSON. And isn't it also true in paying off the mortgage debt, which is usually the biggest thing for the wage earner and on an installment basis, he got very little relief, for only a few months.

Dr. LUBIN. Even if he got all that relief, his total saving at the peak of his so-called prosperity was less than 20 percent. You were relieving that burden by only 17 percent at the peak of all this prosperity, in terms of the annual earnings. He has 17 percent more to spend, as it were, in terms of what he previously had, assuming we had a fixed price level. Or putting it the other way, his actual earnings made it possible for him to buy 17 percent more goods than he formerly could.

Mr. HENDERSON. In terms of his savings, if he had a substantial portion of savings and then the price level declined, he would have gained an advantage there, but your studies show that the percentage of savings in the wage-earning group is relatively small.

Dr. LUBIN. Yes, but let me point this fact out. I think this chart [1] will show as far as the manufacturing industries are concerned, that the period of greatest savings, not in terms of savings in dollars but in ability to buy or pay off debt, was at this period here (1920). That wasn't due, however, primarily to this. This was primarily due to the fact that this has gone down,[2] the cost of living had gone down. Wages themselves didn't take care of that difference for him. It was the fact that he had these higher wages and prices of other things were going down.

Mr. HENDERSON. Going back to some of your other charts on prices, for example, bituminous coal, textiles, iron and steel, did these increases in hourly rates and weekly earnings absorb all of the price rise in that period?

Dr. LUBIN. What do you mean by that?

Mr. HENDERSON. Is the price rise in textiles and coal and iron and steel to be accounted for solely by the increase?

Dr. LUBIN. No; the proof of that fact is, you see these prices went much higher. Wages did go up, but nowhere near enough in many instances to make up for the increase in the cost of living. In other words, there was a shortage so far as labor was concerned. He wasn't getting back the difference. You couldn't say that his wage increases were responsible for those prices because after he got his wage increases he couldn't get as much for his money as he formerly got.

Mr. HENDERSON. Those price rises [3] were much more substantial were they not?

Dr. LUBIN. Here they are. At this point, it isn't so abnormal here. There was a period of a little over a year in which the prices were rather high. The coal prices were up to 332, bituminous wages were up 45 percent,[1] and the same situation exists in textiles.[4]

Now what I have taken is a group of industries, taken your real annual earnings and I want you to bear in mind these are the total earnings of the workers over the year, they are wage rates multiplied by the number of hours employed throughout the year and you get this interesting picture of what happened to the earnings of workers in our industry. In the case of textiles, you will note that in textiles, the actual real earnings of textile workers increased rather markedly. By the time of our entrance into the War they had gone up 8 percent. By 1918 they were up to 16 percent, and by the time of the peak of 1920 they were up by 25 percent. But let me point one thing out, that here was probably one of the lowest wage industries in America at the time. In 1914, 15 cents an hour was a good average wage rate in the industry, so it was a very definitely low-wage-rate industry.

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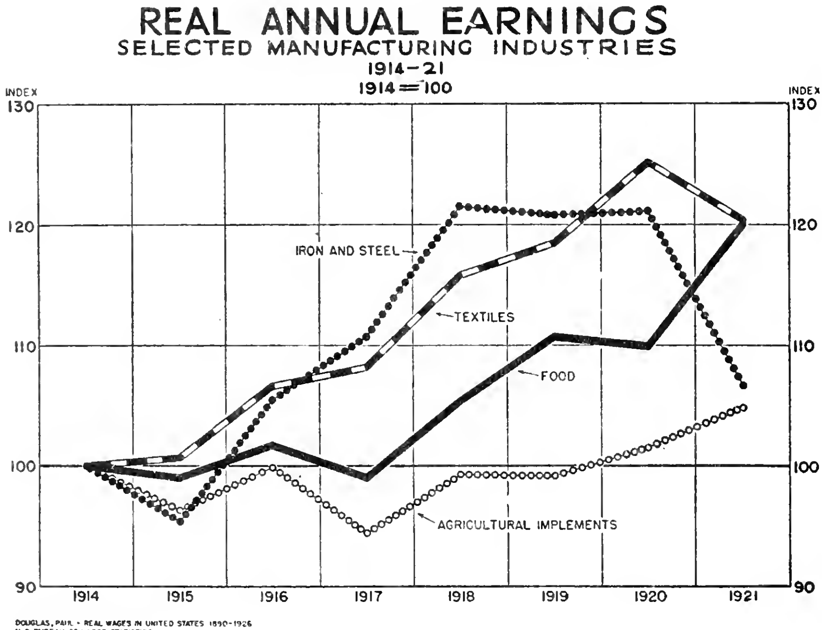
[1] See "Exhibit No. 1465," supra, p. 11046.
[2] See "Exhibit No. 1457," supra, p. 11036.
[3] See "Exhibit No. 1455," supra, p. 11030.
[4] See "Exhibit No 1453," supra, p. 11026.

(The chart referred to was marked "Exhibit No. 1466" and appears on this page. The statistical data on which this chart is based are included in the appendix on p. 11342.)

Dr. LUBIN. There was this tremendous war demand, and you had this increase throughout the war period for textiles of all sort, and despite the fact that the dollar wages of these workers increased by about 150 percent, their actual real earnings increased only by 25 percent. The effect of this rise in the textile wage level has caused us a lot of headaches ever since. The fact is that the rise that took place in textile prices, and the rise that took place in textile wages, brought with it a tremendous increase in capacity in the United States, and in the year 1917 we added more spindles to our capacity

EXHIBIT No. 1466



than any other year for which we have record. And if you take this whole period here, we added more spindles to our capacity than any other period, with the exception of one back here in 1910 when the industry was getting going full blast.

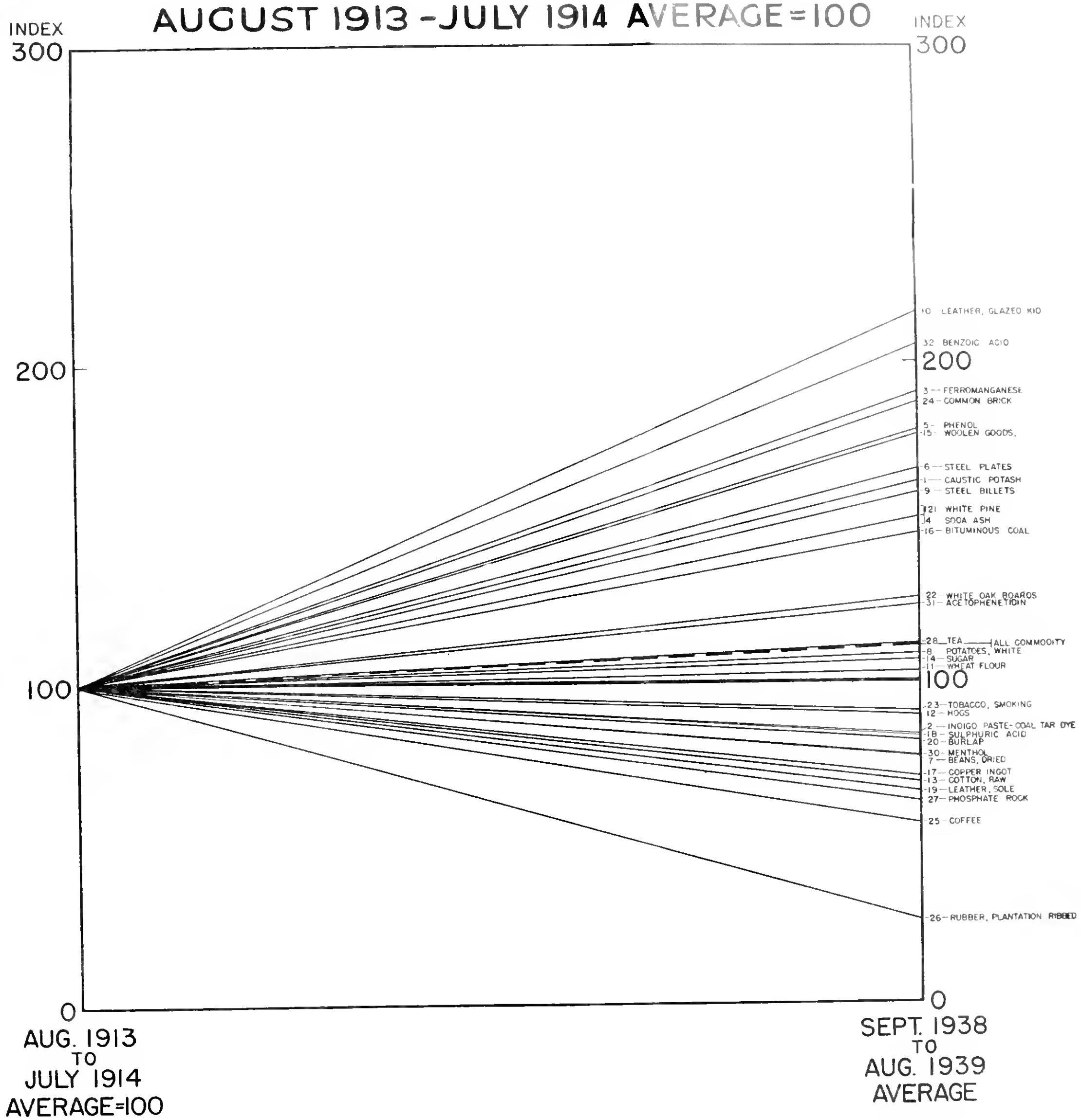
Not only then did it leave us with this tremendous capacity, which we haven't worked off yet, and, as somebody once described it, has led us into 20 years' depression that we are not out of yet so far as textiles are concerned, but it led to a differential in wage rates in the textile industry between those areas which were getting large war orders and in which labor shortages developed and other areas. Before the war the difference in the wage rates between Northern and Southern plants was about 37 percent. That was their differential. At the end of the war that differential was 60 percent. In other words, the workers in the North were getting 70 percent more per hour than the workers in the South. That widened differential has

EXHIBIT No. 1467

PRE-WAR COMMODITY PRICES

1913–14 AND 1938–39

AUGUST 1913–JULY 1914 AVERAGE=100



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(Face p. 11049)

... the workers in the South. That widened differential has been again one of the tremendous problems we have had to face in that industry in recent years in getting the industry back into some sort of balance, but that is just one of the many examples of disorganization which is brought about by these runaway prices, followed by increasing wages and which leaves its mark for more than a generation on the economy. Your steel industry, which of course felt the burden of the war as textiles did, is another industry where workers gained in their real annual wages. With much more employment, the wage rates went up, and the result was that, although in 1915, the year after war was declared, the workers were 5 percent worse off than before war was declared, by 1917 they were 11 percent, and by 1918 they were 22 percent better off and stayed there through 1920.

But note, with the collapse there was a very marked decline in their real earnings and their earnings fell to 7 percent above where they were in the pre-war period as contrasted with 22 percent. But note, at no time were they more than 22 percent better off than they were at this point, 1914.

The food industry is very similar, reaching its peak in 1921 but never reaching the levels of textile wages, and iron and steel wages.

In the agricultural-implement industry again, most of the workers were worse off from 1914 to 1919 than before war was declared, their real wages being below the 1914 levels, the rise taking place in 1919 and '20, and a large part of this rise, incidentally, taking place not because of increased wage rates but because of falling cost of living, and similarly this rise here also took place not so much because of increased wage rates but because of falling cost of living.

PRICES, AT BEGINNING OF WORLD WAR, IN PRESENT WAR, SINCE AUGUST 1939

Dr. LUBIN. Now, I want to shift from the effect of the last war on prices, on wages, on cost of living, and upon the real income of our working population, to a picture of what has happened to prices since the last war, and then follow that up with a picture of what happened to prices during the first 6 months of the last war and what has happened in the last 3 months in this country.

This chart, which is pre-war commodity prices, is merely to illustrate that after a generation has passed, after 25 years, your individual commodities have moved in all sorts of directions.

(The chart referred to was marked "Exhibit No. 1467" and faces this page. The statistical data on which this chart is based are included in the appendix on p. 11342.)

Dr. LUBIN. This point here, 100, is the average of these prices for the year August '13 to July of '14. This line here at the extreme right is the average for last year, ending August 1939, in other words, the year before this last war was declared.

Here is a picture, in other words, of what happened between the period of the declaration of war in 1914 and the period of the declaration of war in September 1939.

You will notice that the line representing all commodities shows a relatively insignificant increase of about 12 percent, and yet a lot of commodities have moved in a lot of directions. Ferro-manganese, for example, at the beginning of this war was selling in the United States at 191 as compared to 100 at the declaration of the World War.

Mr. HENDERSON. Dr. Lubin, I think you ought to make it clear—should you not—that these lines do not indicate the course these prices took in the intervening years.

Dr. LUBIN. Yes; I am glad you pointed that out. In other words, here is where they were at 1914 (100) and there is where they were at the declaration of war in 1939, but a lot of things may have happened in between. In other words, the idea is to show you had a dispersion and you started this last war or the present war with an entirely different dispersion in your price structure from what you had when the last World War was started.

Ferro-manganese, for example, as I say, was selling at 191 percent higher at the beginning of the present war than at the beginning of the last war.

Acting Chairman BORAH. Dr. Lubin, I don't know that I understand this. Is this 100 designed to represent the price at the beginning of the World War?

Dr. LUBIN. Yes.

Acting Chairman BORAH. And the points to which they have gone are the prices now?

Dr. LUBIN. An average of the last year before the present war; yes.

In other words, it gives you a picture of what prices looked like the year before the World War started and what they looked like the year before the present war started.

Benzoic acid was selling at 105 percent higher; ferro-manganese, 90 percent higher; common brick, 87 percent higher; phenol, 79 percent higher; woolen overcoatings, 77 percent higher; steel plates, 67 percent higher; caustic potash, 63 percent higher; steel billets, 59 percent higher; white pine, 51 percent higher; and so one could go down the line of these commodities, which at the beginning of the present war were considerably higher than they were at the beginning of the last World War.

On the other hand, it should be borne in mind that a lot of commodities at the present time, or during the period immediately preceding the declaration of war, were relatively lower than they had been in 1914, 25 years previously. For example, smoking tobacco was down by 9 percent, hogs were down 10 percent, indigo paste, a coal-tar product, which we noted up here,[1] had jumped something like 700 percent during the early days of the last war, was selling recently at about 17 percent below the pre-war period of 1914, the reason, of course, being we developed an industry of our own in the United States.

This war started out with burlap 18 percent below what it had been at this period here. Copper ingots were 30 percent lower than they had been; raw cotton was 31 percent lower, and coffee was 44 percent lower, and plantation rubber was 74 percent lower than it had been at this time.

Acting Chairman BORAH. Dried beans, 23 percent lower.

Dr. LUBIN. In other words, you get there a picture of the trends that are going on in a price level. Here is what happened to prices as a whole, and yet here is what was happening in the economy at this end, and here is what was happening in the economy at that end.

Having seen where we started out when war was declared in Europe, the general price level about 12 percent above where it had

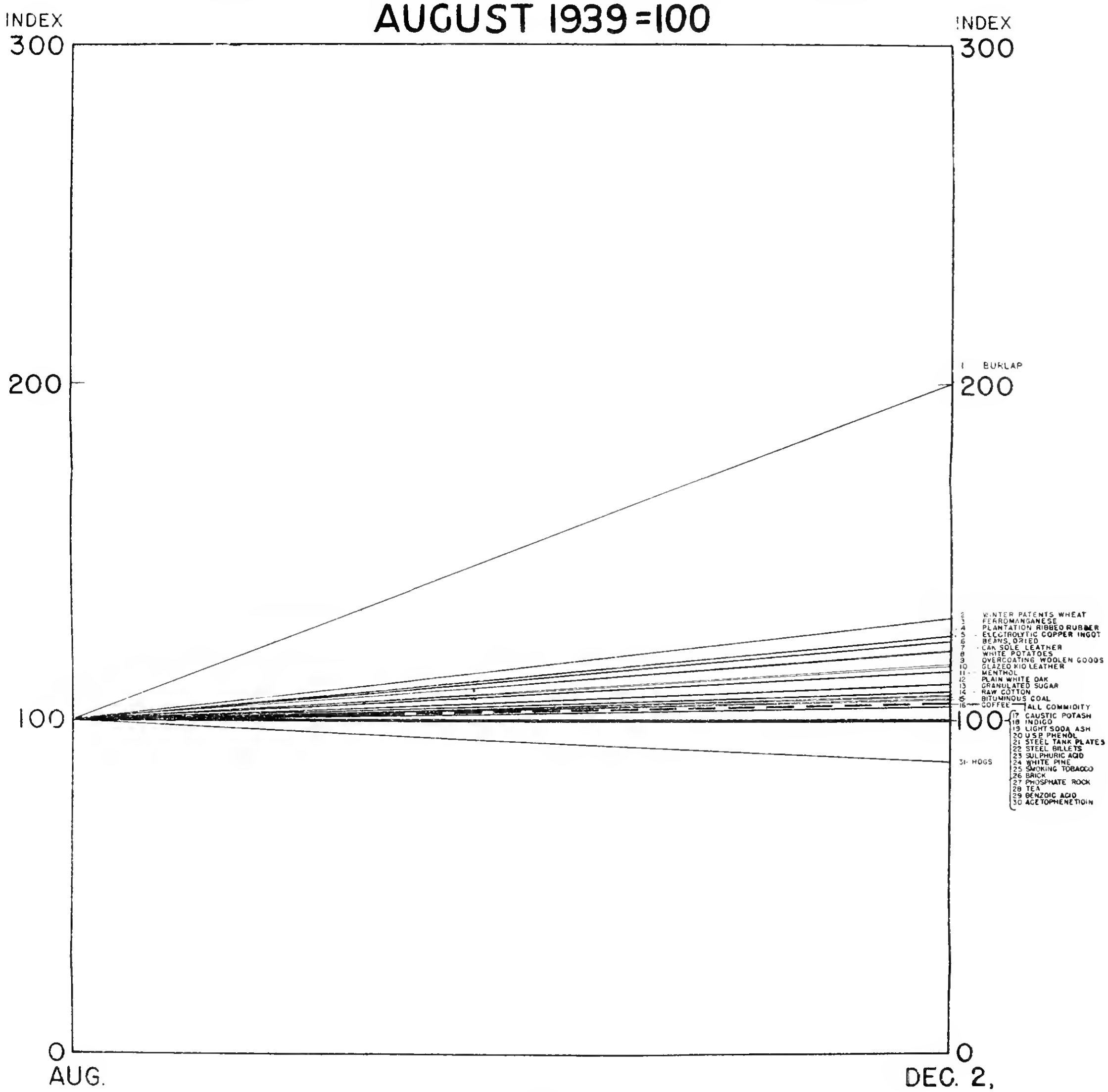
[1] See "Exhibit No. 1456," supra, facing p. 11032.

EXHIBIT No. 1369

WAR-TIME CHANGES IN COMMODITY PRICES

AUGUST 1939 TO DECEMBER 2, 1939

AUGUST 1939 = 100



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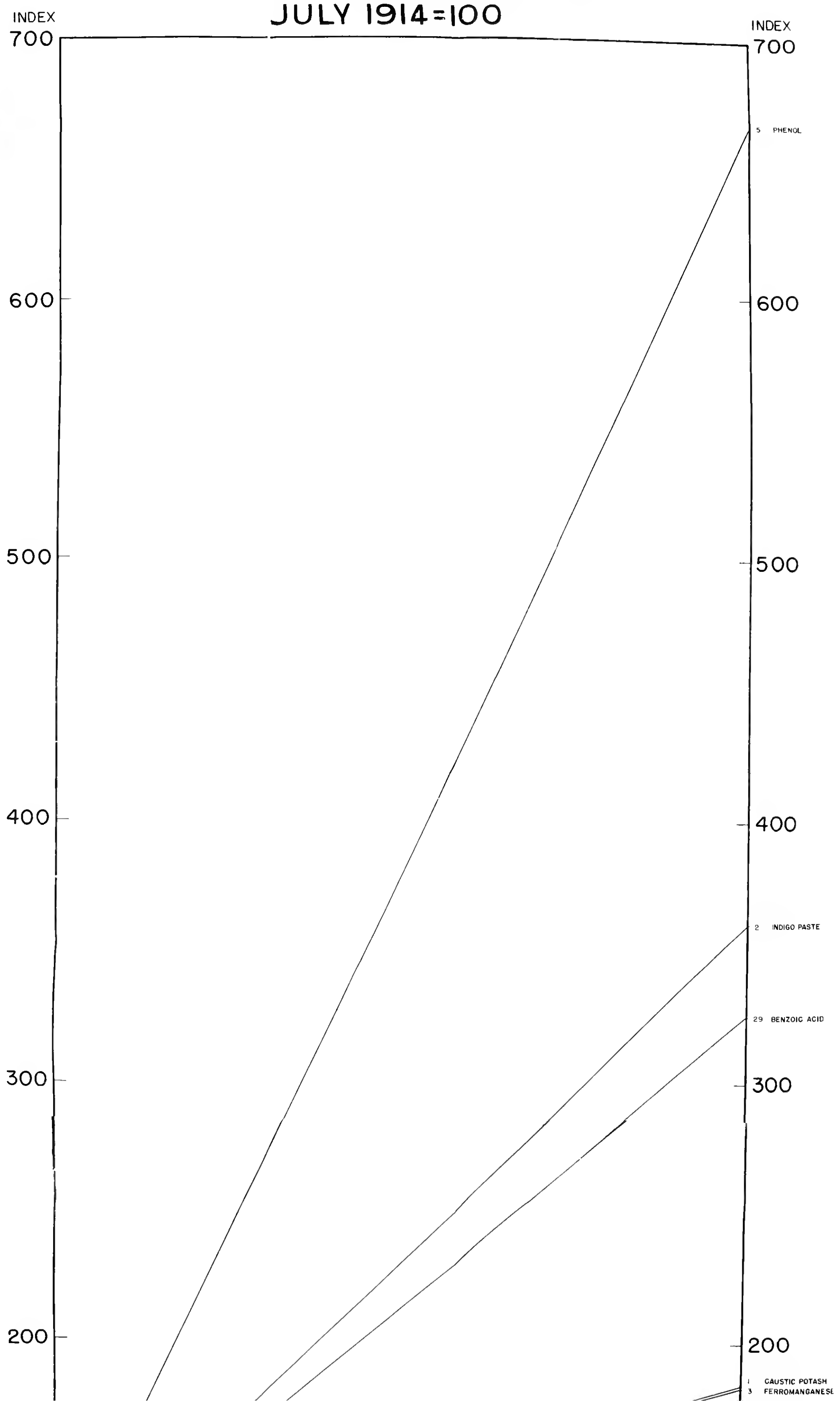
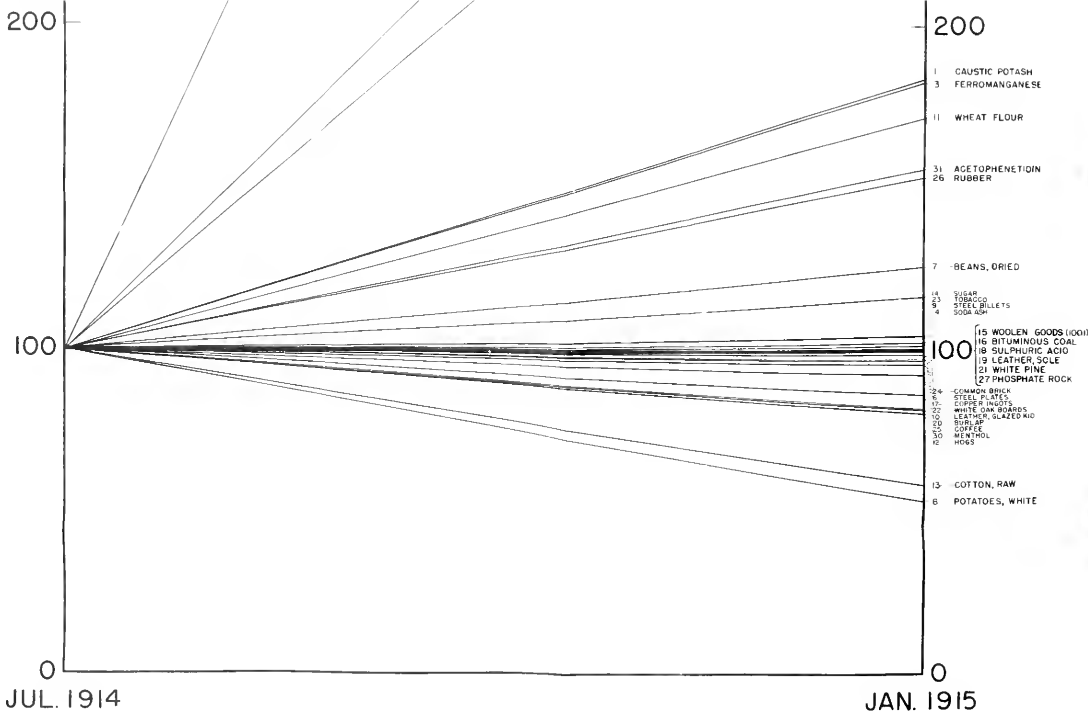
WAR-TIME CHANGES IN COMMODITY PRICES

JULY 1914 TO JANUARY 1915

JULY 1914=100





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been when war was declared last time, with the spread in prices, some being twice as high as they had been when war was declared in 1914 and others down to 26 percent of the level that they had been at that time, let's take a look at what has happened to prices, what did happen to prices, during the early days of the last war—in other words, what was the immediate effect of the declaration of war upon prices in this country—and compare that picture with what has happened during the last 3 months; namely, September, October, and November, after war was declared in Europe.

During the first 6 months, from July 1914 to January 1915, the first 6 months of the World War, the price level as a whole did not move very much.

(The chart referred to was marked "Exhibit No. 1468" and faces this page. The statistical data on which this chart is based are included in the appendix on p. 11343.)

Dr. LUBIN. The price level increased by 1.2 percent, to be exact. And yet you had some marked skyrocketing of prices during that short period of time. Phenol jumped to 666 as compared to 100 6 months previously; indigo paste, which I have mentioned before, jumped from 100 to 361. But it is important to note that most of these commodities here, all of these lines, are chemical products. In other words, it was the immediate effect of German supply being cut off from our market.

On the other hand, of course, certain commodities showed marked drops in prices during the first 6-month period. Potatoes, which we noted before, ended up in 1920 about four and one-half times as high as they were when war was declared, had fallen to almost half their previous level. Raw cotton had fallen very markedly, by 41 percent, to be exact. Most of these commodities were chemical commodities, like phenol, indigo paste, benzoic acid, caustic soda, potash. Ferromanganese showed a very marked increase, and again I want to note its importance in American industry today in the manufacture of metals. Wheat flour also showed a rather important increase, the actual increase during the 6-month period being about 72 percent. But beyond that, by and large, these were chemical products.

Now let's take a look at what happened to prices during the past 3 months and see how that picture compares with what happened to prices during the first 6 months of the last war. This shows what has happened to prices from August of this year up until last week, the last date for which we could have figures, namely the week ending December 2.

(The chart referred to was marked "Exhibit No. 1469" and faces this page. The statistical data on which this chart is based are included in the appendix on p. 11343.)

Dr. LUBIN. Here you will note that there has been virtually no increase of any importance in the general wholesale-price level. The exact increase was 5.2 percent during the period from August to last Saturday.

Acting Chairman BORAH. Does that include the general?

Dr. LUBIN. That is the general price level.

However, burlap has doubled in price. Winter wheat jumped 30 percent; ferromanganese, which we noted on the last chart jumped rather markedly in the early days of the last war, has jumped again, increasing by 25 percent. Rubber has increased by 23 percent;

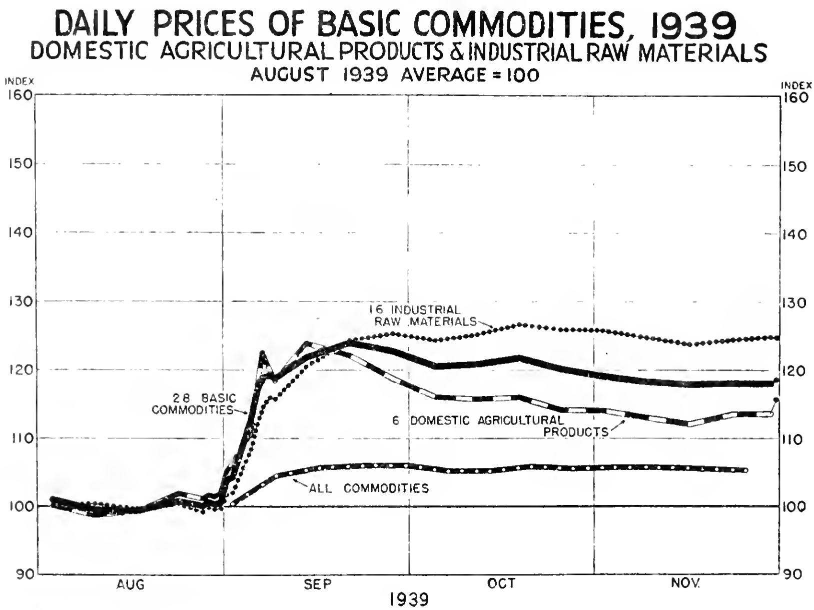
electrolytic copper, ingot copper, has increased by 21 percent. Sole leather has increased by 16 percent. In fact, by and large there have been, with the exception of probably a dozen or so commodities, there have been no really marked increases, burlap being the only startling increase during that period of time, and the only commodities showing any sort of drop during the period being hogs, particularly light hogs.

Mr. Avildsen. Have you any explanation for that rise in the price of burlap, Doctor?

Dr. Lubin. Will you save that question? I am going to come back to burlap in just a minute.

This chart breaks your price level since August 1, for the last four months, into its constituent parts. Again I would like to note that

Exhibit No. 1470



this is a new index of the Bureau of Labor Statistics which is a daily index showing what happened to prices from day to day, and then they are computed also on a weekly basis.

(The chart referred to was marked "Exhibit No. 1470" and appears on this page. The statistical data on which this chart is based are included in the appendix on p. 11344.)

Dr. Lubin. You will note that your all-commodity index has moved, as I said a minute ago, up by 5 percent since war was declared, and you will notice that the big increase came there in the first 2 weeks. This is your all-commodity level. Nothing has happened, really, since the middle of September. It has stayed more or less flat.

On the other hand, if you take your 28 basic commodities, and I will list those in just a minute, and watch them day by day, you will note that this has happened, that whereas they were 100 in August, the 28 of them put together on September 21 were up by 24 percent, and they stayed around that level, and then started downward gradually, and are back to 19 percent above where they were in August.

In other words, your all commodity index has increased 5 percent, but 28 basic commodities that enter into the industrial picture of America as basic factors have gone up by 19 percent, although they did reach a point which was 24 percent higher than they had been in August. Incidentally, again you will notice that this increase of 24 percent in these commodities came in 3 weeks. There was a very sudden increase.

I will give you for the record the list of the 28 commodities that are in this index.

Mr. HENDERSON. Couldn't you give an explanation of what you call a basic commodity?

Dr. LUBIN. Perhaps I can give you that better by giving you the list of them, so you can see the nature of the commodities: Wheat, flaxseed, barley, corn, butter, tallow, hogs, steers, lard, sugar, coffee, cocoa beans, shellac, rubber, hides, rosin, cottonseed oil, print cloth, raw silk, raw wool, burlap, scrap steel, tin, copper, lead, zinc, cotton.

In other words, they are the raw materials that enter into the production of virtually all of the important industries in our economy in some way or another.

Mr. HENDERSON. They are to be distinguished from the strategic commodities listed by the War Department?

Dr. LUBIN. Oh, yes; very definitely. If you take those 28 commodities and break them down into, let's say, your raw materials, 16 of them are raw materials, 6 of them are domestic agricultural products, and you will find that those 16 that are used in industry as raw materials jumped higher than the index as a whole did, jumped to 127 percent of their August level, and continued to rise longer; whereas the group as a whole continued to rise only to September; and at the present time are still 25 percent above where they were in August.

On the other hand the agricultural products reached a peak in September of 24 percent above August and started down, and now they are only 116 percent of what they were, whereas raw materials used by industry are 25 percent higher than they were in August, before war was declared.

Now, if you break those commodities down still further, into their constituent elements, some of which I have mentioned, you have this interesting picture. Here is copper. Here is where copper was in August. In early September it jumped. It jumped from about 103 to about 115. It stayed at 115 for a couple of weeks, jumped to 120, and stayed at 120, last Saturday's price still being 12 cents a pound, or 20 percent higher than at was at this point.

(The chart referred to was marked "Exhibit No. 1471" and appears on p. 11054. The statistical data on which this chart is based are included in the appendix on p. 11345.)

Dr. KREPS. Do you mean that copper is generally available at 12 cents a pound?

Dr. LUBIN. I am glad you raised that question, because this is a quoted price. Now, what has happened in the copper industry is this: From all we can learn copper has, in a sense, been rationed in the United States. A copper consumer can get his orders filled to the extent where they are equal to what he formerly consumed. If he wants more copper, that is, copper more than he usually has been in the habit of buying, he must buy that extra supply at not the American domestic price, but at the export price, which is about a cent higher, so that in reality any consumer of copper who wants more copper now than he usually buys pays not 20 percent more than he formerly did, but it would run about 30 percent, roughly.

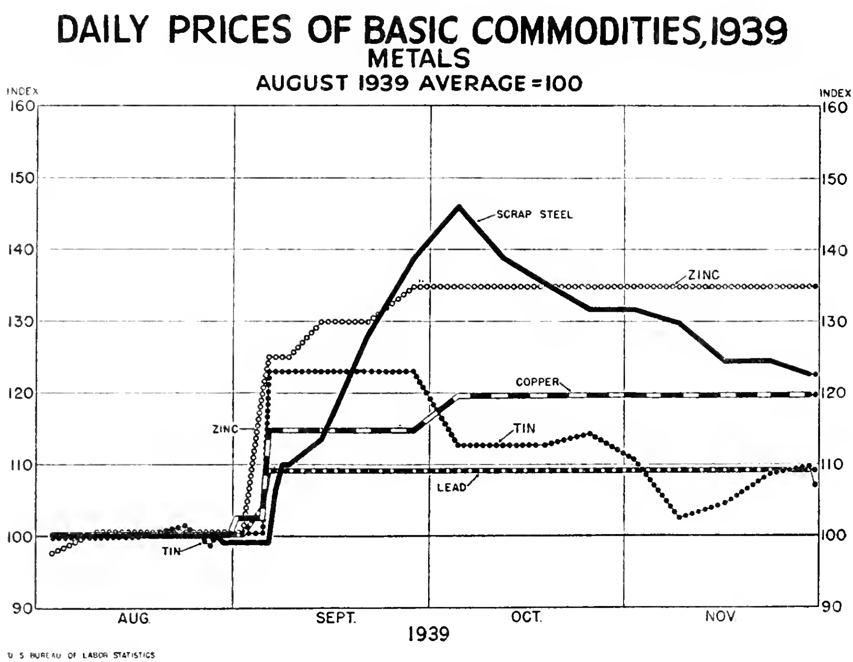
Acting Chairman BORAH. How does that happen?

Dr. LUBIN. I would rather you asked Mr. Arnold that question.

Acting Chairman BORAH. I will ask him later.

Dr. KREPS. There is an international cartel operating in the copper industry.

EXHIBIT NO. 1471



Dr. LUBIN. The zinc picture is quite different from copper. You will notice that zinc jumped to about 125 percent immediately after the declaration of war. It got up to 135 percent at the end of September, and has stayed at that place, namely 7 cents a pound, ever since. Incidentally, I might mention the fact that the stocks of zinc in this country are still relatively low, and the fact is that despite these price increases we have not got our production up to levels equal to those, say, of 1929.

Your lead picture is not quite similar to the others. It jumped 9 percent and stayed at 9 percent higher. Your tin picture shows a jump of 23 percent in a short period of time, maintenance of that price for about three weeks, a drop, holding its own, coming back almost to its August levels in the middle of November, and at the present time back to 107, or 52 cents a pound, which is just about 7 percent more than it was before hostilities were declared.

Again you see the picture of the significance of these various trends in basic materials. Here is scrap steel, which jumped to 146, increased almost by 50 percent in a period of a month. It started downward and is at the present time 23 percent higher than it was as compared with zinc, which is 35 percent higher than it was 3 months ago.

In other words, I think these tables show pretty definitely that that picture of what happened to prices at the beginning of the last war is in a sense being repeated, although in a much more limited degree, today. In other words, the last 3 months have witnessed the beginning of something that might turn into what happened in the last war, and I think it is very important that we watch these prices in order to avoid the consequences that we had to suffer during the last war.

Mr. HENDERSON. Dr. Lubin, on those prices you picked out for this last chart, the price line is rigid except for scrap steel. Is that the kind of behavior which usually takes place where there are a few producers in control of the supply?

Dr. LUBIN. Very definitely. In other words, you will find that excepting certain periods, if you will take a long period of time you will find rather marked periods where the day to day quotations scarcely fluctuate at all.

Mr. HENDERSON. And in scrap steel there are likely to be a considerably larger number——

Dr. LUBIN (interposing). You may have a million different people feeding scrap steel into the market, and thirty or forty or a hundred people competing against each other for the supply. Every junk dealer is a potential producer of scrap steel, as opposed to copper, tin, lead or zinc.

Acting Chairman BORAH. Dr. Lubin, it is 12:30. Would it inconvenience you to discontinue now until 2 o'clock?

Dr. LUBIN. It is perfectly all right, although I can finish in 30 minutes.

Mr. HENDERSON. The afternoon witness, too, will need all the time he can get this afternoon, so I suggest that we go on.

Acting Chairman BORAH. Proceed, Doctor.

Dr. LUBIN. If you take that chart that I showed you a minute ago, of your twenty-eight basic commodities, and break them down still further, into textiles, let's say, you again get an interesting picture.

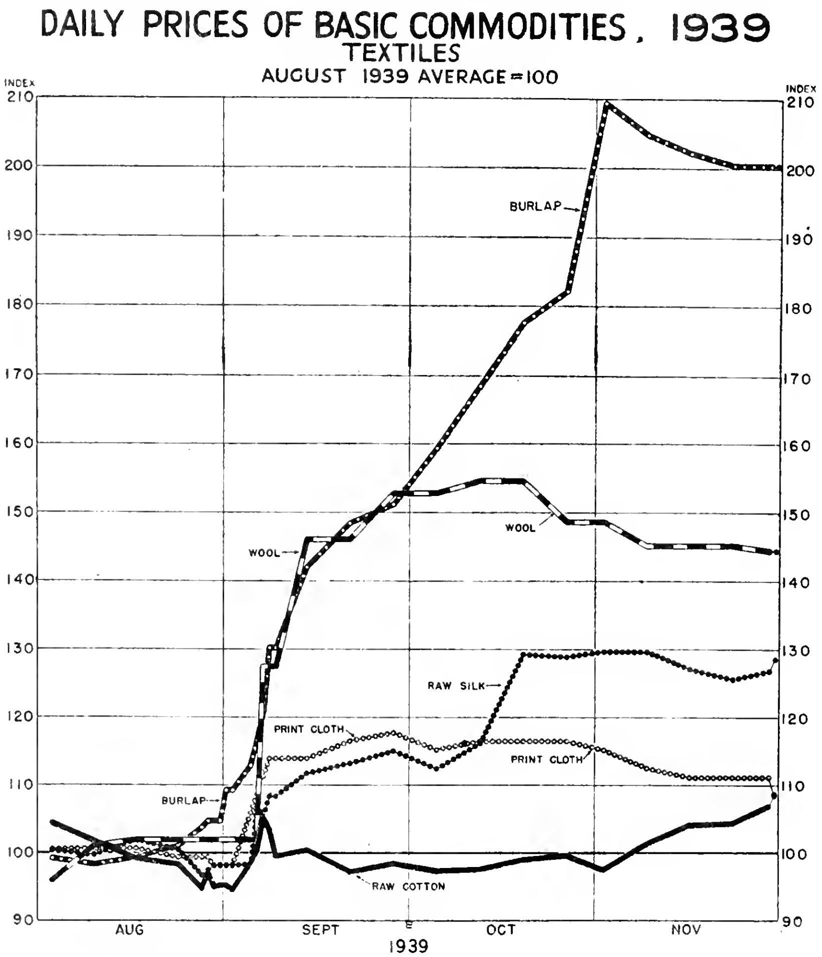
(The chart referred to was marked "Exhibit No. 1472" and appears on p. 11056. The statistical data on which this chart is based are included in the appendix on p. 11345.)

Dr. LUBIN. Mr. Avildsen raised a question about burlap. Here it is in August, here at the end of September; at the end of October it is twice its August price, at the beginning of November it is up by 109 percent, and at the present time it is double what it was three months ago.

The answer, Mr. Avildsen, apparently lies in the fact that the belligerents want sandbags, at least the allied belligerents want sandbags, and there are reports of Government purchases by the various belligerents for sandbag purposes, and it must also be borne in mind that the source of supply is the jute from India. There is a shipping problem. There have been rumors in the trade of certain ships having been sunk, and that in itself is important.

I think it should be emphasized further that our present inventory in the United States is equal to one month's consumption. What that may mean in terms of rug costs, because burlap is used in making rugs, or in linoleum or things of that sort, we don't yet know. It may be a rather insignificant factor, of course, but it may not be. If it is reflected, then of course you get the beginning in the terms of the price you and I pay for our rugs, of a rise in the cost of living. Incidentally, rug prices already have begun to go up. On the other hand it will mean substituting cotton for jute bags, which has already started in certain uses of the commodity.

EXHIBIT No. 1472



Mr. AVILDSEN. Would you say the rise in price is due to bidding of the buyer, rather than collusion among the producers?

Dr. LUBIN. Plus one other thing—your shipping situation. That is one of the aspects of the problem that I think we ought to go into. I don't know that I would have time to today.

Then there is the place that the Government plays in bidding for things in times of an emergency such as this. I know from my own experience during the past war where one Government department placed an order, or at least made inquiry for, a supply of a certain commodity which was three times greater than the whole world's capacity to produce. After all, I appreciate the attitude of the Army or Navy officer. His job is to see to it that he gets his goods. Yet in getting them, he plays havoc with the market in which the private producer has to go out and get the materials to meet his demands.

Mr. AVILDSEN. We had similar experiences in the tool industry during the World War. I know of a particular order for tools that one of the Government departments placed for $2,000,000. The tool manufacturer said, "We don't think you need these tools, we have looked into your stock, we have looked into your condition."

They said, "It is none of your business what we need. You make the tools."

After the war, they hadn't been used. They were still on hand, and sold at public auction at 10 percent of their cost. We know that happens in wartime. Is there anything we can do about it? Is there any answer to the problem?

Dr. LUBIN. I think an intelligent approach to the problem is possible. If the Government realizes, first, that it is sovereign, and that if the emergency becomes acute, it can confiscate anything it has to have if war is declared—if it always remembers that, I think some purchasing agents will stop rushing out buying the first time they conceive the idea that they may need 5,000,000 hat straps, let's say, for troops, or 10,000,000 canteens, or things of that sort. I think that there is always a minimum limit of freedom that should be given to all purchasing agents, but once it gets beyond a certain point, I think a purchasing board with a representative of the Department of Commerce on it ought to look into things of that sort. They know what capacity is. They know what the potential production rate might be, so that if they found that commodity X is important, yet one can always get all one wants if one gives these fellows 30 or 60 days' notice, the board would say, let's hold back on those. On the other hand, there are other commodities which we know we couldn't get out without tremendous delays, let's get them out. I do feel the Department of Commerce should play a much bigger part in the purchasing of the Government than it has.

Mr. ARNOLD. That would seem to indicate two things, Mr. Lubin, first, that some sort of body be established with sufficient funds so that it knew the inventory situation and the data in each industry, which we don't have now, do we, and wouldn't it also indicate that the Government, in making purchases, should be free to use some of the trading devices which an ordinary business man uses?

I have noticed in the antitrust division, in examining prices, we find the Government habitually pays higher prices than private contractors because the bids are made public, and these people are afraid of being called chiselers, whereas the actual price to the private contractors when bids are not public, are lower. These two things might be properly considered, might they not?

Dr. LUBIN. Yes. I do feel, however, that in a time of an emergency or threatened emergency it is just natural that those who are responsible for the national defense should feel that they must get everything they want as quickly as they can get it. They wouldn't be doing their jobs well if they didn't in terms of the purposes which they are to serve. On the other hand, I also feel that after a little thought and discussion, many people realize that they don't need the things as badly as they thought they did. I remember during the war there was a story going around in the General Staff that one of the branches of the services had wanted, I think, blackberry jam, in a quantity equal to three times the total world production of blackberries, and they wanted it right there and then.

There was a story about these colored hat bands, these field service bands that the soldiers were to wear. They never wore them in reality, because they always wore trench caps, overseas caps. But I remember when we were discussing the shortage of shipping at the War Industries Board during the war, one economist said, "Why worry about shipping? If you take all of the excess canteens that the Army has ordered which they will never use, and tie them together with all the excess hat bands they will have, you can float all this stuff across to Europe."

Mr. Arnold. Of course there is nobody that is checking on requests for "three times as many blackberries as there are." Your testimony clearly indicates the need for such a body.

Dr. Lubin. Very true. Possibly another significant fact is that once the situation gets out of hand, once the Government comes in and boosts these prices still further, you get these maladjustments which we all pay for eventually.

Dr. Lubin. This chart,[1] as I said, breaks these commodities into still further groups. Here is the case of wool, which reached 155 percent of its level in August, is down to 144 percent, and has held its own fairly well; raw silk, which is now going up again; print cloth, which jumped to about 118 percent of its former level, is back right now to about 109 percent of its former level; and raw cotton, which took a sudden slight jump, 5 percent above August, fell back somewhat but is now up to 108 percent of where it was in August.

The only commodity of any importance really that has been rising in the past month, due in part, I think, to the substitution of cotton for burlap, is raw cotton.

A further break-down of these basic commodities is shown in the next chart.

(The chart referred to was marked "Exhibit No. 1473" and appears on p. 11059. The statistical data on which this chart is based are included in the appendix on p. 11346.)

Dr. Lubin. There again you have this interesting phenomenon of hogs having jumped to 140 percent of the August level almost overnight, from 100 to 140, a speculative rise, and now back to 12 percent below where they were last August. People thought they remembered what happened during the last war, and as a matter of fact they weren't remembering that at all. They were remembering what happened at the end of the last war. Lard jumped 44 percent in a week; it is back at the present time to 10 percent above where it formerly was; steers jumped 22 percent in a short period of time, and are down again at the present time to about 8 percent above where they formerly were. Corn, up 34 percent, and right now 122 percent

[1] See "Exhibit No. 1472," supra, p. 11056.

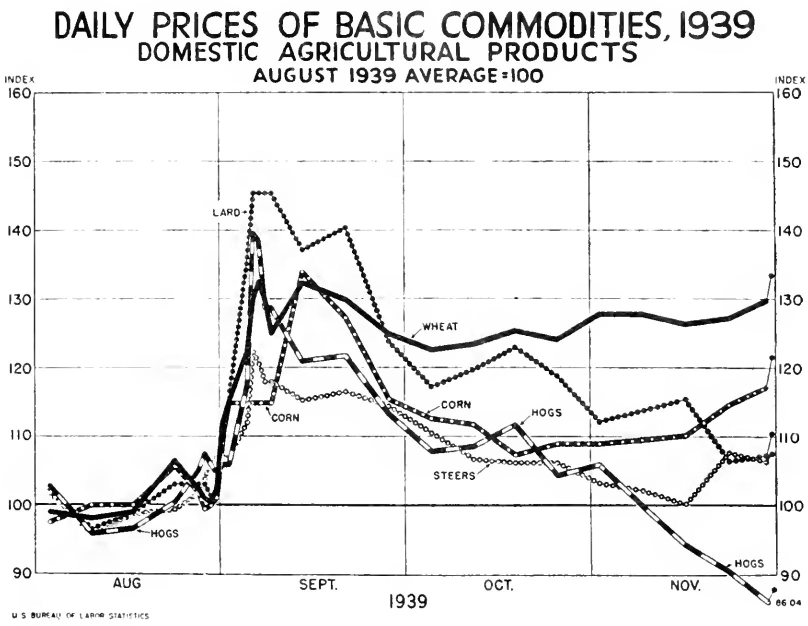
of where it was, the last figure for last Friday being 122 as compared to 117 the previous Wednesday.

And here is the picture of wheat, which took a rather marked rise last week and is now 33 percent above August, having risen earlier up to a high point of 132, and is higher than in 2 years, the last quotation being the high point for the last 2 years in wheat.

And finally in the basic commodities are commodities which we import.

You notice burlap is not in here, that was included with textiles; shellac jumped only slightly in the early days of the present war, held its own for a while, jumped again, and is now selling at 74 percent higher than it did 3 months ago. Hides reached a peak of 141, and are now 26 percent higher than 3 months ago.

Exhibit No. 1473



(The chart referred to was marked "Exhibit No. 1474" and appears on p. 11060. The statistical data on which this chart is based are included in the appendix on p. 11346.)

Mr. Avildsen. Tell us where shellac comes from?

Dr. Lubin. India, primarily.

Mr. Avildsen. Is that a cartel controlled product?

Dr. Lubin. I don't know.

Mr. Avildsen. Do you know?

Mr. Nelson. No.

Dr. Kreps. I don't know.

Dr. Lubin. Of course, shipping is a factor in it, but it has kept its own so steadily it makes one raise the question whether there hasn't been something else in the picture.

Sugar shows the interesting picture of jumping 35 percent, then dropping off again, and it is now 3 percent above where it was when

EXHIBIT No. 1474

DAILY PRICES OF BASIC COMMODITIES, 1939

IMPORTS

AUGUST 1939 AVERAGE = 100

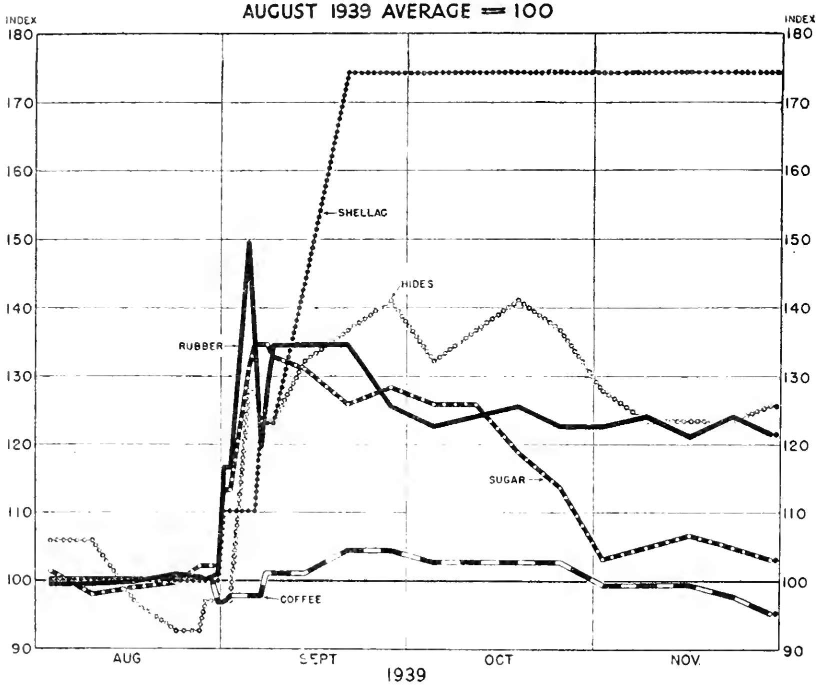
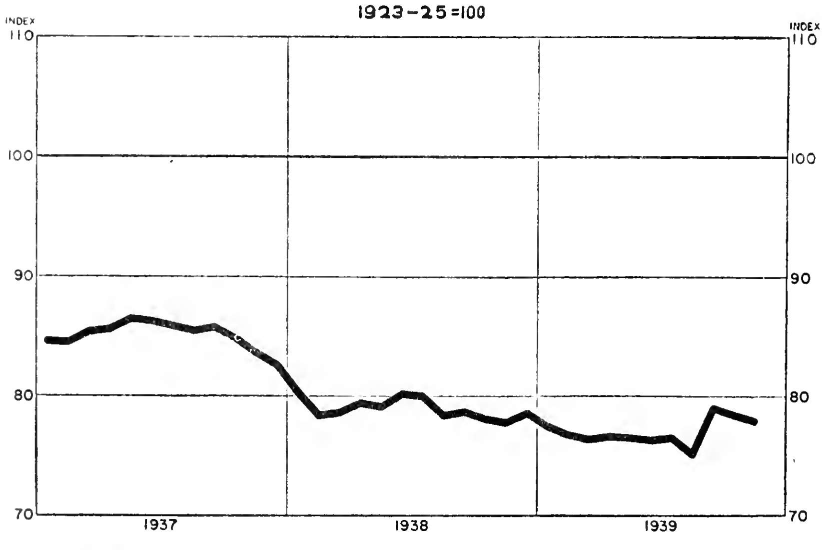


EXHIBIT No. 1475

RETAIL FOOD PRICES

1937—39

1923-25 = 100



war was declared. No basis to it at all, a bunch of damn foolishness, as it were, and the thing is beginning to find its own level.

The little country store merchant who bought sugar at a premium is either going to have to get a higher price for sugar or lose money. Somebody is going to pay for that, and it is that sort of thing that throws this whole thing out of gear.

Your coffee situation; only a slight increase and back to 5 percent below where it was when war was declared.

Now, the question arises what does all this have to do with retail prices?

As far as retail prices as a whole are concerned, there is no evidence of these wholesale prices having yet been substantially reflected in the retail price that we pay for things. Certain things have gone up in price, certain silk products, particularly silk hose, and incidentally it is the branded types of silk products that have gone up most. The unbranded types have not gone up very much.

Rugs show some trend upward, and certain food commodities have, but if you take foods as a whole you get this interesting picture, and after all, food comprises more than one-third of the family budget.

You will note that food prices even at the peak in September, when food prices were 79 as compared to the 1923–25 average (the 1923–25 average being 100) food prices were still lower than they had been in '37, two years ago, and you will note further that at the present time, the November figure of 77 is lower than in any month of 1938 except November. In other words, these prices were reflected in a marked sudden increase in the retail market, an increase from 75 to 79 between August and September. They have already started downward, back to 78 which is lower than they were in 1937 and the early part of 1938.

(The chart referred to was marked "Exhibit No. 1475" and appears on p. 11060. The statistical data on which this chart is based are included in the appendix on p. 11347.)

Dr. Lubin. So these wholesale prices have not yet been reflected in the retail market and the question, of course, is whether or not they will broaden out or keep going up. In other words, those that have started up, may go further, which means reflection in the retail markets, or they may influence other prices in which they are used.

This chart breaks these foods down into four particular types just to show how these things work.

Here is sugar, that jumped up here to 124 and then started down. There are navy beans, which incidentally went up to 129 and are still 20 percent above the August 15 price, and by the way, that happens in almost every war. The same thing happened in the last war. They feel the effect very definitely.

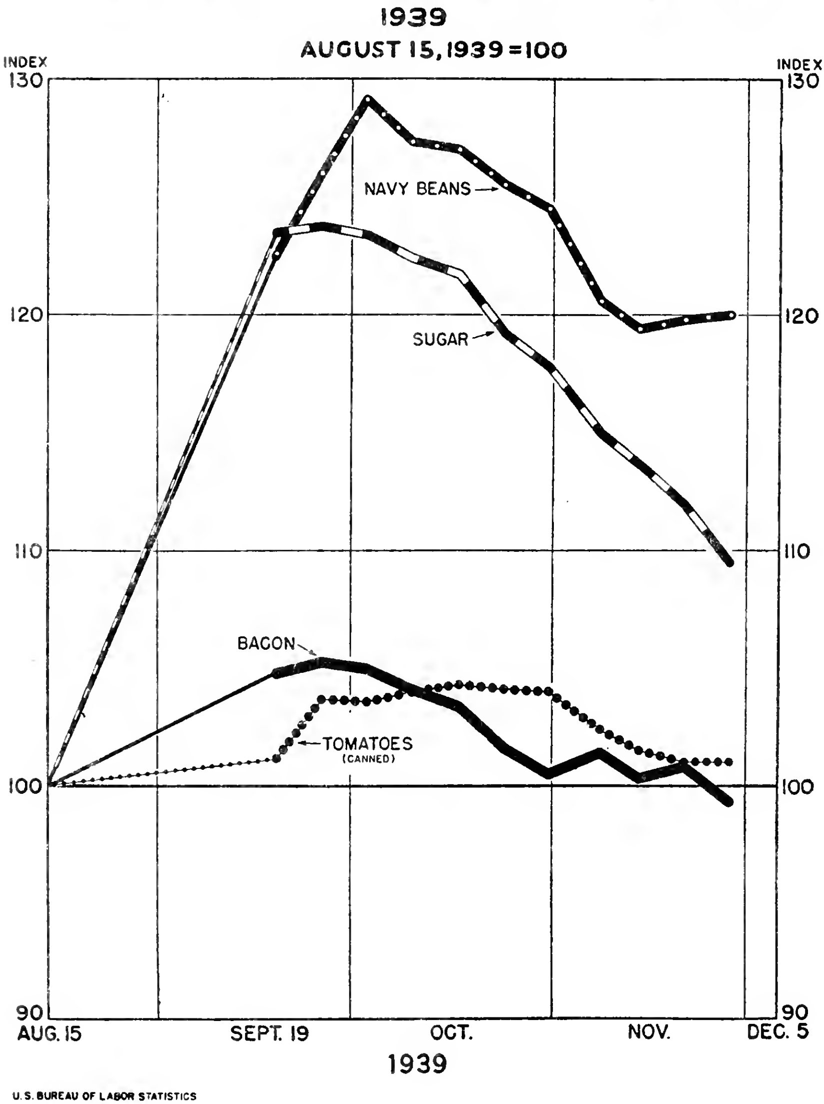
Bacon, however, only went up 5 percent, and is now below what it was before war was declared, and canned tomatoes went up by 4 percent and are slightly above what they were. The tomato grower and the farmer who raises bacon has to pay these higher prices, but he gets only this much increase.

(The chart referred to was marked "Exhibit No. 1476" and appears on p. 11062. The statistical data on which this chart is based are included in the appendix on p. 11347.)

Dr. Kreps. Dr. Lubin, why did the price of navy beans break in early October?

EXHIBIT No. 1476

RETAIL PRICES OF 4 FOODS



Dr. LUBIN. I don't know offhand.

Dr. KREPS. Any connection between that and the action of the Federal Trade Commission against a group of producers and merchandisers in Michigan?

Dr. LUBIN. I don't know. Finally, I want to cite this as an illustrating example bearing upon the question that Dr. Thorp raised about what effect these things have upon the cost of living, and how far this cost of living business is a psychological factor.

Here are five drugs, every one of which is important. Here is cod liver oil, which is a standard article of diet in any family that has infants. Here are belladonna roots which are used in certain drugs for eyes, by anybody who wears glasses and has his eyes tested. The amount may be insignificant. Here is ergot, an important drug used by doctors in cases of childbirth. Here is gum arabic, the basis for making pills and all sorts of medical preparations, emulsions and things of that sort. And there is orange oil, which is used in flavoring. They are not important things, by and large. I suppose the total value of their products would be insignificant, and yet after all when Mrs. Smith goes down to the drugstore and finds that cod liver oil has gone up, and she asks the druggist about it and he says, "Look here, it has gone way up in price in a short period; I have got to get more for mine." That affects her attitude toward the cost of living. And so on all the way down the line, for any of the commodities you could pick out. You could pick 100 more of a different type, all of them relatively unimportant, and yet each affecting one little segment of the population, so when all get together psychologically the impact is tremendous.

(The chart referred to was marked "Exhibit No. 1477" and appears on p. 11064. The statistical data on which this chart is based are included in the appendix on p. 11348.)

Dr. LUBIN. So I think it is very important that that aspect of the thing be made public, be emphasized, rather, so that even though someone says it is unimportant,—after all, what does the total production of cod-liver oil amount to, it is not more than five or six million dollars—we realize it is important to the family, it is important to the man in his attitude toward his wages, his attitude toward his job, and things of that sort.

In conclusion, I would like to summarize this whole picture. Every war that we have had or every war that we have been directly or indirectly connected with in any manner, has brought with it a very marked increase in prices. These increased prices have brought with them very marked increases in productive capacity. These increases in productive capacity have been financed at higher price levels, which has meant that they have been financed under conditions that have brought with them in many instances high overhead costs.

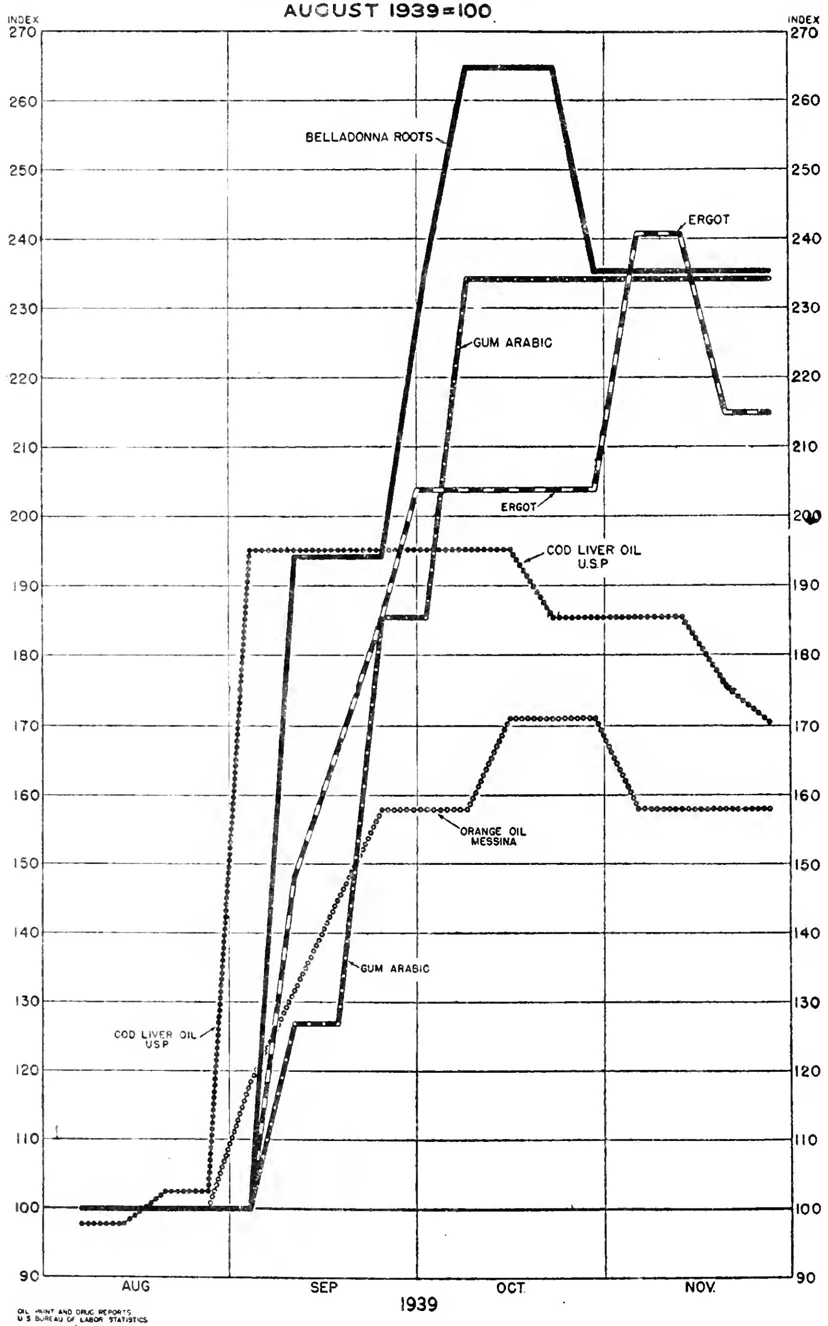
If history is to repeat itself and that happens again in the United States in the next couple of years, just as sure as we are sitting here, I think, we can expect such a situation to be followed by some sort of a collapse. That collapse finds us with this increased capacity, financed at high costs with a high mortgage debt, higher overhead charges, and industry or somebody is going to have to bear that increased burden. And that is true not only of manufacturing and business as a whole, it is equally true of agriculture. If you look at the situation in the United States during the past war, you will find that the value per acre of farm land jumped from an index of 100

Exhibit No. 1477

PRICES OF 5 DRUGS

1939

AUGUST 1939=100



in 1913 to 170 in 1920. While that increase of 70 percent was taking place, the farm mortgage debt of the country increased from an index of 110 to 214. In other words, farm prices went up. That increased value of farm land meant the farmer sold his land at a higher price, that higher price was financed by a higher mortgage, and the result was when 1921 came with the collapse, farmers couldn't meet their mortgage debts, banks that had advanced these funds went broke, and there was a holocaust of bank failures and agricultural failures, and everything that goes with it.

So I think that, forgetting the ethics or the morals or anything else you want to, of price rises, if you think of it solely in terms of the welfare of the Nation as a whole, the total economy, the price you have to pay after you are through, is so great that by and large I can't feel that anybody who looks at the thing realistically can justify any of the advantages that you think you are getting while this period of spectacular price rises is taking place.

Thank you.

Acting Chairman BORAH. The committee will adjourn until 2 o'clock.

(Whereupon at 12:50 p. m. a recess was taken until 2 p. m.)

AFTERNOON SESSION

The committee resumed at 2:50 o'clock, Acting Chairman Borah presiding.

Acting Chairman BORAH. The committee will come to order.

We will hear Dr. Thorp now on the question of world prices and the probable effect upon the present conditions.

TESTIMONY OF DR. WILLARD L. THORP, ADVISER ON ECONOMIC STUDIES, DEPARTMENT OF COMMERCE, WASHINGTON, D. C.

Dr. KREPS. Mr. Chairman, this morning we had a discussion of price movements at present and in 1914. Dr. Thorp is going to discuss the general forces that lay back of the price pattern during the World War, and contrast them with forces such as we now see at work at the present time.

Dr. THORP. Mr. Chairman, this morning we focused attention on the behavior of prices. I am going to try to set this price pattern of the World War and the price pattern as at the present time in their general setting, and discuss the various factors which brought about the price rise during the World War, and the status of those same sets of influences at the present time. I realize that there is great danger here of oversimplifying the picture. Our economic history is a matter of a great many different forces, all playing independently and in a related way, and it is impossible to present a picture in full detail, so I will have to at many points hit the more important aspects of a given development and not try to develop all the interesting and sometimes all the important aspects of it.

War is inevitably a dislocating factor. You have seen what it does to prices. As far as the economy in general is concerned, war periods are periods of apparent prosperity. There is usually full employment, great activity, and all the superficial characteristics which we use to determine prosperity are present.

After the war there always is a depression with employment and activity declining.

I think it is important to note that in the history of the past, the effect of wars has not been limited to the belligerent nations. In fact, the swings of businsss conditions throughout the world seem to tie the various nations together, and it sometimes is true that neutral nations are as seriously affected, sometimes even more seriously affected, than the belligerent nations themselves.

In talking about the World War pattern, perhaps I should start with just this very brief summary which I will picture a little later. By late 1915 operations in most industries were close to capacity, and thereafter in spite of the vigorous demand for goods, further increases in production were relatively slight. The effect of the increased demand was reflected, therefore, after late 1915, in the price level, rather than productive activity, and price increases were tremendous.

Mr. HENDERSON. Does that mean, Dr. Thorp, that all this increase in price Dr. Lubin portrayed this morning really didn't call into production a very large quantity of goods?

Dr. THORP. That is quite correct. I shall develop that point with a good deal of material somewhat later, but the increases in production came primarily before the price rise began. The price rise came after we reached capacity operations. It did not call for the considerable further increases in production.

Mr. HENDERSON. In other words, it runs quite a bit contrary to the theory of what an increase in prices is expected to do, so far as bringing into existence a greater production is concerned.

Dr. THORP. That is correct. In fact, I think it might be said that quite as much new capacity in most lines would have been brought into production had the price increases been much less.

Mr. HENDERSON. I think that is very significant in terms of the minutes of the War Industries' Board Price Fixing Committee, which were not published, as you know, until the Nye committee published them.[1] But running all through the considerations of that price-fixing committee, there was very definitely the feeling on the part of the price fixers that an additional price had to be granted in order to get the demanded production. I think that that part of your testimony is very interesting.

Dr. THORP. That is very important, and I think it will be clearer when we get into some of the detailed record of what happened to domestic production and capacity during the war period.

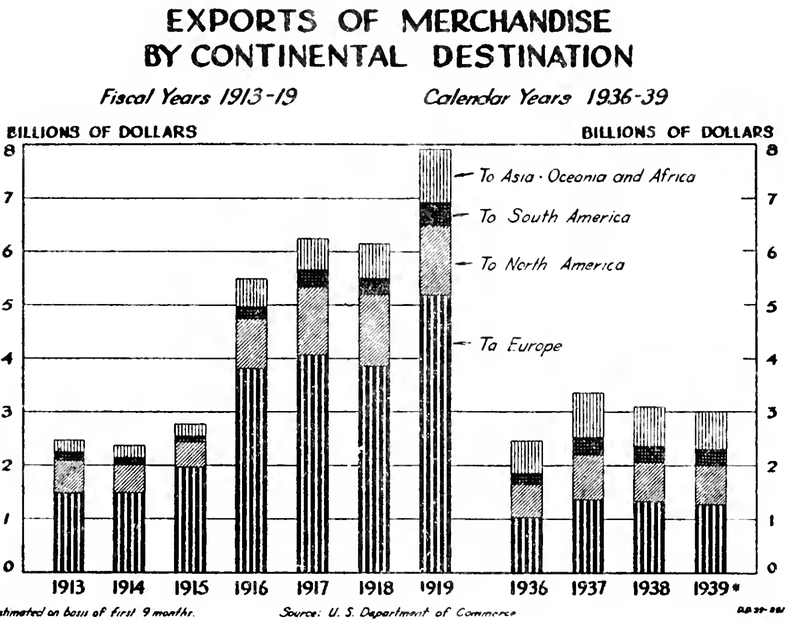
AMERICAN FOREIGN TRADE DURING THE WORLD WAR

Dr. THORP. We shall start our analysis with considering various factors which increased the demand for goods during the War period. First and perhaps most important is the demand which came from abroad and it is important for us to look in some detail at the foreign trade pattern of the World War period. I shall introduce the chart entitled "Exports of Merchandise by Continental Destination."

[1] Special Committee Investigating the Munitions Industry, Senate Committee Print No. 5 (in 4 parts), 74th Cong., 2d Sess.

(The chart referred to was marked "Exhibit No. 1478" and appears on this page. The statistical data on which this chart is based are included in the appendix on p. 11348.)

EXHIBIT NO. 1478



Dr. THORP. The members of the committee who have booklets of charts will find additional charts with the following titles in these booklets. I do not have the larger charts to present.

Merchandise Exports and Imports (1901–38); Trade of the United States with Canada; Trade of the United States with France; Trade of the United States with the United Kingdom; Trade of the United States with Norway; Trade of the United States with Sweden; Trade of the United States with Argentina; Trade of the United States with Brazil; Trade of the United States with Germany; Trade of the United States with Japan.

(The charts referred to were marked "Exhibits Nos. 1479 to 1488" and appear in the appendix on pp. 11349–53.)

Dr. THORP. In looking at these charts the significant point for our domestic economy is this tremendous increase in the foreign demand for goods which began to appear in 1915, but was decidedly greater in the later years.[1]

Prior to the war, our exports were in the neighborhood of 2½ billion dollars a year. In 1915, they increased toward 3 billion, but in 1916, the jump was to 5½ billion. In 1919 we reached the peak of 7.9 billions of dollars of exports of merchandise.

Of course, at the same time there was some increase in our imports, and perhaps in measuring the impact on the economy, we ought to consider the net change of the two. That is seen from the first chart

[1] See "Exhibit No. 1478," on this page.

in the booklet to which I referred, which gives both exports and imports.[1]

As you can see, the gap between exports and imports increased tremendously during these years. I will summarize it this way, that whereas the pre-war period produced a net demand for American goods from foreign buyers, that is the difference between exports and imports, of about 400 million dollars a year, during this period from 1915 to 1919, the net export demand was somewhat over 3 billion dollars a year, $3,163,000,000, so that coming from abroad, we had during this war period a demand for goods close to 3 billion dollars additional over the customary amounts before.

Remember that at this time our total national income was somewhere in the neighborhood of 35 billion dollars, so you might say that that new demand represented a clear 10 percent increase in terms of our total national income.

I suspect that one can find very few cases of as powerful a pump-priming influence as the effect of those foreign purchases during the war period.

So far as the individual countries are concerned, the records are extremely interesting. I should like to point out, for example, the tremendous difference which appeared between the exports and imports to France.[2] Incidentally, these charts are on a logarithmic scale and show, therefore, percentage increases. If these were in flat scales, they would go way off the page.

One other case which is interesting is that of Norway [3] and Sweden,[4] indicating that there was a good deal of indirect trade to the continental countries of Europe. Germany,[5] of course, disappears at the bottom of the chart during this period.

The variation among the different countries is interesting, but the total is the significant thing in its impact on the United States. I might add that one other chart which is not included here is "Trade with Russia," which showed the greatest increase of our trade with any of the countries during the war period, an increase of 1,800 percent. It reached 9 percent of all our exports in 1917, then disappeared completely in 1918. That is the kind of erratic behavior which is very apt to occur during war periods, and is very disturbing for our economy.

After Russia, Norway is second, with an 800-percent increase in the value of our exports to that country.

Dr. KREPS. Do you have any evidence to show what this would be in terms of quantities, whether in terms of our labor or our commodities exported, the increase was of a similar order or was it considerably less?

Dr. THORP. We now turn to charts which I hope will answer your question, Dr. Kreps.

The next chart is entitled "Indices of Value and Quantity of Merchandise Exports, 1915–1919."

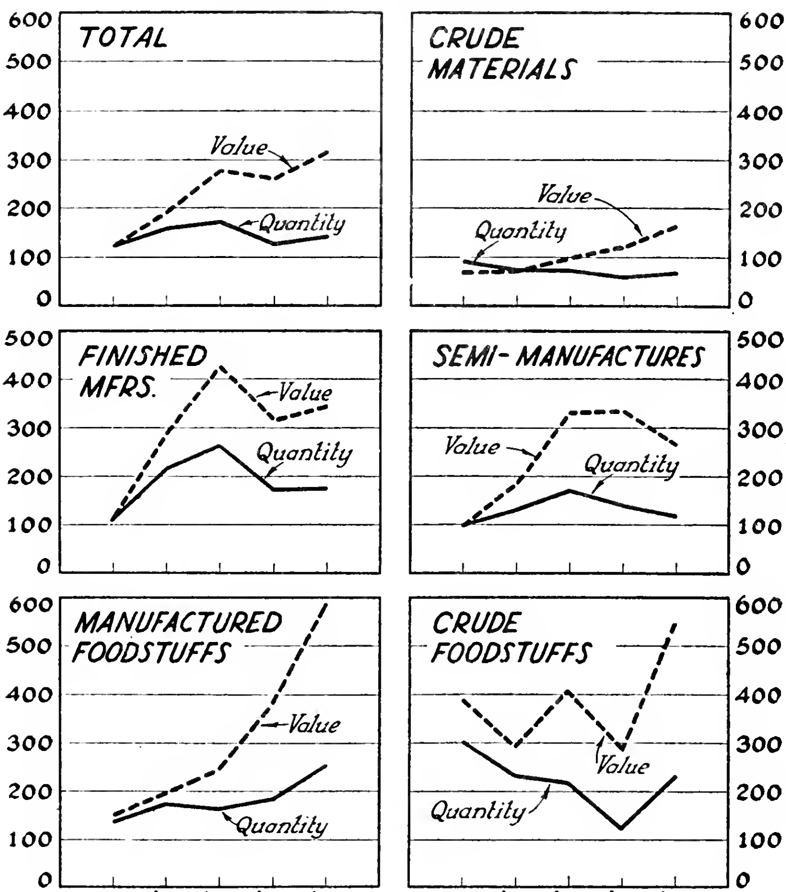
These are estimates prepared by Dr. Berridge while at Harvard and were published in the Review of Economic Statistics, and endeavor to break down this export pattern as between quantity and value.

[1] See "Exhibit No. 1479," appendix, p. 11349.
[2] See "Exhibit No. 1481," appendix, p. 11350.
[3] See "Exhibit No. 1483," appendix, p. 11351.
[4] See "Exhibit No. 1484," appendix, p. 11351.
[5] See "Exhibit No. 1487," appendix, p. 11353.

EXHIBIT No. 1489

INDICES OF VALUE AND QUANTITY OF MERCHANDISE EXPORTS 1915~1919

Fiscal year (1911-14=100)



SOURCE W. A. Berridge, Review of Economic Statistics, 1919

OD-39-304

The 100 line is the average for the years 1911 to 1914. These other lines are index numbers based upon that basis.

It is interesting to note that in the total of our exports, our big jump came almost immediately, 1915, and then as far as quantity was concerned, moved upward until in 1917 it was 171, or about 70 percent above. By 1919, the quantity had dropped off to 40 percent.

The increase in value was much greater than the increase in quantity. By 1919 the value index is 317.

(The chart referred to was marked "Exhibit No. 1489" and appears on p. 11069. The statistical data on which this chart is based are included in the appendix on p. 11354.)

Dr. THORP. It is important in this picture to realize the situation at the time of the outbreak of the war. It happens that 1914 was a very poor crop year in Europe, and an exceedingly good one in this country. The immediate impact of the war, therefore, was on our export of foodstuffs, and this advance to 1915 is greatest in the foodstuffs field, where the quantity exported in 1915 was greater than in any of the later years of the war.

You notice, on the other hand, that the quantity of manufactured foodstuffs kept moving up, and was at a higher level in the latter part of the period.

In crude materials the change is less than in any of the other indices.

It is quite evident, therefore, that the impact of the war so far as distinction between quantity and value of product is concerned, was to move the quantity of our exports up rather quickly to levels considerably above the 1911–14 leveal, and that the later advances in these totals, which you see on the other chart, came through increases in price.

It is important now to consider how this could come about. After all, here was an impact during the war period averaging three billion dollars a year on our economy, purchases by these foreign countries, and necessarily that requires on their part purchasing power. Somehow payment has to be made for such purchases on their part.

We need to think a little bit about the way in which this war in general was financed, in order to understand the whole pattern.

In Great Britain, the war expenditures were financed about one-fifth by taxes and about four-fifths by borrowing. In France, the war was financed about 1 percent by taxes and 99 percent by borrowing, including in borrowing increase in note circulation.

And in the same way we find that this demand for foreign goods was financed primarily through the credit mechanism.

I will introduce a chart entitled "Gold and Dollar Resources of the United Kingdom, France, and Canada, 1914 and 1939," and ask you at the moment to disregard the 1939 picture and look only at the 1914 picture.

(The chart referred to was marked "Exhibit No. 1490" and appears on p. 11071. The statistical data on which this chart is based are included in the appendix on p. 11354.)

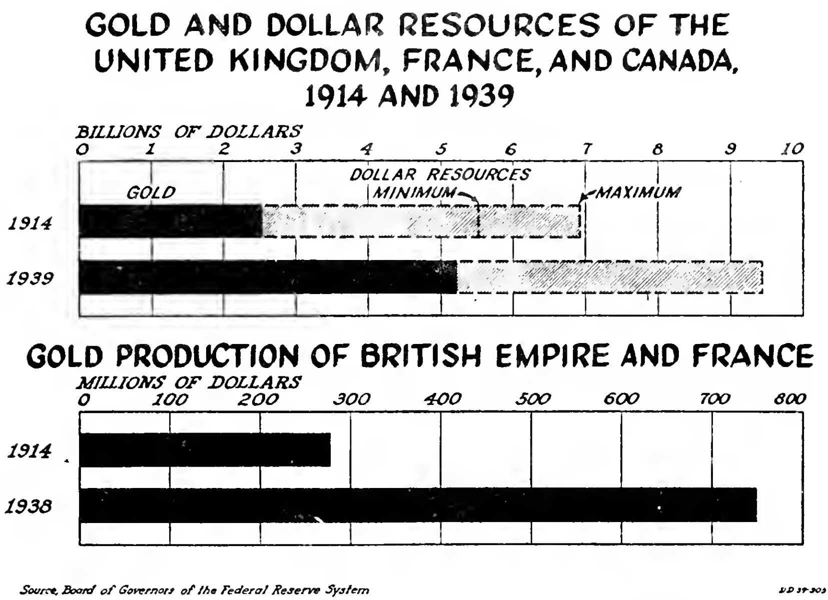
Dr. THORP. In 1914, there was about two and a half billion dollars of gold available to these countries and somewhere between three and four and a half additional billion resources, either deposits in banks in this country, American securities or other type of assets, bringing the total to somewhere between five and a half and seven billion dollars of purchasing power. To that could be added each year somewhat less than three hundred millions of new gold production.

That was available to them and it should be obvious that that was not by any means sufficient to pay for the goods which were purchased, and I can give you in some detail the actual way in which this purchasing was done.

There was about $12,000,000,000 of American goods to be paid for in one way or another. That is the net merchandise exports from the United States to these foreign countries, about $12,000,000,000 which had to be paid for.

About one billion was paid for by gold. As you know, this gold supply was not completely exhausted during the war. In addition, about two billion was paid for by the sale of American securities, so

Exhibit No. 1490



that probably about $3,000,000,000 was used out of what here represents theoretically available purchasing power.

The additional eight billion eight hundred million was financed by private and public loans made in this country to foreign countries, so that in fact the process which took place was a lending process in the United States to foreign countries, which used that purchasing power for the purchase of American goods. We were hoisting our economic productivity upward through an expansion process which in fact was taking place in this country to a very large degree.

There is one other aspect to this foreign trade picture which I am very eager——

Mr. Henderson (interposing). Dr. Thorp, did we get that money back?

Dr. Thorp. On the contrary the total volume of loans went on and became even greater after the war. We kept on financing purchases from the foreign governments. The net result was an increased volume of claims against the foreign countries in the form of bond issues, a very large part of which have gone into default and are still in default.

Mr. HENDERSON. The net effect of a large portion of that $12,000,000,000 worth was that we paid for it ourselves.

Dr. THORP. That is correct. These goods were in fact paid for in the United States, and the process whereby loans were made to the foreign countries and used by them was merely a form of entertainment rather than having any significant economic effect on later flow of goods.

Acting Chairman BORAH. We furnished the goods.

Dr. THORP. We furnished the goods, yes, sir.

Acting Chairman BORAH. And we furnished the money to pay for them.

Dr. THORP. We furnished the money to pay for them.

Acting Chairman BORAH. And we have never gotten the money back.

Dr. THORP. And we have never gotten the money back.

I mentioned the fact that the foreign countries were proceeding on a credit rather than a cash basis in financing the war, that it was done by borrowing rather than taxation. As might be expected, this was reflected in the price levels in the other countries. I will present a chart entitled "Wholesale Prices in England, France, Germany, United States," to show the way in which prices rose on these European countries as compared with the United States.

(The chart referred to was marked "Exhibit No. 1491" and appears on p. 11073. The statistical data on which this chart is based are included in the appendix on p. 11355.)

Dr. THORP. That price rise of course also had its influence upon our foreign trade, because it meant that many goods could be sold in foreign countries for a higher realization than in this country.

Mr. HENDERSON. It also means, so far as this unpaid balance is concerned, that if our price level hadn't risen so much we wouldn't have lost so much, does it not, Dr. Thorp?

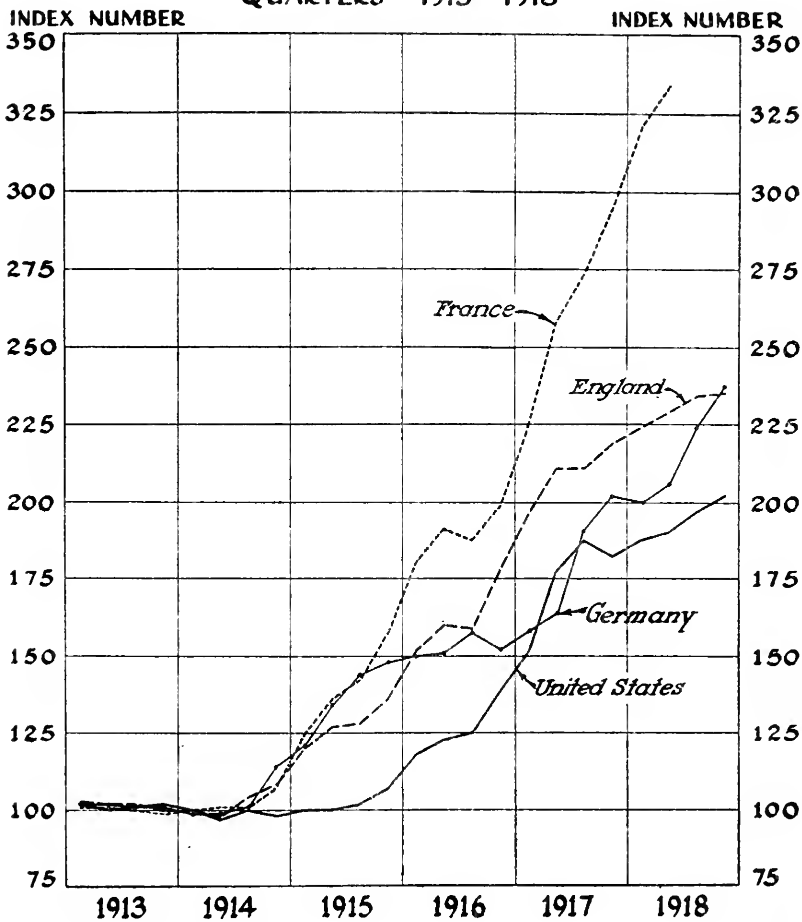
Dr. THORP. That is quite correct, yes.

Dr. KREPS. I notice that prices rose by different amounts in France, Germany, England, and the United States. Is that at all associated with the fact that France financed less of her war by taxation and more by credit, and possibly the United States more by taxation and less by credit? Particularly if you had the price level in Sweden in that period, would that show that price levels abroad and inflation abroad necessarily have their full impact on our economy? What is your opinion in that regard?

Dr. THORP. I think that is quite correct with regard to the first point which you raise. Of course it is difficult to isolate any single factor, but there is a rather close correspondence between the volume of note issues in these countries and the rise in prices. Since none of them are countries which expanded largely through bank deposits, note issues is one of the measures of what might be called "degree of inflation". There is a very close relationship between the size of the note issue and the level reached by commodity prices, and the countries which most carefully kept in balance, as did Sweden, for example, had much the lesser impact on their general price level.

EXHIBIT NO. 1491

WHOLESALE PRICES IN ENGLAND · FRANCE · GERMANY · UNITED STATES BY QUARTERS · 1913 ~ 1918



SOURCE: War Industries Board

Dr. KREPS. You don't regard this inflation that occurred and the inflated war cost, therefore, as something that had to happen? It was the result of lack of policy, or the result of policy?

Dr. THORP. I should say it was an inevitable thing to happen if one financed the war in the way in which it was financed. I don't think there is anything inevitable about the way in which any given war shall be financed, as will be evident when I talk about the current situation and the policies that appear to be those followed by the countries at the present time, policies which are very much in contrast with the policies followed during the World War.

I have spoken now about the foreign-trade demand. That represented a major stimulant to our own economy from the point of view of the producer. From the point of view of the producer of goods, there is no distinction as to whether he is producing for a foreign nation or a domestic consumer. From the point of view of the worker in the factory, there is no distinction, and as one might expect this new demand of $3,000,000,000 a year was a major stimulant.

I must mention one other external factor which appeared, coming out of our foreign relations, before I get into the domestic factors, which contributed to the price rise. It has already been touched on by Dr. Lubin [1] so I will only mention it to make sure it is in our minds. That is the fact that there are a certain number of commodities for which we are dependent on foreign sources of supply. They are beyond our own control. They are things which we buy from other countries, and when the prices of those commodities rise, there is no way in which we can defend ourselves from it or defend our price structure from it. You may have noticed on Dr. Lubin's charts the price behavior of certain of these imported commodities. That is another factor from abroad which we have to keep in account when we try to explain the behavior of our own domestic price structure.

Now I will turn to certain domestic factors, which created the demand which drove our production up to capacity, and then drove our prices on to their high peaks. First I must discuss the demand which arose out of the financial system, and thinking primarily of the commercial banks because during the War period the security markets were significant primarily in relationship to these foreign loans which we have already discussed.

You may recall that just before the beginning of the War our financial system had been reorganized into the Federal Reserve System. One of the purposes of the Federal Reserve System was not only to strengthen the banks, but to make it possible for a given amount of reserves to support a larger volume of credit. It is significant that at the same time that the Federal Reserve System was being established, we had a marked increase in gold flowing into this country. The net result was that from our own banking system there was a continual increase in funds going out primarily into the business community, new funds one can call them because they were created through the process of bank loans.

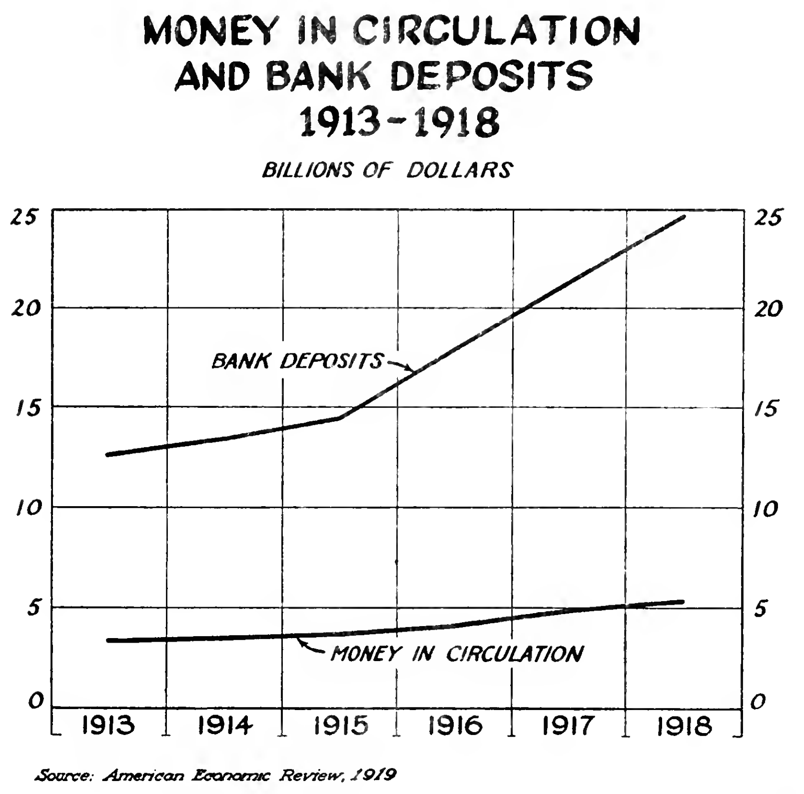
I will now introduce a chart entitled "Money in Circulation and Bank Deposits, 1913–18." These represent approximately the total deposits of commercial banks.

(The chart referred to was marked "Exhibit No. 1492" and appears on p. 11075. The statistical data on which this chart is based are included in the appendix on p. 11355.)

[1] Supra, p. 11027.

Dr. THORP. From 1913 to 1915 there was a gradual increase in bank deposits, but from 1915 on the expansion was very considerable. Over the 3 years 1915 to 1918, about $10,000,000,000 of additional bank deposits were created in the banking system. I say "were created" because these bank deposits correspond to an increase in bank loans which occurred during the period. There was also an increase in money in circulation from somewhat less than $4,000,000,000 to over $5,000,000,000 at the end of the period. This was accomplished without any major decline in the reserves in the banking

EXHIBIT No. 1492



system, partly because of the inflow of gold which we have already discussed.

One interesting aspect about this period from the financial point of view is the fact that until 1917 the expansion went on in the individual banks without any considerable recourse to the Federal Reserve System. In 1917, however, the rediscounting process came into play, and the Federal Reserve banks themselves gave a great deal of support to the total situation. It is important, I think, to realize that this expansion of bank deposits and money in circulation was a major source of new purchasing power which came in and pressed upon our productive mechanism and, inasmuch as I have already indicated we were producing at close to capacity, was diverted in its influence largely into the price structure.

I must also mention in this connection financing done by the United States Government itself. It is interesting to note that for the fiscal years 1913 to 1916, the increase in Government expenditures was from $985,000,000 to $1,034,000,000, a relatively slight increase. Government expenditures remained almost constant from 1913 to 1916, but as soon as we entered the war, the situation changed materially; Government expenditures increased tremendously, and another factor came into play, supporting the latter part of the period very strongly.

Our Federal revenue from April 6, 1917, to June 30, 1919, was $8,400,000,000, while Federal expenditures were $32,000,000,000. The gap between was represented by Liberty Loans and such things, which again provided a further source of increased demand pressing upon our economic structure.

I have now discussed three factors, the foreign export demand, the effect of price rises on imported commodities, and the expansion from the banking mechanism. I would now like to speak a moment about expansion which arose from the business community itself and from the behavior of the price structure itself.

With regard to the business community, the early years of the war were years of very high profits. The peak of profits, as I recall it, was reached in 1916. I will introduce a table into the record, "Business Savings and Net New Money Invested by Individuals," a table from the National Bureau of Economic Research, which gives some indication of the amount of profits and savings in the business system itself.

(The table referred to was marked "Exhibit No. 1493" and is included in the appendix on p. 11355.)

Mr. Hinrichs. Mr. Thorp, just to tie that back to this morning's record for a moment, may I call attention to the fact that the rise in real earnings that we were talking about was barely getting under way in 1916, which you cite as the year of very high profits. That relates to Mr. Henderson's question as to the relationship between profit volumes and some of these selected increases in wages that we saw this morning.[1]

Dr. Thorp. The cost-price situation is important not only because of the fact that within the business system itself funds became available which added to this total of demand, but also because the various elements in the price structure began to climb on each other. Raw materials and finished goods went up in sort of a hitching fashion. If one would rise the other would rise. The same thing was true of wages and cost of living, and the adjustment which was made was inevitably an adjustment of whichever was lower coming up to whichever was higher. That is a process which seems to follow through in any wide movement of prices, so that a price movement in any part of the structure is apt to encourage similar price movements at other points.

Perhaps I should note in this regard the fact that at this period of time the adjustment was not always made easily. The number of strikes increased sharply; union membership nearly doubled during the war, but wages lagged and profits grew rapidly, particularly during

[1] See "Exhibits Nos. 1458-1466," supra, p. 11038 et seq.

the early part of the period. It should be noted that this lag in wages, which would ordinarily be a drag on consumption, was probably more than offset by these demands from other sources which kept the economic system functioning even though there had been some shift within the national income so that the part taken by labor had not advanced as had some of the other elements in national income.

Mr. HENDERSON. You mean that though we had a larger amount of production and though labor was not getting an additional share, we didn't have an imbalance in the economy because we were shipping the increased production abroad and really taking it off the market.

Dr. THORP. Yes; we had such a tremendous demand from these various sources of purchasing power that I have been talking about that the normally deterring factor of delayed advance in wages was thoroughly offset by these other forces. If the situation had been more closely in balance, then the lag in wages might have been a serious factor.

INVENTORIES AND PRODUCTION DURING THE WORLD WAR PERIOD AND SINCE AUGUST 1939

Dr. THORP. I have been talking about demand. Now I wish to speak a little bit about the supply of goods.

I would like to introduce a chart entitled "Indexes of Value of Inventories, 1913-22," also a chart entitled "Indexes of Value of Inventory and Sales, 1913-22."

(The charts referred to were marked "Exhibits Nos. 1494 and 1495" and appear on pp. 11078-79. The statistical data on which these charts are based are included in the appendix on p. 11356.)

Dr. THORP. These are new indexes which have just been prepared, based upon the records of about 70 of our largest corporations during the war period.

Mr. HENDERSON. Did you make these up especially for this hearing?

Dr. THORP. Yes, these were indexes prepared at Dun & Bradstreet especially for presentation at this hearing, because I believe no one has ever had the slightest idea as to what happened to inventories during the war period. I think these give some indication of what probably happened, although they have the weaknesses of all inventory figures.

Dr. KREPS. If the question does not require too extensive an answer, could you tell us something of how these figures were put together? They are new and striking and challenge the thought of anyone interested in securing further inventory figures.

Dr. THORP. These figures are based upon the balance sheets of these companies over the period 1913 to 1922. We found that a good many companies had to be eliminated because of mergers, amalgamations, and one thing or another, but were able, in the time available, to find 69 corporations for which one could get what appeared to be consistent figures over the period. They have been broken down into groups, and the dollar figures of the corporations in each group were added together. My guess is that these 69 corporations pictured in this chart represented somewhere between 15 and 25 percent of the volume of activity during the period. That is a wild guess. Our study of inventories for the war period is not completed.

Exhibit No. 1494

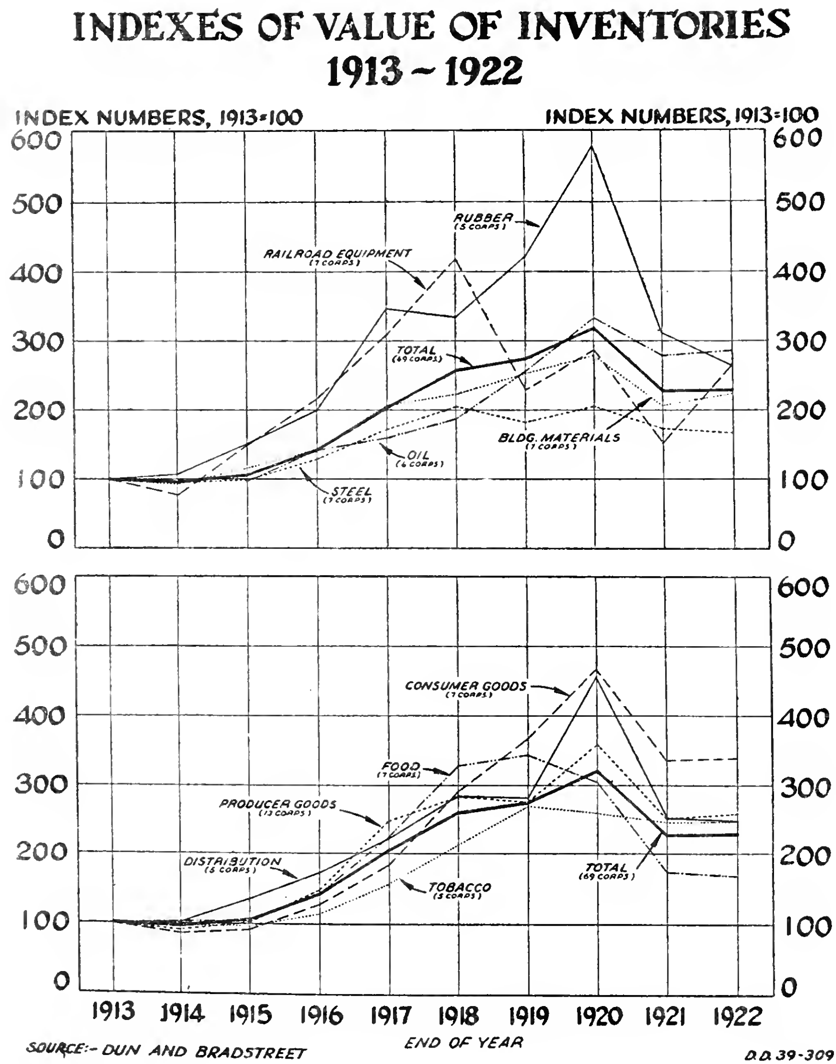
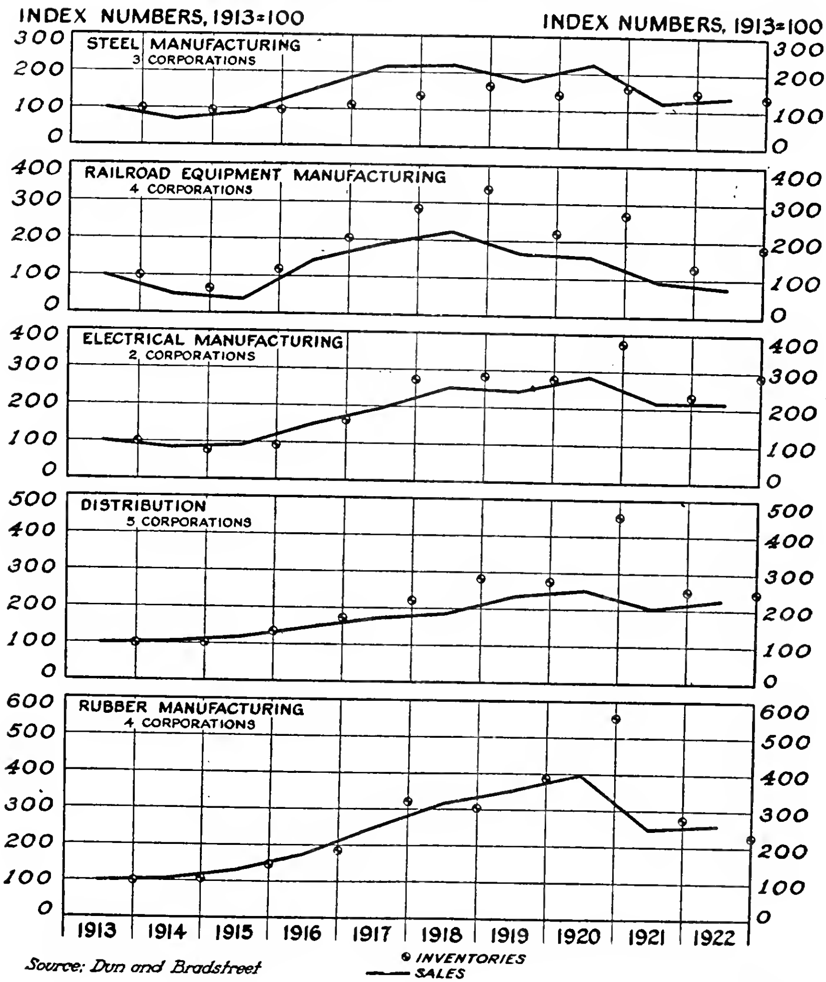


EXHIBIT No. 1495

INDEXES OF VALUE OF INVENTORIES AND SALES. 1913-1922



Source: Dun and Bradstreet

DD 39-310

I expect to publish a more complete report at a later date in "Dun's Review".

I have tried to determine what these figures mean in terms of how one would judge whether inventories had moved in any disturbing way or not. The heavy black line indicates virtually no rise in inventories, at least up to the end of 1915. I should point out the fact that these figures, though they are charted in the middle of each block, actually hold good until the end of the year, so that this point represents the end of 1915, and by the end of 1915, at which time our production had risen tremendously, there was very little increase in the inventories recorded by these companies.

We can get one interesting check as against this point in 1919. The production, the value of production, for all manufacturing industries in 1919 was 160 percent above the 1914 point. The inventory point here as given is 170 percent above the 1914 point. Inasmuch as there is no effort made to weight these figures in the same way that the Census of Manufactures is weighted, I would feel that a variation of 10 percent is not significant, and that one can at least say that during this period, during the early part of the period and the level reached by 1919, there is no indication that our economy piled up any appreciable degree of inventory.

I think that is not unreasonable. After all, we were operating near capacity. Goods were moving as fast as they could. The only way one would expect inventories to appear would be if we were so out of balance that certain parts of the economy piled up goods while other parts did not.

I think if one examines the individual industries here pictured, he can see some interesting points. Here is a rapid rise in inventories in railroad equipment. That illustrates one characteristic of inventories, however, that in the inventory figures as kept by our corporations are included goods in process, so that if a railroad equipment company is building locomotives, its inventory increases steadily as the locomotive gets more and more built, until it finally, at the moment of delivery, has an inventory of a complete locomotive. The result is that if the railroad equipment industry is busy, it will inevitably have larger inventories until it reaches a point where its deliveries are as rapid as its new construction.

I would like to call your attention to the year 1920, although I haven't been talking about the post-war period at all. We have a peak reached in inventories, at the end of 1920, notably in two lines. One is the line for distribution, which represents certain large retailing corporations, and the other is the producers of consumers goods. I think it is interesting to note that at that final point, when the price increase ended, it was the people nearest the consumer who seemed to have been caught with the largest inventories. That, of course, means that we reached a point where goods were no longer moving into consumers' hands and pressure was developing which in large part contributed to ending that period.

Now, turning to the other picture of inventories, in a few cases we were able to get inventory and sales figures. For three steel manufacturing corporations it was possible to get those, and as you will notice here, the inventories on the part of the steel companies showed very little advance considering the rise in sales during the whole war period.

On the other hands, railroad equipment, which I have already discussed, had inventories appreciably higher than at the beginning of the period. You will notice that inventories were piling up in the distributing corporations' hands throughout the period, and reaching a peak in 1920.

I would summarize this material, though, as indicating that there is no clear-cut evidence that during this war period inventories in general expanded either prior to or beyond the requirements of increased production.

Mr. AVILDSEN. Dr. Thorp, all these inventory figures are in dollars and cents values, and in actual quantities the increases would not have been as great, I judge.

Dr. THORP. That is correct; these are all in dollars and cents values.

Mr. AVILDSEN. You show an increase there of perhaps 200 percent.

Dr. THORP. If one however, compared the sales and inventories, the sales were also in dollars and cents values, so that the price impact would appear both on inventories and sales, and to that degree cancel out when comparing those two lines.

Mr. AVILDSEN. But the physical increase in inventories is not as great as these charts indicate, due to the price rise.

Dr. THORP. That is correct.

Mr. HENDERSON. On the other hand it probably indicates that there was very little increase, as I understood that rough deflation you pointed out.

Dr. THORP. My guess would be that there was no physical increase of inventories during this period.

Mr. AVILDSEN. I notice Dr. Lubin's chart shows that all commodities in 1919 had advanced to 220 from 100, an increase of 120 percent,[1] but your inventory increase was greater than that, I believe. What was it—up to 300 percent, in the chart you just had there? Yes; it is slightly over 300 percent, an increase of over 200 percent, as against a price increase of 120 percent. Is that true?

Dr. THORP. Which year are you considering now?

Mr. AVILDSEN. I am taking your chart, 1913 to 1922. Sixty-nine corporations went from 100 to a little over 300, an increase of 200 percent.

Dr. THORP. Yes.

Mr. AVILDSEN. And the all-commodity price chart of Dr. Lubin shows that the price of all commodities went from 100 in 1913 to 240, or 220, in 1919, an increase of 120 percent.[2]

Dr. THORP. That is right. I think, though, you ought to also take into account the fact that production was probably up about 25 percent, so that goods in process, necessary raw materials and so forth, would just about balance up for the difference between those price indexes.

Dr. KREPS. This may anticipate something you are going to cover, but I notice the inventory in the World War neither rose early nor precipitately. Is the same true this time?

Dr. THORP. This is a very different pattern from the current pattern of our inventory record. I intend to introduce that in the record a little later.[3]

[1] See "Exhibit No. 1451," supra, p. 11024.
[2] Ibid.
[3] Subsequently entered as "Exhibits Nos. 1510 and 1511;" see infra, pp. 11109 and 11111.

Now we turn to the problem of capacity and increased supply of goods, the degree to which the tremendous demand which I have been discussing was reflected in increasing our production and in increasing our capacity. There are a number of cases where one can clearly see a tremendous reaction to the war demand. For instance, in the machine-tool industry, in 1914 there were 30,000 employees; in 1918, 77,000 employees; in the chemical industry, an increase from 300,000 employees in 1914 to 436,000 employees in 1919.

One of the very striking increases during the war period was in the automobile industry. I am not at all sure that one can attribute this specifically to the war. It happened that the automobile industry was then just reaching maturity, and therefore you get this kind of picture. In 1914 we produced half a million cars, 25,000 trucks; in 1915, 900,000 cars, 74,000 trucks; 1916, a million and a half cars—2 years up 3 times, you see—and 92,000 trucks, 3½ times up in trucks; in 1917, 1,700,000 cars, 129,000 trucks.

So that there were at a number of points in our economic system very rapid expansions in output taking place. In the cases of machine tools and the chemical industry one can clearly attribute that to the war. In the case of the automobile industry the war may have had some influence, but it merely happened to coincide with the war period in its growth.

At the other end is the construction industry. Where the rate of construction had been rather high during the pre-war period, during the war period construction was carried on at a relatively low rate. One would expect that under these circumstances of demand there would be a rapid increase in the supply of goods, and I wish now to introduce some illustrations of what happened at certain points in the economic system with regard to an adjustment to these higher prices and to production. This will indicate rather specifically in particular cases the reply to the question raised by Commissioner Henderson with regard to the relationship between price, capacity, and production.

Let's start with farm crops. I think it is the general impression that during the war there was a rapid expansion in acreage. As a matter of fact, the total expansion during the period from 1911–13 to 1919 was 10 percent in acreage. The production varied, as it always does, from year to year, largely depending upon the conditions of that year. In 1915 prices were still at about the same level, but in 1916 they began to rise and had doubled by 1917. There was an increase in acreage, as I said, of 10 percent, most of which occurred in 1917 and 1918.

(The chart referred to was marked "Exhibit No. 1496" and appears on p. 11083. The statistical data on which this chart is based are included in the appendix on p. 11357.)

Dr. Thorp. These high prices continued on through 1919 and 1920, having undoubtedly some influence on acreage but no apparent extra influence resulting from that extremely high level.

One can see that also by looking at certain specific crops.

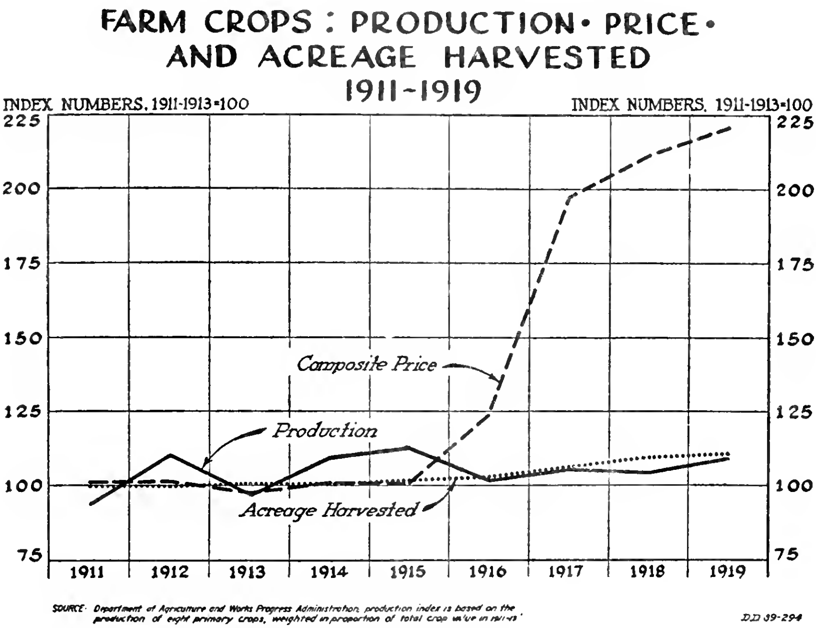
Here is the chart for cotton acreage, production and prices; acreage harvested during the period, if anything, has a slight downward tendency in cotton. It was very low in 1915 and came up to '18 and then dropped off again. Production, as you can see, was a good deal lower through the whole war period. The price, on the other hand, advanced tremendously.

(The chart referred to was marked "Exhibit No. 1497" and appears on p. 11084. The statistical data on which this chart is based are included in the appendix on p. 11357.)

Dr. THORP. The same sort of picture appears for corn; in this case not until 1917 do you get a really big price advance; in spite of the fact that the price went on still higher in 1918, the acreage harvested declined.

(The chart referred to was marked "Exhibit No. 1498" and appears on p. 11085. The statistical data on which this chart is based are included in the appendix on p. 11357.)

EXHIBIT No. 1496



Dr. THORP. Wheat is one case in which one does see a very decided reaction, although it is a rather curious one. This early period of price advance paralleled a decline in acreage harvested, but then acreage advanced very sharply during the 2 years at which prices were at a high level. Of course it must be remembered that when one is studying individual crops, increases take place by transfer of use of land from one crop to another, and do not necessarily affect the total agricultural acreage.

(The chart referred to was marked "Exhibit No. 1499" and appears on p. 11086. The statistical data on which this chart is based are included in the appendix on p. 11358.)

Dr. THORP. Perhaps at this point I might indicate that the disturbance in agriculture was perhaps more the impact of these higher prices on land values than on the acreage harvested itself. If we had a chart for land values one would find them going up into the 1920's

EXHIBIT No. 1497

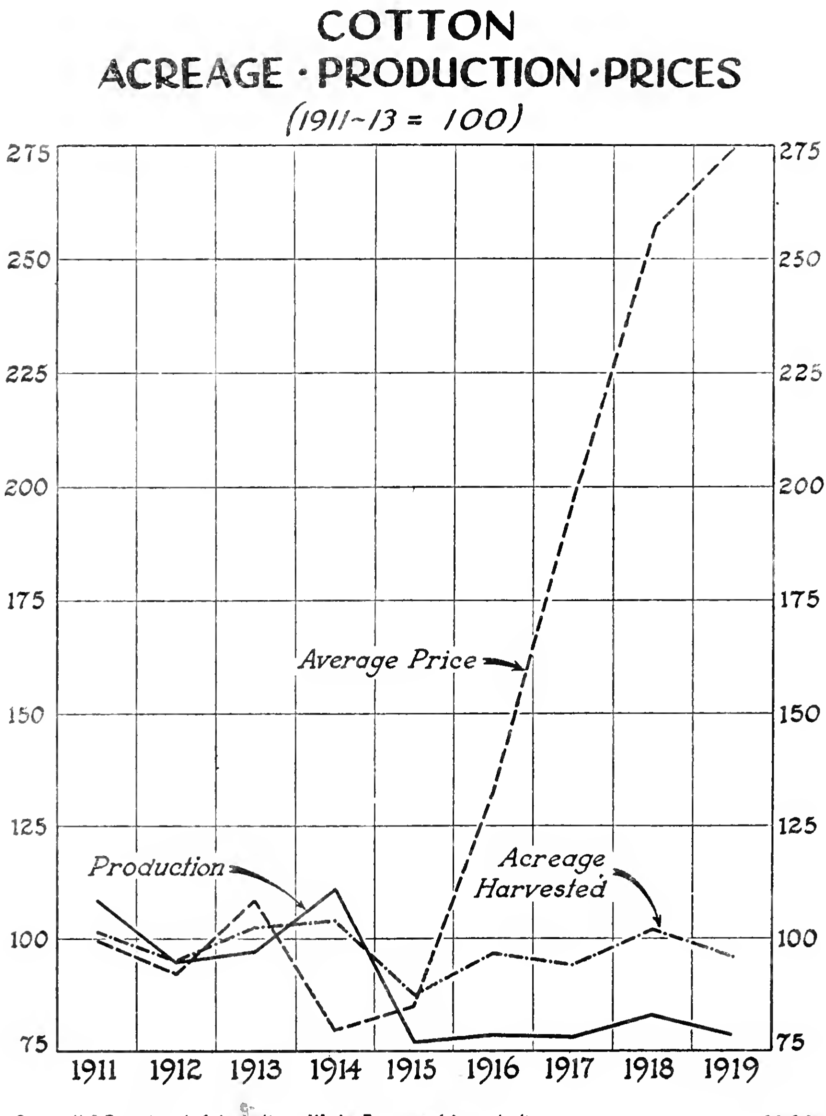


EXHIBIT No. 1498

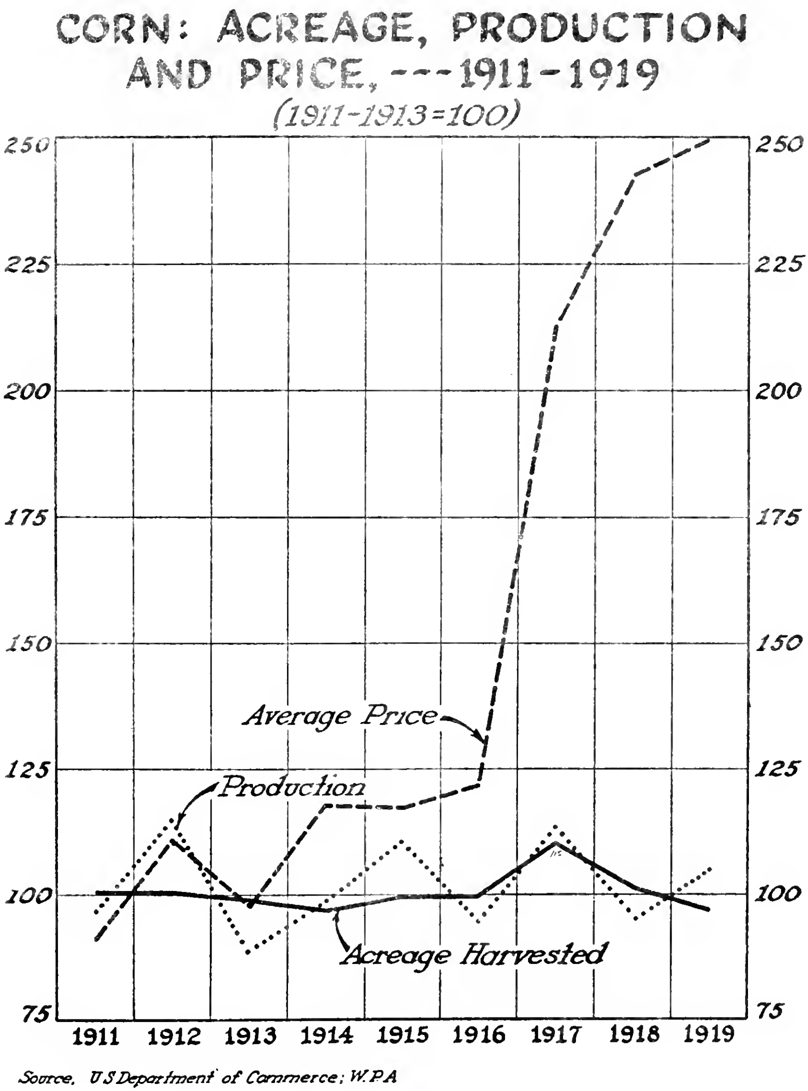
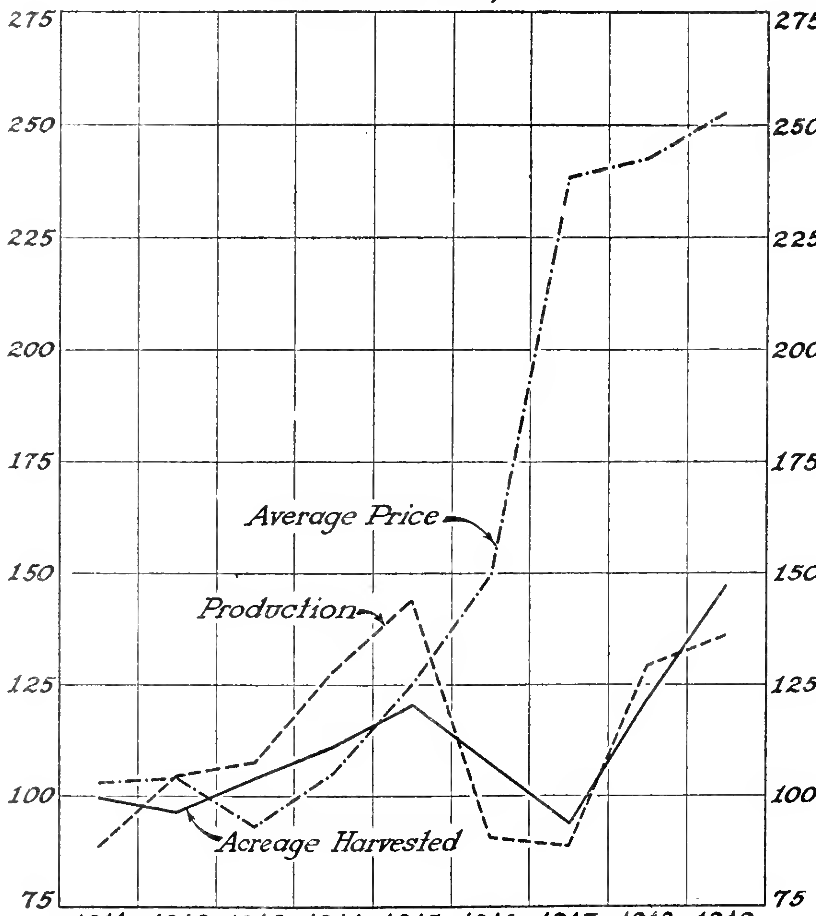


EXHIBIT No. 1499

WHEAT: ACREAGE • PRODUCTION • PRICE • 1911~1919

(1911-13 = 100)



Source, U S Department of Agriculture; W P A

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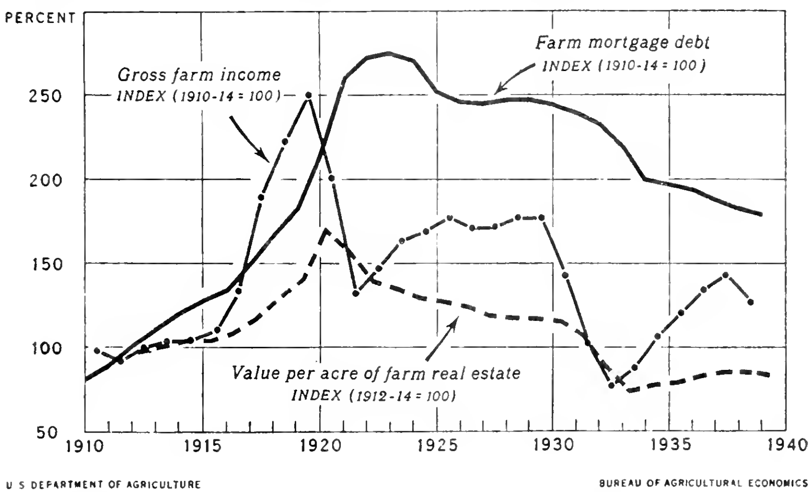
very decidedly, reflecting these high prices. What actually happened to the farmer was that he found himself not with so many more acres of land as with a great many dollars of land value—represented too often through mortgage values.

In order to make that clear, perhaps I might introduce into the record a chart which you have not been given, "Farm mortgage debt, value per acre of farm real estate, and gross farm income, 1910–39," in which one can see that the farm mortgage debt kept on increasing until 1923. The value per acre of farm real estate reached its peak in 1921.

(The chart referred to was marked "Exhibit No. 1500" and appears on this page. The statistical data on which this chart is based are included in the appendix on p. 11358.)

EXHIBIT NO. 1500

FARM MORTGAGE DEBT, VALUE PER ACRE OF FARM REAL ESTATE, AND GROSS FARM INCOME, 1910-39



Dr. THORP. There are certain other industries for which we have material which indicates what happened relative to price and production, and I will introduce the "Composite monthly price of finished steel, monthly steel ingot production and annual steel capacity, 1914–19."[1]

(The chart referred to was marked "Exhibit No. 1501" and appears on p. 11088. The statistical data on which this chart is based are included in the appendix on p. 11358.)

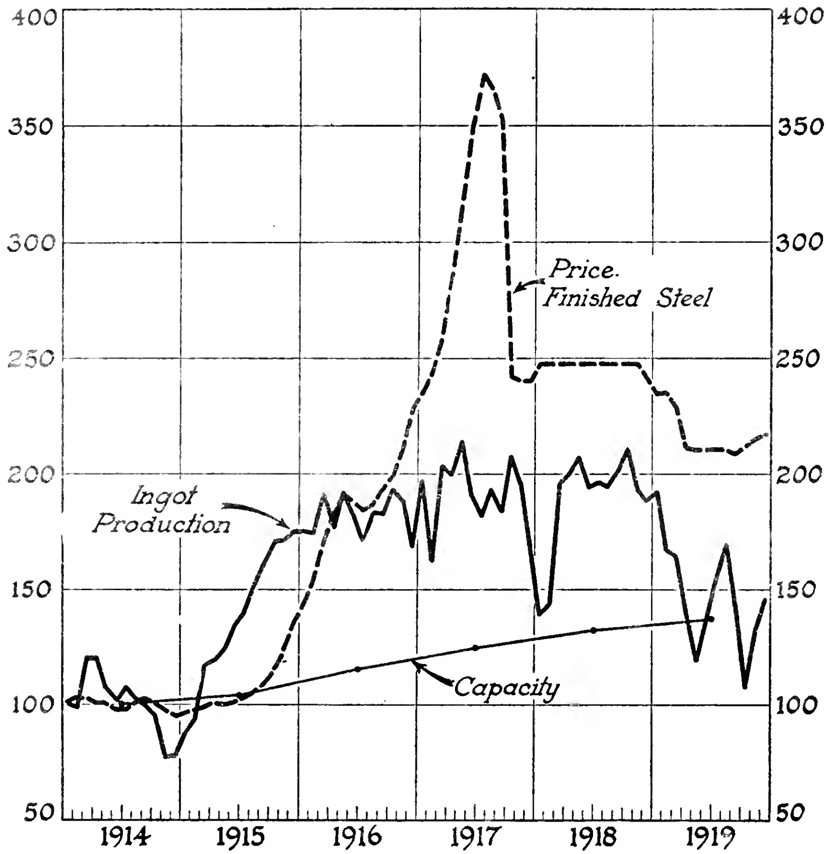
Dr. THORP. If one starts at this point in 1914, the rise of production started early in 1915 and reached a level which is quite evidently somewhere near capacity; a line moving fairly flat across the chart here can be taken to indicate about where capacity is. It moved up to capacity, and at about the time that production reached that capacity level the price advance begins. I think it is a very clear illustration of the point which I suggested earlier, that the first impact of this demand coming in from these various sources was on production, that when production got up somewhere near capacity, then it was

[1] Hearings on the iron and steel industry are included in Hearings, Parts 18, 19, 20, 26 and 27.

EXHIBIT No. 1501

COMPOSITE MONTHLY PRICE OF FINISHED STEEL • MONTHLY STEEL INGOT PRODUCTION AND ANNUAL STEEL CAPACITY • 1914–1919

Index Numbers • 1914 = 100



Source: Iron Age: American Iron and Steel Institute

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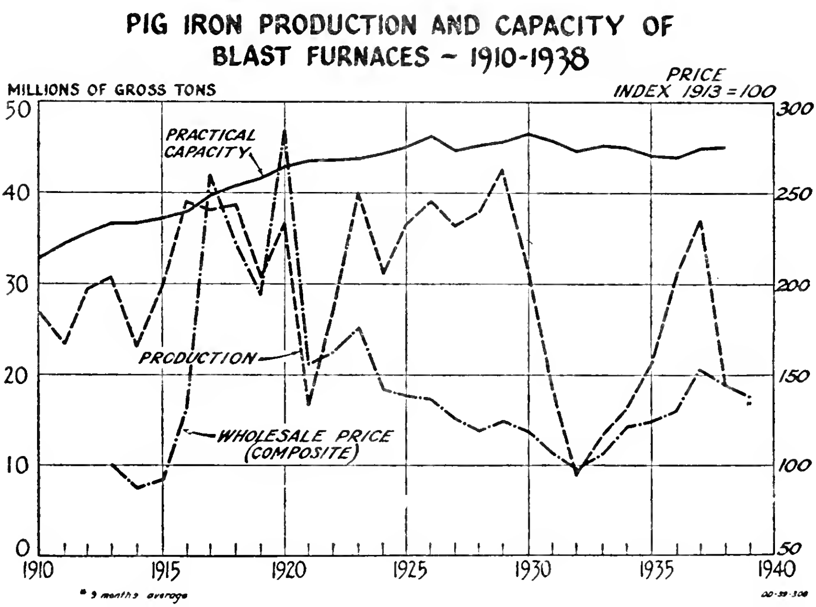
transferred over into the price field and we got these tremendous price advances.

This capacity line is also put with 1914 as 100. That is why one has the curious effect of having capacity below production. The capacity line moved on upward. During the period 1914–19 there was an increase of 37 percent in steel capacity. The line moves up very smoothly. It starts up in 1915 and its biggest jump is from 1915 to 1916. There is nothing which could be regarded as a reflection of the wide swings in price. I suspect that the increases in capacity depended much more on the volume of orders on the books than on the price at which those orders were placed, that if the price pattern had moved along at this level there would probably have been about the same capacity picture. These increases in price from the point of view of the economic factor of attracting any capacity at any rate do not demonstrate any close connection on most of these charts. There are certain exceptions.

I now introduce a similar chart on pig iron capacity and capacity of blast furnaces.

Exhibit No. 1502

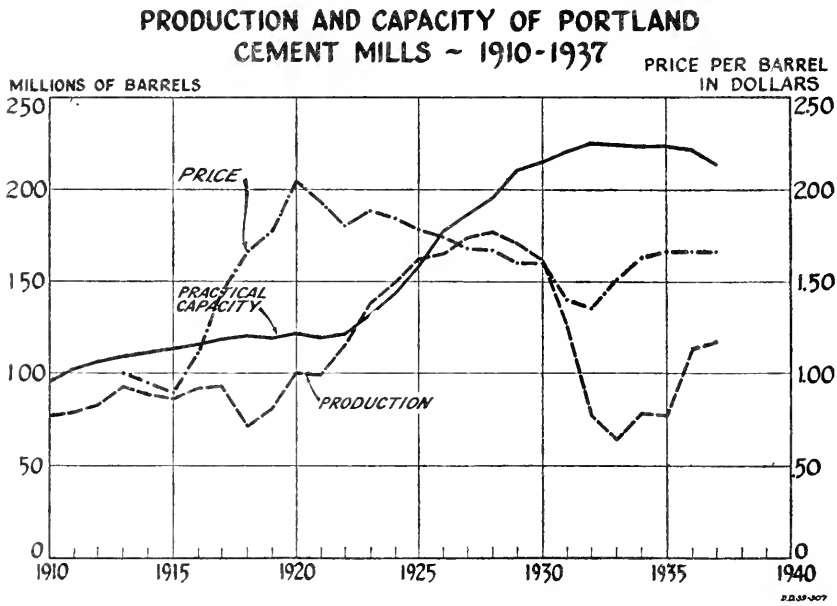


(The chart referred to was marked "Exhibit No. 1502" and appears on this page. The statistical data on which this chart is based are included in the appendix on p. 11350.)

Dr. Thorp. This is over a long period of time. You will have to concentrate a little bit to pick out the war period. The wholesale price is this line which moves up so rapidly. The production line, as you can see, just as in the case of steel, moved up first, and the price line came up later. In this case, production crossing the capacity line is a phenomenon which can happen because it is practical capacity rather than theoretical. This capacity was expanded somewhat, as one can see, during the war period. The impact of demand, again, is chiefly on price.

Here we have another long range chart on Portland cement. We can use this even beyond the war period because it gives even a clearer picture of these relationships of which I have been talking. Here is the price rise from 1915 to 1920. You will notice that capacity was advancing slightly during the period. Then we get a period of price decline from 1920 to 1933. Yet during that period of price decline we have this period of great advance in capacity and great increase in production. Of course, anyone would at once exclaim, "That is why the price declined, because there was that tremendous increase in production and in capacity, and that is the way in which the forces worked at this time," but the fact remains true that the idea that

Exhibit No. 1503



rising prices will stimulate new capacity seems to be difficult to fit in perfectly into that pattern.

(The chart referred to was marked "Exhibit No. 1503" and appears on this page. The statistical data on which this chart is based are included in the appendix on p. 11360.)

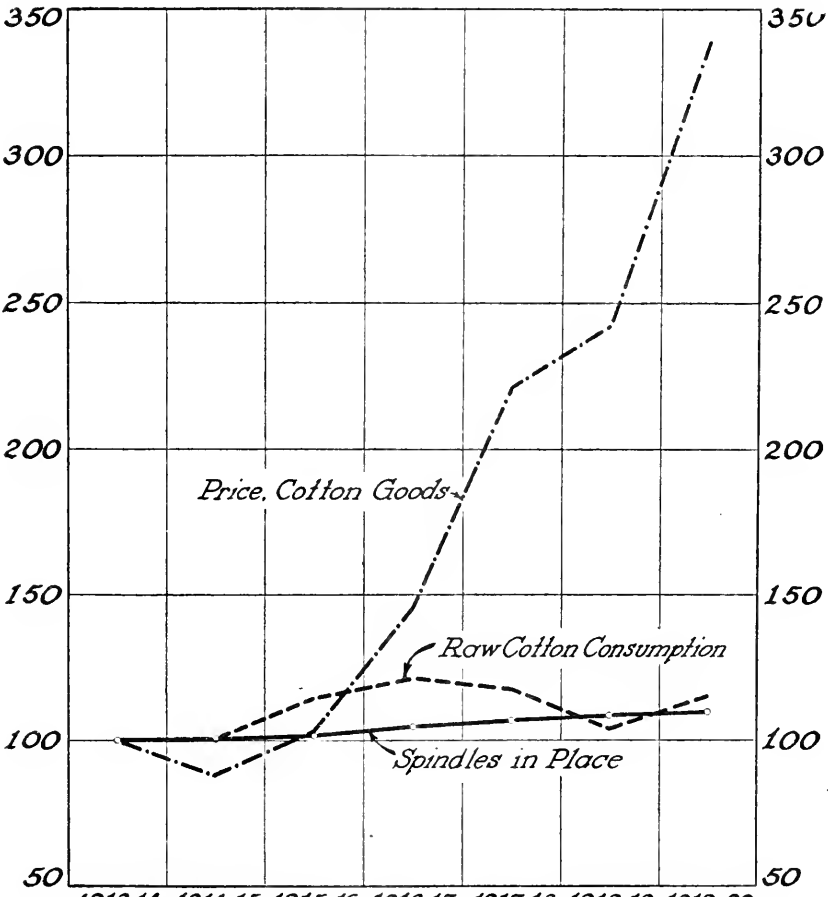
Dr. Thorp. Here we have cotton-mill activity and price of cotton goods from 1914 to 1920. Raw-cotton consumption is taken as an index of production shown by cotton mills. This is cotton consumption by cotton spindles. In this one there is a rise in the cotton-goods price up to 350 in 1919–20, an increase in cotton spindles over the whole period of 9 percent. Again one sees that the rise in cotton spindles comes along in the early part of the period and is perhaps not as active thereafter.

(The chart referred to was marked "Exhibit No. 1504" and appears on p. 11091. The statistical data on which this chart is based are included in the appendix on p. 11360.)

EXHIBIT No. 1504

COTTON MILL ACTIVITY AND PRICE OF COTTON GOODS 1914-1920

1913-14 = 100



Source. U S Department of Commerce, U S Bureau of Labor Statistics

DD39-303

Dr. THORP. In order to be sure that we have this general point of business expansion in perspective, I have brought back several of the charts which I used in testifying before this committee once before, and I should just like to point out one other factor very briefly. I would like to indicate that on all these charts one finds it is hard to see that in this war period, which stands out so tremendously in the price charts, will stand out appreciably in the production charts or in the new capacity charts. You remember the first chart Dr. Lubin introduced into the record showed certain points of extraordinary price change—three very sharp peaks at war periods.[1] Nothing like that appears at all in the production records of industry, and therefore I think it supports the thesis that this price performance is a performance somewhat independent from our production performance in that once capacity is reached, output responds but slowly, however great the further increases in price.

Here is a chart giving the consumption of various textile fibers, and if we pick out the war period here, one finds it very difficult to distinguish from any other 5-year period on the chart.[2] Here are production and imports of sugar, which one would expect might be quite disturbed by the war period. Taking those same years here are the sugar shipments to continental United States, our own beet-sugar production, and our own cane-sugar production; one would never, in looking at that chart, pick out that particular period as being a period of any extraordinary performance.[3]

Here we have production of fuels on a long-run basis, taking the war period as it falls in here; natural gas and bituminous coal and petroleum, all of them seeming to conform fairly well to the trend.[4]

If anything, there was a sharp stepup in natural gas, which then flattened out through the rest of the period, but the unusual expansion was the expansion early during the war period.

Finally, here is the production of wagons, buggies, passenger cars and trucks, because I have already mentioned the automobile industry. Here is our war period, from 1914 to 1920. You can see that the increase had been pursuing its course for some time, and that the war period perhaps was flattening out even though it is very considerably above any earlier level.[5]

The one case that may be significant is that the war may have hastened the end of the horse-and-buggy period. At least the buggies and public conveyances seem to have met their doom during the war period, along with the cavalry.

Dr. KREPS. One particular matter I would like to call attention to. These are logarithmic charts, aren't they?

Dr. THORP. Yes, these are logarithmic charts, and that would mean that what might appear to be a relatively small increase in automobile production, might be a very considerable production in number of cars.

Dr. KREPS. I was looking back at the "Woolens" chart,[6] and I notice in 1913 and 1916 that apparent wool consumption rose rather considerably, from 450, I judge roughly, to about 700 million pounds. As you say, the percentage increase isn't any different from previous

[1] See "Exhibit No. 1450," supra, p. 11023.
[2] See "Exhibit No. 78," Hearings, Part 1, p. 144.
[3] See "Exhibit No. 77," Hearings, Part 1, p. 143.
[4] See "Exhibit No. 76," Hearings, Part 1, p. 142.
[5] See "Exhibit No. 75," Hearings, Part 1, p. 141.
[6] See "Exhibit No. 78," Hearings, Part 1, p. 144.

periods. There are previous periods, in fact, which are even greater, but the absolute changes are perhaps fairly large.

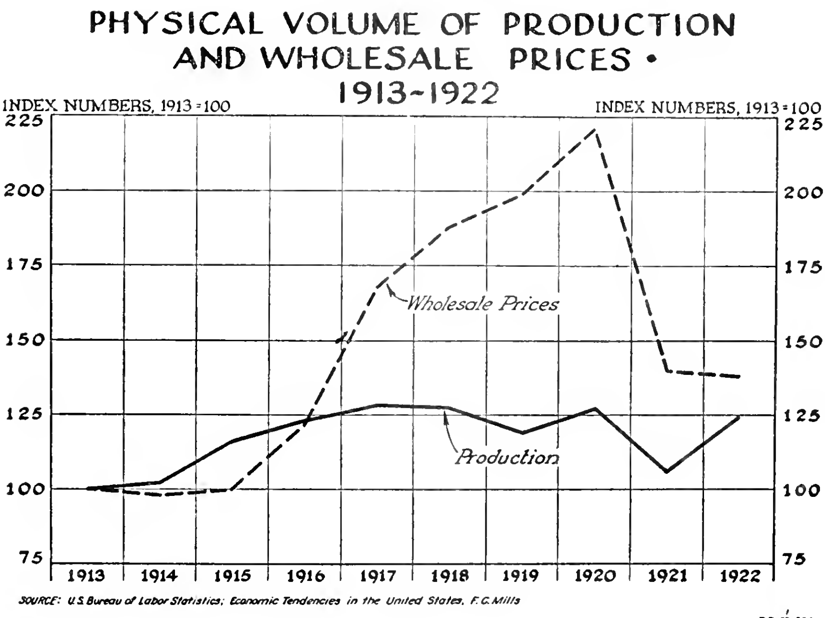
Dr. THORP. It is important to realize that wool is a commodity which does have an unusual war demand, and would be much more apt to reflect the war period than most commodities.

I think perhaps all this can be best summarized in two charts, which will show the total of all these effects during the war period.

I might have started with this chart. It shows the index of production, physical volume of production, and the wholesale price pattern during the war period.

(The chart referred to was marked "Exhibit No. 1505" and appears on this page. The statistical data on which this chart is based are included in the appendix on p. 11360.)

EXHIBIT No. 1505



Dr. THORP. You will notice that the big increase in 1915 was in the production line, moving up to 16 percent above the 1913 level, while prices had not yet started to move. From that point on, there is increase in production, but the high point of 128 in 1917 is not as much above 1916 or even 1915, as 1915 was above 1914, and from 1917 on, if anything, our production fell off a trifle.

There are a number of reasons, of course, why it should. The diversion of manpower into the war itself, and the emergence of bottlenecks in transportation, the increased number of strikes, and other factors tended to keep us at or below this level reached in 1917.

And the demand which I have talked about, the demand from abroad, the purchasing power out of our financial structure from our Government expenditures, from business profits, were reflected from

1915 on, and particularly after 1917, in causing these tremendous increases in wholesale prices.

This is another way of telling the story on national income, 34 billion dollars in 1914, against some 66 billions dollars, and our exports, which appear pretty far down this chart were nevertheless a very considerable part of our total. Our exports were 8 billion dollars in 1919 as compared with a national income of 66 billion, and 4 billion net exports.

(The chart referred to was marked "Exhibit No. 1506" and appears on p. 11095. The statistical data on which this chart is based are included in the appendix on p. 11361.)

Mr. HENDERSON. If you take the line of physical production on that chart,[1] and put the price level with it, you would have an explanation of why the national income rose.

Dr. THORP. That is right. I think one can quickly summarize and find that this rise of national income was to a very large degree the reflection of the price chart rather than increases in production.

Mr. HENDERSON. It is just bigger dollar signs, is that all?

Dr. THORP. While they are not strictly comparable, there is no difficulty about making rough calculations.

Mr. HENDERSON. If you had an increase in the wholesale price level right now of 100 percent, the national income would probably be at least 50 percent more in dollar marks.

Dr. THORP. Yes, certainly.

Mr. HENDERSON. So that with a 68 billion dollar estimated 1939 income, you would be rather close to the 100 billion dollar mark, but that wouldn't change the fact that the volume of goods available for a citizen has not increased.

Mr. AVILDSEN. Dr. Thorp, would you say that the rise in wholesale prices, without change from production, reflects a situation in which the buyers of the commodities anticipate that there can't be a very great increase in production, and therefore give more for the goods in the face of increased demand? In other words, isn't the very fact that they know the steel mills can't double their output overnight, isn't that the reason they bid more for steel, and that causes the price to rise?

Dr. THORP. Yes; this is a pyramiding of price which to a very large degree comes from competitive bidding. Of course, it is hard to distinguish the processes, because in many cases the prices are determined by the seller in terms of what he believes to be the willingness or attitude of these buyers. The net effect, of course, is that there must be such a demand or the prices cannot be sustained at these higher prices, so that the buyers are a party to it quite as much as the sellers are.

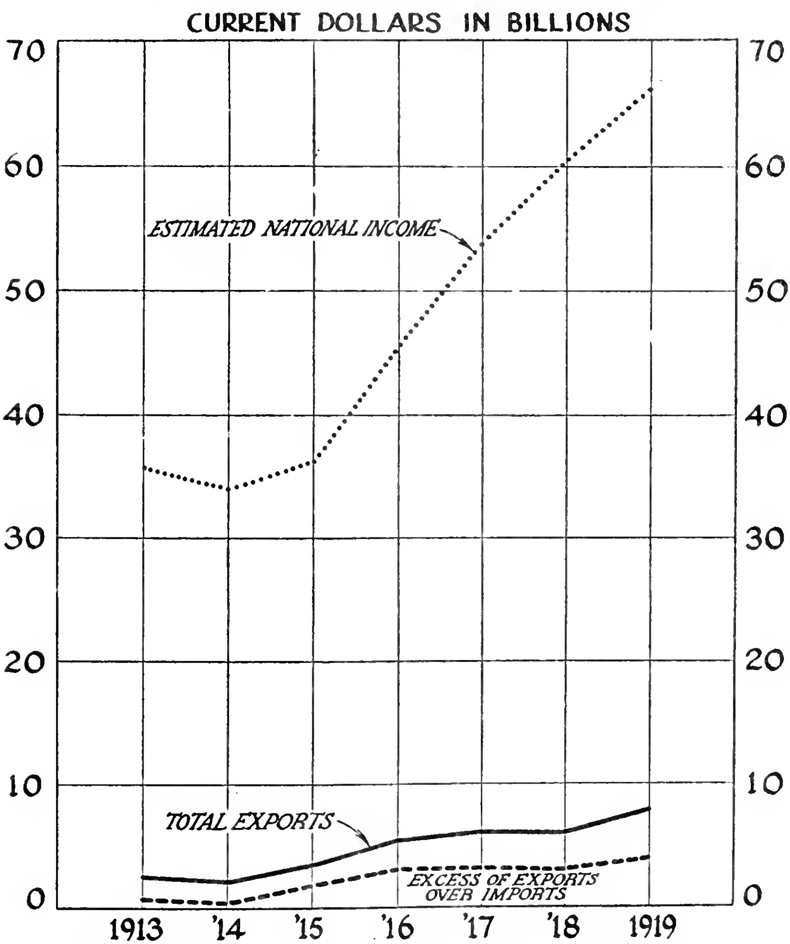
Mr. HINRICHS. Isn't it partly the way of converting butter into cannon? By 1917 your production index indicates we were operating about at our capacity levels, and yet there was a demand for getting more out of our economy to blow up. We had to take it away from somewhere, and the answer was that sufficient rises in price will take it out of domestic consumption and put it in the trenches.

Dr. THORP. That is right. This becomes a way of doing something about all this purchasing power, and a way of adjusting the facilities

[1] Referring to "Exhibit No. 1505", see supra, p. 11093.

EXHIBIT No. 1506

NATIONAL INCOME • TOTAL EXPORTS AND NET EXPORTS • 1913–1919



SOURCE U S Department of Commerce; National Bureau of Economic Research.

DD-39-295

of the country according to, you might say, the bidding processes of various purchasers, various users.

Mr. AVILDSEN. I know, for instance, in the bolt and screw business in the Middle West in that period, a number of the small manufacturers had contracts to sell a certain type of screw at $3 a hundred, we'll say. Well, they told me that they weren't filling those contracts at that price, because jobbers and speculators would come to them and offer them $10 a hundred for the same thing, so they would tell their customers, we can't ship on that contract, we can't get the raw materials. They, in turn, had orders with steel mills for steel at low prices, for steel which they couldn't get delivery on, and they would pay some other steel mill a higher price. There was no collusion at all between producers, but it was all due to this bidding on the part of the buyer.

There is nothing in the antitrust laws that would seem to me would ever prevent a thing like that happening all over.

Dr. THORP. There is a further factor in that, namely, the fact of people who fear they may not be able to get all their orders, multiplying their orders, perhaps ordering five times what they need, in the hope that they will get one-fifth of their orders from each supplier, which creates an artificial appearance in the market of demand, which is in no sense real.

Dr. KREPS. Your inventory figure shows that the inventories were largely held by these corporations, and of course you had chaotic governmental buying on the part of the allied governments and our own Government, so that in reality industrial and governmental buyers were pyramiding orders, and causing chaos in the market, with consumers, certainly a number of them, unable to make their dollar stretch as far as it had before.

Dr. THORP. I think Dr. Lubin indicated the fact that there was no tremendous purchasing on the part of consumers, at least not by Government employees and wage earners. The demand was quite a different sort of demand, as you indicated, and not so much a demand for consumers goods as it was for the heavier types of things which are used more directly in prosecuting a war.

Dr. KREPS. Which would indicate that the corrective would lie along more intelligent governmental buying, and more intelligent industrial buying.

Mr. AVILDSEN. And perhaps more information for the industrial purchasing agent as to actual conditions, which would prevent speculation, because that is what it gets down to, pretty much. It is speculation.

Mr. AVILDSEN. Rather than collusion on the part of the producer, speculation on the part of buyers.

Dr. THORP. That probably would have to be solved commodity by commodity.

Mr. AVILDSEN. That is true, but in a great many commodities——

Dr. THORP (interposing). In a great many commodities it is speculation, in a good many it is collusion, in a good many it is probably both.

Mr. AVILDSEN. For instance, in the steel industry today, I understand many of the small mills are selling steel substantially above the price of the United States Steel Corporation, because they can make delivery. Buyers are bidding on the basis of such deliveries.

Mr. HENDERSON: Before you go on, along the lines of Mr. Avildsen's question coupled with what Dr. Hinrichs has pointed out, I think what he said is true about the bidding up of prices by inflated demand.

I think also that the record of prices in the war period and the period before America got into the war will show that the controlled commodities were able to take greater advantage of that increased demand and that pretty largely, as in other price rise periods, the price rises were greater in the controlled commodities than they were in those where ordinarily prices are competitive.

Dr. KREPS. You would certainly agree, wouldn't you, that competing sources of supply make it much harder for speculators to pyramid prices.

Dr. THORP. Yes, I don't see how one could argue the point. One of the characteristics of control is the ability to take advantage of any market situation for advancing prices.

Now we can, with this background, turn to the present situation. I hesitate to try to discuss exactly what may happen in terms of the reproduction of this pattern because one has to make so many assumptions about the character of the war that is being fought, but I am willing to do the best I can, and I hope you will all realize that there has to be a certain number of assumptions in any discussion of the degree to which these factors which I have been analyzing may influence the situation in the near future.

Mr. HENDERSON. What you are saying is that you are going to do a piece of intellectual neck-sticking-out. Isn't that what you mean?

Dr. THORP. I'm afraid so; yes.

As background for the present situation, I would like you to look at the chart entitled "Monthly Indexes of Industrial Production by Major Types, 1935–1939."

(The chart referred to was marked "Exhibit No. 1507" and appears on p. 11098. The statistical data on which this chart is based are included in the appendix on p. 11361.)

Dr. THORP. One important thing about the World War was that it began when we were sliding down into a period of depression, and the net result was that there was a possibility of considerable expansion and improvement before one reached a situation of pressure.

This chart indicates the serious depression of 1938, in which production had dropped from somewhere in the neighborhood of 118 or 120 on the index number down to below 80. There was an improvement in production in the latter part of 1938, some decline during the first months of 1939, but from the early summer on an improvement which, toward the latter part of 1939, was very marked. The index is now in the neighborhood of 124.

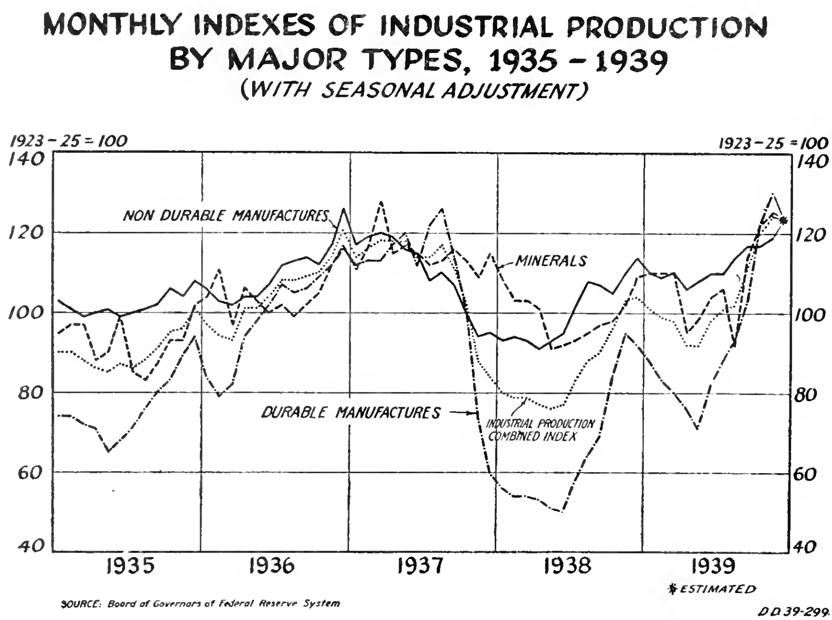
One cannot say that the war has affected this index only during these last several months. Some unknown amount of buying has been going on through all this period in terms of war preparations by foreign countries. We know, for example, that the machine tool industry has been exporting a very considerable percentage of its output for many months. However, the greatest impact is one that has occurred since September, and paralleling the picture which Dr. Lubin indicated this morning, of a tremendous price advance.

It is important, I think, to realize that that extraordinary, almost instantaneous movement early in September did not reflect anything that can be found anywhere in the consumption pattern.

There is no indication of purchases at that time from foreign buyers, there is no indication of any strong upswing in our own retail trade. What actually happened was that a great many people, for various reasons which I will try to elaborate in a moment, placed orders in the markets, particularly in the heavier goods markets, although it also carried over into textiles and leather and various of the soft goods.

Part of that buying was undoubtedly what might be called war risk inventory, the feeling that we were headed into a period of uncertainty and the wise man should have materials on hand. It is quite possible that many businessmen will try to carry heavier inventories for some period of time, so long as they feel that these uncertainties are present.

Exhibit No. 1507



Some of the buying was out-and-out speculation in terms of a fear of or expectation of price increase. It was quite clearly a matter of mass psychology in which the business community, in a matter of 2 or 3 weeks, bought in, or placed orders in, tremendous quantities That it was a fairly temporarly boomlet I think is indicated first by the fact that these new orders, or this rate of new orders, has very drastically declined toward more nearly normal levels, as also the fact that the wholesale markets, the wholesale prices, seem to have weakened for a number of the commodities.

On the other hand, we have had this increase in production and it is important to realize that that has exceeded the rate of consumption, and that during this period we seem to be accumulating inventories.

However, I want to keep the inventory story until we come to it in discussing things in the same order in which we went through the World War period, because basically we should not emphasize this temporary movement of the last several months. Our basic problem is whether or not the materials are here that will require or necessitate a major price upheaval such as that of the World War.

So, in order to parallel my discussion of the World War record, I would like to turn to the problem of foreign demand.

You may recall, in the case of the World War, that was a major factor, and what should we or can we expect again from that same source?

We have to set that against a background of nationalist policies We have to remember, for example, that the British Empire adopted a policy looking toward self-sufficiency, and that as compared with the World War, when England was buying 20 percent of her goods from the Empire, she is now buying 40 percent from Empire countries. This shift represents a decline in her dependence upon the rest of the world for the supply of goods.

Mr. AVILDSEN. What was that first figure?

Dr. THORP. From 20 percent to 40 percent has been the increase in the supplies obtained by England from the Empire.

Acting Chairman BORAH. That is, whereas she was obtaining 20 percent, at the beginning of the World War, she may now obtain 40 percent.

Dr. THORP. That is right.

Mr. AVILDSEN. Of all her imports.

Dr. THORP. Yes. There are certain imports in which it has been much greater, of course.

Acting Chairman BORAH. You referred to the fact that Great Britain had changed her policy. Do you refer to the tariff policy inaugurated in 1931?

Dr. THORP. The so-called Ottawa agreement in which a 10-percent preference is established for inter-Empire trade.

Similarly, one sees in many countries the development of nationalist policies, of higher tariffs or trade barriers which have tended to tremendously develop industries and give them some increase in self-sufficiency.

I think that is an important general background which we must keep in mind as we think about the prospects or the dangers, depending on how one looks at it, of any tremendous demand upon us from foreign countries.

Now we have to realize that this war is rather different from the World War, first because the preparedness in this case is not merely military. During the World War the countries in Europe were apparently caught without any special supplies of raw materials, in fact with actual shortages of foodstuffs. During the last several years, however, stocks have been built up and at least in the short run there is an economic preparedness which somewhat reduces the pressure, the immediate pressure, for buying in foreign markets.

Furthermore, there is the fact that the blockade has gone into operation much more quickly, and finally, that controls have been established much more thoroughly in the foreign countries than was the case in the World War. For example, in the case of England, the quickest adjustment was made in agriculture. Already all farm workers over 21 years of age have been exempted from combat service. Extra rations of oil and gas, and that implies, of course, rationing in general of oil and gas, are given for the operation of farm tractors. There is even a subsidy of 2 pounds per acre for new land put into operation, a rather interesting reverse application of our A. A. A. procedure. And in general, one finds immediate programs of that sort throughout all industry. In the field of prices, for example, Great Britain already has established maximum prices for all commodities. The original act set up a price structure in which prices were to be held as of August 1, and then had a machinery for making adjustments in accordance with increased costs, government boards, and so forth. August 1 proved to be an unsatisfactory date, and it was later set at August 21. But an immediate effort has been made to control the price situation, quite different from that during the World War, when prices, as we saw on the chart, were allowed to move up rather rapidly.

New capital issues are debarred, and it is expected that some central investment board will be created to determine the flow of capital. Priority is established for the army, and secondly for the export trades, with permits and such things prerequisite.

I could go on with further details of these controls. Perhaps I should add that, as distinct from the World War, already a taxation program has been established in which, in England, the basic income tax rate has jumped to 37½ percent with a lower exemption level. The effort is being made, very clearly, to finance this war as far as possible out of taxation rather than to follow the processes of the last war.

Mr. HENDERSON. That was true of their preparedness program during recent years, was it not?

Dr. THORP. That is correct. Their preparedness has been done very largely through a taxation program, rather than through borrowings.

Acting Chairman BORAH. Borrowings have already begun rather heavily.

Dr. THORP. I don't want to imply that they are not also using the borrowing technique, but I think the important thing to recognize is that there is an effort to use the taxation procedure just as far as possible as well.

Acting Chairman BORAH. The question that arose in my mind was as to whether the proportion in taxes would be any greater in proportion to the amount borrowed. They are already borrowing very heavily.

Dr. THORP. I am afraid we can't just tell until we can see what the total expenditures are apt to be.

Mr. HENDERSON. But in the budget estimates they have made they have planned a substantial increase in the proportion which will come from taxes.

Dr. THORP. I am sure that that is the policy that has been adopted. How far they can and will carry the policy through remains to be seen. The effort is being made along that line, at any rate.

Mr. AVILDSEN. I had an experience along that line in my little company in October.

Along in October we received a report from our Paris agent, who represents us throughout France, saying there was no such excited demand in France, no change in prices, his customers were not inclined to place any large orders, but to wait and see what happened, directly opposite to the situation here. He said, "I can't understand what is causing all the excitement in America. There is nothing like that going on here in France."

Mr. HENDERSON. Are you going to discuss, for example, the copper situation, so far as England is concerned? Immediately after the declaration of, war they fixed a price of less than 10 cents. The significant thing about it to me, in terms of Empire sources, is that, whereas in the last war they were dependent on external suppliers very largely, and therefore in many cases had to pay a price that ran as high as 27 cents, they are able now to get from their possessions a larger amount of copper. They are able to control not only the supply, but also the price, by reason of the fact that they are dealing with parts of the Empire.

Dr. THORP. I think one way of developing that point a little further is just to summarize by saying that this war is being very carefully planned from the point of view of goods and commodities. This taxation program is, I think, intended indirectly to transfer purchasing power away from nonessentials and make it available to the Government, but it also appears in terms of British import restrictions. The British market is now practically closed for luxury goods, wearing apparel, electrical household appliances, passenger automobiles, toilet preparations, certain office supplies, and a number of other such items which they feel are nonessentials and of which therefore they don't wish to permit any purchasing, or into which no purchasing power should be dissipated.

Mr. AVILDSEN. Did they put on similar restrictions during the last war, or were they put on very much later, or do you know?

Dr. THORP. They came very much later. I am not sure that they ever reached the same degree that they already have reached in the present war.

I think one must feel that this kind of war, with such controls over the purchases, may limit to a considerable degree the demand which will reach this country. We need to look for a moment at whether or not such demands could be financed.

You will notice on this chart of means of payment that in terms of actual resources, the estimate here is that something like nine and one-half billion dollars of purchasing power is in the hands of the United Kingdom, France, and Canada, of which over five billion dollars is in the form of gold, and that annual gold production is now about three-quarters of a billion dollars a year.[1] That would tend to indicate that under normal processes, at any rate, the capacity to buy is quite as great as that which was present at the beginning of the World War, although you remember that in the World War period the actual purchases were not made so much by using these resources as by the extension of credit.

Acting Chairman BORAH. Which is what they would like to do again.

Dr. THORP. I am afraid I don't know the answer to whether they would like to buy on credit again.

Acting Chairman BORAH. It is a very strong habit they have formed.

Dr. LUBIN. The fact remains that with that gold production, there is that amount available for shipment to other countries for purchase of other imports.

Dr. THORP. That is right. During the last half dozen years we have been taking in over a billion dollars of gold a year as a regular part of our balance of international payments.

[1] See "Exhibit No. 1490", supra, p. 11071.

During 1939, the inflow of gold into this country has been more rapid than in the previous years, so that we are accustomed to taking in gold, Senator Borah, as our part of these arrangements of the flow of goods.

Acting Chairman BORAH. Who does that gold belong to?

Dr. THORP. The gold, actually, until some months back, I believe, was taken by the Treasury and sterilized. I am afraid I will have to ask someone else if he has the details as to what the shift in that policy has meant.

Mr. HENDERSON. I don't think it is significant, but our Treasury representative left about the time the "Gold" chart went up.

Dr. KREPS. Dr. Thorp, is the status of the gold resources the same in 1939 as 1914? It occurs to me that in 1914 these controls you spoke about did not come into operation, but it took some length of time before they were brought about at the command of the Government. Is this the situation again?

Dr. THORP. That situation has very much changed. In the United Kingdom, one of the first measures was the institution of Government control over all foreign exchange and gold transactions through the Bank of England on September 3. One had to obtain a permit from the Bank of England, with the exception of a few dealers, to handle any transactions in this field. Official rates of exchange were established, all private holdings of currency, of belgas, dollars, francs, guilders, kroner and pesos, were required to be surrendered to the Government, which means that the foreign exchange and gold was immediately mobilized by the Government.

Furthermore, the Treasury has required the registration of all American securities in England and while one is permitted to sell American securities, he must turn over the proceeds in foreign exchange to the British Government, from which he then receives pounds, the British Government holding the exchange. While one is permitted to sell foreign securities one is not permitted to purchase them, so the net effect over a course of time is to move more of the proceeds of the sale of American securities into the hands of the British Treasury. Inevitably there will be sales, as one merely requires turning an asset in a security into cash, and there is fairly complete mobilization in England of control over foreign exchange and foreign assets.

In France the same thing has happened. Exportation of capital in any form is forbidden without authorization of the Ministry of Finance. Gold transactions are subject to permit, all foreign exchange transactions must be carried on through the Bank of France. Residents of France must sell to the exchange office all foreign exchange accruing from proceeds. Of course, in Germany, control over foreign exchange has been relatively complete for some time, so that in terms of mobilization of resources the foreign governments are much more prepared this time than they ever have been before.

Mr. AVILDSEN. Dr. Thorp, what would you say as to the purchasing power of that gold and foreign exchange at this time as compared with 1914? Isn't it true that prices generally are higher now, that they couldn't buy as much, that they would require more gold to buy the same amount of goods?

Dr. THORP. Yes, that is true, that prices are 10 or 15 percent above the pre-war level.

Mr. AVILDSEN. Is that all?

Dr. LUBIN. Yes.

Mr. AVILDSEN. No more than that? I thought they would be greater.

Dr. THORP. On the other hand it doesn't take quite so much gold to make a dollar.

Acting Chairman BORAH. Have you figures as to the amount of gold which France possesses?

Dr. THORP. If I may, I will introduce that in the record.[1]

Acting Chairman BORAH. And also insert at the same time the amount of gold which Great Britain is supposed to possess, and the amount of gold which Great Britain has in this country.

Dr. THORP. I will be glad to insert those figures.

I have been talking about the prospects of foreign trade with regard to the belligerent countries, and it is important, I think, to comment with regard to the prospects of trade from Latin America.

Dr. LUBIN. May I interrupt for a moment? With regard to your gold chart, is the 1914 supply valued at the then existing gold dollar price, and the 1939 the current dollar price, or do you have them equalized?

Dr. THORP. At the values at the time, at the current values.

The dominant factor in our relationship with Latin America is the cutting off of Germany both as a buyer and a seller to those countries. I should like at this time to introduce into the record two tables, one, "Trade of 20 Latin American republics in total and with certain countries, in specified years, 1929 to 1937," and the other, "Approximate distribution of trade of 20 Latin American countries to various markets in 1937."

(The tables referred to were marked "Exhibits No. 1508 and 1509" and are included in the appendix on pp. 11362–63.)

Dr. THORP. I might say that what that shows is that for these 20 Latin American republics the United States in 1937 took 31 percent of their exports, and provided 34 percent of their imports, while Germany had 9 percent of the exports and 15 percent of the imports.

The significant point here is that these goods, which were currently bought from Germany, were paid for by other goods sent to Germany, that the cutting off of the German relationship does not automatically provide a new market for these goods which were sold in Germany. To a large extent they are things which we produce in this country and for which there is no market here. The result is that the problem becomes one of whether they can turn these goods, which they no longer send to Germany, into purchasing power which might be used here or in any other country. The obstacle to a large degree, is a financial obstacle of obtaining foreign exchange. This country is the natural source for supplying those goods which were previously supplied by Germany, but it is not the natural market for the goods which were formerly purchased by Germany. The possibility of meeting this dilemma is a matter of long-run adjustment. If that trade is to increase decidedly in the short run it would have to be done by credit extension, and the record indicates that about 70 percent of our loans to Latin America are now in default.

There will undoubtedly be some expansion in such trade, because it follows any increase in our own business activity. Latin-America is a source for some of our needed raw materials, and if we have, as we apparently can anticipate, considerable business activity in this

[1] See supporting data for "Exhibit No. 1490," appendix, p. 11354.

country, we can look forward to that reflecting itself in our Latin-American trade. But it is important, I think, to realize that the loose talk which one hears of our taking over markets which used to be German markets, involves some very serious problems of adjustment of financial difficulties which cannot be taken care of in any quick way.

To summarize this discussion of our export trade prospects, I am unwilling to anticipate a volume of demand corresponding to that which came during the last war. It should be noted, however, that there will be very heavy selective demand for certain specific items. Certain industries are going to find themselves under tremendous pressure to provide goods. Certain other industries will find themselves seriously embarrassed by the curtailment of the European markets, as for example the motion-picture industry finds it a very serious burden not to have its foreign outlets in the same volume which it had before.

The net effect of that on the price structure is important, because of the fact that if at certain points pressure appears, that will undoubtedly generalize to a number of other points. I think it was clear in Dr. Lubin's testimony this morning, that one cannot isolate individual price movements, but if certain priced commodities move out of line, they seem to have a magnetic influence over the price of other commodities which have some degree of relation to them.

Dr. Kreps. What effect do you think the mobilization of dollar resources by the Allies will have on the character of our export trade to the Allies?

Dr. Thorp. During the last war our export trade to the Allies was rather scattered among the great many different types of products. Furthermore, I failed to mention the fact that foreign exchange during the last war was such as to encourage the shipment of goods from this country to Europe. Under the present controlled situation it would appear that many of those purchases which took place in the normal course of business will now be curtailed, and the foreign exchange movement, which is in the opposite direction of that during the World War, is a further restrictive factor against any considerable flow of goods from this country to England on other than out-and-out government purchase bases. It deters private business participating in the demand for American goods.

Dr. Kreps. That is, at the beginning of the World War, exchange went adverse to the dollar for a time. I believe it went to levels of from six to seven dollars to a pound. That would encourage buying over here, normally, wouldn't it?

Dr. Thorp. That is right. The pound could be used to obtain more dollars, therefore encouraged the purchase of goods in the United States, while at the present time the pound will bring an unprecedentedly small number of dollars, somewhere near $4 to the pound is it, at the present time?

Dr. Kreps. Even somewhat lower.

Dr. Thorp. Less than $4 to the pound, which naturally discourages the purchase of American goods.

Dr. Kreps. Do you think then that the Allies will probably concentrate in countries like their Dominions, that are on the pound basis, even their purchases of goods that we used to export? In other words, will they use their dollar resources only to get airplanes and munitions of that sort, and tend to divert even a part of their normal trade with us to areas where they can get credit and where they can trade in pound sterling?

Dr. THORP. It is quite possible that that may develop, yes.

Acting Chairman BORAH. I observed, put out from London a few days ago, that while there would be a great increase in the purchase of a certain line of goods in the United States, like munitions and so forth, it would result in the decrease, in all probability, in the purchase of agricultural products, perhaps to the extent of $150,000,000 a year. Is that what you had in mind?

Dr. KREPS. Yes.

Acting Chairman BORAH. There would be no place to transfer that, because the market in South America is filled with those things which we produce, agricultural products, so it seems to me one of the most serious propositions connected with this question of price rise is, how it is going to affect the American farmer? It doesn't seem to me he is going to get off at all, because the method which they have already adopted is as suggested, one which will result in their purchasing a certain line of goods, and excluding our purchasing where they can purchase the other line of goods, to wit, agricultural products.

Dr. THORP. That is quite right and I think it extends beyond what we ordinarily think of as the major activities. For example, already there is a decrease in the quota of apples to be allowed to enter, and that sort of thing.

Mr. HENDERSON. One other question. In the World War period our balance of exports went roughly from half a billion to about 3 billion, I think you indicated. At that time, that was a decidedly large percentage of our total productive capacity.

Dr. THORP. That is right.

Mr. HENDERSON. And even if we had such an increase at this time, discounting all other things for the purpose of argument, it ought not to weigh so heavily on our ability to produce as it did the last time. Therefore, it seems to me, it shouldn't affect the price level so much.

Mr. AVILDSEN. In other words, it was about 10 percent of our national income in 1914. Would it be 5 percent now?

Dr. THORP. It is probably not correct to measure it against the national income because the national income includes a number of things which can't be exported anyway. But if one takes the measure of exportable goods, moveable goods, which eliminates rent and such things as that—the highest point during the war was 16 percent being exported. The normal is less than 10 percent, and in recent years it has gotten down at times to as low as 6 percent, but during the war period, I think it was during 1919, it was 16 percent of the total.

Mr. AVILDSEN. Now if we got the same dollar volume as at this time would it be 16 percent?

Mr. HENDERSON. About 8.

Dr. THORP. No; I think it would be above that because you can't compare this with the national income of 35 billion since it rose during the period so the average over the period might not be very far away from our present level. It would be less than 16. Let's put it that way. How much less requires very elaborate calculations and if you like we can struggle with it and try to introduce it into the record, but it would be less.

Dr. KREPS. How far have these imports tended to influence prices of materials that are basic to the American consumer? How far has British effort to control imports led to schemes for price control—that is for control of the price of wool and articles of that sort?

Dr. THORP. So far the only cases which I know of, and there may be others, are in the wool picture and in the tin picture.

In the case of wool the British Government purchased the entire clip and while we are at the present time much less dependent than we were before on the rest of the world for wool, we still import all of our carpet wool and maybe zero to 25 percent of our apparel wool, depending on the total consumption.

Mr. HENDERSON. I want to point out that the supposition I made would be considerably less. First of all, there is no reason to assume that the American national income would not increase during this same period, and also that there would not be a substantial increase in goods, rather than in dollars. On the other hand, the various figures which you supplied seem to indicate that they got in that period 170 percent increase in quantity and paid for it with 190 percent in value.

I was speaking of the drain on our physical production. My supposition would be that it would be less than 10 percent. In other words, it would not weigh so heavily on the producing facilities of this country as it did the last time.

Dr. THORP. We have spoken about the effect of possible exports. The other external factor, you may recall, which I discussed in connection with the World War was the impact of prices of imported goods upon our economy. Thereabout all that one can say is the generalization that while there has been some decrease in our dependence on foreign sources of supply——

Acting Chairman BORAH (interposing). Will you please excuse me Dr. Thorp, I have to leave now.

Dr. THORP. Certainly.

(Mr. Avildsen assumed the Chair.)

Dr. THORP. There are several new commodities which have increased in importance and we certainly cannot feel that we have reached a point where we are not susceptible to pressures from these import prices.

In the case of wool, for example, we are almost independent with regard to wool for domestic apparel, but we are still completely dependent on imports for the low-grade wools used in carpets.

In chemicals and drugs we have achieved a good deal of independence. Dye stuffs, you may recall, was something about which we were very much embarrassed during the World War and in which our domestic industry has since developed. The same is true for potash and the same is true for nitrates. On the other hand, in the case of rubber, we have reached a much greater dependence than ever before and one could speculate on the theory that we are more dependent on tin than we were at the time of the World War.

Certainly during the World War the canned-goods industry expanded tremendously and I suspect has increased in its importance since then.

So there are a number of points at which we are susceptible to influence from outside, influences to some degree beyond our control. And these import prices represent one of the threats. I think this is particularly true when one realizes that these imported commodities are the source of purchasing power on the part of the other nations and in many cases we are the major consumer of the commodity. Their national policy would seem logically to move in the direction of getting a maximum volume of purchasing power in the United States through the shipment of this commodity.

Their programs with regard to controlling domestic prices might be modified in connection with commodities which were to be sold in the United States and it would seem rather reasonable to expect that such policies might be followed with rather considerable impact in some cases, on our own price structure.

You may recall that at the time of the World War one of the major sources of new demand was the financial system. At the present time we have even more capacity for expansion through bank credit than we had at that time. In fact, the primary factor in the present financial situation is the tremendous volume of member bank excess reserves. Those have been mounting steadily until at the present time these peace reserves exceed $5,000,000,000 and very conservatively these could be a basis for $30,000,000,000 of expansion in the form of loans.

Of course, at the time the Federal Reserve System was established it was believed—and I think more strongly afterwards—that it had certain powers which could be used to keep the credit structure as a stabilizing rather than a disrupting force. The theory was that through open market operations the banks could be forced to rediscount, that through interest rates it would be possible to make this rediscounting a rather painful and expensive process and that therefore the Federal Reserve System was in a position to control the volume of bank credit. People disagreed as to the degree to which the volume of bank credit controlled our total economic picture, but I think they all agreed that it was exceedingly important.

Now where do we find ourselves at the present time? I said there are over $5,000,000,000 of excess bank reserves. The Federal Reserve System holds about 2½ billion of Government securities. That represents the maximum that it can do in open market operations if it completely stripped its portfolio at the present time. It has certain powers to increase the reserve requirements. If it increased its reserve requirements as far as it can go under the present limits, that would absorb then, 9 billion of this excess total. That would reduce these excess reserves to somewhat under $2,000,000,000. The Treasury could reduce reserves if it went into a form of open market operation, but the Treasury is very close to the debt limit which is imposed on it and therefore there is a decided limit as to how far it can go under present circumstances in absorbing these excess reserves.

Now at this same time remember that any flow of gold into this country, coming in almost $2,000,000,000 since the beginning of this year, is reflected back into the banking system and is the primary method for the increase in these excess reserves.

One other factor should be noted and that is that the rate of turnover at the present time, the rate at which we are using our bank deposits, is less than one-half that in the late twenties. So that even without any change in the reserve situation we could get a vast increase in purchasing power over a more rapid use of our bank deposits.

All of this can be summarized, I think, in saying that from the point of view of expansion and the credit machinery, there is more potential expansion there today and less possibility under present circumstances of controlling than we have had at any time probably in our whole economic history. It should be added, however, that this possibility for expansion has been present for some years, 4 or 5 years, to say the least, and we have not had an expansion which has taken place.

Perhaps the best way to summarize is merely to say that here is an inflammable element in the situation, that wars are apt to throw out considerable numbers of sparks; one thing we need to worry about is the possibility that a spark may land in this inflammable situation and start us in a spiral which could very easily duplicate a price pattern just through its own self-generating force—duplicate the World War price pattern.

Mr. Henderson. I gather from what you say that the old concept that the Federal Reserve, through its various powers, could exercise an influence on the general price level doesn't have a substantial reliance at the present time on account of the excess reserves and the fact that the debt limit is decidedly fixed.

Dr. Thorp. That is right. We have these techniques, but the techniques cannot be used unless the existing power of the Federal Reserve System over reserve requirements is increased and/or the Federal debt limit is raised.

Mr. Henderson. Strictly on a technical basis then, assuming that there is a possibility of controlling the price level by means of the Reserve System, there would have to be some changes in reserve requirements. You might have to go, for example, to 100 percent reserve.

Dr. Thorp. That is right, quite right.

Now we come to the factor of business in this picture and the possibility of business expansion. First we will consider the inventory picture. There are in a sense two phases to the problem of business contribution to an expansion period. If there are considerable inventories that is a limiting factor on price rises; if there is a considerable volume of excess capacity it will act as a limiting factor.

First we will discuss the inventory picture and then we will discuss the capacity situation.

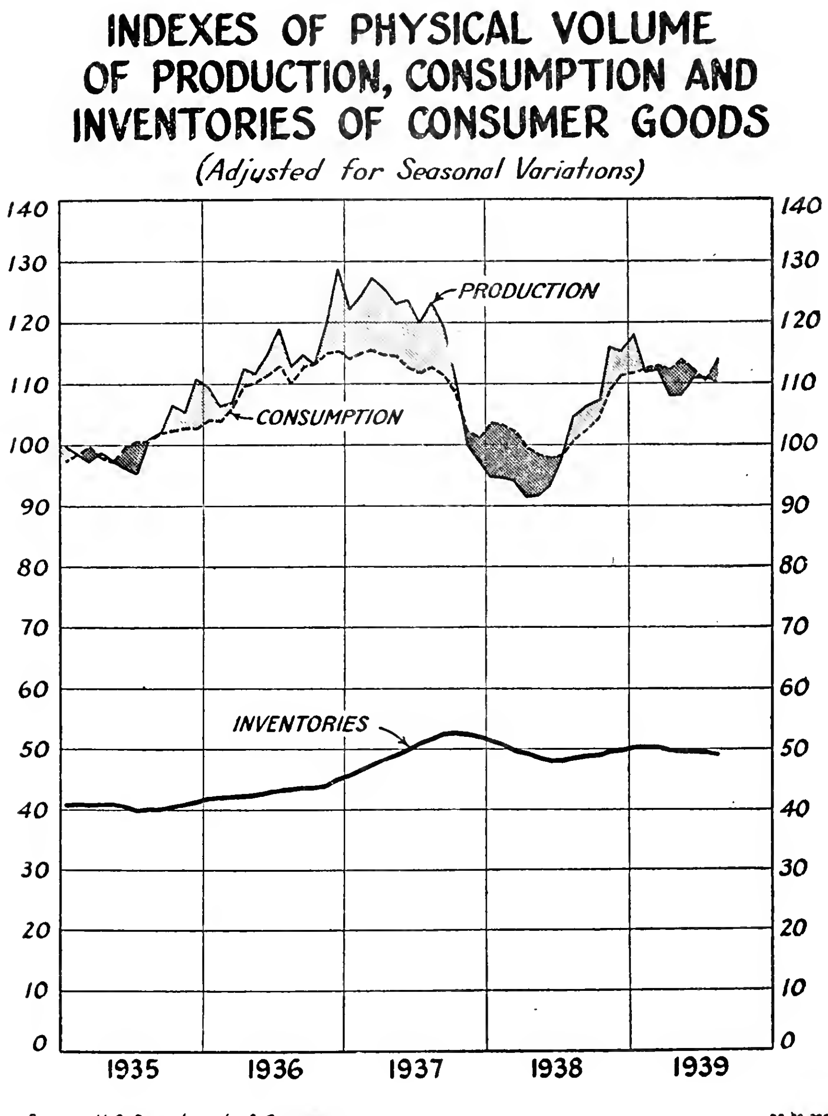
I now introduce a chart, "Indexes of physical volume of production, consumption and inventories of consumer goods."

(The chart referred to was marked "Exhibit No. 1510" and appears on p. 11109. The statistical data on which this chart is based are included in the appendix on p. 11364.)

Dr. Thorp. These are new indexes prepared in the Department of Commerce by Mr. Bassie and are introduced to give a picture of the physical volume of production, consumption, and inventories. The solid line is the line of production. The dash line is the line of consumption. Essentially this shows goods being made and this is goods being sold by retailers. Somewhere between the production and consumption is in a case like this [illustrating] accumulation of goods, and in a case like this, liquidation of previously produced goods.

This line of inventories represents the cumulative influence of these shifts up and down as between the production and the con-

EXHIBIT NO. 1510



sumption line. Unfortunately the chart doesn't come right up to date so that it doesn't show the developments of the last few weeks. I think it is very clear though, in showing the degree to which our high rate of production during the last part of 1936 and early 1937 was a matter of production for inventory and it runs far ahead of consumption.

This is a chart of physical volume and I will now introduce some evidence with regard to dollar volumes. United States Total Inventory Value and Trends—1935–39.

(The chart referred to was marked "Exhibit No. 1511" and appears on p. 11111. The statistical data on which this chart is based are included in the appendix on p. 11365.)

Dr. THORP. The top lines represent certain inventory figures compiled by Dun & Bradstreet on the basis of data for some of the years for as many as 20,000 companies and the last figure is based on about 9,000 companies. This goes back to the end of 1935 and shows on just annual figures up until the end of 1937 and semiannual thereafter, the increase in inventories in this country. There is no doubt about it, this inventory accumulation was a strong factor in carrying us up in 1937 and then was responsible for the low level reached by production in 1938.

This line at the bottom is an adaptation of this line [1] corrected for price change, or rather, with the price factor added.

Dr. KREPS. Would you explain that line on inventories, Dr. Thorp? It is 40 percent. What is the base year—40 percent of what inventories? Is that an index?

Dr. THORP. The inventory line is based on the percentage of 1935 consumption so that inventories represented 40 percent of a year's consumption in the year 1935.

Dr. KREPS. Then it is not strictly an index?

Dr. THORP. It is not strictly an index. It is an index in the sense that it relates to a constant base, the 1935 consumption.

Acting Chairman AVILDSEN. Will you tell us what that chart is based on?

Dr. THORP. These are computations which are made in the Department of Commerce, using primarily Federal Reserve Board material.

Acting Chairman AVILDSEN. Are they based on reports by manufacturers or producers of goods to the Department?

Dr. THORP. No; they are based on materials that come in from all sorts of sources. It includes all the materials which we have in the Department. It also includes, however, such reports as those published by trade associations with regard to various industries. The consumption line includes department store records and various other measures of retail trade.

With regard to these indexes, we hope to have an elaborate discussion of the methods published shortly in the Survey of Current Business, but it hasn't been released yet.

Acting Chairman AVILDSEN. Do you consider our inventory satisfactory today? The Department is collecting as much information as it should on that subject?

Dr. THORP. I consider our inventory information one of the very weak spots in our information service.

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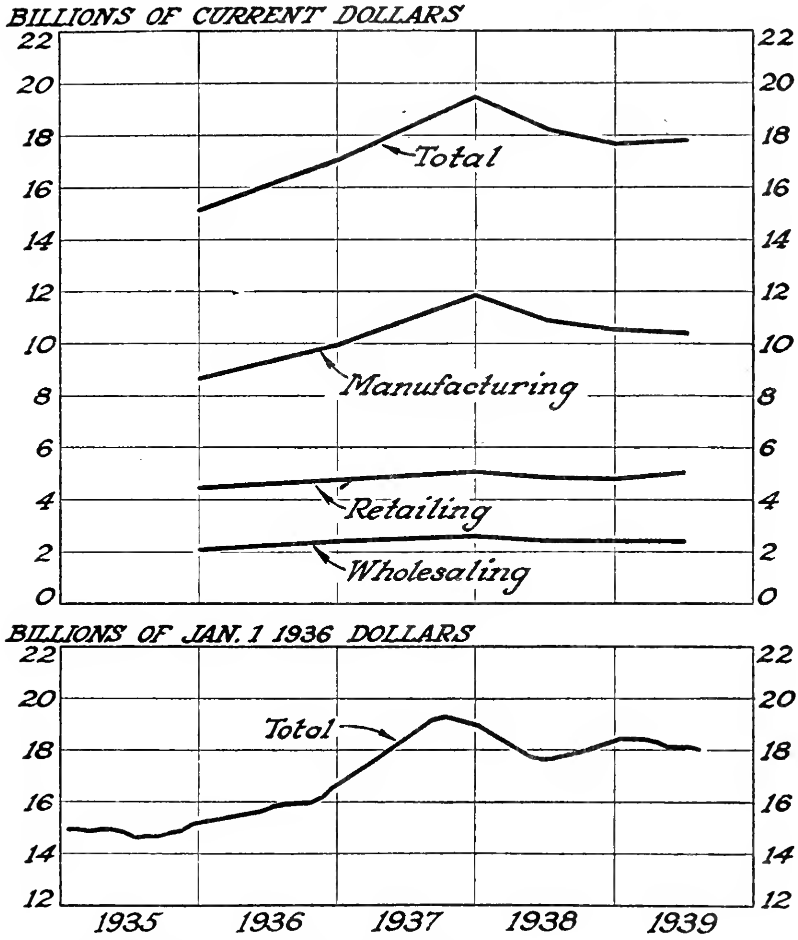
[1] See "inventories line" on "Exhibit No. 1510", supra, p. 11109.

Exhibit No. 1511

UNITED STATES TOTAL INVENTORY VALUE AND TRENDS--1935-1939



Source: U.S. Department of Commerce, Dun & Bradstreet

D.D. 39-297

Acting Chairman AVILDSEN. You think it is feasible to correct that situation? I have in mind the fact that my company just received requests from a couple of investment houses in New York—investment counselors—asking us to tell them what our inventory situation was and what our customers' inventory situation was, saying that when they collected this information they were then going to compile it and send it out to all the members. In other words, it seemed to me a private firm was doing what should be a Government job due to the lack of Government statistics on the subject of inventory.

Dr. THORP. What has happened is that since this experience in 1937 in which the increase in inventories represented something from, let's say, fifteen billion dollars up to nineteen, four or five billion dollars of productive capacity going into inventories, people have realized how tremendous a factor that can be in giving a stimulant to business. They also realized that when you are producing for inventory you are producing on a thoroughly temporary basis. As long as you keep piling up inventory it gives you a constant stimulus. The minute you go on to a basis of holding inventory a certain part of the demand is reduced so that the impact of inventory change can very decidedly be to give rather a considerable stimulant but one which is like many stimulants, only temporary in its effect and, in the case of inventories, is apt to mean a subsequent period of liquidation.

Acting Chairman AVILDSEN. In the last 2 weeks I talked to a number of businessmen about this question, and each one I asked, "What do you think of the inventory situation—has it increased in the last few months?" Half of them said they didn't think there had been any increase in inventories; the other half said there had been, showing that it is a bad situation if we should be in doubt about a question so important as that.

Dr. THORP. Of course, I think there are a number of factors there.

Acting Chairman AVILDSEN. You think there has been an increase in inventories in recent months?

Dr. THORP. I don't think the increase in inventories has been felt very seriously as yet because it has been a matter of new orders and goods flowing on which haven't really come to rest.

Whatever increase in inventories there has been so far has been on goods in process. The businessman hasn't a feeling of a big accumulation of finished goods waiting to move. But what has happened is that this tremendous volume of new orders and this rate of production is far ahead of the rate at which goods are moving into consumption. I have seen no one who has hinted that our consumption of steel has suddenly jumped in any way corresponding to the present increase in the rate of production over the last 3 months. Those inventories, if they haven't piled up yet, are in the process where they will pile up over the next few months. Whether or not that is going to be a damper on the situation will depend in part on whether businessmen intend to carry heavier inventories over the next few months. But this much is certainly true, that the inventory purchases that have carried us up to somewhere near a hundred and twenty-four on the index of production are dropping out of the market, and we will inevitably have to have some adjustment in our rate of production down to something nearer the consumption level.

Our knowledge of inventories is extremely scanty. We have to depend on this kind of indirect device to get any sort of picture as to what the inventory picture is. These figures [illustrating with "Exhibit No. 1511"] are in dollar figures, and we don't know how much of it is dollar change and how much of it is physical volume change.

Dr. LUBIN. Do you have any figures on inventories in the mining industries?

Dr. THORP. I don't think I have any here. There are figures available. Again, part of the difficulty is this: Where we have inventory figures they may not always include all places where the inventories may be. We might have figures. We could get figures of inventories of copper held by copper refineries, but inventories of copper which might be held by the telephone company, or which might be held by some manufacturer using copper, are just not available.

Actually one of the interesting bits of our economic history was back in 1920 when the prices of sugar were tremendous and no one could buy any sugar anywhere, but when the prices fell sugar just appeared from all sorts of unexpected places, and it turned out that a lot of people had carloads of sugar which were just sitting on the tracks and were paying demurrage on the basis of storing that sugar, and individuals who had warehouse space had purchased sugar, and no statistical measures of the ordinary kind caught those people at all.

The net result is that inventories of a given product may be held at many different points and usually what we know is how much is held at one of those points without being able to build up any total picture.

So you get very curious and misleading results of large inventories piling up, of a crude drug, let's say, when what has happened is that there is a tremendous shortage of the refined drug and you haven't got the refined inventory figures. It is a very difficult problem and one which a great many people are now enough concerned about so that I should feel that the time had come, particularly when we are threatened with disturbing factors in the commodity markets, when we need to sharpen up our information, and that, I think, is particularly true of inventories, because they represent stoppages, they represent cases where the flow of goods for one reason or another hasn't been smoothly going on. They represent your danger spots to the markets.

Acting Chairman AVILDSEN. In other words, this bidding on the part of buyers, which you stated this afternoon causes these price advances in many cases, would probably be eliminated to a large extent if the buyers had more information on inventories and therefore extremely important——

Dr. THORP (interposing). You would eliminate certain parts of it; you would eliminate in considerable measure the out-and-out speculative inventory purchase. I think there are other factors here. For example, it is clear that any considerable anticipated rise in cost means that the businessman will speed up his rate of production and pile up inventories in order to take advantage of the lower costs. You remember the N. R. A. boom which was of that sort, and in 1937 again, or 1936, there was a good deal of fear of labor difficulties, businessmen piling up inventories in part as a labor risk insurance fund, you might say. But of all these factors the most disturbing one is that arising from out-and-out speculation, particularly when the speculation is based on some misunderstanding as to what the existing supply is. It could be corrected by adequate information.

Acting Chairman AVILDSEN. You think that ought to be compulsory or by just asking industry to cooperate?

Dr. THORP. I should like to see the effort made to gather the material through a voluntary basis. It would seem to me that the business community should be given a chance to indicate its concern about these situations and its willingness to put in its share of necessary information in the public interest. If the business community fails to participate in the program, then I think one might face the issue as to whether or not in the public interest this information was not just a matter of private property, but of public concern, and the Government, as representing the public interest, would have a right to demand basic essential information needed to stabilize our economy.

Dr. LUBIN. Is it true, Dr. Thorp, that in certain industries where we have very good information on production and resources—that is, inventories—when it became important that we have this information, particularly in September, October, and November, the people's associations collecting it refused to make it public?

Dr. THORP. I believe there are certain cases.

Mr. HENDERSON. No doubt about the Copper Association, was there?

Dr. THORP. Well, I don't know the details. The Copper Association is a case in point. Of course, the same thing has happened in the past in the case of copper. Several times the copper statistics have been discontinued, almost always at times when the industry was seriously out of balance.

Mr. HENDERSON. Taking the purpose which Mr. Avildsen wants it to serve, certainly the buyers of copper would be in the dark unless they knew three very essential things, including the export matter. They would need to know the rate of production—that is, the capacity which was being used; they would need to know the inventory status and the orders ahead; and they would need to know something which Dr. Lubin discussed this morning—the selling policy of the small group that really control how much passes into production.[1] Those three things are completely absent at the present time, so far as copper is concerned.

Acting Chairman AVILDSEN. Mr. Henderson, let me ask you then, What is your opinion as to how this information should be collected? Do you think we would ever get satisfactory figures by voluntary action?

Mr. HENDERSON. I think the experience the Bureau of Labor Statistics has had in the collection of information on a voluntary basis is a good example of what you could expect. I share with Dr. Thorp the feeling that it ought to be tried on a voluntary basis, but where he merely says would raise a question, I would go much further and say, if you couldn't get it on a voluntary basis, the public interest is so largely charged there that it ought to be a matter of requirement.

Acting Chairman AVILDSEN. Dr. Lubin, could you agree?

Dr. LUBIN. Very definitely; I think our experience has proven conclusively that you can always get enough information on a voluntary basis to do the job that you want to do. Of course, one must qualify when using the word "always."

[1] Supra.

Every now and then you do run across a situation where manufacturers or others will not give you the information you ask for, but, by and large, the general rule, I would say, is that the voluntary system works, and it is only upon its failure to work that I would attempt to get——

Mr. HENDERSON (interposing). I would like to point out, Dr. Lubin, in connection with your example, that you are merely collecting statistics on price. You are not undertaking to assess price policy. You don't ask the voluntary submission by an industry of its price policy.

Dr. LUBIN. No; but on the other hand, take such things as pay rolls, number of people at work, man-hours of work, which is exceedingly important information and valuable so far as competitors might be concerned. Yet we find that we can get a very good picture of the American economy as long as industry feels that the figures it gives are going to be treated absolutely confidentially and the competitors or anybody else will not know what the individual firms are doing.

Acting Chairman AVILDSEN. Do you agree that the Department of Commerce is the logical bureau to collect such information?

Dr. LUBIN. I would say one of the outstanding charges I should make against the Department of Commerce, if I was going to make a charge, is failure to have inventory data. [Laughter.]

Acting Chairman AVILDSEN. What is your defense on that?

Dr. THORP. Our defense to that is if you didn't get a letter today asking for this information from the Department of Commerce in your company, it is because you were here rather than at your home office. [Laughter.] We are starting to collect such information and hope to build from it the kind of picture you want.

Acting Chairman AVILDSEN. How much do you think it is going to cost the Government a year to get that information?

Dr. THORP. I haven't any idea. It is not a basically expensive undertaking.

Acting Chairman AVILDSEN. $50,000 a year?

Dr. THORP. I can't tell you what the cost would be.

Mr. HENDERSON. What I want to get back to is the importance of price in the volume of inventory accumulation. There is no doubt that under a condition of excited price rise there is considerable accumulation of inventory which does not take place if there is reasonable stability and balance in prices. Isn't that so?

Dr. THORP. That is right. The inventory accumulation is in considerable measure related to price shifts. It is the effort of the business man to avoid the losses and to make the profits that can be done by price changes and the business man becomes rather than a producer operating a factory, a speculator operating in the commodity markets. In some industries that has become the major determinant of profits rather than the actual operations themselves.

Mr. HENDERSON. In the World War situation concerning which you presented those new figures you indicated that there hadn't been an enormous increase in inventory.[1] On the other hand, the period of probably the greatest accumulation of excess inventories we know anything about, that is 1936 and 1937, corresponds identically with the excited price rises that took place in that period.

[1] See "Exhibits Nos. 1494 and 1495," supra, pp. 11078 and 11079.

Dr. THORP. That is correct.

Mr. HENDERSON. It would take a great deal of argument to convince me that they were not very closely related. So far as the purpose of this hearing is concerned, I think one of the valuable facts to be adduced is that if we do not have an excited and unwarranted price rise, then we are not likely to have an extraordinary accumulation of inventories which always spells disaster when such a period is liquidated.

Dr. THORP. I think you could add that to the general point and see that where you get unusual demands coming into the picture, that is the time in which unless adjustments can be made in production easily and quickly, you are apt to get a reflection in a price disturbance, and if it is a persistent demand such as came during the last war from foreign countries, then it becomes a very major matter and inventory demand would undoubtedly never reach that same proportion, but still as in 1937, could be very disturbing to us.

Dr. KREPS. Yet your figures showed that the accumulation of inventories didn't occur during the war.[1]

Dr. THORP. That is right.

Dr. KREPS. They occurred after the war when a period of speculation started in. Now is there any connection between this speculation, this desire to speculate, and the withholding of certain statistics by groups in which price management and collaboration in price policy has been known at times to exist? Would you find it difficult, in other words, to collect inventory figures properly in industries where you might find it easy to collect wage figures and pay roll figures, simply because inventory figures are an essential element in the management of prices?

Dr. THORP. We could tell better about that after we have pushed through our present efforts, but I do think it is quite conceivable that the inventory material being more closely related to price may be more precious than wage material might be, from the point of view of the individual businessman involved.

Mr. HENDERSON. If you relate those new figures you introduced,[1] concerning inventory trends from 1914 into the 1920's to the increase in bank debits, it seems as if the increase in loans and deposits was taken up in an increase in price rather than in an increase in production.

Now we have at the present time, as you say, these excess reserves. It is still possible, is it not, that we could have a considerable expansion of bank loans which would really represent the generating power for increased production and would not parallel that previous experience in price?

Dr. THORP. That is right. Perhaps I ought to introduce here some material with regard to where we are now in relation to capacity.

Mr. HENDERSON. What I wanted to get clear was, in our prior discussion about the 100 percent reserves and the expansion of the debt limit, there would be no real cause for alarm in an expansion of bank loans for commercial purposes if they really represented new effort. It is when they would be for the purpose of financing a rising price level that they would be very dangerous.

Dr. THORP. That is right.

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[1] "Exhibits Nos. 1494 and 1495," supra, pp. 11078 and 11079.

Mr. HENDERSON. And that would be the only situation in which the Federal Reserve would be required to take action.

Dr. THORP. The danger comes only when one is near enough capacity so that further increases in purchasing power are concentrated on the price structure.

As far as our present relationship to capacity is concerned, I would like to comment briefly on the situation and the problem as to whether we should expect that the higher profits which are now being recorded this quarter will be rapidly translated into capital expansion. I think it is important there to realize that the current stimulant has come out of this demand for inventories and hasn't come out of any strong increase in consumption as yet evident. Even with this temporary stimulant to demand, few industries except steel are near capacity. The paper industry, various sections of it range between 75 and 90 percent, cement around 60, glass at 70, coal less than 50, lumber about 40, flour mills 65—these figures are all very rough but they do indicate the fact that we are operating in many lines considerably below capacity.

Of course, capacity is hard to figure. I suppose we would have to say that in shipbuilding at the present time we are at capacity. As far as I understand it, there is not an available shipping way in the country at the present time that isn't in actual use. On the other hand, the construction industry and agriculture are very far away from any kind of capacity operation that one might establish.

If one takes the present durable-manufactures production index at around 130, that probably is fairly close to what can be immediately done in terms of our production machinery in that you can't start the wheels turning overnight.[1] It requires the accumulation of materials, the obtaining of skilled labor, and so forth.

The very best estimates, however, that I can find, or the best experts with whom I have discussed the point, indicate that they feel that it is conceivable for us to be operating 2 or 3 years from now at a level of physical production of 150 to 170, that that can be done although there are many adjustments necessary and at some points where skilled labor becomes a serious shortage we might find ourselves up against a bottleneck.

It doesn't matter, perhaps, whether those figures are exact or not. The reason why they are significant is merely to indicate that we do have further capacity, and that consequently from the point of view of the impact on our economy of increased demands, it can go some distance before it necessarily will have to be siphoned off in terms of price increases.

Mr. O'CONNELL. Wasn't that also true to a large extent at the opening of the World War?

Dr. THORP. That was true at the opening of the World War to a considerable degree, and we did get an increase in production at that time of 20 percent or so.

Mr. O'CONNELL. And the substantial price changes followed the getting up to capacity.

Dr. THORP. Yes.

Dr. KREPS. In your opinion, did the recent price rises that Dr. Lubin pointed to this morning in zinc, in copper, in lead, occur because those industries were operating at capacity?[2]

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[1] See "Exhibit No. 1507," supra, p. 11098.
[2] See "Exhibit No. 1471," supra, p. 11054.

Dr. Thorp. No; none of those industries is operating at or even very near capacity at the present time. Of course, this is true with regard to any commodity market, that if a sudden demand comes into the market in, say, a week's time, the only reflection can be one in price.

Mr. Henderson. On the spot market.

Dr. Thorp. On the spot market, and it would hardly be fair to judge that or to put those two things together in terms of the spot situation. On the other hand, if this higher price is not reflected in increased production fairly promptly, then one can puzzle over what limitations there are in that industry which are preventing the increase in output which ought to come from the price development.

Acting Chairman Avildsen. In other words, many of the large users of zinc, lead, and so on, are buying under contracts at the old price and are not paying this new spot price, is that true, do you think?

Dr. Thorp. Yes, I think there is a good deal of that. In terms of business expansion, therefore, I think we have to recognize that we are not near capacity in many industries at the present time, and furthermore, that a considerable part of the purchases which have appeared to be new capital investment may not in the long run be net addition. I have in mind this sort of thing. We have heard a good deal about railroad purchasing coming into the market in the last several months. So far that seems in general to have taken the form of moving the planned expenditures of 1940 ahead into 1939. Whether the actual expenditures in 1940 will therefore be lower than they had been planned before, or whether 1941 expenditures will be moved ahead into 1940, no one can tell. At the present time it is rather difficult, I think, to regard that buying as necessarily indicating an upward swing or a new tendency toward considerable capital investment on the part of the railroad industry.

So from the point of view of expecting to get support from business expansion comparable to the World War, by watching capacity figures and inventory figures, we have to recognize the fact that the situation as it is at present, or as it may even appear to be in the somewhat middle-run future, is not a situation which would normally provide the basis for substantial price advance.

There is just one other point which I haven't covered, and I will touch on that very quickly. You may recall that one of the factors which I noted as contributing to the World War price increase was the fact that prices and costs had an interrelationship and that advances at any one point pulled up the rest. Perhaps the only point that needs to be made in that connection is to note the greater organization of labor at the present time than at the time of the World War, and the likelihood, therefore, that advances in wages will correspond more closely to advances in prices than was true at that time.

Perhaps I shouldn't put it that way because it implies advances in prices as inevitable. Perhaps I should put it that where there are advances in prices, the tendency of those working in that industry to obtain increased wages will be enhanced by the greater volume of unionization now present.

Mr. Henderson. I don't know whether you noticed it or not, but today's paper carried an account of an announcement by Sidney Hillman of the Amalgamated Clothing Workers Union to the effect that the contemplated discussion on increasing wages, which the union suggested in September and October when prices were going up and they were faced with the prospect of an increase in cost of living, has been indefinitely deferred. There was no doubt that the prospect of an increase in wages for the Amalgamated was predicated upon the excitement taking place in that period with the prospect of an increase in the cost of living.

Dr. THORP. I suspect it is probably true that most of the more advanced businessmen and advanced labor leaders recognize the fact that the ideal situation would be one in which there was neither disturbance in prices or in wages, that a disturbance in either field is inevitably going to be reflected in the other.

I should perhaps summarize it by saying the problem of keeping a balance between those two is probably better taken care of at the present time than at the time of the World War. It will mean undoubtedly less in the form of tremendous profits than was true in the case of the World War.

Acting Chairman AVILDSEN. Would you say, Dr. Thorp, on the whole the business leaders of this country have shown more statesmanship in recent months than in previous periods of expansion, in keeping prices down, and so forth?

Dr. THORP. It certainly has been true that since this excited period in September, the business community has shown more clear understanding of the situation and the dangers of permitting it to become a highly speculative development, and we do seem to have had during the last month or two adjustments at certain points. I would hesitate to feel that in all commodities and in all lines there had been this same amount of understanding with regard to the dangers that might come from price increases. The dangers are in part, as I think I have indicated here, that we have factors present, such as the credit situation, which if any major swing begins, can extend it to very disastrous lengths. We had a moderate upswing at the time when the war broke out, and we can expect further advances in our productivity. The difficulty is a difficulty of keeping in adjustment if abnormal demands overstimulate one part or another of the economic system. That is the basic difficulty of war. War provides unusual and abnormal demands and one makes the adjustment in the economic system, and then when war is over, shifts have to be made back. We get these abnormal impacts from various sources, and there is no single way of dealing with it. It seems to be necessary to watch all these factors and use many different policies to try to keep ourselves in balance and not permit war developments to bring us into a state where adjustment is going to be difficult. One high cost of war is the difficulties of adjustments afterwards. These are made much worse if short-sighted policies permit acute price movements to occur.

Dr. KREPS. Mr. Chairman, before you dismiss the witness I would like to ask that the new material particularly, and supporting data, be introduced in the record, that is the numerical material, the tables back of these charts that have been presented to us.

Acting Chairman AVILDSEN. They may be so received.

Also before we conclude, I would like to ask Dr. Lubin if he would care to express an opinion as to my last question to Dr. Thorp, namely, whether he felt that the business leaders of this country as a whole, we know there are exceptions, but as a whole whether they haven't shown more business statesmanship in this recent period in expanding activity than they have shown in other periods of expanding activity

Dr. LUBIN. I would agree fully with Dr. Thorp. However, I think it might be well to inquire as to some of the reasons for such statesmanship as did prevail. I sometimes wonder, I have no evidence, as to how far the existence of this very committee made certain groups realize the disadvantages that might accrue. I think by and large one finds more businessmen, as one wanders around the country, as one meets them, who are conscious of this problem and are trying to do their best to avoid the repetition of what has happened in other times, than at any other time I personally have known of.

Mr. Chairman, for the purpose of the record, I would like to state that the chart that I inserted this morning, entitled "Pre-War Commodity Prices,"[1] had an error in it. We have discovered an error in computation for the price of soda ash, and I would like the record to show that this was an error and that it will be corrected at the reprinting.

Dr. KREPS. And the resulting value figures are likewise in error. They will also be corrected for the record.

I will just say that tomorrow there will be brought in industrial and governmental purchasing agents, Mr. George Renard, Mr. Forbes, and Mr. Johnson, who will indicate that at the present time some of the disturbing influences are at work which we have shown in Dr. Thorp's testimony were at work before.

Acting Chairman AVILDSEN. The committee will stand adjourned until 10:30 tomorrow morning.

(Whereupon at 5 p. m. a recess was taken until Tuesday, December 5, 1939, at 10:30 a. m.)

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[1] "Exhibit No. 1467," supra, facing p. 11049.

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

TUESDAY, DECEMBER 5, 1939

United States Senate,
Temporary National Economic Committee,
Washington, D. C.

The committee met at 10:40 a. m., pursuant to adjournment on Monday, December 4, 1939, in the Caucus Room, Senate Office Building, Senator William E. Borah presiding.

Present: Senator Borah, acting chairman, Messrs. Henderson, Avildsen, Hinrichs, O'Connell and Brackett.

Present also: Willis J. Ballinger and Edward Fischer, Federal Trade Commission; Willard Thorp, Department of Commerce; Hugh B. Cox, Department of Justice and Theodore J. Kreps, Economic adviser to the committee.

Acting Chairman Borah. Is Mr. Renard in the room?

Do you solemnly swear the testimony you shall give in this hearing shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. Renard. I do.

TESTIMONY OF G. A. RENARD, EXECUTIVE SECRETARY-TREASURER, NATIONAL ASSOCIATION OF PURCHASING AGENTS, NEW YORK, N. Y.

Dr. Kreps. Mr. Renard, for the purposes of the record will you state your full name?

Mr. Renard. George A. Renard.

Dr. Kreps. What position do you hold?

Mr. Renard. I am executive secretary-treasurer of the National Association of Purchasing Agents.

Dr. Kreps. How long have you been in that position, Mr. Renard?

Mr. Renard. A little over 11 years.

Dr. Kreps. And how much experience have you had in industrial purchasing?

Mr. Renard. About 10 years prior to that—about 20 to 25 years.

Dr. Kreps. Will you proceed with your testimony?

Mr. Renard. I suppose you want me to read this statement that I have prepared.

Dr. Kreps. Yes.

PRESENT PRICE TRENDS AS VIEWED BY AN INDUSTRIAL PURCHASING AGENT

Mr. Renard. Gentlemen, you can get enlightening figures on prices from any representative index. Our own commodity index covers wholesale prices of 140 important commodities selected as representative of 14 groups of materials. The figures for an average of all of those 140 commodities run: 1926, base year, 100; December 1929, 88; December 1932, 48; April 1937, 88; January 1939, 88; August 18, 1939, 63.7; September 1, 1939, 65.4; October 20, 1939, 74.2; November 17, 1939, 73.3; November 24, 1939, 72.8; December 1, 1939, 72.

Now if we lay those price averages on a representative index of business activity or of industrial production we can get more light. The Annalist Index of Business Activity was above the 100 line called normal during all of the 4 years 1926–29, and went below normal about April 1930. The Annalist Index went above normal again in 1936 and stayed up there until late in 1937, when it dropped from 110 to 80 in just a few months. Early this summer it started at about 86 and hit around 110 again in November.

That comparison of the movement of a business-trend index with the movement of a commodity-price index shows three periods with business above the estimated normal while, at the same time, commodity prices reached 88, then 88 again and this time 74.

If we use a break-down of those commodities into groups, we find additional interesting comparisons, as price movements are by no means uniform.

	Industrial	Agricultural		Industrial	Agricultural
1926	100.0	100.0	September 1, 1939	71.4	53.3
December 1929	85.0	88.0	October 20, 1939	79.8	64.3
December 1932	54.0	45.0	November 17, 1939	80.6	64.6
April 1937	87.0	83.0	November 24, 1939	80.5	64.6
January 1939	71.0	54.0	December 1, 1939	80.2	64.0
August 18, 1939	70.9	53.2			

This comparison shows agricultural commodities have reached 88, 83, and 64 in those three periods, while the industrial index ran 85, 87, and 80.

Other comparisons of selected groups of indicative materials, such as finished or semifinished materials, show a comparable lack of uniformity in price movements, and the Fairchild Retail Index gives another picture. This index of retail prices, which includes only clothing, apparel, and household furnishings, was as low as 69 in 1933 and as high as 96 in 1937. Its trend in the past 3 months has been: August 1, 89.3; September 1, 89.5; October 1, 90.2; November 1, 91.2. Preliminary estimate, December 1, 92.3.

That index was at 88.9 on January 2 of this year; so, the climb has been very gradual.

Since the normal or base periods for various indexes frequently differ, and their components of selected commodities or activities likewise differ, the extent of fluctuations in the indexes will not be uniform, but their trends are useful for comparative purposes.

We are primarily interested in the two indexes quoted—the all-commodity index showing 88—88 and then 74 for the three periods, and the industrial index showing 85—87 and 80. That is very satisfactory price behavior over the past few months under the business conditions and psychological influences which would ordinarily introduce inflationary and speculative factors into our price structure.

Dr. Lubin and Dr. Thorp [1] have presented and discussed the statistical data and economic factors essential for your consideration of the price problem. We know the results to be expected from an inflation of prices, and we know the economic effects or, rather, aftereffects which flow from maladjustments between prices for products of various groups and classifications.

Going back to the war period of 1914–18 for a guide to use in the present situation, we find contrasting conditions in both the production and distribution of commodities which make comparisons with present supplies and prices of little practical value. However, we do find precedents which picture the results which would almost certainly follow duplication of the price policies of that period. Some of the factors and influences affecting prices may be beyond our control because of the international situation, but all of the important elements of our economy should, and I think do, want emphatically to avoid becoming involved in this war; they are equally interested in avoiding, so far as possible, a repetition of the deflationary difficulties experienced in the period following the last war. The statements of many prominent spokesmen for business assure you of their attitude on both points. Surely all will agree that we should do everything possible to minimize the effects of problems we cannot avoid.

Certain factors have become important in determining price policies. One which is very apparent is the development of statistical information and a parallel expansion of economic education for its interpretation and use. We have created tools for making comparisons and yardsticks for measuring results in situations which formerly set the stage for considerable speculation and hit or miss judgment.

Dr. KREPS. Mr. Renard, in this connection it was stated yesterday that figures for inventories might prove useful to industrial purchasing agents. Are you of the opinion that we have now adequate inventory figures, and, if we do not, could you explain in what way the industrial purchasing agent might find additional figures useful?

Mr. RENARD. There isn't any doubt but what the more information we can have as to supplies, which is inventory—inventory is the supply end of our two factors in the commodity price situation—the more information we can have as to the available supply the more satisfactorily we can fix sound price policies. There isn't any question about that. I would say that the more information that we can get that is authoritative and representative the better the purchasing agent, the better every element in the business economy would be.

In a number of fields we don't have saitsfactory inventory information, that is quite true.

Dr. KREPS. In which fields would you say the lack is outstanding?

Mr. RENARD. I wouldn't pick out any particular ones. I understand the Department of Commerce is just starting now on the development of inventory information. I don't know that I have seen anything. The only real general inventory information, I believe, that is available now is that which comes from the National Industrial Conference Board, which has only been developed in the past several months, I believe.

Mr. HENDERSON. Mr. Renard, take the work which the committees of your organization do on fuel oil and on coal for example. There

[1] Supra, pp. 11021–11065 and pp. 11065–11119.

isn't any doubt in your mind, is there, that that committee gets pretty accurately the stocks above ground in the case of coal?

Mr. RENARD. That is right.

Mr. HENDERSON. And what the inventory picture is and some idea of the orders ahead and that it is able to pass that along to your purchasing agents.

Mr. RENARD. That is quite true. Those are probably two of the best reports on supplies on hand and consumption available; and by the way, the coal report is developed in cooperation with the Government, with the Department of the Interior, now the Bituminous Coal Commission Statistical Section.

Mr. HENDERSON. I have followed that for a good many years through your bulletin. I have often wondered whether it failed badly at any period since you have been keeping it.

Mr. RENARD. Not that I know of.

Mr. HENDERSON. That is, barring some sudden change in demand and supply that couldn't be forecast, the picture has been satisfactory so far as the buyers of those supplies are concerned.

Mr. RENARD. For practical purposes, I would say yes. It may have been slightly off statistically, where you would gather an error and increase it as you went along for a few months but that has always been found and corrected over a period so there has never been a false picture presented; I think I can state that.

Mr. HENDERSON. That means, does it not, that in these cases the purchasing agents have to make their estimates several months ahead in their buying in order to get some of these supplies——

Mr. RENARD. That is quite true.

Mr. HENDERSON. In any quantity and some of those are on a contract basis, are they not?

Mr. RENARD. A great amount of coal is purchased even on a year's contract, or was before the present bituminous coal law went into effect, which is limited to 30 days until the prices are fixed.

Mr. HENDERSON. So if a purchasing agent guesses wrong on one of those things he is in serious difficulty for an extended period.

Mr. RENARD. Yes, sir; for a long period of time.

Mr. HENDERSON. In your mind, these two at least have proved pretty practicable.

Mr. RENARD. Yes, they have been good practical guides and not only our own members, the industrial purchasing men and the utility purchasing men make use of them, but we find the producing end of the industries are in entire accord with our development, and at times they make use of them.

Mr. HENDERSON. And the press does also. It takes them almost as standard information on those commodities.

Mr. RENARD. Yes; we have three reports, our business survey report, our coal report, and our fuel oil report, which are widely distributed and reproduced by the press.

Dr. THORP. Mr. Renard, one of the difficulties often cited with regard to getting figures of this type is that the business man doesn't have them himself, and that consequently if the Government or any other agency asks him for current information such as his inventory position, it involves him in a very expensive process of either additional record keeping or make-up of special accounts, or something of that sort. In your experience do you find that this information is difficult for business men to provide, or do they actually have it fairly readily available?

Mr. RENARD. Doctor, I would say that normally a business organization has the information available at all times as to what its inventory position is. They can hardly do business and figure costs unless they have that information. That is an essential portion of their business.

Dr. KREPS. Proceed.

Mr. RENARD. During the last 25 years, and, especially the last 10 or 15 years, there has been a continual and unusual increase in the statistical and economic information available to guide governments and business in the determination of policies. The responsibility and recognition given this economic committee and the valuable assistance given you by other important agencies of our Government, as well as by businessmen and their organizations, are the best evidence of that development. It is also evidenced by the information compiled and distributed by our Government, by our trade publications and daily newspapers, as well as by special services. We see it in the use of expert economic consultants by industry, agriculture, finance, and labor, as well as by government. There has been a comparable development in all important commercial nations, and the exchange of such information among them has multiplied its coverage and increased its value and use.

Representative business organizations know more about material and labor costs, fixed charges, overhead, etc., than would have been considered possible 25 years ago. That represents another development of statistical and economic education.

This broader knowledge and understanding can probably be attributed to the unusual conditions created by the 1914–18 period and its aftermath of booms and depressions. Certainly, you do not need a specialized education in economics these days to understand that cause and effect, boom and depression, inflation and deflation are related. The layman can even understand that effect, depression, and deflation are related to unemployment, relief, distress, debt, and taxes; and he can readily follow the economist in tracing them all back to a cause in the form of boom and inflation.

Because of the adverse conditions during the period of this development, we may have become overly conscious of the difficulties caused by surpluses and low prices. Our attention for several years has been focused on the problems of surplus production. Our efforts have been centered on protection for the producer, to assist him to stabilize and advance prices to a profitable level, or at least to secure for him the cost of production.

Other nations have had the same problem and the growth of quotas, tariffs, import excise taxes, blocked currencies, and other devices to protect the prices of domestic production has been the result. Within the last few months, that situation has been completely reversed in most nations. From the problem of bolstering prices for the producer in peacetime, they have turned their attention to the prevention of inflation of prices in wartime. That is also our problem.

Expanded production capacity during the former war, induced by inflationary prices and attractive profit possibilities, was the cause of many of our problems of the following years. In many instances, that expanded capacity had little opportunity to be used or, where used, its production became a surplus which depressed prices. Limitations on production and on hours of work are a result of that condition.

It has been found necessary in both industry and agriculture to secure prices which carry the added cost of nonproducing capacity. While it has not always been possible to do so, in many instances operations have been made profitable with a considerable percentage of plant capacity idle. That extra capacity, which was marginal and largely idle for a number of years, is a cushion which can, in many cases, absorb added costs without advancing prices.

Mr. HENDERSON. Right there, Mr. Renard, I gather from what you say that the charge which goes into price for idle capacity is a substantial portion of price.

Mr. RENARD. Depending on the percentage of idle capacity, yes.

Mr. HENDERSON. When there is a relatively low level of operation, and a company is trying to recover all of its overhead cost, particularly that for its idle capacity, it does have an effect on price, does it not?

Mr. RENARD. It certainly does if they are operating at a profit, because they must carry the overhead cost of the idle capacity.

Mr. HENDERSON. And it is always a factor which they try to recover, is it not?

Mr. RENARD. Oh, yes; that is the attempt.

Mr. HENDERSON. And that means that so far as the current production goes, there is a portion of the price which does not truly represent the actual cost of making that particular unit.

Mr. RENARD. That would be true where you have idle capacity, and that is included in your overhead cost; yes.

Mr. HENDERSON. So that means that a sort of Alice-in-Wonderland situation exists. When your production is low your unit cost is likely to be higher.

Mr. RENARD. Your unit costs would certainly be higher, because you would have that idle capacity included. Of course we have that same situation in connection with some of our labor rates. Take for instance in the building industry, we have got to the point, I believe, where in some fields wage rates are based on a seasonal period, the only time that they work, and they have to support them over a year's period on the seasonal production. I think that is a comparable situation in labor rates that you have in material prices, based on idle capacity.

Mr. HENDERSON. And then you have the converse situation, when a reasonably satisfactory level of production is maintained, the companies attempt to make up losses they have had in prior periods, and to get a cushion for the next prospective decline. Therefore, you have these losses which have an effect on prices, even at a higher rate of production, do you not?

Mr. RENARD. That is true. We talk about feast and famine periods. Some industries seem to operate on a feast basis at one time and go over onto a famine basis at other times, and a number of them try to equalize that so they can get sufficient profits to cushion them over those other periods.

Dr. THORP. Mr. Renard, you spoke earlier about the increased knowledge that the business man has. Would you feel that any considerable part of the business community has such exact figures of unit costs that its price policies could actually be thought of as a direct reflection of unit costs?

Mr. RENARD. I think a very considerable proportion of your business community does have that information, and that realization.

Dr. THORP. And it is a dominating factor in their price policy?

Mr. RENARD. Well, of course, at times it can't be, when prices get too low, but ordinarily it is one of the essential factors. Sometimes they have almost to disregard costs to meet conditions in some industries.

Businessmen know that increased production reduces the cost per unit by spreading certain fixed charges. Having followed that cost formula during depression years, those who operated profitably with idle capacity would seem to be stopped from reversing it now. Businessmen have learned from experience and have statistical history to prove the cost of an inflationary boom; the result is deflation and depression.

Labor, now well organized, likewise has its economists and statisticians. Industry knows that labor will demand and receive its share of the inflated prices, for they are reflected in living costs, and a vicious spiral develops. Labor problems multiply in periods of inflation.

The only real incentive for inflationary prices—profits—has been curbed by the taxing procedure of governmental agencies. Graduated taxes remove the unusual profits of an inflationary period; and the periods of depression resulting from inflation throw additional burdens on local, State and national governments, compelling them to secure greater tax income. We then have another vicious spiral.

There is neither a practical excuse nor a selfish reason for price inflation. By that I mean unjustifiable advances which do not reflect increased costs. We do have several important factors to consider, however, and should avoid the conclusion that any advance in prices is arbitrary and an evidence of profiteering. We must maintain a proper perspective and that may require an orientation of our thinking to meet the changed conditions created by the war and the expansion of production.

If we are to have elastic rather than rigid prices, they must go up when conditions warrant. The indices used to measure price trends are an average of the prices of from 30 to several hundred commodities. The price action of a single commodity or a group or classification may be lost in the compilation of an index average; so, fair judgment requires consideration of its background. A low price moving higher is entirely different from a high price moving up. Therefore, the starting point may well determine the reasonableness or justification for an advance or decline.

Some materials have been entirely too low in price—too low for the producer, labor, or the public interest. Government must secure its income from taxes on profitable operations. We all wanted prices in some classifications to rise; we hoped for better business which would permit them to rise. So, an advance can hardly be condemned. Certainly there can be no valid objection to a justifiable advance in prices. It is equally true, however, that price advances are not justified merely because others are doing it.

Dr. KREPS. In this connection, Mr. Renard, have you any evidence that recently there have been price advances which were not justified but were made merely because other prices were increasing?

Mr. RENARD. The general evidence is that our prices have stayed fairly well in line, particularly the industrial prices that I speak of. I wouldn't want to pick out any particular commodity that has gotten well out of line, but you can take any commodity that has advanced more than, say, 25 or 30 percent and I would say that was getting out of line, even if it was going from a low level, because the average advance has only been about 12 percent, something along that figure.

Mr. HENDERSON. I don't want to question you about individual commodities, but let me ask you whether your association and its membership have felt that some prices are out of line.

Mr. RENARD. Here and there, there has been some questioning of prices, yes, that is true, and the feeling that they advanced a little bit too far and too fast, but those have been the exceptions, however.

Mr. HENDERSON. But your association has no means as an association to deal with those prices?

Mr. RENARD. Oh, no; we don't even attempt to, except to inform our members through our regular information services of price conditions in the different fields. We don't ever attempt at any time to directly influence prices up or down.

Mr. HENDERSON. That is, if the material you collect and disseminate relating to, say, fuel oil or coal, seemed out of line statistically, your association wouldn't think as an association of asking the American Petroleum Institute for a conference on prices?

Mr. RENARD. Oh, not at all. No, we would present the information on that picture to our members and let them draw their own conclusions.

I think I could say that the average industrial buyer has sufficient economic information to know when a statistical position is out of line.

Mr. HENDERSON. I mean that a well-informed buyer, and as I understand it, you have most of the big industrial purchasing agents in your association——

Mr. RENARD (interposing). A very large percentage.

Mr. HENDERSON. He would know that if there was a very high inventory in rubber or tin or the like, it was a time for caution in buying and he would act individually on that matter?

Mr. RENARD. That is true, and by being informed on factors that possibly are not general information, he would form conclusions possibly different than he would otherwise.

As a good example, you mentioned fuel oil. There might possibly be the general impression that we would be going in for an extreme shortage of fuel oil because of the international situation, the situation in Europe. On the other hand, the average, you might say ultimate consumer now, differentiating between the ultimate consumer and the export consumer whom we represent, might not take into consideration the fact that the use of oils in the belligerent states has been practically prohibited; in other words, England doesn't permit them to take gasoline for use in private automobiles, and Italy doesn't, and of course Germany can't, so that instead of having a much larger demand on our oil industry for the supply of oil, the chances are that at the present time the demand is lower than it was in August because of that situation.

Dr. THORP. What has been the recent record of prices of fuel oil?

Mr. RENARD. They have been strengthening somewhat. I wouldn't say that they have strengthened—in fact, Dr. Thorp, I don't know just how much, but our last report I know pictured fuel oil, and the lubricants particularly, as being in a stronger position than they had been for some time.

A good bit of that, of course, is due to the carrying charges too, from the Gulf around, and to this transfer of boats and so forth, as to whether or not we are going to have the same transportation mediums that we had before. The cost of transportation alone has been considerably higher. Of course we had a shut-down in the oil industry for some time to reduce the tremendous surpluses that they had in certain sections, so that the statistical position has been working in somewhat better position.

Mr. HENDERSON. I wouldn't want to check you on that, but the testimony in the oil hearing[1] was that that was for purposes of conservation and not for purposes of affecting surpluses.

Mr. RENARD. Well, that may be true.

Mr. HENDERSON. That may be true but there was serious doubt about it.

Mr. RENARD. I wouldn't question the gentleman who made that statement.

Mr. AVILDSEN. Why should the cost of transportation go up?

Mr. RENARD. Because of their drawing some of our boats out of the ordinary channels of transportation would be the only real reason for it. On the other hand, it might be our American boats that normally would move to Europe might be tied into the coast trade, as we call it, and really give us a greater transportation medium than we had before. That is in a sort of condition of flux, I believe, although a number of our larger tankers I believe have already been transferred to foreign registry.

Mr. AVILDSEN. Has there been an actual increase in transportation costs? Do they pay more wages? Do they pay more to operate the ships?

Mr. RENARD. I don't know just where the element comes in, whether it is insurance, wages, or what it is, but there has been a higher rate; transportation costs from the Gulf around to eastern ports I know for the past 3 months have risen, but that again was moving from a tremendously low rate that they had early this summer.

Mr. HENDERSON. One more question about the nature of your association. In your association you have purchasing agents from companies which are buying the products of companies represented by other members. For example, you might have purchasing agents from steel and aluminum companies buying oil and purchasing agents for oil companies buying steel and aluminum. Isn't that correct?

Mr. RENARD. That is true. We have probably the widest cross-section of membership in that way, a variety of industry, of any organization in the country. We have over 5,400 members.

Mr. HENDERSON. How many?

Mr. RENARD. Fifty-four hundred, and representing, I can say, almost all of the large organizations and a considerable percentage of the medium and a number of the smaller industrial organizations.

Mr. HENDERSON. And you have an active interchange of information between those purchasing agents, do you not?

Mr. RENARD. Generally, speaking, yes.

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[1] Dr. Joseph E. Pogue, vice president, Chase National Bank, New York City, testified, on the subject of proration and conservation, in Hearings, Part 14. Col. Ernest O. Thompson, member, Texas Railroad Commission, testified, on the administration of proration in Texas, in Hearings, Part 15.

Mr. HENDERSON. It is a working organization rather than——

Mr. RENARD (interposing). Very cooperative. It is purely a service organization exchanging information, yes.

Dr. THORP. I would like to ask a question in connection with this phrase of the "reasonableness or justification for an advance or decline." You point out certain things, the matter of cost, the matter of the question whether prices are in line or not. I am wondering what kind of tests the purchasing agent ordinarily will use in terms of whether or not he feels that he should yield to a demand for higher prices from some seller, what kind of criteria one can adopt for rather quick judgment on whether a price advance is reasonable or not.

Would you feel, for example, that price advance could be reasonable at the same time that inventories of a product were piling up?

Mr. RENARD. Generally speaking, no; there might be some exceptional conditions that would make that possible, yes.

Dr. THORP. Would you feel that a price advance was reasonable if an industry was operating with a large volume of unused capacity?

Mr. RENARD. That would depend on the price. If the price was exceptionally high and it was including a large volume of unused capacity, you might question that.

Dr. THORP. Isn't one of the purposes of low price to bring as much demand as possible into the market and therefore to get as much capacity into use as possible?

Mr. RENARD. That is true, yes. In other words, the nearer you can come to production capacity the lower your unit costs should be.

Dr. THORP. Would you feel, then, that if one were faced with the problem of observing price behavior that inventory and capacity figures would be very relevant in making quick judgments at any rate?

Mr. RENARD. I would say so; yes sir. We have had a good example of that over the past few years, that you are probably familiar with in our paper board industry, the so-called container industry, which is the final manufactured product; through the development of Dr. Hurley, I believe, in the use of southern pine and the manufacture of kraft paper we have had a tremendous increased capacity in that particular industry, and we have brought in really a competitive process between the kraft manufacturer and the jute board manufacturer, so that we got prices down probably too low for either one of them to operate satisfactorily. I think that has been recognized by the buyer, and today prices having advanced in that particular industry more than we might say the normal advance over the entire price average, might not mean that they had been unjustifiable advances, because we have had a complete new picture in that industry of competition between new processes and new capacity coming in, forcing prices down to a subnormal level, probably. So that there is a question of where your price starts from, which enters very strongly, because with the competition between new processes and the tremendous new capacity there isn't any doubt at all but what there is a large part of vital capacity in that industry and, at the same time, they couldn't include their entire overhead costs in their products.

Dr. THORP. If those prices advance, won't that curtail the demand and just make the situation worse?

Mr. RENARD. In that particular industry?

Dr. THORP. Yes.

Mr. RENARD. No; their prices didn't advance until after they got a tremendous increase in demand.

Mr. HINRICHS. That is, your justification in that particular instance is the fact that they were forced by the demand to resort to the use of high-cost capacity.

Mr. RENARD. Yes; they got back into full production, both the jute board mills and the kraft mills, as I understand it.

Mr. HINRICHS. But do you think of any circumstances in which you would justify a price advance where the idle capacity was itself relatively efficient capacity that you were calling into use?

Mr. RENARD. I don't believe I get the question.

Mr. HINRICHS. You said that the existence of idle capacity would not always indicate the unreasonableness of a price advance, that it would depend upon the level from which you started. The example that you cited of kraft board was a case of calling into use high-cost capacity that had been idle because of its high cost. There seem to be some instances in which relatively efficient capacity is also kept idle during periods of extreme depression. I was asking if you would in judging of the reasonableness or unreasonableness of price advance, assume that the presence of efficient idle capacity was always an index of the unreasonableness of the price advance no matter from what level it might have started out.

Mr. RENARD. No, I wouldn't say so, that it would always be an indication, because that would depend, too, on the profitable operation of the company. In other words, if a company can operate at a profit with a considerable amount of efficient capacity idle and carrying that idle capacity in its overhead cost, then you do have that cushion in there, but if that company is operating at a loss you have an entirely different problem and I understand that was true in this particular industry, the paper board industry, that they hadn't been getting prices that would return them profitable income. Do you get my distinction on that?

Mr. HINRICHS. Yes, I do.

Mr. RENARD. Another point on which we must get a proper perspective is the changed relations of governments to all of the factors in our economic life. This changed relationship brings to government a responsibility for prices not only when they result in unemployed men and sick industries, but during the preceding periods which create those conditions.

Dr. KREPS. It is an interesting thesis, Mr. Renard, that government should prevent the disease of price contagion which you have described above rather than try to ameliorate the evil effects afterward. I am not quite clear in my mind how you would distinguish price contagion, that is the spiral of price inflation which you believe the Government ought to try to stop—from a healthy price rise.

Mr. RENARD. I think that I develop a little later on, Doctor. That general information on the picture of conditions on supply and demand is one of the best ways to do it, just as this committee is doing here. If we can keep all of that information out in front of us so we know where we stand and the dangers of moving in the wrong direction, I think it is the most helpful effect we can possibly have. I do believe that if Government is going to be entirely responsible for the bad situations that we might get into, that Government should also accept some responsibilities to try to avoid those dangers, if we can develop any sort of an arrangement through which the Government can assist industry to stabilize and get away from some of this difficult deflation that we apparently have to go through as a result of inflationary periods.

Dr. KREPS. You also believe that the action of government should be along the line of getting information on particular commodities?

Mr. RENARD. I think information is probably the best source that we can use to try to avoid this situation.

Mr. HENDERSON. What do you think the Government ought to do if it finds that there is an association which is exchanging information among its membership as to prices, as to the rate of operations, stocks on hand, and the like, and not making it public to the buyers?

Mr. RENARD. Well, I think the more of that information that we can make available generally the better position we will be in to prevent these situations, and I think that it is for the best interests of industry to make that information available, because industry must suffer along with the entire economy when we do get into these deflationary periods.

Mr. HENDERSON. The reason I asked is that one of the illustrations you used recently of a commodity is one in which the industry association does have extensive information for its own members only, but not available to the buying customers or to the public generally.

Mr. RENARD. I think that is a mistake. I think that is a mistake upon the part of that industry to conceal that information. I think it is a mistake on the part of any industry to develop statistical information on supplies, operations, and so forth, and then limit its use. I think that it should be made available just as widely as possible.

It seems highly improbable that we can ever again have an uncontrolled sellers' market with "all the traffic can bear" prices, for we know such profits are fool's gold and the only plausible incentive there ever was for them has been removed. Certainly it can only happen in this country, for all others, for the period of the war at least, have governmental controls over prices, production, imports, exchange, exports, and so forth. Democratic procedures, apparently, are luxuries which no nation can afford when engaged in war. Centralization of control in a democracy must meet and overtake the production efficiency and speed of decision and action in a totalitarian government.

Acting Chairman BORAH. Would you like to amplify that a little?

Mr. RENARD. I think I do a little further along here, Senator, with the idea that our democratic nations that are at war have gone to practically dictatorial methods or procedure insofar as control of commodities and so forth.

Acting Chairman BORAH. Very well.

Mr. RENARD. This country is planning to spend enormous sums of money for preparedness. Those expenditures are almost unanimously approved and supported because there is general understanding that other forms of government threaten any democratic nation which does not maintain efficient military and naval defenses.

Controls in other important nations of the world may also find us at a disadvantage economically. Unless we are careful, the clouds of war may have a silver lining for them and the rosy attractiveness of our neutrality may conceal a few thorns.

The British Bill of Goods Act, as I understand it, establishes prices on a pre-war basis and advances must be justified by increased costs. If that great democratic people continue that careful control, where will we be if our price level goes skyrocketing? Aside from the immediate disadvantages in world trade, with currency exchange rates advancing our prices in most export transactions, the end of the war would find us in a difficult competitive position. The most modern mills, factories, and foundries being equipped by other nations for war production will remain to compete for peacetime trade, with prices and exchange already in their favor.

The war activities of those nations, the business end of it, are being handled by their most able businessmen and most representative trade organizations. It is entirely possible they are giving more consideration to those future conditions than we are. It is very essential that we do so.

Purchasing executives know the advantages of centralization in control over procurement and distribution of material. Almost every nation we wish to deal with now has that advantage—and the Robinson-Patman Act and the Federal Trade Commission do not reach them.

Dr. KREPS. Could you amplify that? What has been the effect upon foreign purchasing as you see it today?

Mr. RENARD. The effect so far has not been unsatisfactory, as I mention a little bit later, but there isn't any question at all but what all the important nations of the world now have a centralized control over their purchasing, production, and distribution of all important materials.

Mr. HENDERSON. And they are acting as a unit, and if they buy in this market they are pretty generally dealing with individual companies.

Mr. RENARD. That is true. In other words, they have the entire British Empire dealing through one agency. The same thing would be true of any other of these nations at war.

Mr. HENDERSON. One thing which we passed over rather hurriedly is the interesting view you set forth that if we stand idly by and let our price level go skyrocketing and the British and others keep their prices within control, we would be at an even greater competitive disadvantage in world trade if peace broke out. Is that your point?

THE PROBLEM OF ADEQUATE SUPPLIES OF COMMODITIES CONTROLLED BY BELLIGERENTS

Mr. RENARD. That is the point I was trying to bring out there; yes. Even at present in the discussions that we have of extending our world trade, our foreign trade, for instance, to South American countries, we might find ourselves in that position now; even with the exchange running against us we might find controlled prices coming from some of these other countries, making it impossible for us to get that foreign trade.

Mr. HENDERSON. Isn't it true that a number of our American corporations already have to sell in foreign markets at prices lower than local consumers pay in order to get business?

Mr. RENARD. That has been true over the past several years, but I believe that they are swinging into other directions now, and, as a matter of fact, in the recent announcement of steel prices for the first quarter of 1940 the very unusual statement was made that that was for domestic sales only; in other words, I believe that now the foreign prices of steel are carrying a higher price than the domestic price, although generally speaking that is not true. You see, we have a Webb-Pomerene Act that permits our industrial organizations to get together and fix prices for export.

Mr. HENDERSON. Yes; but that is selling as a group. Where there is no export association, a number of American corporations have had to sell, they felt, at lower prices in foreign markets than they were charging in the local markets. Isn't that true?

Mr. RENARD. That is true; that is very frequently true.

Mr. HENDERSON. And if we had the kind of situation you outlined here that might take place under the British Goods Act, they would be at even greater disadvantage later.

Mr. RENARD. Yes; that is what I was trying to picture in that statement, that they might be able to control their prices through their governmental agencies and keep us at a decided disadvantage if we permit our prices to get inflated.

Mr. BALLINGER. What do you mean by the statement that the Robinson-Patman Act and the Federal Trade Commission do not reach them?

Mr. RENARD. We have no control through our governmental legislation over the activities of these foreign governments, so far as I see.

Mr. AVILDSEN. What does the Robinson-Patman Act do to prices?

Mr. RENARD. The antidiscrimination Act.

Mr. AVILDSEN. What is the effect of that on prices?

Mr. RENARD. What I am trying to bring out there is there isn't any reason why these controls—certainly they haven't so far, at least so far as I know—there isn't any reason in the world why they couldn't develop discrimination in prices in order to hold some of this foreign trade.

Dr. THORP. Perhaps we might state it this way: That the Robinson-Patman Act requires businessmen in their sales to have sales to various competitors, competitive purchasers, kept in line, and the interpretation would probably not include sales to a foreign government as being sales by a competitor of a domestic consumer, therefore would not extend to control over the price structure where the sales were made in foreign markets.

Mr. RENARD. There is a possibility, you see, of them handling their sales to this country and to other countries on an entirely different basis. We don't know. There isn't any way for us to regulate that. That is within their control, not within ours.

Mr. HINRICHS. In the last war the buying of many of the belligerent countries was decidedly an inflationary force, wasn't it? A part of their buying in 1914–15 was rush order, large volume buying, from a buyer's point of view rather badly, awkwardly, done.

Mr. RENARD. So I understand, that there was considerable competitive bidding even among the different nations.

Mr. HINRICHS. Has there been any evidence so far of this foreign buying as a disturbing force? Has it come in in large chunks into the market and given temporary spurts, or is it being done as business-like buying, quietly and continuously at the present time?

Mr. RENARD. I would say it is being handled very carefully at the present time, that the procedure for the British Empire buying, which is the only one that has received a great deal of publicity that has come to my attention, has been on a very businesslike basis. They have established offices, I suppose, here in Washington, working very cooperatively with our own Government's Procurement Division.

I don't know, I just surmise that. But I know they have very able businessmen at the head of their office in New York, with a man that was formerly at the head of a big Canadian organization, and they have brought experienced men in, and I understand they are getting away from competitive bidding which would act as a lever on prices to them.

Mr. BALLINGER. The Robinson-Patman Act doesn't mean our own Government, doesn't restrain the United States Government when it purchases.

Mr. RENARD. No; I don't believe it even applies to one of our subdivisions like a city or State.

Dr. KREPS. Do you associate the newer and better methods of buying on the part of the British Government with the fact that to do their war buying they have substituted expert purchasing agents for military officers who, however patriotic, are amateurs in the ways of industrial markets?

Mr. RENARD. Well, I wouldn't make that direct contrast, but I would say that they have certainly put the control of their procurement into the hands of a business organization, experienced businessmen. There isn't any question about that. That is true, as I understand it, in their Ministry of Supply in England and right down through their agencies in this country and in Canada.

Mr. AVILDSEN. Mr. Renard, is there any publicity as to what the British purchasing commission is buying in this country? Do we know what fields we are going to feel their bidding in, their purchasing and so forth?

Mr. RENARD. So far I have seen no general publicity given to that. Reports are, of course, that they are buying heavily in the aircraft industry and in the machine tool industry, and I haven't heard of it in any other industries. There was one very large order, I think for shoes in the shoe industry, but generally speaking the reports I get are that it has been confined to the aircraft industry and the machine tool industry.

Mr. AVILDSEN. Do you feel that a purchasing agent would be at an advantage if he did have that information as to what they were buying, and so forth, so he wouldn't be running into competition with them on the bidding side?

Mr. RENARD. If it were getting to the point where it is going to disturb markets; yes. If they were going to come into our markets, for instance, and tie up deliveries of our manufactured products, not only their procurement work but our own Government's procurement work, which might have the same effect, should be known to business organizations.

Mr. AVILDSEN. Can you see any disadvantage to the British commission to publish such information?

Mr. RENARD. I wouldn't see any particular disadvantage in it. There might be some disadvantage in publishing complete price information, but insofar as the requirements that they are taking out of this market, I wouldn't see any big disadvantage in it, any more than there would be for published statements of our own Government buying, which is public information, I believe, if you can find the right documents.

Mr. AVILDSEN. What would you think of your association asking them to make that information available to your members?

Mr. RENARD. We have had a few requests from members who ask us if it were at all possible to find what materials were being bought by Government for war purposes or for the preparedness program, but I have told them frankly that I didn't know where they could secure the information unless they secured it from their suppliers. We get the requests from the angle that a buyer, for instance, for a large industrial organization thinks that if his suppliers are going to be tied up with a considerable amount of war material, he would like to know that and anticipate in advance so that he can spread his requirements over other suppliers, so that he wouldn't get tied up on deliveries. Our problem there, so far, I think has been more a question of delivery than of price. If you tried to buy some machine tools today I suppose you would have to wait quite a long time in order to get them. Of course the average industrial organization doesn't buy airplanes, so we are not particularly tied up there.

Mr. AVILDSEN. I know my company tried to buy some machine tools recently, and we were quoted deliveries of over a year on certain types. We couldn't get any in less than 14 months.

Mr. RENARD. I understand that that is a condition that is very difficult to overcome, and I understand a considerable amount of that is due to foreign purchases.

Mr. HENDERSON. Have you heard, Mr. Renard, that some of the foreign governments are buying up complete machine tool plants and taking them abroad?

Mr. RENARD. I have seen reports of that. I don't of my own information know that, but the Journal of Commerce in New York published a report about 10 days ago that an entire machine shop in Detroit had been purchased and was going to be moved, I don't know whether it was to France or to Canada, and mentioned the possibility of taking an entire plant and its equipment out of this country. I don't know of any actual instance of it being done, but that report has been even in such a well-known trade publication as the Journal of Commerce in New York.

Acting Chairman BORAH. You may proceed.

Mr. RENARD. The nations at war want our manpower converted into the production of our mills, foundries, and machine shops. They do not want our pig iron or other materials but they do want the airplane engines and machine tools; our men, plants, and management can make from those materials. We want and need certain raw materials those nations can furnish. There has been no shortage of raw materials so far; there seems to be no present need to anticipate either a shortage or a scarcity of them.

This country has a double-barreled objective to watch and provide for in that situation. First we must avoid, for our own good as well as that of our foreign customers, the probable result of a bottleneck created by the demand in a few industries for skilled machanics. That could blow up the price level of finished materials and induce maladjustments with dangerous results.

We must make certain also that adequate supplies of tin, rubber, manganese, chromium, silk, burlap, wool, and other essential materials which must be imported are made available for our requirements at prices which do not act as a lever on our price levels. As our supplies of these materials must now move through governmental control agencies of the producing countries the influence of this Government might be helpful. Perhaps that is already being given to us, as there has been no cause for criticism and this comment is not intended as criticism.

Mr. HENDERSON. I gather what you say is that tin, rubber, manganese, chromium, silk, burlap, and wool and some others are under control agencies of foreign governments.

Mr. RENARD. Of the producing governments abroad, yes.

Mr. HENDERSON. That means that an individual producer in this country usually has to treat with an organized producing group.

Mr. RENARD. That is true. Their production and sale, as well as their purchases, are funneled through these governmental controls. For instance, the British Government, as is well known, took over the entire Australian wool crop; recently a certain percentage of that has been released, possibly through the influence of our own governmental activities, so that probably a few months from now, in fact at the present time, there is not the shortage that seemed apparent only a few months ago. That is an illustration. The same thing could be true in any of these other essential materials that we are compelled to import.

Mr. HINRICHS. The price of wool is up about 45 percent now over its August level, isn't it?

Mr. RENARD. I don't know just exactly what the figure is, but it has declined somewhat over the past month. I think it got up higher than that, and declined some.

Mr. HINRICHS. About 154 was the peak in our series, I believe. I am reading from the chart.[1] It looks as though it got to 154 and declined to 145 in the past month.

Mr. RENARD. There has been a decline there. I think that is due probably to the fact that the information has gone out that a certain percentage of this British production of wool will be made available to us so that we won't have the shortage that we feared. We may have a scarcity at the present time, but it is not an actual shortage so far, and not nearly such an apparent shortage was we were thinking of say 60 days ago.

Mr. HINRICHS. We have two concerns, haven't we? One is a physical shortage in which you are prohibited from receiving more than a certain supply, and the other is the question of a possible monopoly price which you are asked to pay even with reference to fairly adequate physical supply.

Mr. RENARD. Yes, they might make the material available to us and still put a price on it that would be high.

Mr. HINRICHS. That would act, in the case of some of these materials as a fairly substantial price lever on the American economy.

Mr. RENARD. Very definitely. For instance, if they could jack up the price of wool, it would of course have its effect all through woolen products.

Mr. O'CONNELL. What you are suggesting as regards these commodities to which you have referred is that the power exists upon the country controlling the output, the same sort of power any monopolies

[1] See "Exhibit No. 1472," supra, p. 11056.

would possess, to charge whatever the traffic will bear. We have no way of knowing yet whether that power will be exercised, but it exists.

Mr. RENARD. I think that is true. I think they are organized, and I don't think we should take snap judgment that they are going to use that organization wrongfully, and I think we should have organization to at least present our picture of the situation and see that we do have proper influence at court when the time comes when we do need these commodities. In other words, as I understand it, back during the previous war period, the tin prices got exceedingly high over a period, and then through an agreement, as I understand it, worked out between representatives of our Government and the tin control committee in London the price was very materially reduced, just through an arrangement made by representatives of our Government with the representatives of that Government which had control.

Mr. HENDERSON. Mr. Renard, in that connection I have before me some of the testimony of Bernard Baruch of the War Policies Commission, and he said—I am quoting:[1]

> When such study indicated new foreign sources, the power of the Board—

The War Industries Board—

> in the field of international economic strategy was immediately called into play. Some of the incidents of this administration were almost romantic. We withheld Swedish iron from the Central Powers by buying it ourselves, persuaded Chile to disgorge nitrates by the discovery that her gold reserve was sequestered in a Berlin bank. We drove from Spain the mules she had refused us by dangling before her a supply of ammonium phosphate for which she was starving, procured jute at a reasonable price by threatening to cease the withdrawal of silver dollars from our monetary system, which we had done to stabilize Indian currency.

That indicates the romantic methods this Government was called upon to employ last time in order to get some reasonable supplies of things we needed. Isn't it true that in the last war we had considerable difficulty in getting all these commodities you mentioned for our industrial purposes?

Mr. RENARD. That is quite true, until our War Industries Board used these romantic methods, as you say, which stated baldly, I think, is that they used pressure in representing the demands of our industries and our Government for those materials.

Mr. HENDERSON. They had to have them and they went out and got them.

Mr. RENARD. I think that is true. I think if it comes to a showdown we should be in a position to do the same thing again if necessary.

Mr. HENDERSON. That is, even in this period of neutrality.

Acting Chairman BORAH. What will they likely do when we do that with our cash-and-carry proposition?

Mr. HENDERSON. I should be glad to hear the Senator on that.

My point is this, isn't there a likelihood that American producers are going to be up against a great deal of control of these important commodities, and since they need them so badly and these countries need buying power so badly, these countries will be tempted to use their power to jack up prices?

Mr. RENARD. Of course there is that offsetting factor, that they do need their buying power in this country for certain materials that they must purchase over here. They need the exchange to finance that. Of course we hear lots of reports about how much exchange

[1] House Doc. No. 163, p. 43, 72nd Cong., 1st Sess., "Report of the War Policies Commission to the President."

they already have here, how much money they have available in this country to buy, but they are also going to have boats moving over here in order to take purchases out of this country, so they will want to get materials to us. There are these factors favoring their supplying these materials to every possible extent they can. They will have boats coming here to get our materials and they can very well bring materials over. They need money with which to buy the materials over here, so there is that factor. But if it does come to a show-down, there might be the possibility that they would get prices out of line for some of that material, which would, as the Doctor says, become a lever on our prices.

Dr. KREPS. They would have an interest in having the price of wool relatively high, would they not, because it would make more foreign exchange?

Mr. RENARD. There would be that factor, unless there was too much of a differential between our prices and their own, although of course depreciation of currencies within those countries may offset that. As we go along in this period the chances are that those currencies will depreciate even more. There is an 11-percent depreciation now with Canadian exchange, so that throws our prices that much higher in purchasing here as against purchasing in these countries.

Mr. HENDERSON. Independent of the method that might be used, whether romantic or otherwise, there is no doubt in your mind, is there, that this Government needs to keep an eye on the prices of controlled commodities that come from abroad?

Mr. RENARD. I would say, generally speaking, that is true, yes. I think that probably has been done and that probably is one of the reasons why they have been so satisfactory over the past few months, but certainly we should pay careful attention to those prices.

Dr. THORP. May I ask one question, Mr. Henderson? Are those devices which you have quoted ones which were used prior to the entry of the United States into the war, or subsequent to that time?

Mr. HENDERSON. They were after, I think.

Dr. THORP. Was there any indication during the World War that the Government used any of these devices in the interests of our own consumers or our own domestic industry, or did the problem only arise after we entered the war?

Mr. HENDERSON. As I recall from the War Policies Commission report, it did not arise until after we went into the war. I don't believe that there were substantial uses of any pressures on commodities.

Dr. THORP. I think it is an interesting point to note that we suddenly became concerned about these price situations only after we entered the war, although they had existed in a number of cases for some time before that, but up to that time the cost and burden had been on industry and on consumers, and it was only when we faced the problem of Government organization that we became aware of the difficulty. You would feel, Mr. Renard, wouldn't you, that there was a very serious impact of these prices on consumers within the country quite regardless of whether or not we were engaged in a Government program of preparedness or of Government purchasing?

Mr. RENARD. I think that we have that very definitely to keep in mind, Doctor, as well as our own governmental program of preparedness which, as I understand it, is getting under way now.

Mr. HENDERSON. As I recall from reading various records of war economics, at the time this Government did try to exercise some of its powers in relation to getting materials, prices were already so far out of hand there was very little that could be done about it.

Mr. RENARD. Yes, if they once make the move it is difficult to bring them back.

Another important factor is the procurement procedure of our Government in handling the preparedness program. Our Government is and will be the largest factor in the purchase of many materials. The procedure should be sound and carefully handled to prevent the development of artificial price levels. Congress has given our procurement officers a difficult job by instructing them to purchase and store materials at this time.

Dr. KREPS. Would you like to amplify that by an example or so?

Mr. RENARD. If you will let me finish that paragraph, I believe I would.

Perhaps that policy of inventory accumulation will have bad after effects just as similar piling up of inventories by business does. The immediate problem is to secure mileage for the dollars spent, in material values. Careless handling of this large buying program could easily inflate prices, and values must have first consideration regardless of market conditions.

What I am trying to bring out there is that unless we are very careful in our purchasing procedure for our very extensive preparedness program we will find Government and our own industries bidding for the same materials, which naturally will create an inflationary effect. One of the best illustrations you can possibly have for that is the price of hemp and the movement in the price of hemp a few months ago, when the Government Procurement Office attempted to, or at least asked for bids on about 20,000 tons, which is possibly half as much as we have normally imported in any year over the last 7 or 8 years, and certainly a great many times any amount that the Government has purchased in any recent period. That naturally would just skim the market, as you would say, of all the hemp that would be available, and have everyone bidding for it.

As I understand it, the price of hemp doubled within a week or 10 days. Then the Government withdrew its inquiry, apparently realizing it was having a too unstabilizing effect on the market, and that market has settled back partially, but nowhere near back to the point it was. Does that answer your question?

Dr. KREPS. Yes.

Mr. HINRICHS. Anybody who was so unfortunate as to buy hemp at that same time is left holding it rather high and dry, isn't he?

Mr. RENARD. Yes; he is left with 13-cent hemp, because the price has since dropped to about 10 cents, whereas before this movement it was about 5 cents, or slightly over 5 cents. The peculiar situation there is that a large part of this hemp comes from our own Philippine Islands, as I understand it, and we shouldn't have any great difficulty in our own governmental agency in securing products from the Philippine Islands. If it were coming from Germany it might be an entirely differet problem, because it might be tied up so that we couldn't get delivery of it, but why we should try to tie up all of the hemp that our Navy, for instance—and I suppose it is for the Navy—

could use over a period of 3 or 4 years in just a short time like that is hardly understandable.

Mr. O'CONNELL. Mr. Renard, how would you suggest meeting that type of problem? Would you say the collection of adequate information as to the available supply and other market conditions was essential to buy intelligently?

Mr. RENARD. I think a general picture is what you have to have there; yes. We have a number of problems in connection with this preparedness program that are going to be exceedingly difficult to handle, especially as the Government, and very rightly, believes we should have supplies of certain of these essential materials. But of course the proper time to purchase them would have been about a year ago or 3 years ago, in one of these periods when there was an enormous overproduction, rather than during the war period.

Now, going in at this period, we have to be exceedingly careful to avoid inflating our prices by these purchases. I think one element that must enter into that picture is that a great many of these essential materials the Government can't use in their raw form. They have to be manufactured and processed by our American industries, and why the Government should carry a duplicate stock of the materials our industries are going to have to process for the Government before they can be used is a little bit difficult to understand.

Now, if we are going to have Government and industry both bidding for inventories of the same materials for the same purpose, we are naturally going to get into an inflated position. Industry and Government are going to have to work close together without question on our preparedness program and on any program which requires the processing of materials, and I think there is a point where we should begin to start working together.

Dr. KREPS. If the industrial purchasing agent were asked over a period of time to get 20,000 tons of hemp, what in general would be his procedure? Would he get the order all at once?

Mr. RENARD. No; the chances are that he, of course, would have the advantage of handling it through negotiation with the sources of supply rather than just coming out and bulling the market by asking for 20,000 tons of hemp.

Dr. KREPS. How would you suggest, then, that the Governmental procedure in purchasing ought to be modified to accord with industrial purchasing procedure?

Mr. RENARD. I am not an expert on Government procurement and I wouldn't want to make any definite statements that might appear critical of our Government procurement officers without knowing much more about it than I do, but I think that there is a fine opportunity there for us to use the procurement methods that are used in industry rather than, well, to use a good illustration, the best thing I could say is that if the Congress decides that we want $10,000,000 worth of manganese, we shouldn't be interested only in spending $10,000,000, we should also be interested in how much manganese we get.

Mr. HENDERSON. In other words, in a situation such as you have described, instead of the more you buy the cheaper the price, the more you buy the higher the price?

Mr. RENARD. By cleaning up the market, that is true, and particularly where you are getting duplicate stocks and competing with industry for those stocks.

Manganese, as I understand it, taking that as an illustration—there is no shortage of it and no difficulty about it so far as I know, is largely used in the production of steel, and our steel producers are the ones that are going to have to use that manganese in order to supply it to the Government.

I don't know just what the Government is going to do with a tremendous supply of manganese, except in their own arsenals where they do probably use some portion of it. But a very large part of that manganese is going to be processed in industry, and it seems to me that, as I said before, there is a point where Government procurement and industrial procurement should begin working together if that manganese is going to have to be used by the steel industry, it would seem to me that the steel industry could be very helpful in working out the plans for procurement rather than bulling the market on it.

Mr. AVILDSEN. Do you think the laws requiring public sealed bids should be modified? Do you think the Government Procurement Office should negotiate like a private corporation?

Mr. RENARD. I wouldn't say that and I wouldn't want even to give an opinion. You can probably get a much more expert opinion on that from Dr. Forbes, who I understand is going to talk to you a little later,[1] as we in industrial purchasing recognize Dr. Forbes as an outstanding authority on Governmental procurement.

Mr. HENDERSON. He has also been recognized by the Government. As I understand, he has been called in as a technical consultant.

Mr. RENARD. Since that would be the better evidence, I would hesitate to give an opinion.

In my opinion, price behavior of the last few months has been very satisfactory, and the statistical information confirms that view. A very desirable moderation has been shown, and the attention given this important problem by the Government and bv the leaders of industry has been admirable.

Included in the announcements of first-quarter prices for steel and aluminum—which by the way were announced with no changes, as you probably know—we find sound advice to all businessmen. We can hope that leadership which says: "This company is not in favor of taking advantage of extraordinary conditions to seek prices out of harmony with costs," and "In spite of rising costs and many uncertainties, we desire to cooperate in preventing inflationary tendencies," will be followed, for we may be entering an extended period when inflationary dangers will always be present.

One essential service is a continuance of the development of sound statistical information as a basis for decisions on price policies, and the distribution of those statistics. Information on the availability of materials was never more important and it has decided influence on price trends. One of the long established indices of demand—machine tool orders—is no longer distributed generally.

That is just within the past 3 or 4 months.

[1] For testimony of Dr. Russell Forbes, see infra, pp. 11150-11166.

A year or more ago the copper industry discontinued, for a time, the distribution of important supply and production information.

That, by the way, has, I understand, again been discontinued within the past 2 or 3 months.

Such actions are not in accord with the trend and, in my opinion, should be discouraged. Especially is that true if the information is gathered and then made available only to a limited circle of producers and consumers.

Much of the statistical information furnished to business by our Government is accepted as the best available; its expansion and, where possible, a reduction in the time lag would be very desirable.

It is possible the practice of blackouts and censorship will curtail information from the usual channels on commodities which must be imported. Governmental controls in the producing countries will have the facts, and possibly some thought should be given to the problem of making sure they will become available for our use in developing our price policies. Lack of information or misinformation fosters speculative excesses, and one of the strongest forces that can be used to avoid inflation is well-informed opinion that results from the wide distribution of accurate information on supplies and prices.

Mr. O'Connell. Mr. Renard, I notice in the last paragraph on page 6, which refers to the recent announcement of first-quarter prices for steel, you refer to the leadership of the steel industry. Do you mean that to indicate that you consider an industry such as steel to operate as a leader for other fields of industrial activity?

Mr. Renard. Yes; there isn't any doubt at all but what not only the steel industry but the leaders of the steel industry are probably recognized and have considerable importance and influence on other industry, particularly on smaller organizations.

Mr. Avildsen. Mr. Renard, you are familiar with the rise in prices which took place in the last war and also the year 1920 when we had another boom in which the general commodity price level went higher than it had been in the war. Is it your opinion that that rise to a great extent was due to bidding among buyers, dealers, speculators, and so forth, for the commodities, rather than collusion among the producers to get a higher price? Did you have practical personal experience in that period?

Mr. Renard. I had personal experience in purchasing during that period; yes; and of course there were the extended deliveries that were piling up the inflationary situation. Whether it was influenced by price control or influenced by buyers bidding would be hard to determine. I don't know that I would want to give an answer. Price controls, in my estimation, can't hold for any length of time unless there is active bidding for the product. That is particularly true in any industry where you have a large number of producing units. They can't build up prices and continue to pyramid them if they don't have a demand for the product.

Mr. Avildsen. But you don't have any opinion as to this last boom, this 1920 boom, as to what was the primary cause?

Mr. Renard. No; I wouldn't want even to give an opinion on that. It was difficult to get materials and there wasn't any doubt at all but that there was bidding going on among buyers for those materials in order to secure them. I think we are in a possible position in that connection, for instance, in the machine tool industry now. You get an offer of a delivery of one year on some machine tools that you find it essential to have in your production operations; you go to some manufacturer and say, "Well, your standard price on that is $3,000 but you can't deliver it for a year. I will give you $3,500 for one if you will give it to me in 3 months." If you do that you have established a new market for that machine tool, $3,500, and someone else comes along and wants it badly and he will pay $4,000 to get 1 in 3 months and you have established another price for it. That is where we go in a situation of that kind.

Mr. Avildsen. I had personal experience along that line. In 1920 that was going on. I wondered if you had any opinion as to how that could be prevented in case of another boom and that same thing won't happen all over again.

Mr. Renard. I don't know what the answer is unless it is just as much complete factual information as we can possibly have available to avoid it, so that there is no area in there of speculation that you can't actually base your price policies and your production policies on. If we can eliminate that blank space that we must guess about, I think that we can get away from a lot of our inflationary tendencies, but when a buyer doesn't know the facts about when he can get steel or putty or what-not, he is liable to go into the market and just be willing to pay almost anything that he has to in order to secure it.

Mr. Avildsen. Do you think that the reports as to inventories, sales, unfilled orders, and so forth, should be compulsory or voluntary? Do you think on the voluntary basis we will really get good reliable information, timely information?

Mr. Renard. I would think that on a voluntary basis you would get just as much and just as satisfactory information as you would on a compulsory. I think it would be to the interests of all businessmen to have that information available. It might in some industries require a little sales work.

Mr. Avildsen. We know now that the copper people evidently don't feet it would be advantageous to them to have information available to their customers.

Mr. Renard. Yes; that is a rather surprising situation, because there we have an industry that is even at the present time trying to resist the lowering of an import excise tax to protect their product, and at the same time refusing to give information about their product. That seems to me to be a sort of cockeyed situation.

Mr. Avildsen. That is why I asked whether you didn't think it would have to be compulsory to get the information. Also, don't you think we should have information from jobbers, brokers, dealers, wholesalers, and so forth, as well as just manufacturers of a commodity?

Mr. Renard. Yes. The farther it goes the more complete it would be, of course, because the so-called invisible stocks may be a factor.

Mr. Avildsen. Doesn't every boom create a number of speculators, jobbers, and dealers who accumulate large stocks of merchandise?

Mr. Renard. That is particularly true and that is another element in your price structure. I wouldn't want to say how many industries there are, but there isn't any doubt at all but what a number of our industries find themselves in the position where they must protect their distributors. Sudden movements of prices down, not up, are a very serious matter for the distributor who has a heavy stock. When prices are advancing, of course, that is an entirely different problem, the distributor appreciates his stocks, but when you have gotten your prices up high that is one of the difficulties in getting them back down. Most industries, I think, try to protect their distributors' stocks to avoid the deflation that they cause.

Mr. O'Connell. I understood you to suggest that in your opinion price control cannot be maintained unless there is active bidding for the commodity being offered and that that was particularly so where you have a large number of producers. I take it it would follow that it becomes less and less so as the number of units in the productive side becomes less and less.

Mr. Renard. That would be true; yes.

Mr. O'Connell. In other words, an industry composed of a few large units is better in a position to maintain price control regardless of the demand side.

Mr. Renard. That would be true. For instance, 1 company can fix its price. Ten companies can't do that, but 2 companies might come closer to it, 3 companies a little farther away; when you get up to 100 companies the chances are that unless you have a supporting demand you won't be able to control the price, to fix a price and absolutely control it.

Dr. Kreps. What are the factors that seem to you to make industrial purchasing agents relatively helpless aside from lack of information? To be specific, at the present time the price of zinc has increased between 35 and 40 percent. To what extent do industrial purchasing agents have the power to make the price of zinc and to what extent are they compelled to accept it?

Mr. Renard. Well, of course, when there is a very considerable demand for zinc they are practically compelled to accept the price, but if they know the demand factors and the supply factors they can stay out of the market if the price gets out of hand. That is the only defense that they have, and as a matter of fact zinc has declined within the past 10 days or 2 weeks; they have had a very considerable decline because of the fact that the large consumers of zinc were probably in a position to hold off and not buy.

Mr. Henderson. The price of zinc is based on the foreign price, plus shipping is it not?

Mr. Renard. I don't know just how far that goes, but of course the zinc price in the British Empire, which would be the foreign price, has been fixed by the government at a price materially lower than our prices.

Mr. Henderson. Doesn't the price in this country for American produced zinc tend to be the foreign price plus shipping, insurance, and the like? It is based on the London price because the London price has been considered the world price on zinc. If the cost of shipping goes up, despite the fact that the zinc is produced and used in mid-America, the price of zinc goes up also.

Mr. Renard. That would be true if they followed it completely, but on the other hand if they are going to follow the British control price it would be going way down, and I understand the British control price on zinc now is about 3½ cents.

Dr. KREPS. Then there are situations beyond your control where the industrial purchasing agents, instead of making the price, are compelled to accept it?

Mr. RENARD. Oh, yes.

Dr. KREPS. And their efficacy is more or less limited to contagious price situations, that is the prevention of pyramiding of buying.

Mr. RENARD. Well, and buying at the right time and buying in the right quantity so as not to pyramid orders.

Dr. THORP. On that point, you talked about the information on the supply side. Is it at all important to get information on the demand side? Isn't it conceivable, for instance, that unrelated buying of these various purchasing agents might hit the market just as the Government purchase for hemp hit the market?

Mr. RENARD. That would be possible.

Dr. THORP. And you might get, therefore, through the erratic way in which private buying would develop, an ignorance about how much of it represents speculative demand and how much of it represents demand for consumption, a disorderly situation. Let me ask it this way. To what extent is information known through industries as to the purchasing requirements of the various members of a given industry?

Mr. RENARD. I don't know that there is any definite information on that from the consuming industries. The producing industry in that product I think generally has a very good idea of what the consuming industries will consume over a given period, and I imagine to some extent know what the so-called invisible stock is, that is, the stocks in the hands of the consuming industries.

Dr. THORP. Your logic, then, I take it, would be something like this—that since the consumers are a much more scattered group ordinarily than the producing group, the most useful thing to do is to get as much of the information which the producing group may have out into the hands of consumers as possible.

Mr. RENARD. That is right.

Dr. THORP. And probably one can't do very much by organizing the consumers themselves to collect information about their requirements.

Mr. RENARD. That would be true. They would have to work together, and as a matter of fact I understand that has happened in a few industries where arrangements have been made by the producing group with several of the larger consumers, so that they would exchange information on producers' stocks and consumers' stocks as indicative and in that way attempt to develop a balance.

Dr. THORP. You talked about controls particularly with reference to controls over selling. Does it ever happen that control groups are present on the buying side of a market?

Mr. RENARD. I don't think that is true in industrial buying. I have never heard of it. Do you mean a group of buyers getting together and deciding when they are going to buy and what price they are going to pay?

Dr. THORP. That is right. Where a product is used by a limited number of industrial consumers they are getting together for the purpose of holding the price down, the same way that sellers might get together for the purpose of putting the price up.

Mr. RENARD. That might be entirely possible, but I have never had an instance of it called to my attention, Doctor.

Mr. AVILDSEN. Mr. Renard, is it true that your association has advised its members that it is the opinion of the majority that prices will advance next year and that wise purchasing agents will put in larger stocks of goods? I have heard that statement made by purchasing agents. I wonder if you would care to comment on it.

Mr. RENARD. That is not true, because our association never advises its members to buy or not to buy or to get their prices high or prices low. We do present information on which they can base their purchasing policies. We have economic consultants that prepare articles for us regularly, that appear in our weekly information bulletins that go to our members, and one of those economic consultants may make that statement his opinion, but we also frequently make the statement right in the bulletin that that is the opinion of the consultant and it is not a recommendation of the association. We never make a recommendation to buy or not to buy, although I believe that it is the consensus of opinion that there will be a gradually advancing price level.

Mr. AVILDSEN. Next year, early next year, prices will continue to rise?

Mr. RENARD. That we are in a low now. In other words, there was a bulge in September when the very thing that Dr. Thorp mentioned did happen. All buyers went into the market, you might say, almost haphazardly, there for a week or 10 days, because of this war psychology, and as a result we had a real bulge in prices. A great many of them are settling back now as we get away from that extreme demand of that period, but I think it is the consensus that conditions are generally such that we are in a sort of waiting period with prices settling, and that they will now take a more orderly development, but will advance.

Mr. AVILDSEN. When you say consensus, do you mean consensus of purchasing agents?

Mr. RENARD. And our consulting economists.

Mr. AVILDSEN. The purchasing agents themselves feel that prices are going to rise?

Mr. RENARD. That there will be a gradual and orderly rise in prices, and not the speculative outburst such as we have had; and there, of course, I would also want to mention in connection with that that with an orderly rise in prices there is no particular need for the industrial buyer to go out and build up an extremely large inventory.

Mr. AVILDSEN. But he would put in more stock than he ordinarily would.

Mr. RENARD. He would have to put in more stock now because of the length of time it takes to get deliveries. For instance, in August he could get steel delivered in 2 weeks. Now he might have to wait 3 months. He has no control over that. Inventories pyramid as our production goes up. We have to carry more material, or at least have commitments for it and make certain we are going to get it.

Mr. AVILDSEN. Would you say the average purchasing agent has doubled his inventories as compared with a year ago, or 6 months ago? How much do you think he has increased his inventory?

Mr. RENARD. Again I wouldn't want to give an exact figure. Some of the figures I have seen say that inventories haven't increased at all at the end of October, and you have the factor that you have a longer cycle of deliveries, but I think that generally speaking inventories have very materially increased over the past few months because of the conditions that developed.

Mr. HENDERSON. Mr. Renard, I am very much interested in your prediction of an orderly rise in prices, and in your saying that purchasing agents aren't particularly disturbed so long as it is orderly, and—I gather from your paper—so long as it represents actual increases in cost. We are operating now at a level of production which is higher than 1937, and the level of prices is about eight points lower than the peak of 1937. Have you any opinion, based on extensive price information which your experts collect, as to what level of prices, or price increases, could be well withstood at this level of production?

Mr. RENARD. No, I haven't; and as a matter of fact, I haven't given it any real thought as to just what that level might be. Of course we know the disastrous effects of what happened in 1937. Inventories piled up, and then we just had a break-off in both prices and production as a result of it. There isn't any question at al' but what we had too fast a movement there in both prices and production. Just where that point would come I don't know. It would depend, of course, on whether we maintain the demand we have for this production over quite a period of weeks. If we go ahead with continuing demand for practical capacity of our plants, of course your gradual increase in material costs, labor costs, and so forth, are going to bring you a gradual increase in prices, just as going the other way would bring you a gradual decrease.

Mr. HENDERSON. But if we did not have an excited movement in costs, we really ought to have a reduction in prices, because unit costs are going down.

Mr. RENARD. That works out up to the point of capacity, yes; but when you start from a level, say, of LPS pricing of something like 76, with a level of capacity use of about 65, and then you go up to 90 percent use, your unit costs have gone down.

Mr. HENDERSON. Theoretically, if you got to using obsolete equipment and higher cost labor, thus increasing the costs, then you could understand why there would be price increases.

Mr. AVILDSEN. Why would we have to increase the price then? Why couldn't you use some of the excess profit to sustain the operation of the obsolete equipment? I think the way you worded it would imply that that would be justified. I don't know whether it would be justified even then.

Mr. HENDERSON. I didn't say you couldn't do it. All I know is that when unit costs are going down, that is when prices are on the increase, and it is contrary to the old idea of mass production.

Mr. RENARD. That is true.

Mr. HENDERSON. That is, if we started this bulge at around 75 or 76 in the price level, without any substantial increase in the costs of labor—and we have had just a moderate increase—theoretically we probably should have had a reduction if prices followed cost. But as we know, they lag considerably behind both on the up side and on the down side. Now, what I was trying to get at, and what I guess you can't give me, is whether your experts have any idea as to how far the price level could go at this level of production without getting alarming.

Mr. RENARD. No, we haven't given any thought to that. Of course in that connection, in the development of prices in the mass-production industries you have the one other procedure, which is reportedly followed in the automotive industry, where they fix a price based on a certain production of autuomobiles. In other words, if they were only going to make 5,000 automobiles, the price of those automobiles would be very high, but the large automobile manufacturers say, "We are going to base this price on a manufacture of 400,000 automobiles," and in that way figuring out their costs on that basis.

Mr. HENDERSON. I presume you noticed in the trade journals' business pages before this upward surge took place that unit costs in American industry were never lower.

Mr. RENARD. Yes.

Mr. HENDERSON. And I think you recognize too that the break-even point of many industries is lower than it has ever been.

Mr. RENARD. Well, I think that over a period there the company that couldn't break even at, say, 60 percent of its capacity, was considered poorly managed.

Mr. HENDERSON. If they can break even at 60 percent, and if they get to 80 or 90 percent with no excessive increases in cost of material or labor, we ought to have a reduction in price, or at least no great bulging in prices.

Mr. RENARD. That is what I brought out in my statements that we should have that cushion in there of expanding production, lowering the unit costs by scattering the overhead.

Mr. HENDERSON. I think we are fortunate, Mr. Chairman, to get the purchasing agent's point of view on some of these price questions, because I have generally found that the purchasing agent who is on the line buying goods conforms rather closely to the best theoretical practice.

Mr. HINRICHS. Mr. Chairman, may I ask a question, please? I would like to come back, Mr. Renard, to the question of the collection of inventory information. You indicated that you thought the information could be collected on a voluntary basis, and if so, that it should be. Do you feel that the public interest in that information is so great that if a sincere effort to collect it on a voluntary basis fails, that the Government should use compulsory powers to secure information there precisely as we have compulsory powers for a biennial census, for example?

Mr. RENARD. I haven't given that any thought. I won't say offhand that there would be any need for the compulsion to begin with.

In certain lines, certainly in these critical materials, it might be sufficiently important to do that.

Mr. HINRICHS. There certainly is a very great public interest which depends upon that information.

Mr. RENARD. There isn't any question about that.

Mr. HINRICHS. A second question along that same line. The information with reference to inventories is an important advantage to well-informed bargaining, that is, sellers who have information with reference to inventories dealing with buyers who don't know anything about inventories have an advantage. Similarly, buyers with information on inventories have an advantage in dealing with sellers who are badly informed, don't they? Won't that mean, then, that if you are going to exercise any pressure in the collection of inventory information, at least in those situations where the number of buyers is actually less than the number of sellers, you should have inventory information from the buyers as well as from the sellers? Take a specific example: There is information with reference to inventories in the hands of gray goods mills. There is no information with reference to inventories in the hands of converters. There are many less converters than there are gray and cotton mills, and if you are getting an inventory picture you need the information of inventory at both points in the process, if you are going to have the whole picture, don't you?

Mr. RENARD. Well, yes; where there is any considerable percentage of either the production or consumption tied up, you might say, in process, as it would be with the converter; as I understand it the converter ordinarily doesn't have the material very long. He passes it through, and we do have some information on the gray goods on hand probably in the next step of the processing.

There isn't any doubt at all, though, but what if the information on the producers' inventories is valuable, that all along the line is of a similar value in determining what the available supply is.

Mr. HINRICHS. So that speaking for the purchasing agents in general, you would like to see inventory information accumulated at all points where that is significant, even though it might lessen in some instances the buyer's advantage at the present time.

Mr. RENARD. I would state as a general principle, yes, that the inventory information, supply and demand information, is so valuable that I think the buyer recognizes that value and in a great many instances actually contributes information on an exchange basis in order to secure the information from the producer.

Acting Chairman BORAH. Thank you, Mr. Renard. The Committee will meet at 2 o'clock.

(Whereupon, at 12:30, a recess was taken until 2 of the same day.)

AFTERNOON SESSION

The hearing was resumed at 2:15 p. m. upon the conclusion of the recess.

Acting Chairman BORAH. Do you solemnly swear the testimony you shall give in this hearing shall be the truth, the whole truth, and nothing but the truth, so help you God?

Dr. FORBES. I do.

TESTIMONY OF DR. RUSSELL FORBES, COMMISSIONER OF PURCHASE, CITY OF NEW YORK, N. Y.

Dr. KREPS. Dr. Forbes, would you give your full name, please, for the purposes of the record?

Dr. FORBES. Russell Forbes.

Dr. KREPS. And title?

Dr. FORBES. Commissioner of Purchase, City of New York.

Dr. KREPS. How long have you been in that office?

Dr. FORBES. 6 years.

Dr. KREPS. And how long have you had experience in purchasing? Where were you prior to that time?

Dr. FORBES. Prior to that time I was professor of Government at New York University and consultant to the National Association of

Purchasing Agents in the field of governmental purchases. Prior to that I was assistant secretary of the National Association of Purchasing Agents.

Dr. KREPS. Will you proceed?

PRESENT PRICE TRENDS AS VIEWED BY A MUNICIPAL PURCHASING AGENT

Dr. FORBES. Our experience in purchasing for the city of New York shows that it is impossible for us to make any generalization about price fluctuations in the commodity markets. We do not claim that our experience has been typical or representative of the experience of industrial and commercial organizations. We can only cite the record of large-scale buying for consumption and not for profit or resale. Price trends during this year, according to our records and study, fall into three general classifications.

Some commodities, such as foods were priced at approximately a cost level in the spring of the year, enjoyed a sharp rise in the early fall, and have now seemingly leveled off at a point slightly higher than the spring quotations. Then there is another group, such as fuel oil, lubricants, and textiles. These commodity groups remained static until September 1, when prices increased sharply, having since remained at the newly adjusted levels, but give every indication of resuming an upward trend in 1940. The third group includes commodities such as coal, electrical equipment, and certain nonferrous metal products for which we have contracts at a fixed price covering the period which is under review. In these instances, we do not have any experience data as to price movements and fluctuations.

Nearly all commodities have had one common characteristic. On or about September 1, all prices increased. By the middle of October, however, the majority had receded. The causes for the price recessions which did occur may be attributed in the composite judgment of our buyers, to several basic factors.

Of course, the September rise in prices may be partially attributed to "war psychology." Since most stocks had been held to minimum requirements, the outbreak of war resulted in accelerated purchasing as a hedge against a possible recurrence of the 1914 price situation. Most of the purchasing agents did not expect to be able to buy materials which were obtained from other than domestic sources. Further difficulties were expected in obtaining sufficient supplies of materials which belligerents would require over and above their own usual requirements. These anticipated fears did not materialize. The recession of commodity prices coincided with the realization that belligerents were not seriously affecting the demand for many commodities. In many instances, belligerents had developed their own internal resources to a point where they found it unnecessary to enter the United States market in order to fulfill their requirements. There are other commodities which the foreign powers had stored in larger quantities than most forecasters realized.

The early September rise in prices was further accelerated by speculators entering the commodity markets.

The memory of speculative profits in 1914 no doubt induced the usual number of operators to make commitments in various commodities. There is no doubt in my mind that President Roosevelt's letter of September 29, 1939, to Senator O'Mahoney prompted many of these speculators to liquidate their options. This action, of course, tended to stop the runaway prices which were being quoted during the early part of September.

Dr. Kreps. Dr. Forbes, when you say they liquidated their option, would you explain what happened at that time?

Dr. Forbes. My understanding of what actually happened was that speculators had entered the market, had gotten options on large stocks of supplies, especially in foodstuffs, anticipating a profit by creating a shortage and then an increased price, and then unloading gradually; but when the shortage did not develop and when there was public notice of the fact that the shortage did not exist, and this committee was asked to look into it, we feel that a great many of those speculators got out of the market quickly and unloaded.

Dr. Kreps. Then these are private speculators in the organized commodity markets?

Dr. Forbes. Yes.

Dr. Kreps. This would not affect commodities for which prices are not quoted in the organized market, would it?

Dr. Forbes. No.

Dr. Kreps. Was there any attempt by governmental purchasing agents, municipal governments, to make similar anticipation?

Dr. Forbes. Yes.

Dr. Kreps. And do you feel that they likewise revised their programs of purchasing upon the publication of this letter?

Dr. Forbes. Yes, that was our experience.

At the outbreak of the present war, we expected that there would be heavy fighting which would deplete the supplies of the belligerents. Such large-scale operations would deplete stocks and it was expected that this situation would be reflected by the placing of large war orders in this country. In general, this expected stimulus to demand has not been forthcoming.

We further expected high prices based on scarcities and sharp demands in those commodities whose supply was principally imported. But in some such cases, such as surgical and scientific instruments, satisfactory domestic substitutes have been found, thus stimulating production in this country. As in the 1914–18 period, it is expected that the curtailment of imports will stimulate regular domestic production of such commodities and permanently lessen importation.

Dr. Kreps. Dr. Forbes, do you feel in this connection that a program of research which would indicate substitutes for expensive imported commodities might play a rather important part in diminishing the upward spiral of prices?

Dr. Forbes. I do.

Dr. Kreps. What were these substitutes that were found, for example, for certain foreign surgical and scientific instruments?

Dr. Forbes. In our experience in surgical instruments, for example, our doctors and surgeons preferred the French instruments handled by C. R. Bard, but when it became almost impossible to secure them, they were then induced, through the impossibility of securing anything else, to use the domestic substitutes, and as far as I know they like them.

In other words, their preference was caprice to a certain extent.

Dr. Kreps. Do you collect information on substitutes for commodities which you buy? Are your specifications so flexibly made out that in the event a particular article cannot be obtained except at an excessive price, you are able to shift to, say, a domestically produced substitute at a more moderate price?

Dr. FORBES. About 2 years ago, the Board of Estimate of the City of New York, which is the controlling executive appropriating and at that time legislative body as well, passed a resolution by which they set up a price differential of 25 percent in favor of domestic products, and authorized and directed the purchasing officials to buy foreign goods only when their price was more than 25 percent less than the domestic price of comparable quality. We have adhered to that ever since, and in order to stimulate the use of domestic products write to the requisitioning department pointing out that on a certain requisition they have asked for a foreign article, and ask for an explanation of why that is essential and the only thing they can use if that be the case. In that way, our office has created a great deal of stimulus for substitutes.

Dr. KREPS. Do you stipulate the development of substitutes and information about substitutes in the buying department?

Dr. FORBES. In the requisitioning department; yes.

There was a marked advance in prices paid for food during August d September 1939. This we attribute partly to the expected requirements of belligerent countries and to the temporary shortage created in the United States by increased orders from dealers who doubtless made commitments based on war scares. This is best illustrated by the price of sugar, bought by the department of purchase, which rose from $0.04295 per pound in April to $0.0544 per pound on October 2. That this price increase was unwarranted and artificial is demonstrated by the fact that sugar was quoted at $0.047 per pound on November 29. Most food prices have increased in the vicinity of 20 percent since the spring of this year. The chief cause of this general rise was the war hysteria which gave a good many dealers who were operating at little or no profit, an opportunity, which they seized, to raise their prices. Prices are levelling off but the war has given packers and producers an opportunity to bring their prices to a level at which they may operate and realize a legitimate profit.

Dr. KREPS. Would you like to define for us what a legitimate profit is?

Dr. FORBES. No; I wouldn't.

Dr. KREPS. Would you feel that this increase in price in sugar went to producers or did that temporary price rise go primarily to speculators in the sugar exchange?

Dr. FORBES. To speculators, I think.

Dr. KREPS. Then so far as sugar is concerned, the increase of price that occurred did not go to the growers of sugar beets?

Dr. FORBES. That is my belief.

Dr. KREPS. Would you feel that the increase in price of pork chops that occurred similarly went to speculators and processors and did not go back to the producers?

Dr. FORBES. I don't know. Presumably it didn't.

Dr. KREPS. Isn't it generally true that short speculative rises rarely accrue to the benefit of producers?

Dr. FORBES. Yes; it is.

From April until September 1, the price paid for domestic chemicals remained constant. During September there was an advanc in price. By the end of October, the prices had receded to their previous levels. Chemicals and chemical raw materials of foreign origin rose sharply after September 1 and have continued their rise since that date.

Crude drugs or the byproducts of such drugs which have been imported from belligerents, or carried in belligerent bottoms, have shown a sharp increase in price.

Sixty percent of the city of New York's fuel oil requirements are fulfilled by barge deliveries, with the price based upon New York Harbor price. It has risen from $0.95 per barrel in May to $1.15 per barrel on September 18.

The city of New York has a contract for lubricants which does not expire until March 31, 1940. When this contract was awarded, in August, there has been no sharp fluctuation in the price of lubricants.

The price of gasoline increased from $0.0634 in the spring to $0.0724 per gallon on November 1, 1939.

The price paid for copper and brass products has increased 20 percent. Tin has increased 19 percent and lead 8 percent. Non-ferrous-metal prices have remained at the peak which they reached in the latter part of September and early October.

The department of purchase made a 6-month contract on August 1, 1939, for brass pipe, enabling us to stay out of market until January or February 1940. A similar situation exists in connection with brass nipples and fittings. By that time, it is expected that the speculative excitement which has motivated the copper market will have subsided.

Tin rose in price, within 10 days, from $0.45 to $0.75 per pound, and has now dropped off to $0.53½ per pound. This decrease is largely accounted for by the withdrawal of speculators from the market.

In our requirement contract purchases for steel, we experienced a slight price increase because of the withdrawal of price concessions previously enjoyed by large purchasers. There seems to be a growing tendency toward eliminating these price concessions.

Dr. KREPS. Could you tell us what the nature of these concessions is?

Dr. FORBES. A discount from the published or list price.

Dr. KREPS. Do you recall, just roughly at the present time, what they have been?

Dr. FORBES. I don't recall. They vary in different commodities. I could supply that for you later.

Mr. O'CONNELL. Did I understand the city of New York, in its purchasing of steel products, was able to obtain some of the price concessions to which you have referred?

Dr. FORBES. Yes.

Mr. O'CONNELL. During the recent hearings we had involving the steel industry there was testimony to the effect that while price concessions were quite prevalent during past years, they did not extend to the Federal Government purchases, that all major suppliers in bidding on Government contracts adhered to the list price. Is there any difference in the method of procurement between the Federal Government and the government of New York that might explain that difference?

Dr. FORBES. Basically they are the same.

Mr. O'CONNELL. How do you explain the difference?

Dr. FORBES. I didn't know it existed.

Dr. KREPS. Did you encounter any identical bids in the case of steel?

Dr. FORBES. Yes.

Dr. KREPS. What did you do in that case?

Dr. FORBES. Our experience with identical or tie bids has been quite varied. When this present Department was created in 1934, and when I became Commissioner, we naturally found that a great many bids of identical price were submitted under N. R. A. codes. After the N. R. A. was declared unconstitutional, however, a number of industries continued the submission of tie bids. We have used a number of devices. One is to send to the Federal Trade Commission the full data concerning the transaction through the United States Conference of Mayors or directly, and then to throw open our files to investigators; in other cases other cities throughout the country have done likewise on a specific commodity. The action of the Federal Trade Commission has been very helpful indeed in some cases, such as fire hose as a conspicuous example.

Then we have a policy which works like this: If the bids are tied and there is a bidder or bidders, let's say, who have their factories within New York City, preference is given to them. If there are two, lots are drawn from between two local producers. If there is one, the contract is awarded to that local producer. Otherwise lots are drawn publicly from among all bidders, and we have found that on large contracts the drawing of lots publicly is a considerable deterrent to the submission of future identical bids.

Of course we were bombarded by the various bidders in the early years to split up the business among the tie bidders, but that is something we never did. One would get all and the rest would get nothing, and I think that has had a very discouraging effect on the continuance of identical bids.

Mr. O'CONNELL. You still get identical bids, I take it.

Dr. FORBES. In a few cases. Typewriters, of course, is an outstanding example, and microscopes.

Mr. O'CONNELL. Do you happen to know anything about the price levels or prices for typewriters that you buy as compared with prices paid by the Federal Government for typewriters?

Dr. FORBES. We pay, I think, about $10 per machine more than the Government price for typewriters.

Mr. O'CONNELL. You don't buy for the public schools in New York?

Dr. FORBES. No; and they buy at a lower price than we do.

Mr. O'CONNELL. And at a lower price than the Federal Government.

Dr. FORBES. For educational purposes.

Mr. O'CONNELL. Yes; but in each area the prices are identical, are they not?

Dr. FORBES. That is right.

Mr. O'CONNELL. There is one level of prices for municipal purchasers, one level of prices for Federal Government purchasers, and one level of prices for educational purposes.

Dr. FORBES. That is right.

Mr. O'CONNELL. But within each area the prices are identical and have been for a number of years. Is that correct?

Dr. FORBES. That is right.

Mr. COX. Do you recall when you got the last set of identical bids for typewriters?

Dr. FORBES. I think it was about a year ago.

Mr. COX. You haven't had any since July of this year?

Dr. FORBES. We will soon be getting bids on the renewal of the contract with the four companies. At the present time tie bids are few in number in our Department.

Mr. O'CONNELL. You don't recall, in referring to my original question relative to steel, whether in recent purchases for steel products you have been able to get bids other than tie bids?

Dr. FORBES. I think they are competitive now.

Mr. O'CONNELL. Is that so?

Dr. FORBES. Yes, that is my recollection.

Dr. KREPS. I am interested to hear you say that they are competitive bids. How do you judge if you don't have tie bids that the bids are competitive? Is it not possible for a large group to put in complementary bids?

Dr. FORBES. Yes.

Dr. KREPS. And have a low bid?

Dr. FORBES. Yes.

Dr. KREPS. Do you have some tests that you apply to indicate whether the price irrespective of whether identical bids exist or not is competitive?

Dr. FORBES. In our Department we have a group of 13 skilled buyers who were selected by rigid civil-service examinations and who for the most part have wide experience as purchasing agents in industrial corporations or other governments, and who are thoroughly good specialists and well-informed on market conditions and sources of supply, so naturally I rely on them; before I authorize the award of a contract they certify to me that the prices are competitive and fair and they compare the current prices quoted with those previously paid and make comments on market conditions.

Mr. O'CONNELL. Just to carry that along a little further, then, it must be that if bids are tied they are presumptively collusive from your standpoint and that if they are not tied you make further examination to see as well as you can ascertain whether or not they are in fact competitive.

Dr. FORBES. Yes; I think presumptively they are collusive although I think it is possible to have accidentally identical bids.

Mr. O'CONNELL. It is stretching the coincidence quite a bit, though, if you get a close series of presumably independent competitors arriving at the same price on a complicated specification.

Dr. FORBES. Yes; on the other hand, we have many cases where on a long list of items which are being procured there will be one or two items in the whole list in which two bidders, for example, submit identical bids. Those I consider to be pure accident and not collusive, but when the whole list, let us say, is identical it indicates to me that there is some sort of understanding in advance of the submission of bids on the part of the bidders.

The prices of certain items of hospital and surgical supplies have risen to a marked degree since September 1939. Some of these increases may be attributed, undoubtedly, to the outbreak of hostilities in Europe while others may be attributed to domestic industrial changes, such as wage and hour rates. In certain isolated instances price changes appear to have been caused by speculative tendencies on the part of suppliers.

The Department of Purchase received bids for surgical dressings on October 6, 1939, which showed price increases from 10 to 28 percent over the previous contract period. Wage and hour rate changes in the textile industry is responsible, to some degree, for this increase.

Dr. Kreps. How many suppliers are there of surgical dressings?

Dr. Forbes. Bauer & Black, Johnson & Johnson, and Kendall—

Dr. Kreps (interposing). Bauer & Black is part of the Kendall firm.

Dr. Forbes. That is right. Then, as I recall, there is a Lewis Co.

Dr. Kreps. That is about three?

Dr. Forbes. Two or three.

Dr. Kreps. Bauer & Black is a Chicago firm, isn't it?

Dr. Forbes. Yes.

Dr. Kreps. And the other is Johnson & Johnson?

Dr. Forbes. At New Brunswick, N. J.

Dr. Kreps. Did the low wage-and-hour rates exist in those factories? Or have increases in wages in the textile industry due to the Wage-Hour Act been localized primarily in the South?

Dr. Forbes. I think so.

Dr. Kreps. Then it is probable that there was no increase in wages in these northern areas. To the best of my information, these firms have paid above the minimum continuously, on the other hand, it might be that the fewness of the number of suppliers would contribute to an increase in price.

Dr. Forbes. It would, yes, in any industry where the number of suppliers or producers are few.

Mr. Avildsen. Do I understand, Dr. Kreps, that they actually make the gauze in these northern plants? Might they not buy that from the southern mills and process it or assemble it in these northern factories?

Dr. Kreps. Are you familiar, Dr. Forbes, with that?

Dr. Forbes. I don't know.

Dr. Kreps. There may be certain materials.

Mr. Avildsen. I had the impression that Bauer & Black plant at Chicago was not a textile mill. I mean at the place where they prepare adhesive tape and all these things, they don't actually make the cloth.

Dr. Kreps. They undoubtedly don't fabricate the raw material. Nonetheless, it would mean that the increase in price of surgical dressings would probably depend on the amount of spread between the raw material prices and those of the finished products, which is subject to considerable change. You don't get an automatic transmission into the price of the finished product of increases in the price of raw material.

Dr. Forbes. The most important changes that have been caused in this field by the European war have been the difficulties of obtaining certain imported materials whose source has been hitherto restricted to the European markets. Such items as microscopical cover glasses and certain laboratory filter papers are at a premium and only minimum quantities are available. The glass used in the manufacture of the microscopical cover glasses is manufactured only in Germany and Japan and exports to the United States have been sharply curtailed. Filter paper is imported from England, and, of course, is subject to the hazards of shipping.

Dr. KREPS. Dr. Forbes, in that connection you remarked earlier that substitutes in some cases had been found. Do you have an investigating section or a standards bureau to which you go and find out what are good substitutes?

Dr. FORBES. We have in the Department of Purchase a miniature bureau of standards consisting of a testing laboratory which does research testing. That is the attempt to determine the quality of a suggested substitute and to report on it accordingly as well as to test deliveries of supplies. And then in connection with that we have a division of specifications at headquarters at the laboratory which serves as a staff for a board of standardization. That board of standardization adopts specifications for city-wide use.

Dr. KREPS. Do you utilize the services of other governmental units, Federal and State, in determining standards?

Dr. FORBES. We rely to a great extent on the Federal specifications, the Federal Specifications Board and other separate departments, and the specifications adopted by S. A. E. and A. S. T. M. and other scientific standardizing bodies, and we also secure as much information as we can on given ticklish questions from the United States Bureau of Standards whenever they will make such information available to us.

Dr. KREPS. What are the conditions under which information from the Bureau of Standards is available to municipal purchasing agents and other governmental bodies? [1]

Dr. FORBES. As I understand it, the Bureau of Standards is compelled by law to make tests for State governments without cost or charge, but they are not required by law to make tests for municipalities.

Therefore, if they were to make tests for us we would have to pay the Bureau of Standards.

Mr. HENDERSON. Your purchasing is much greater than that of many States, is it not?

Dr. FORBES. Yes, I think so. We sometimes secure confidential information from the Bureau of Standards on comparative qualities of various brands of items which they have tested, but that must be kept confidential.

Mr. O'CONNELL. Does that mean that they are also prohibited by law from making public the results of comparative tests?

Dr. FORBES. I think they are prohibited by law, or at least it is an unwritten law.

Mr. O'CONNELL. I think it is an unwritten law.

Dr. KREPS. Suppose you accumulated certain experience in your division, couldn't you transmit that to other departments of the municipal government in New York, or even to consumer groups?

Dr. FORBES. We could, yes; we do exchange information constantly with the State purchasing office of the State of New York and with other governmental bodies.

Dr. KREPS. In connection with microscopical cover glasses which are manufactured in Germany, isn't the United States able at all to provide that material?

[1] In this connection see Statement of Functions and Activities of the National Bureau of Standards, Hearings, Part 8, appendix, p. 3475.

Dr. FORBES. I understand that there will be a substitute available soon.

Dr. KREPS. Isn't some of the best of this microscopic glass manufactured in Germany under United States patents?

Dr. FORBES. I am not sure. I don't know.

Mr. AVILDSEN. Mr. Forbes, getting back to surgical dressings, did I understand you made a contract with one of these suppliers, that is, an annual contract?

Dr. FORBES. We never, as far as I can recall, have made an annual contract for those items.

Mr. AVILDSEN. How long did the contract run?

Dr. FORBES. Six or three months, I believe, is the typical contract for surgical dressings.

Mr. AVILDSEN. So it is conceivable, referring to Dr. Kreps' comment, that the advance in price was for the reason that they were obligating themselves to supply these dressings over a period, even though immediate stocks might have been purchased at a lower price, and they had to anticipate higher costs in supplying the dressings over a period of months. Is that right?

Dr. FORBES. Yes.

Dr. KREPS. Do you think that is a good way to avoid inflation, to validate in price contracts anticipated increases in costs? I mean don't business firms promote rather than avoid pyramiding inflation if they validate in their prices anticipated increases in costs, rather than actual ones?

Dr. FORBES. It would seem, of course, that when entering into a long-term contract they would have to look ahead, and in a state of uncertainty, protect themselves.

Dr. KREPS. Under competition, wouldn't the anticipations differ? In fact, might not under competition the level of prices be reduced to actual costs rather than rise to include increases in anticipated costs?

Dr. FORBES. I think so, yes; but in an industry where there are only a few potential sources of supply, it is more difficult to regulate.

Dr. KREPS. In other words, the anticipations are more nearly alike.

Dr. FORBES. Yes.

Mr. AVILDSEN. Why do you make contracts instead of buying your requirements from month to month?

Dr. FORBES. There isn't any established rule in our Department. Some we do buy from month to month. Other items we buy on annual contracts.

Mr. AVILDSEN. Don't you think that such purchasing in a period of this kind does have the effect of raising prices, just as in this case the manufacturer feels he has to do it to protect himself? His directors would probably criticize him if he were later found delivering goods on a contract which brought a loss to the company.

Dr. FORBES. We feel that in many lines long-term contracts are not the proper type of contract to make in this period, and so we are constantly changing our policy in the direction of shorter contracts.

Mr. AVILDSEN. You don't know, in the case of surgical dressing, whether you could have avoided these increases if you had not asked for a contract?

Dr. FORBES. We are required to have a contract, instead of an open-market purchase, when the amount is over $1,000. I am speaking now of a contract as a technical document, as contrasted with an open-market order.

Mr. AVILDSEN. But this is a contract in which the supplier agrees to supply these dressings to you at a fixed price over a period of maybe 6 months.

Dr. FORBES. Yes.

Mr. AVILDSEN. Who suggested that, you or the supplier?

Dr. FORBES. We asked for it. Very frequently we get alternate bids on a short period and over a long period, reserving the right in advance to award on one and reject on the other.

Mr. AVILDSEN. When you asked for that 6 months' contract you weren't compelled by law to get a 6 months' contract?

Dr. FORBES. No; there is only a prohibition against a contract for more than 1 year, except in a few special cases.

Mr. AVILDSEN. Generally speaking you agree that if you ask all your suppliers for 6 months' contracts it would have the effect of raising your costs at this time?

Dr. FORBES. I think it would; yes.

Mr. AVILDSEN. Why did you do it in the case of surgical dressings, then?

Dr. FORBES. Did I say that I did?

Mr. AVILDSEN. I just got the impression.

Dr. FORBES. I don't believe I did.

Mr. AVILDSEN. You didn't accept the offer? I got the impression that something went up here from 10 to 28 percent: "Received bids for surgical dressings which showed price increases from 10 to 28 percent over the previous contract period." You will find it under "Hospitals and Surgical Supplies."

Dr. FORBES. I don't believe that was a 6 months' contract. I think it was a 3 months' contract. That is my recollection.

Mr. AVILDSEN. Even a 3 months' contract would have the effect of raising the price in a period of this kind, wouldn't it?

Dr. FORBES. I don't know whether it would or not.

Dr. KREPS. Whether you buy it for 3 or 6 months is probably dependent, then, I take it, on what your anticipation is with regard to price, what your needs are, whether you want to be assured of delivery, and what sort of bargain you can strike. Is that right?

Dr. FORBES. That is right.

As I recall it, this particular contract is not of very large amount, because on the previous contract we had drawn in large quantites and had stocks on this particular line of goods, anticipating a price increase.

Prices paid for cotton piece goods reached their lowest point in May and remained level until the first 2 weeks in September when prices sharply increased and sales were the heaviest in years. The price of finished goods, because of stocks on hand, did not increase as much as gray goods. The average increased price of finished goods to date has been approximately 12½ percent, and finished articles such as dresses, uniforms, and so forth, have similarly advanced. The price of wool tops has increased 35 percent. Finished cloth has not reflected this advance but has been confined to a rise of 15 percent while suits, overcoats, and wearing apparel have increased only 10 percent.

Dr. KREPS. Is it your impression, Dr. Forbes, that the price of finished cloth ought to rise 35 percent inasmuch as wool tops rose 35 percent? Is it not conceivable that wool tops, the expenditure for wool tops, is a minor or relatively small factor in total cost of finished cloth, and that therefore a 15-percent rise in the price of the finished product might more than compensate for a 35-percent rise in one of the materials?

Dr. Forbes. I wouldn't know.

Dr. Kreps. I was just wondering whether in your experience there was such a conformity between increases in prices of certain raw materials and other finished products which you buy.

Dr. Forbes. In lumber there was a steady rise in the price of hardwoods averaging about 16 percent. In softwoods there has been a slight rise of about 3 percent in price since the beginning of the war, which brings current prices to about the level of last spring.

In building materials, prices paid for the above commodities which are fairly representative of items used in maintenance and construction work have remained constant so far this year.

The price of our present deliveries in these commodities was made on contracts awarded in June. Since that time, we have had no occasion to secure quotations.

There has been practically no change in the price paid for glass during this year. Any changes were reflected in the industrial group where crystal sheet and polished glass were slightly lower in price on September 1 as compared with the period 4 months previous.

The Department made the majority of its contracts covering the present period for electrical equipment, parts, and supplies prior to September 1. In those few instances where we have gone into the market for electrical equipment since September 1, our experience indicates that prices have remained unchanged. In the case of wire and cable, prices paid in September were 6 percent lower than in June.

In paper and paper products our buyer expects a sharp increase in the price of paper in 1940 due to the shortage of pulp, which has been imported. Paper products have shown a sharp increase from 10 to 25 percent since September 1.

Our experience in the city of New York has, I imagine, been paralleled by other cities and governmental subdivisions. It indicates that thus far commodity prices have been governed by natural causes, and that the skyrocketing of prices of the "Seller's Market" during the comparable period of 1914 have been avoided. It is indeed fortunate that such is the case. Governments buy what they must have for consumption and the maintenance of public services. Since governments are nonprofit making and are nonproducers, they cannot raise the prices of their products to cope with increased costs of raw materials and increased overhead costs. "Runaway" prices would inevitably lead to (1) the curtailment of essential governmental services, or (2) increased taxes; or (3) deficit financing. In the present state of the Nation, all three of these alternatives should be forestalled.

Dr. Kreps. Dr. Forbes, what is the annual budget of the city of New York, roughly? How much is spent?

Dr. Forbes. Well, the tax budget in the current fiscal year ending June 30, 1940, is $587,000,000.

Dr. Kreps. What amount of that is spent for commodities? What percentage, roughly?

Dr. Forbes. About 5 percent, roughly.

Dr. KREPS. And the rest is all spent for services?

Dr. FORBES. In New York City the debt service is a sizable figure, and that eats up about, I think, one-third of the budget, approximately.

Dr. KREPS. Then the extent of your purchases is roughly 25 millions a year, twenty-five or twenty-six millions a year?

Dr. FORBES. Our purchases run in the neighborhood of 30 million. The debt service this year is about 26 percent of the total. Salaries are approximately one-half of the total. But then, of course, there is the capital outlay budget and special appropriations outside this volume, which is the tax budget.

Mr. HENDERSON. Do you do the buying for that?

Dr. FORBES. Yes and no. In some cases we do, in other cases we don't. When a contract is awarded for the construction of a public building in which the contractor furnishes the materials as well as the labor, we have nothing to do with it. Where it is erected with W. P. A. labor, the city contributing the materials, we do the buying in some of those cases. In other cases the Federal Government does the buying for us.

Mr. HENDERSON. What would be the extent of your buying for W. P. A. contracts in a year?

Dr. FORBES. I think this year it will be in the neighborhood of half a million dollars.

Mr. O'CONNELL. You don't do all the buying for W. P. A.? The State procurement probably would do a more substantial part of that buying, wouldn't they?

Dr. FORBES. Yes.

Mr. HENDERSON. I should like to ask a question. You say half of this $587,000,000 is for employees' compensation.

Dr. FORBES. Salaries, yes.

Mr. HENDERSON. For salaries?

Dr. FORBES. And wages.

Mr. HENDERSON. If you had a substantial increase in prices, causing an increase in the cost of living, would that represent an additional pressure on the city to increase rates of compensation?

Dr. FORBES. Yes; it would.

Mr. HENDERSON. So a price increase isn't truly reflected by just the amount it affects your buying budget for commodities. If you had a price increase, it would mean much more than merely the effect on your 30 million dollars of purchases?

Dr. FORBES. I think it would; yes; because as the cost of living goes up, then the wage or salary dollar goes down, and the employee naturally agitates for an increased salary.

Mr. O'CONNELL. I would like to ask a question along the line that we were talking a few moments ago, about how, and with what success, you have attempted to meet the problem of tie bids or identical bids. I understood you to say that over the years you have been able to substantially reduce the extent of that practice.

Dr. FORBES. Yes.

Mr. O'CONNELL. And that one of the techniques which you used, as I understood it, had to do with the proposition of drawing lots among the identical bidders. I am not entirely clear as to the utility of that in preventing the practice. Would you explain that to me again?

Dr. FORBES. I said before that when bids were tied, if five or six bidders submitted identical bids, in the early days we would invariably be approached with the proposition that each of the bidders should get one-fifth of the business, if there were five. We never did that. We always stuck to the policy that we will draw lots and one will get all and the others will get nothing.

I think that was a deterrent to continuance of that practice.

Mr. O'CONNELL. I might say that, as I understand it, is the policy which is in general followed by Federal Government purchasing agents, and it is my impression that they have been less able to cope with the problem of identical bids than you have indicated has been your experience. As I understand it, it is typical in Government purchasing, where identical bids are received, to draw lots. The Federal Government as far as I know has never attempted to allocate the business among identical bidders, yet it is also my impression that the practice of identical bidding on Government contracts is still quite substantial, so that the technique of drawing lots hasn't been effective insofar as the Federal Government is concerned, I don't believe. Of course, you have indicated that there are other things that you do. I take it that where you can give a preference to a local bidder, that would mean that any of his competitors outside of the city of New York would have to make a price concession, would have to bid competitively in order to be entitled to any of that share of the business.

Dr. FORBES. That is right.

Mr. O'CONNELL. Had you ever considered in that field the use of substitutes for things upon which you have been receiving identical bids over a period of time? Does your examination of the use of substitutes include that situation?

Dr. FORBES. I don't recall any exact instances of that. There may have been.

Mr. O'CONNELL. It was suggested during our steel hearings [1] that one of the reasons that the Federal Government was not able to obtain the price concessions in steel that were available to other purchasers of steel was that the policy of public bidding, and public indications as to the prices bid, was one of the reasons for adherence by all of the bidders to the base prices during that period. Have you ever considered, for public purchasing, the advantages of negotiating contracts, private negotiations as distinguished from public bidding now required?

Dr. FORBES. There are many cases where we are told that if we could negotiate privately without opening bids publicly, we could get lower prices and special discounts and concessions.

Mr. O'CONNELL. Of course that type of purchasing has its own dangers too, I take it.

Dr. FORBES. It is very dangerous.

Mr. O'CONNELL. One other question: Does your department give substantial consideration to the general problem of restrictive specifications and their effect upon restricting the area of competition as between the suppliers of particular things that you need?

Dr. FORBES. You mean with respect to——

Mr. O'CONNELL (interposing). To the actual drafting——

Dr. FORBES. Shutting out bidders from other States?

[1] Testimony on the steel industry appears in Hearings, Parts 18, 19, and 20. Subsequent hearings on steel are included in Hearings, Parts 26 and 27.

Mr. O'Connell. Even in your own State I take it it is entirely possible for persons responsible for drafting specifications to so draft them as to result in a restriction upon competitors who may bid.

Dr. Forbes. Oh, yes. In this new Department of Purchase that was one of the really major undertakings, to eliminate such restrictive devices. For example, one specification I recall at the moment said that bids would be received only from those producers whose factories were within 25 miles of the municipal building, Borough of Manhattan.

Mr. O'Connell. Isn't it also possible to so draft specifications in technical language as to include patented devices and other things which would in effect restrict the supplier to one while at the same time not serve the interests of the municipality?

Dr. Forbes. Yes.

Mr. O'Connell. I take it to meet that problem it is necessary to have some sort of research department, something comparable to what you referred to as a bureau of standards, in order to ascertain what would best fit the needs?

Dr. Forbes. We have that, as I said before, in a small way and we have found in many cases where the restriction was not as bald and bold as the case I mentioned, of the location of the factory within a radius of 25 miles, but that nevertheless some one person's product would be written into a specification in several hundred words.

Mr. O'Connell. I have seen that type of specification.

Dr. Forbes. Instead of a picture of it there would be a lot of words which described some one particular thing. We have had hundreds of such cases which we had to open up. We have found, however that in our work by having no secrets about our work and by allowing and encouraging people to write in and complain, that such restrictive specifications are easily detected. In other words, if one gets through my specification staff or my buyers and gets into a contract proposal some one of the potential bidders who is cut out by this error and this restriction will immediately begin to complain, and so the wheels will be stopped, the proposal changed and then started under the new specification.

Mr. OConnell. So to that extent the competitors shut out of the market operate as a check on your organization or the persons responsible for drafting the specifications.

Dr. Forbes. That is right, yes. Personally I depend upon my mail as one of the principal safeguards I have. It is unpleasant to read but it is very helpful.

Mr. Henderson. I want to go back to your forecast of what takes place with runaway prices. As I gather, you make the point that a city or a State has to operate on a budget and that budget is usually on an annual basis. If there is a sharp price increase in the budget period you are confronted with the problem of either curtailing or of meeting the extra prices. In the succeeding year, however, you are confronted with the problem of how to get additional revenue. In New York City that would have to come from an increase in taxes and which taxes would probably have to be increased?

Dr. Forbes. Well, the real-estate tax is one.

Mr. Henderson. That would reflect itself in rents, then it would be again reflected in taxes—I mean as a cost of producing goods and services—and again it would get into the price structure, would it not?

Dr. FORBES. It would increase the cost of living, yes.

Mr. HENDERSON. So a price increase results in additional taxes, or deficit financing adding to the big debt burden, which is a charge on business and owners of property. They in turn add that to their prices and you get a spiral in that way, do you not?

Dr. FORBES. Yes.

Mr. O'CONNELL. Dr. Forbes, do you happen to have any information as to the cost of purchasing in the city of New York as compared with that in other large cities such as Chicago? Is there any difference substantially in the price level for things that you buy?

Dr. FORBES. We have a regular monthly service of the New York Conference of Mayors and other city officials, which compiles comparative prices paid by the cities of New York State and then distributes them among the cities. There is no exchange of information as a general thing, although we correspond and answer requests and very frequently write out to other cities to see what has been their experience, but there is no regular service.

Mr. O'CONNELL. Do the activities of the United States Conference of Mayors include any particular reference to purchasing policy by municipalities?

Dr. FORBES. This is the New York State Conference of Mayors.

Mr. O'CONNELL. I understand that. I am referring now to the national organization.

Dr. FORBES. Do they have any policy?

Mr. O'CONNELL. Yes; of coordinating Government municipal purchasing policies or exchange of information, that sort of thing.

Dr. FORBES The office of the United States Conference of Mayors will, at the request of any city, and has on many occasions at the request of New York City, collect specifications or price date or both. They don't do it as a regular service but they will do it upon specific request. It has proved very helpful.

Dr. KREPS. Do you ever find yourself in competition with other municipalities or with the Federal Government in bidding for a given commodity?

Dr. FORBES. We were confronted by that specter. We were planning this fall, in October, to buy a considerable quantity of automobile trucks, but when we learned that the Federal Government was in the market for a large quantity, I believe 15,000 or more, we did not ask for bids and have not yet asked for them. We are holding up our purchases.

Dr. KREPS. Is there an exchange of, as it were, intentions, purchasing intentions, by purchasing departments so that purchasing agents everywhere can adopt a rational policy of dovetailing their buying or attempts to buy in periods when others are not in the market?

Dr. FORBES. I have never heard of any such coordination or schedulizing.

Dr. KREPS. Do you know what amount of commodities in sum total is purchased by municipalities?

Dr. FORBES. No.

Dr. KREPS. Do you think it would be desirable, following the lead this morning, for some service to be set up which would collect such figures? Would they be useful to you?

Dr. FORBES. Yes; very decidedly.

Dr. KREPS. Would you indicate the nature of the data that you ought to have, that you would like to have?

Dr. FORBES. To be helpful it would have to be truly comparative, that is based on definite quality standards. In other words, you couldn't say "potatoes", because one might be U. S. No. 1, and another U. S. No. 2, so they wouldn't be truly comparative. To be comparative and therefore useful you would have to have the exact specification as to quality delivered.

Dr. KREPS. You have not indicated the relative quantities here, but I am wondering whether it is possible that building materials and office equipment are the larger items. Would you state roughly for us what the items are that you buy, at least the five or six largest items?

Dr. FORBES. Here is a list.

Dr. KREPS. Would you like to submit that for the record, Dr. Forbes?

Dr. FORBES. Yes.

(The list referred to was marked "Exhibit No. 1512" and is included in the appendix on p. 11365.)

Dr. FORBES. Laboratory animals, about $30,000. Arms and ammunitions, $12,000.

Dr. KREPS. Just name the largest for us, Dr. Forbes.

Dr. FORBES. Rentals of equipment, $1,000,000. Drugs, medicines, and sundries, $1,500,000. Foods, $5,000,000. Fuel, coal, lubricants, fuel oil, $5,500,000. Furniture, $700,000. Plumbing supplies and heating equipment, $260,000. Materials of construction, $3,575,000. Printing and forms, $1,500,000. That includes the printing of our daily newspaper, the City Record. Automotive vehicles, $2,500,000. Wood products and lumber, $1,000,000. Those are our principal purchases.

Mr. O'CONNELL. You mentioned $3,575,000 for the purchase of building materials. Those are substantially all used in connection with regular maintenance.

Dr. FORBES. That is it.

Mr. O'CONNELL. And I take it that the amount included in the capital outlay budget for construction would include a much more substantial amount of building materials purchased by contractors.

Dr. FORBES. Yes; this is repair and maintenance.

Dr. KREPS. That is all.

Acting Chairman BORAH. Thank you Dr. Forbes.

(The witness was excused.)

Acting Chairman BORAH. Mr. Johnson, do you solemnly swear the testimony you shall give in this hearing shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. JOHNSON. I do.

TESTIMONY OF T. M. JOHNSON, SUPERVISOR OF PURCHASES, NEW YORK UNIVERSITY, NEW YORK, N. Y.

Dr. KREPS. Will you state for the purposes of the record your full name?

Mr. JOHNSON. My name is Theodore M. Johnson.

Dr. KREPS. What is your position?

Mr. JOHNSON. I am a supervisor of purchases of New York University, also treasurer of the Educational Buyers Association, and also treasurer of the Educational Institution Cooperative.

Dr. KREPS. How long have you been in this field of institutional buying?

Mr. JOHNSON. I have been in the institutional buying field about 17 years.

Dr. KREPS. Will you proceed?

Mr. JOHNSON. It has been my privilege to observe from the many published accounts of its hearings, that this committee is endeavoring to gather unprejudiced information on how, when, and where prices are made. Many national leaders in the processing and manufacturing of our most essential commodities have reported to you con-concerning various methods used in manufacturing; reductions in costs of production through research; and new methods of distributing. These men have also spoken of certain difficulties facing them; for example, they have presented their tax problems and their labor-relations problems. And even though they are confronted with many difficulties they have manifested their strong desire to keep within the bounds of a reasonable and competitive selling price for their commodities. The spirit which prompted these leaders to testify has been ably summed up by one of the executives in the petroleum industry who said:

> Ever since the committee announced these hearings on the oil industry, I have looked forward to them as an opportunity for the industry to tell the public about itself. I have hoped that a statement of policies and achievements would give the public a better understanding of the industry and its contribution to the general welfare.

It is significant that these spokesmen represent a cross section of American business, and they have achieved a wide sphere of influence.

I only wish that I were qualified to present a picture that would give the public a better understanding of the wide and varied efforts made by educational institutions to contribute to the general welfare. But, as a matter of fact, to do this is hardly necessary since we are as a nation, devoted to the ideals of education. In the time allotted to me I shall endeavor to keep within the subject assigned to me and to discuss the price situation as seen through the eyes of the purchasers in the educational field.

PRICE PROBLEMS VIEWED BY AN INSTITUTIONAL PURCHASING AGENT

Mr. JOHNSON. The buying situation present in the instance of the college or university offers a different set of problems from those of the industrial organization. This is because we in the educational field are concerned with the procurement of products for final consumption or use, while the industrial firm is naturally concerned with the resale factor, in one form or another. Institutions of higher learning are not interested in making a profit, but must strive to make ends meet with a maximum of educational value rendered.

The educational institution is limited as to the amount of potential income it may receive. When it is confronted with increased costs, it cannot readily pass them on, as may be done by the commercial or industrial organization. The institution's income is derived from endowments, student fees, gifts, and in the case of hospitals, from clinics' and patients' fees. The State-supported organization receives its income through taxation and, of course, has the opportunity of increasing its appropriation through the established legislative channels. Of the two general types the State institution has, at least, a theoretical advantage in the matter of elastic income. But practically speaking, the system of annual fixed budgets often finds the State institution more rigidly limited as to available funds for a given immediate purpose than the private school. During the past few years the National Government has assisted many tax-supported schools, colleges, and universities in enlarging their educational plants through W. P. A. and P. W. A. grants. This financial aid, is of course, of an emergency nature. It is outside the scope of regular income.

During the last decade only those financial executives who were willing to change their business methods with the changing times have been of real value to their institutions. This is as true in education as in business.

One highly acceptable method of financing education is through endowments. But such means of income have decreased considerably during recent years and have placed a great many problems on the shoulders of the financial executive. To meet this situation he has, among other factors, given a great amount of study to the more efficient performance of the purchasing function in his institution. He has become a close student of price and market conditions in order to effect as large savings as possible in what he purchases.

Because of loss in income from reduced yield, many colleges and universities were forced to cut salaries of their teaching staff at a time when those institutions should have been doing everything in their power to maintain their high standing academically and administratively. At one time a few of our educational institutions were forced to board up some of their buildings because of lack of income from endowments necessary to maintain them. Such experiences which have taken place during the last 10 years make one wonder what will happen in the future. In other words, will such income be seriously reduced because of the lack of accumulated fortunes such as have been acquired in the past?

At this point it may be interesting to quote from a statement made recently by the president of one of our larger universities regarding the subject of large incomes. He stated that there were 87,589 people in 1926 who reported an income higher than $25,000, with a grand total of $5,727,000,000. And in 1937 those who reported an income over $25,000 declined to 55,158, with a total amount of $2,999,000,000. The question of taxation for the very rich causes them considerable concern, and the question arises as to whether very many people will ever accumulate enough funds to contribute to education as they have done in the past. Reduced yield and increased taxes have combined to diminish the number of fortunes which might be calculated some day to be placed at the disposal of educational institutions.

Because he has to be a realist, the educational officer has had to meet the challenge of reduced income from capital by turning to other sources. Many such executives have been obliged to pay closer attention to the matter of student fees. And in the instance of many endowed colleges and universities the income from student fees has over the period of the past 10 years become their major source of income. As a matter of fact, the organizations which had a large student enrollment throughout the depression years fared better than heavily endowed institutions in the matter of steady income. It was easier for them to estimate more accurately what their anticipated income would be be, and because of this advantage it was possible for them to operate under a more intelligent and more definite business Budget.

How long this type of income will bear up is also somewhat problematical. In estimating its duration one must necessarily study the trends in population. Educational institutions are now enrolling students who were born during the years following the last World War. Statistics disclose to us that this country, as well as other countries, had a high birth rate during the period from 1919 to 1922. This means that at present we can estimate that our enrollment will bear up for a few more years, but after that what will the situation prove to be?

And I might say in passing that I noticed a clipping in one of the Washington papers, last night's edition, in which they state [reading]:

> The college registrars in holding their meeting at State College, Pennsylvania, notify the association that colleges have now enrolled over 1,000,000 students.

That is the first time that the colleges have ever made that mark.

And even though the trend should increase, the private institutions must face the fact that State institutions have been and are growing at an increasing rate.

This growth has come about because our people have sought to provide the benefits of higher education to those of limited means. To a certain extent such growth will check the growth of the private institutions depending upon student tuition for their income. State colleges and universities are contributing immensely to the advancement of education. Since the privately endowed colleges and universities were the first to be founded, they have well-established organizations, and it is my belief that many of our State institutions have been patterned after them. I hope there will always be that happy competition—if competition it can be called—between these two types of educational institutions.

I have taken time roughly to sketch the changing income situation facing educational institutions in order to emphasize its decreasing aspects. In my opinion, if this country were to witness an unusually rapid price increase, educational institutions would be caught between reduced income and increased cost of operation.

There has been a gradual increase in price on the general types of commodities used in hospitals, universities, and colleges over a period of years since the lows of 1932 and 1933. We have also witnessed another general rise on most of the commodities used during this last summer and fall. Except for a few war items, the price behavior has been generally accepted as being necessary for the promotion of better business conditions.

I cannot sympathize with the effort on the part of some sales staffs to use the threat of war demands and the chance of this country's possible participation in war to create a larger demand for their commodities. This type of selling effort should be discouraged, for it can do a great amount of harm to business. It can in the long run set it in reverse faster than any other single force. Purchasers should naturally cover themselves for a reasonable period, but many of them get somewhat panicky over wild and unfounded rumors. The Government agencies and the executives of the National Association of Purchasing Agents deserve a great deal of credit for the advices that have been distributed concerning the true facts underlying the price situation. Many farsighted sellers have also played an important role in discouraging unduly alarmed consumers from overbuying. It is true that sources of supply, along with buyers, lose if purchasers are overstocked and caught with large and expensive inventories on their hands.

Much has been said and written about the importance of any business knowing its exact costs of manufacturing, distributing, selling, and so forth; but in spite of all the advice and exhortation on this subject, we still have too many sales organizations trying to arrive at a selling price by the simple expedient of adopting the list prices of a leading competitor as their own list prices.

Dr. Kreps. Mr. Johnson, in that connection, would you like to amplify for the committee, by way of example, this practice of price leadership?

Mr. Johnson. I have noticed over a period of several years that if there is a leader in the field everybody tries to live up to what he has been doing in the way of price structure, and I know of an incident which has happened within the past year in the glass industry. One organization, of course, has been a leader for many, many years in this field, particularly in our type of work, and now we find another organization coming into the field, but it has adopted the same list prices as the old leading organization. I often wonder how a new organization can arrive at the identical list price of the older leading organization.

I have also found a similar instance in the office-supply business, in which one large national manufacturer enjoyed business over a long period; suddenly another new national organization handles the same type of product and now they find themselves compelled—whether they compel themselves or not I don't know, but the fact is that they do have the same list price, and it is with that thought in mind that I wrote that statement. I thought that prices today should be built on the basis of the actual cost of manufacture plus a reasonable selling cost and distribution cost, and so forth, and not merely try to arrive at what the other fellow has done and shoot at that.

When a firm follows such a price policy, it is because it is generally known that there is a wide margin for potential profit and they are taking little risk.

But it avails little to the buyer, It does not tend to curtail existing marketing wastes, and it contributes nothing constructive to the marketing system. Above all, it does tend to force prices upward with a resultant loss of confidence on the part of the buyer in the price structure of the commodity or field in question.

Frequently the list price for an article is absolutely meaningless. It is subject to one or more discounts before it can be considered as the real price. This system of itself may be wholly necessary, but its weakness lies in the way it is administered. For example, the careful buyer, the one who is informed, will know what discount he should get; the casual buyer may not, and his discount will usually be much smaller than it should be. To many concerns the price system seems to be built not so much on the basis of what the traffic will bear, but rather on how much they can bear down on the traffic.

I might say that that remark might apply more in a seller's market than in a buyer's market.

In many industries such is our pricing system today, and it is surely not the type of system in which the buyer and the seller can develop mutual confidence. Under this practice the buyer frequently wonders when the real price is established. How much better it would be if the buyer could always know about the value he is receiving for the money he spends.

In accordance with the discussion we have had today so far in the way of getting this information together, if the buyer could get as much information as possible so that he would be educated on all given commodities in the way of manufacture, in the way of cost of manufacture, and also distributing cost, it would help him a great deal in knowing just what is the right price to spend for a commodity.

I know some large organizations that think they have had purchasing engineers who go out and make a study of what it should cost an organization to make a given commodity and compare that with what they could probably make it for themselves in their own organization, so if they can make it cheaper, naturally they would go in for it.

Dr. KREPS. I take it, by real price you mean the price at discount from list price?

Mr. JOHNSON. Net price, the money you actually spend. This idea of discounts—I will just diverge a little here about purchasing.

Of course, all purchasing agents are supposed to be helping out their organizations. You find the discounts ranging from 30, 40, 50, to 60 percent, but when it comes right down to going to the department stores and seeing what 60 percent off wholesale lists are and the actual selling price that a department store gives an article, you might find it might be cheaper to purchase at a department store.

That is what I really had in the back of my mind when arriving at the actual net price that you pay for a given commodity.

Dr. KREPS. It has been reported that discounts in recent months have been diminished a good deal. There has been a tendency to lessen these discounts, to firm up the real price to the list price. Have you noted that at all?

Mr. JOHNSON. I noticed it in some instances, but I have also noticed it the other way, where you can get more discount today than you could before.

Dr. KREPS. Would you give us some examples?

Mr. JOHNSON. Well, there was a commodity that last year we received a 33⅓ percent discount on, and this year it is 40 percent discount. I have an instance here in some of the notes of prices. I think I can quote from one of my colleagues. By the way, I wrote to a number of university purchasing agents throughout the country who have been closely associated with me in this method we have of buying for universities, and whenever I want information it isn't hard to get. I am now going to quote from a letter received by the purchasing agent of Syracuse University, in which he mentioned something about the price of tables. He says it this way [reading]:

> I particularly want to call to your attention that phrase "equitably based on cost." I do not believe that there is any justification in the present market situation on this raise. I think my whole letter can be summed up as a complaint against prices which are equitably based on what the market will stand. I particularly point this out by citing an example where prices have not changed even in spite of new regulations of the wage-and-hour law. This example is in the wood furniture industry. This industry, as you know, has been, during the past 8 years, a depression industry. They have witnessed within the last 2 years two cost advances in their labor. They have absorbed these increased labor

costs and have not advanced their prices only because the market for furniture would not bear these increases. Quite unexpectedly we had to purchase recently a carload of small dining room tables and chairs. We secured the same prices for these items as we did a year and a half ago. The fact of the matter was that there were two companies who bid lower than the prices which we secured a year and a half ago. These bids had to be thrown out because they would not secure delivery within the specified time.

This shows an instance of prices being reduced on account of the discount that this one organization got, and two other organizations were willing to quote a lower price this year than they did the year before.

In many industries such is our pricing system today, and it is surely not the type of systems in which the buyer and the seller can develop mutual confidence. Under this practice the buyer frequently wonders when the real price is established. How much better it would be if the buyer could always know about the value he is receiving for the money he spends. And how much better our economic situation would be if the manufacturer or distributor could make a reasonable profit so that he could continue to serve those whom he has previously served so well. This whole situation may be somewhat idealistic, but at least it may show you the reaction that certain price policies have on buyers.

One trouble with business is that distribution and selling costs are frequently entirely out of line with the physical value of the commodity.

I was thinking when I wrote that of the poor farmer in my State of Jersey. I happen to be a farmer and I know my neighbor gets 67 cents a hundred pounds for milk. I buy that same milk in New York City at 18 cents a quart, which is what is usually equal to two pounds so you can see the difference in cost between the time that farmer got his 67 cents and the price I paid for it as a consumer in New York City.

Acting Chairman Borah. That doesn't apply to milk alone.

Mr. Johnson. Probably not, Senator, but that just happened to be the point I had in mind at that particular time.

I would also mention something about business machines. I heard mention before about the prices of business machines. I don't exactly know the cost of manufacture of certain types, but I have heard it said that one business machine varied in price, or in cost of production. from $12.15 to $26, and the cost of that machine in New York City is in the neighborhood of $130. I often wonder why there should be that variance in prices of business machines. It is another one of the facts along the same line as my milk story.

Perhaps an analogy will best show what I mean. When a student matriculates at a school or college, he pays his money for an education, and when he is graduated, he counts upon this education to assist him throughout his life. He does not have to pay any more at any time for the education that he has received. However, this same situation does not seem to prevail in the education of a consumer in the use of commodities that he constantly must have. The consumer must keep on paying for this education regardless of the number of years he has used the identical material. There is just as much sales effort to sell him today as there was 10 years ago. There is altogether too much waste in selling effort—and the buyer must pay. In my opinion the difficulties of the present method could be at least alleviated by an arrangement that would allow the buyer to accept such services as he actually desires or needs.

Such an arrangement involves the subjects of packing, product finishes, inspection services, transportation methods, and sizes and standards of products principally. I believe you will readily see that if the buyer could have more to say concerning each one of the above factors, he can help to reduce marketing costs by eliminating those he does not want.

I might elaborate on that a bit to tell about certain articles used in universities. When you make your periodical plant investigations, which is a wonderful thing for every purchasing agent to do, you notice things in going through the plants that might be of assistance to your own organization in the way of saying, "Well, now, I wonder why I need to have this done to the article that I need in my place." I can remember the case of one large desk company, where I went in and I was introduced to an old fellow right out in the mill who was the man to select the veneers for the different grades of wooden desks, and after the men who introduced me were a little ways away from me, I said, "How can you tell the difference between the grading of your B grade and your C grade desks?"

He said, "I'll tell you, it's pretty hard to decide between the grading of those two."

This organization had four grades, A, B, C, and D. I was always buying the B grade, but you can rest assured that from the remark of that man who was the expert, when I went back I bought C grade desks, because the lumber or selection of wood in those two were so difficult for that expert to decide, and I didn't think it was wise for my university to pay that B grade price.

Dr. Kreps. Do the university purchasing agents have a cooperative arrangement whereby they can ascertain the quality of the article or articles which they purchase?

Mr. Johnson. I might answer that by giving a little history of the organization called the Educational Buyers Association. All the college purchasing agents throughout the country are grouped together. There are 333 of us, but not all are purchasing agents. Some have other duties. Some are treasurers of their organizations, some are business managers of their organizations. We all have common problems. We all get together and discuss our business pro and con.

We all know practically what the other fellow pays for his merchandise, and I must admit it hurts me when a small organization in Ohio, we will say, can buy typewriters at a price of $60 for all uses, where they may buy only about 10 a year, and I, who might buy 150 a year, have to pay anywhere from $70 to $93. I just can't figure out the justification of that kind of pricing system.

Mr. O'Connell. This isn't intended to make you feel any better, but I understand the Federal Government, which expends possibly $2,000,000 a year for typewriters, also pays $70 for the one that the school district buys for $60.

Mr. Johnson. Of course, in university circles there are two prices for typewriters. One is the standard educational price and the other is the instructional price. The instructional price is $70, but the educational price is something a little different, it is a little higher. In New York, I guess I am too close to the main offices because I can't get the instructional discount for my own university, only when it is used directly in the classroom. I may have an office and for the typewriter I buy for that office I have to pay $93 and some pennies, but in the classroom adjoining, for the typewriters used there, I pay $70.

Mr. O'CONNELL. You are speaking of the typewriter from whatever company, too; the prices are all the same.

Mr. JOHNSON. Yes, they are all the same.

Dr. KREPS. Aren't you able to bargain?

Mr. JOHNSON. You have to sign some kind of paper and say that you use it for instructional purposes to get it, and of course, if you have your secretary using that typewriter it is not wholly within the statement used for instructional purchases.

Dr. KREPS. Who sets these prices? I take it these prices are set by some organization.

Mr. JOHNSON. That is rather difficult to answer, who sets the prices, but it seems to me a strange coincidence that four organizations should have the same list prices and exactly the same discounts to anybody. I couldn't tell who set the prices.

Now can I get to the original question? I started to describe the association and its membership. We have been going now for a period of about 5 years, and during the course of our discussions we wondered if we couldn't start some kind of arrangement whereby we might pool orders. This happened years ago. The pooling of orders was not the way of handling it, although it did help us as buyers to get a reduced price, but all it did was to peg the market in certain smaller commodities. That is, I can recall the alcohol situation, in which my friend the purchasing agent of the University of Chicago arranged a pooling arrangement for all of us. Well, the organization who got the business that year got a great deal of business, but the next year his competitors got wise to it, and naturally they all reduced the price, to that same level, and the original arrangement we had wasn't nearly as effective, because some of our membership in the Midwest and Far West would naturally buy from the source of supply nearer home. It paid them to do so, so that type of buying and selling didn't seem to be successful.

However, when we were pinched in these depression years we had to do something in the way of getting our merchandise and keeping within our budget. So some of the fellows decided upon this idea of cooperative buying, and we tried the cooperative-organization movement. We organized and were incorporated in the State of New York, but we wanted to try it in an experimental way locally, so it was tried up in middle New York State between Cornell, Syracuse University, Rochester, and a few of the smaller colleges up that way. It seemed to work fairly well, so they decided, "Let's see if we can't invite a few more fellows around New York City," and then it seemed to still be working all right, so they finally decided we would go national, and now we have the purchasing organizations or the business managers of 333 universities who are stockholders in this cooperative, and 277 of our members have actually participated in purchasing their materials through this cooperative arrangement. It has, I think, got to the point today where it is really a success, and that is going to be rather unwieldly for a group of purchasing agents whose hobby it is to help out one another to handle. It is going to have to be put in the hands of its own organization somehow, and run on that basis.

Dr. KREPS. When you speak of cooperative buying, do you mean that by one contract you get a supply of a given commodity for many universities at the same time?

Mr. JOHNSON. Well, this organization, or the corporation, gets the franchise from some manufacturer to handle their line of merchandise, and this cooperative is selling their line of merchandise, and I, as a purchasing agent in my organization, buy from that "co-op" if it handles something I can use. There are many times, of course, when we cannot participate in any arrangements they have because our local situation is better, but many of the universities in the country can see the direct benefit by trying to reduce the distribution costs in some of the commodities where we do not have to accept all of the services that are forced on the purchaser.

I might also say that there are times when we are now getting some of our merchandise or our supplies manufactured for us under our own trade name, and in that way we try to uphold the price situation to a point where it is competitive in a particular locality, and by selling our own commodity that way.

Acting Chairman BORAH. You are liable to get under the antimonopoly laws.

Mr. JOHNSON. The antimonopoly law? I wonder, Senator, if there is anything wrong with that kind of buying. It is just an organization that is organized to sell to a particular field.

Acting Chairman BORAH. I was thinking of the decision of the Supreme Court yesterday in the milk situation. Aren't they cooperatives? I haven't read it. But I will not disturb you, so we will not get worried about it.

Mr. AVILDSEN. How much of a saving do you make on those cooperative purchases, on the average?

Mr. JOHNSON. Well, we don't have to have so many of the costs involved in selling effort, and on the basis of that it varies, oh, I would say from 10 to 25 percent.

Mr. AVILDSEN. The average would be in between those two figures?

Mr. JOHNSON. I would say the average saving in the actual discount arrangements—of course the cooperative naturally has to make a profit, and whatever profit they make is turned in in the form of dividends which each one of these universities participates in up to the amount that they have participated in the actual business of the organization.

Mr. AVILDSEN. That becomes a discount. The dividend is the discount?

Mr. JOHNSON. No, sir; they are two separate things. You might have discounts first and dividends later. We get both.

Mr. AVILDSEN. Regarding the dividend and the discount, how much would their total savings be, about?

Mr. JOHNSON. The dividend doesn't amount to a great deal. The dividends up to now amount in the neighborhood of 5 percent as dividends. There is about 5 percent for handling the office and office salaries, and the like.

Mr. O'CONNELL. How successful has your cooperative been in meeting the situation you described to us existing in the typewriter industry?

Mr. JOHNSON. We haven't even tried. We have been trying it in other fields first. It was furniture houses we started with, and I don't mind saying for publication that if it hadn't been for this method of getting prices and buying through a cooperative, I in New York would probably be in the position of paying either list price or almost list price for my office equipment, that is, steel equipment. I might say that when this "co-op" was organized we asked a number of firms to participate and they didn't seem to want to do it, and one organization did and the result is now that the organization that I did business with for a number of years, and who went up to just giving me the ordinary list prices, is now back down offering me 25- and 30-percent discounts for their commodities. That would be an indication of what has gone on in that particular field.

Dr. KREPS. Does the cooperative keep a stock on hand of the supplies that universities are likely to want? Or do you pool orders?

Mr. JOHNSON. They do keep some supply on hand, but most of the business is done direct by us sending the order direct to the factory, and the shipments coming direct from the factory. We have stock on hand at all times. Then occasionally they might run a pool of some commodity. I am reminded of the pool that we ran on library cards. There seemed to be a field where one or two organizations had complete control, and I for one was paying $3.90 for my 3-by-5 library cards for catalog files. Through pooling arrangements and getting the specifications from the Library of Congress, also specifications from other manufacturers who were supplying the distributors that sold us, we actually drew up a set of specifications, and asked several manufacturers to bid on these cards in great volume, in volume of many millions, and on the basis of that we got a price that we could sell to our members at $1.65 a thousand, where the price was $3.90 for me individually.

So there is just another method that is used by the cooperative in trying to buy the same material. As a matter of fact, I know we bought the same card stock from one of the same manufacturers that originally sold the distributors who sold us.

Dr. KREPS. When you spoke of the organization did you mean a given business or an organization of businesses, such as a trade association in that particular situation?

Mr. JOHNSON. This particular deal, this pooling arrangement, was on our own buying, but the question of trade associations brings up a problem that I have often wondered about. I have often wondered, while the trade associations do a lot of good in maintaining their standards and some of their business practices, if they don't do a lot of discussing of prices and price manipulation behind closed doors. I can't prove it except from a few statements that have been said to me by some very good friends, and I wish that some of that was open and aboveboard, so that we could do something about getting the right prices.

Dr. KREPS. In this particular situation which you have not yet been able to master, namely that of typewriters, is it your impression that the matter of prices is probably not competitive?

Mr. JOHNSON. Well, I wouldn't want to say, because I don't know. However, I can say that it is rather a strange coincidence that always when those prices fluctuate they all fluctuate at the same time from all organizations.

Dr. KREPS. When you say you can't crack that nut, what do you mean?

Mr. JOHNSON. Did I say that?

Dr. KREPS. Yes; in essence.

Mr. JOHNSON. The idea is that there are times when a purchasing agent gets rather perturbed over the fact that everyone seems to have that same set-up, and in my own way of thinking I don't think that that is a fair way to sell merchandise I can't conceivably think how four different organizations can arrive at the same price. They must have differences in costs, there must be one president that might get a higher salary than another, and the labor may get more salary in one organization than another; more efficiency may play a part in one organization where it doesn't in another, yet they all seem to arrive at that same figure for four different industries.

Dr. KREPS. It doesn't allow you much leeway for intelligence and bargaining power, does it?

Mr. JOHNSON. You can't do any bargaining about it. It is all cut and dried, take it or leave it.

Dr. KREPS. In other words, you are up against a united front and as consumers are regimented.

Mr. JOHNSON. We have that, but that is about as far as it will get in that particular industry. We can do no more than protest, and probably the reason I can feel freer to talk over some of the other men is that we don't have anything to sell, and our type of organization does not wait for a profit, and we are naturally trying to use every constructive business means of getting our product for our own organizations at the best possible price.

Dr. KREPS. In other words, you interpret the American way to mean one of free and open markets.

Mr. JOHNSON. One of free and open markets, and sell your goods at what you can afford to sell them for and make a profit.

Dr. KREPS. And therefore, when consumers are regimented, we are departing from the American way?

Mr. JOHNSON. I don't think we are regimented entirely to the extent of all consumers. You might say, in one way, we happen to be, in our particular field, a sort of a friendly group in which we can talk these things over and we do have annual conventions and many group meetings throughout this land in which we meet in small groups and talk over practically the same thing every time we meet.

Dr. KREPS. You don't do the regimenting. You are being regimented.

Mr. JOHNSON. Being regimented; yes.

(Mr. Avildsen now presiding.)

Acting Chairman AVILDSEN. Is there a high duty on typewriters?

Mr. JOHNSON. Duty?

Acting Chairman AVILDSEN. Did you ever try to import typewriters?

Mr. JOHNSON. I never heard of any typewriters being imported. I think there is an export; they have a different price on typewriters for exportation. If one could get that particular price it would be different from the price we pay.

Mr. FISCHER. The typewriter manufacturers do not have a trade association, do they?

Mr. JOHNSON. I don't know. I know I tried to get a selling agency from one of the vice presidents, from one of the largest typewriter manufacturers, and he couldn't answer my question. He said, "Not before I talk it over." What he meant by talking it over I don't know, but I assumed it meant he had to ask the other three.

Mr. FISCHER. To what causes do you attribute the fact that you have to pay higher prices for your university as compared with those in Ohio that you mentioned before?

Mr. JOHNSON. That was only in that one particular industry, and I think, as I mentioned before, I am too close to the home offices, and the managers in the field seem to take more latitude in the way of interpreting the rulings. That is about the size of it.

Mr. O'CONNELL. As I understand it, there is a price level for typewriters for educational purposes which is a little lower than for typewriters sold for other purposes. In other words, it is my understanding that a typewriter which a school district could buy for $60, the Federal Government would pay $70 for, and your university might pay $70, or $60 if it were for educational purposes.

Mr. JOHNSON. It is just as I said before, there is the instructional discount and the educational discount.

Mr. O'CONNELL. Which is the lower?

Mr. JOHNSON. The instructional is the lower, but it is no longer $60. It is all $70 now, and the educational discount is higher.

In conclusion, the institutional purchasers have experienced a moderate increase in prices since the outbreak of war in Europe. The net effect of this increase has not been serious, and in fact our colleges and universities are wholly sympathetic with the need on the part of our business structure for adjustments in the basic price level. I have endeavored to point out that the income of educational institutions is limited by certain factors, and for this essential reason any run-away market would affect them rather acutely. I have also endeavored to indicate that there are many elements of waste in our complete marketing system and that net costs to educational institutions could be reduced if these wastes could be eliminated.

You need hardly be reminded that in the event of a radical increase in prices our educational institutions would be adversely affected from the viewpoint of academic standards. Our faculties would suffer along with the institutions. The students would be obliged to use inferior articles and whatever substitutes we might be called upon to provide.

Dr. KREPS. Do you have a regular service that you consult concerning substitutes? How do you know that an article——

Mr. JOHNSON (interposing). Not definitely as a service, but we do in our group meetings find out the results of what one another has been doing, and if one fellow says, "I found a new source of supply," we will say, "for cover glass," we will all be naturally interested and say, "Who is it?" And in that way we investigate. We also in our association work are now trying to have tests made of various commodities that are more popular in our use, and at Western Reserve University their purchasing agent has established quite a laboratory, and he has the facilities of some of their city testing laboratory to help him. Right now he is doing some work for us along the lines of testing certain commodities for our particular organization.

Dr. KREPS. Can't you get the information from the United States Bureau of Standards?

Mr. JOHNSON. I am afraid that I as a representative of a privately endowed institution can't get the kind of information that I want. Naturally they do a lot of testing, but I don't think it is generally for the publication to all consumers. As we heard before, through Dr.

Forbes, he might be able to get it through the State organization, State purchasing organization, but I am just in the same position there as some rubber company would be trying to get that same information.

Dr. KREPS. If a rubber company wanted to test different types of rubber for one purpose or another, couldn't it have that test made at the Bureau of Standards?

Mr. JOHNSON. I don't know the activities there. I don't think that they could, it would be my offhand opinion, because I don't think that the Director would naturally want to make tests for all the industrial organizations throughout the country. I am afraid they would be flooded with tests.

Dr. KREPS. If financed by a company, doesn't the Bureau of Standards make tests for producers and for business organizations?

Mr. JOHNSON. I have never heard of them making tests for any individual. As a matter of fact, I should think that I would have heard of it, because of close association with men who are interested in tests for organizations. I have never heard of them talking about it.

Dr. KREPS. However that may be, it is then true that as a consumer you are not able to get the results of such tests. If the Bureau of Standards finds out what is the best storage battery, and they do know, you as a consumer, even as a university consumer, cannot get those results. Is that correct?

Mr. JOHNSON. I couldn't get those results; no.

Dr. KREPS. Do you regard that as a deficiency in the operation?

Mr. JOHNSON. I would like to get, naturally, more information about all the commodities that are used in our particular field, but I can readily see where that would cause a great deal of hub-bub on the part of all industrialists, because you have all your competitors wanting to get the Bureau of Standards to test them. It would seem to me to evolve finally into an endorsing agency, that the Bureau of Standards said this was good, and the Government Bureau of Standards said, "This is not quite as good as the other," and that wouldn't be practical, it would seem to me.

Dr. KREPS. Do you have Canadian buyers in this Association?

Mr. JOHNSON. We have one or two Canadian buyers in our association, and of course they are naturally interested to be in there more from the standpoint of getting the comparisons of what we do in the United States and what they can do in Canada, because you see, before the war they had better facilities of getting materials from England than we had. We had to pay quite a heavy importation on some of our merchandise, and lately, although my buying of foreign merchandise hasn't been great, we still have to get some materials. I am reminded of one particular instrument right now that I don't know whether it is down in the bottom of the sea or not, but we have ordered something that cost $1,900. We ordered this definitely last April so that this scientist abroad could calibrate the instrument on a certain day in June, and that was the only day that that could be calibrated in the year, so if I hadn't got my order in then, I would have had to wait a year before I could order it again, and now I don't know where the instrument is, because it was supposed to be here and has not arrived as yet.

Dr. KREPS. Do you find that Canadian purchasing agents are helped in their purchases by the fact that consumer goods there are graded?

Mr. JOHNSON. No; I don't think their consumer goods are graded any better than ours, but from what I have learned recently about their comparisons of the market structure, I understand that the Canadians have set as their level August 1939, as a basis of 100, and from there on it is very easy to find out whether you have had the reaction of a price increase or decrease. That is much more helpful than our methods of price comparisons in this country.

Dr. KREPS. In other words, you would like to see certain indexes of prices in this country at least published on the basis of August 1939.

Mr. JOHNSON. I would like to see them adjusted and published that way, and let's get a better comparison than we have been able to get up to now.

Dr. KREPS. What percentage of the expenditures of the university go for commodities, approximately?

Mr. JOHNSON. I will have to answer that by using my own organization as a model, because that is the only one that I know of. We have a budget of $8,800,000. That is for salaries and supplies, and a few other expenses. My buying of that $8,800,000 is one-million-two-hundred-and-forty-some-odd thousand, so it is about 8 to 1.

Mr. FISCHER. To what extent do educational institutions endeavor to build up stocks?

Mr. JOHNSON. They, as a rule, don't carry a great deal of stock. I will qualify that by saying they will carry a varied line of stock but not in great volume. The universities located in the smaller towns naturally have to buy and look ahead, I think, more than we that are located in larger cities. Up to now we still can depend upon our source of supply acting as our storekeeper.

In making these statements I do not at all underestimate the resourcefulness of our educational institutions. I am convinced that education would go on but impeded in its full development by a situation which I believe has no basis for existence.

As a representative of educational institutions, it is natural that I should be among the first heartily to approve of the conference method of bringing about more confidence between buyers and sellers. I have indicated above in my opinion many of our maladjustments can never be corrected unless we can establish confidence in both parties to the business transaction.

Above all else, our American educational institutions have faith in the American way. They believe in encouraging every business enterprise that holds to these same ideals. And I believe that if we are, all of us, frank and honest with one another, we can build up the confidence that is so greatly needed.

Acting Chairman AVILDSEN. Are there any other questions? Thank you very much, Mr. Johnson.

(The witness was excused).

Acting Chairman AVILDSEN. The committee will adjourn until 10:30 tomorrow morning. Mr. Vance of the Studebaker Corporation, as well as Mr. Hoffman of that company, will testify. In the afternoon we will have Mr. Buell, of Fortune Magazine.

(Whereupon, at 4:12 p. m., a recess was taken until Wednesday, December 6, 1939, at 10:30 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

WEDNESDAY, DECEMBER 6, 1939

United States Senate,
Temporary National Economic Committee,
Washington, D. C.

The committee met at 10:35 a. m., pursuant to adjournment on Tuesday, September 5, 1939, in the Caucus Room, Senate Office Building, Senator Borah, presiding.

Present: Senator Borah, acting chairman; Messrs. O'Connell, Avildsen, Arnold, Henderson, Hinrichs, and Brackett.

Present also: Willard Thorp, Department of Commerce; Edward Fischer, Federal Trade Commission; and Theodore J. Kreps, economic adviser to the committee.

Acting Chairman Borah. Do you solemnly swear the testimony you shall give in this hearing shall be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF P. G. HOFFMAN, PRESIDENT, AND H. S. VANCE, CHAIRMAN OF THE BOARD, THE STUDEBAKER CORPORATION, SOUTH BEND, IND.

Mr. Hoffman. I do.

Mr. Vance. I do.

Dr. Kreps. Mr. Hoffman, for purposes of the record, will you state your full name?

Mr. Hoffman. My name is Paul G. Hoffman.

Dr. Kreps. Your position, please?

Mr. Hoffman. President of Studebaker Corporation.

Dr. Kreps. How long have you been in the automobile business?

Mr. Hoffman. Thirty years.

Dr. Kreps. And, Mr. Vance, for the purposes of the record, will you similarly state your full name?

Mr. Vance. H. S. Vance, chairman of the board of Studebaker Corporation.

Dr. Kreps. And how long have you been in the automobile business?

Mr. Vance. About 30 years.

Dr. Kreps. Mr. Hoffman, are you going to testify?

Mr. Hoffman. Mr. Vance is going to testify.

Acting Chairman Borah. Did you say you had been in the business 30 years?

Mr. Hoffman. Yes, sir.

Acting Chairman Borah. You must have started pretty early.

Mr. Hoffman. I started just after I left college.

Mr. Vance. It is unnecessary for me to dwell on the rapid growth or the present size of the automobile industry. You are familiar with the fact that within one generation it has developed from a minor business into a major one, exceeded in annual volume only by the sale of food and clothing.

Of course, the automobile industry had a great opportunity, but opportunity alone could not have produced what has happened. In my opinion the most important factor in the development of the automobile industry has been competition, natural in form, intense in character, which has compelled progress as the price of survival.

The Federal Trade Commission in its recent report on the motor industry recognized this fact with the statement:

> Consumer benefits from competition in the automobile-manufacturing industry have probably been more substantial than in any other large industry studied by the Commission.

More than 800 makes of cars have been offered to the American public; today 21 remain.

This chart, gentlemen, is a list of the makes of cars that have been offered to the American public since the beginning of the industry, and those in bold-face type, which are 21 out of a total of 812, are those still being offered to the public today.

Mr. AVILDSEN. I would like to suggest, Mr. Chairman, that this exhibit be printed in the record.

Acting Chairman BORAH. Very well.

(The chart referred to was marked "Exhibit No. 1513" and is included in the appendix facing p. 11365.)

Mr. VANCE. Mortality has been high in the ranks of automobile dealers as well. Great losses have come to those in the industry who could not keep up the pace, but great gains have come to consumers, the millions of families who today find personal transportation a necessary part of their daily lives.

AUTOMOBILE MANUFACTURERS COMPARE PRESENT AUTOMOBILE PRICES AND OPERATING COSTS WITH THOSE OF 20 YEARS AGO

Mr. VANCE. Retail prices for closed cars, which account for substantially all of the present-day business, are from one-half to one-third of closed-car prices of 20 years ago. Prices prior to 1919 are of little value for comparative purposes because in earlier years substantially all of the cars sold were open cars.

I would like at this time, gentlemen, in connection with a statement that today closed-car prices are from one-half to one-third of what they were 20 years ago, to say we have an exhibit here which is more illuminating than my words. We have a 1920 closed car, a Studebaker, and three 1940 model Studebaker closed cars.

We were unable to place them in the Caucus Room, but they are in the courtyard, and we think a view of them would be illuminating to you. If it is not out of order, I would like to suggest that at recess time you take a look at these three cars, the three in the aggregate costing the public today less than the one model 20 years ago.

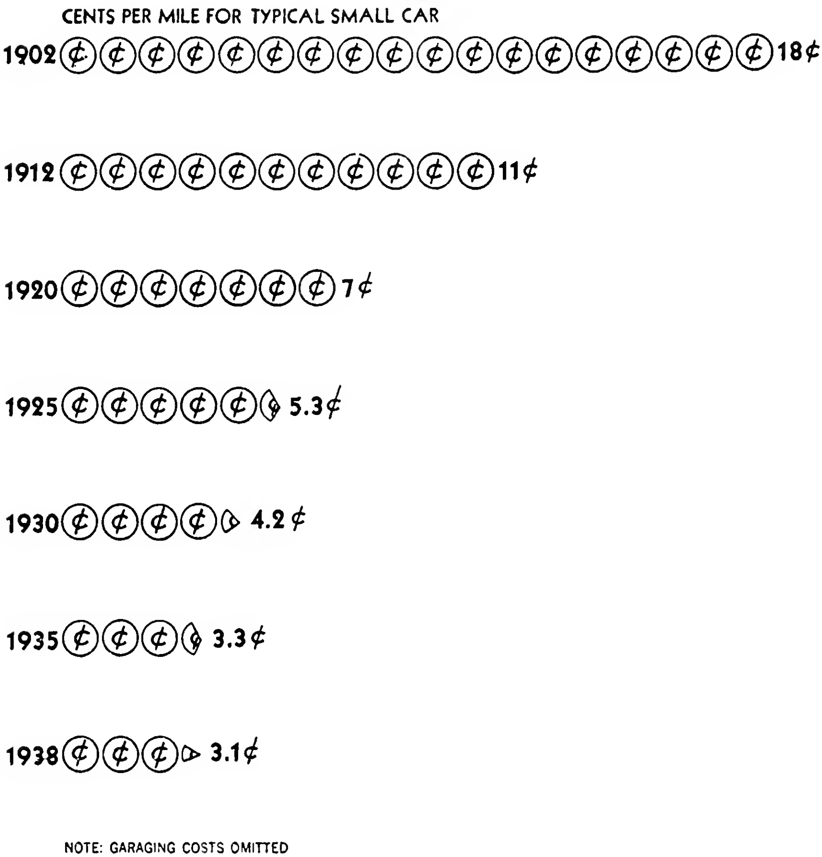
Mr. HENDERSON. There is nothing in it about upkeep, though, Mr. Vance. What would the upkeep be for a person who in 1922 was driving a 1918 Studebaker?

Mr. VANCE. I am just about to give you those figures.

While prices have been going down, values have been going up. I need not take your time by explaining how improvements have been made to the extent that the low-priced cars of today are much better, more durable, more comfortable, more economical, safer, better values in all respects, than were the high-priced cars of a few years ago.

Exhibit No. 1514

PASSENGER CAR OPERATING COSTS TODAY 1/6 OF COSTS IN 1902



But even the combination of greatly reduced prices and greatly increased values does not tell the story. Available data shows that total operating cost, including depreciation, for the popular size four-passenger car was:

18.0¢ per mile in 1902
11.4¢ per mile in 1912
7.4¢ per mile in 1920
5.3¢ per mile in 1925
4.2¢ per mile in 1930
3.3¢ per mile in 1935
3.1¢ per mile in 1938

To go back to your question, Mr. Henderson, this would indicate that in 1920, when the 1920 model was offered to the public, average operating costs were 7.4 per mile, whereas in 1938, the last year for which figures were available, 3.1, so while the ratio isn't 3 to 1, it is better than 2 to 1.[1]

Mr. HENDERSON. Since that period, I suspect, one of the big costs which has been reduced is tires, is it not?

Mr. VANCE. That is correct.

Mr. HENDERSON. I recall going completely broke at that time buying a $60 tire which only ran between five and eight thousand miles, so it must be one of the big items.

Mr. VANCE. It is one of the big factors.

In speaking of what the industry has done to make a more efficient automobile and a more durable automobile, I am not speaking of the car manufacturers alone but of a considerable number of what you might call associated manufacturers; parts makers. For example. There are people who make clutches, others who make transmissions, others who make steering gears, and others who make carburetors, and in the sense we are now discussing this subject, they are as much a part of the industry as the car manufacturers themselves.

Mr. FISCHER. Do these operating costs include the cost of gasoline and the taxes?

Mr. VANCE. They include gasoline, of course, and they include repairs, tire replacements, and they include depreciation.

Mr. FISCHER. But not the taxes?

Mr. VANCE. I can't answer that question; I don't know. They tell me that they do not include all taxes.

In recent years these figures were drawn, I think, largely from the studies of the Bureau of Labor Statistics, which now includes the cost of operating an automobile as one of the items in calculating the cost of living.

When one considers that there are approximately 26,000,000 passengers cars[2] and 4,400,000 commercial cars registered and in use in the United States, that they are estimated to travel 250,000,000,000 vehicle-miles per year, it is apparent that betterment of product for more economical operation has been the outstanding and most worthwhile benefit to consumers, arising out of the kind of competition which has prevailed in the automobile industry.

Acting Chairman BORAH. Twenty-six million—that means about one car for every fourth individual in the United States.

Mr. VANCE. Roughly 30,000,000 cars, including commercial cars.

Mr. HOFFMAN. On this question of taxes, in that figure of upkeep cost, you have all the gasoline taxes, the license fees, you do not have property taxes.

Mr. FISCHER. I had particular reference to the gasoline taxes.

Mr. HOFFMAN. The gasoline tax and all license fees are included but not the property tax.

Mr. AVILDSEN. The average for the country, that is the average for the United States.

Mr. HOFFMAN. Yes.

Mr. VANCE. That of course includes taxes on the original purchase of the car and on parts and tires and so on.

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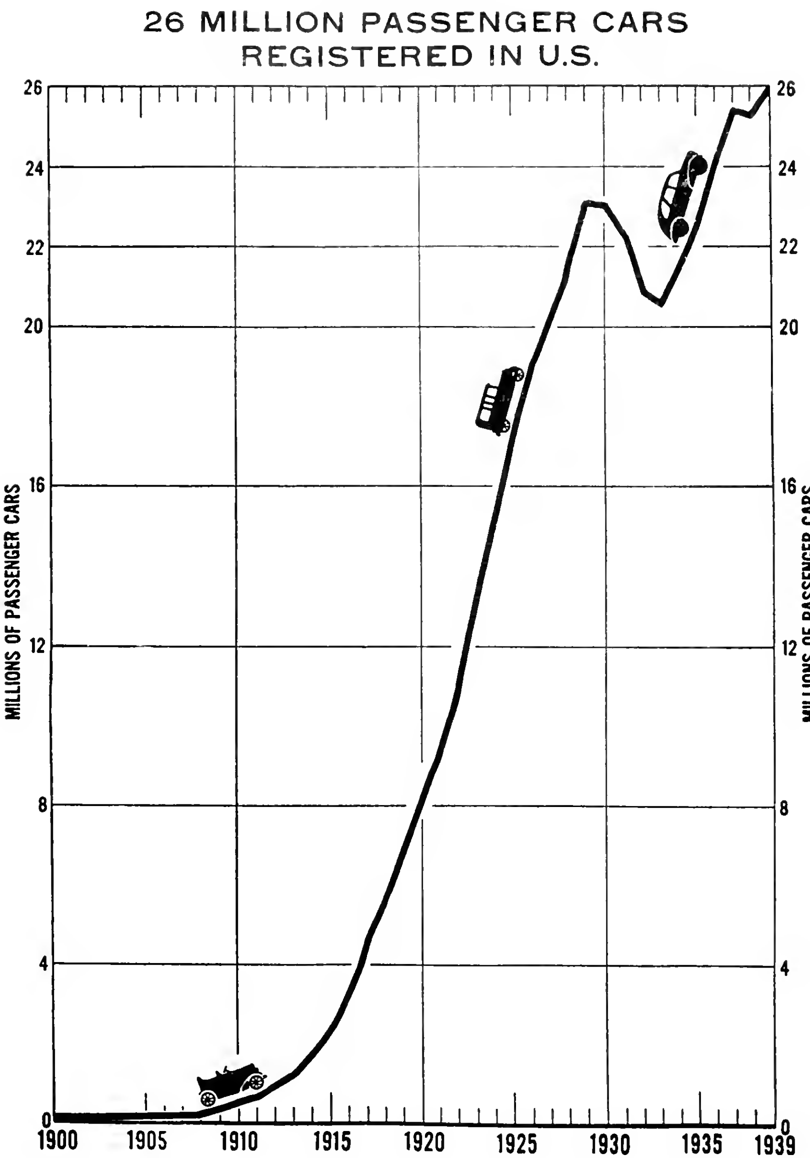
[1] See "Exhibit No. 1514," p. 11183.

[2] See "Exhibit No. 1515," p. 11185.

EXHIBIT No. 1515



Thirty-odd years ago, the editor of a popular magazine wrote, "Everyone can afford to run a car now that it costs only 16 cents a mile." But he couldn't visualize as "everyone" the millions of low-income car owners of today. These just couldn't afford to operate automobiles at a cost of 16 cents per mile.

Today, studies of the Bureau of Labor Statistics and the Bureau of Agricultural Economics show that half of the families with incomes between $60 and $100 a month own cars,[1] that their average annual expenditure including depreciation for driving about 3,000 miles is $70, or approximately 2½ cents per mile.

It is easy to see why automobile manufacturers have placed car performance and durability, prime factors in economy of operation, even above low initial price as the most important factors in developing a broad market. No matter how low prices might have gone, had operating cost stayed at the level of even a few years ago, there could not be 26,000,000 passenger cars in use today, because the incomes of a majority of the owners of such cars could not have supported their maintenance.

Today retail prices of passenger cars range from $350 to $7,175 delivered at the factory.[2]

In spite of the great range of current prices, it is only within comparatively narrow limits that volume possibilities make mass production possible.

There have been many attempts to open up a broad market for new cars in the very low price range, but none of these offerings have been able to compete successfully with the better equipped used cars selling at the same or lower prices.

Mr. HENDERSON. Doesn't that get down to the relationship of the number of used cars to the number of new cars produced each year? That is, if it weren't for the value of the used car would we not have a lower-priced car without so many gadgets?

Mr. VANCE. Possibly so, but the progress of the industry in terms of improvements in automobiles has been such that in the upper income group of automobile owners, which certainly is not over 25 percent of the total of owners, who constitute the entire market for new cars, in that group of prospective new-car owners we find a willingness to take a heavier relative depreciation on their old cars on the basis of usable life, in order to get the advantage of the improvement of succeeding models long before the usable life of their old cars have been exhausted. This business is not one in which a man buys an automobile and uses it until it is no longer usable. I think it would be perfectly safe to say that the average car remains in the hands of the new purchaser, on the average, for less than one-third of its usable life.

Mr. HENDERSON. That is what I am getting at. The car when it passes to the second or even the third owner still has a high amount of transportation value for which somebody is willing to pay. Therefore, in order to get a proper ratio between a used car and a new car, the new car has a higher price relatively than it would have if there weren't this value in the used car.

Mr. VANCE. It has a higher price only because it is a better car.

Mr. HOFFMAN. I wonder if I could answer that, I would like to make this point, that the price of the used car is controlled by the

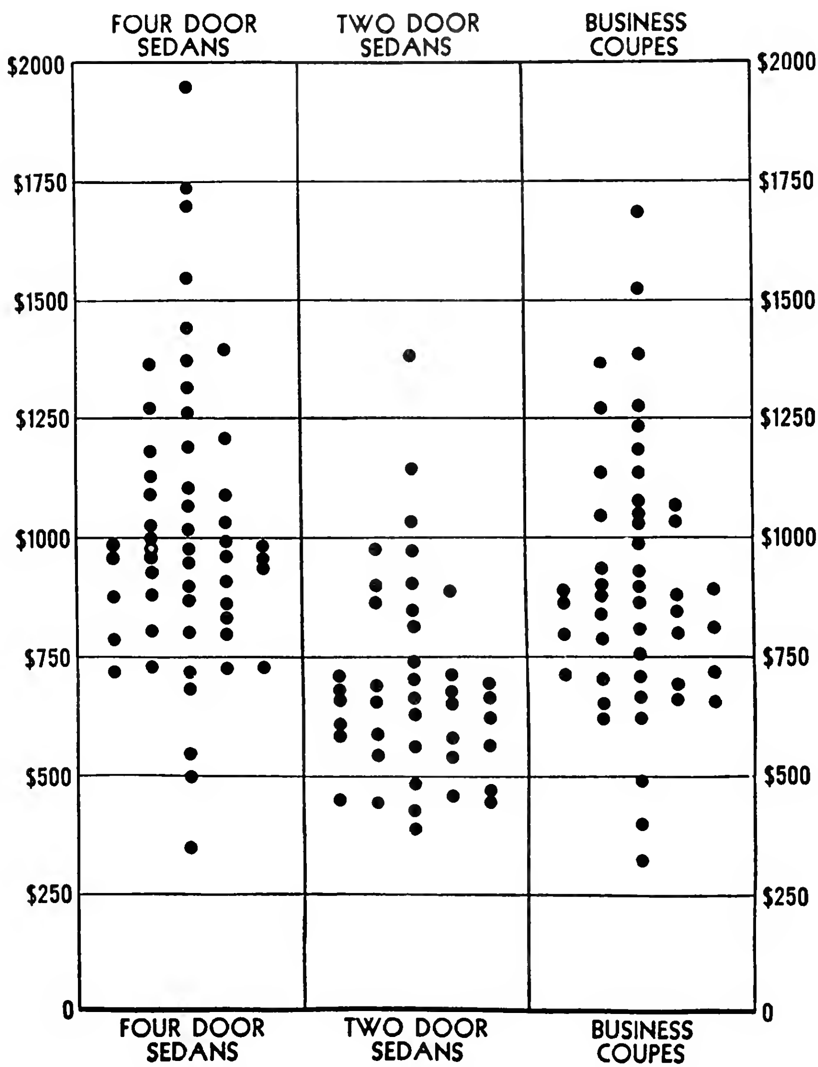
[1] See "Exhibit No. 1517," infra, p. 11188.
[2] See "Exhibit No. 1516," infra, p. 11187.

EXHIBIT No. 1516

ALL EFFECTIVE PRICE RANGES ARE COVERED

85% OF ALL CARS SELL BETWEEN $700. AND $1,500 DELIVERED AT FACTORY

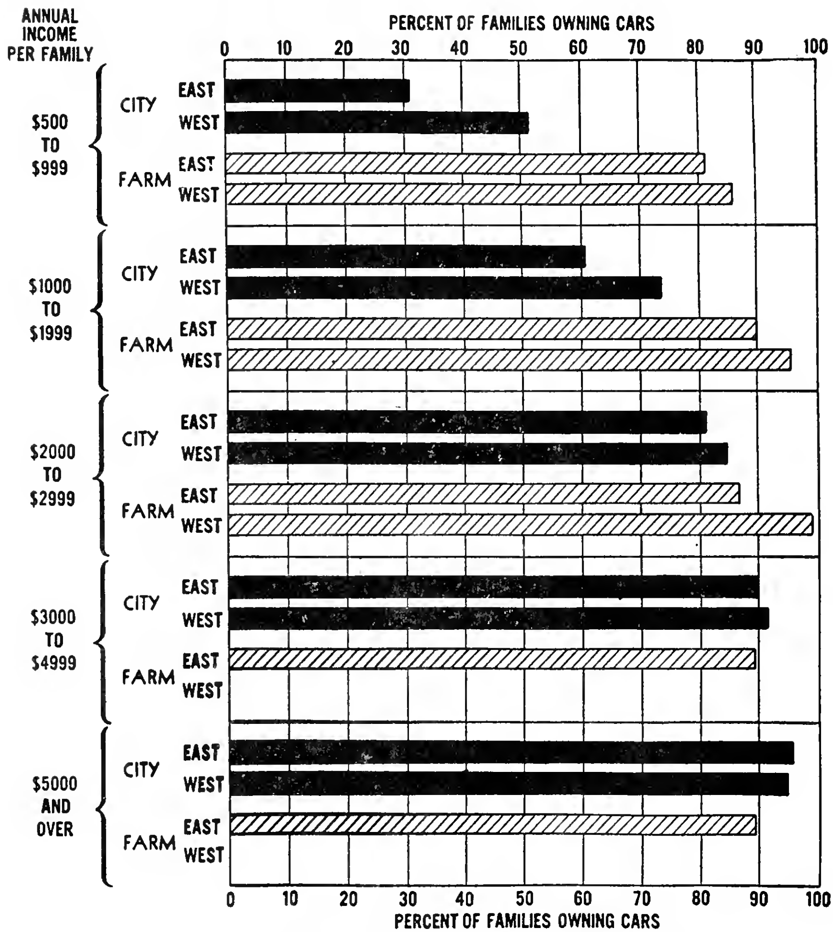
●=1940 MODEL SELLING AT THIS PRICE



NINE MODELS OF 4 DOOR SEDANS AND 2 OF 2-DOOR SEDANS SELL AT PRICES ABOVE $2000

EXHIBIT NO. 1517

OWNERSHIP OF AUTOMOBILES BY INCOME GROUPS



SOURCE. PRELIMINARY DATA ON CONSUMER EXPENDITURES RELEASED BY U.S. BUR. OF LABOR STATISTICS & BUR. OF AGR. ECONOMICS. NATIVE WHITE, NON-RELIEF FAMILIES price of the new car; in other words, the used car has no effect on the new-car price; the new-car price has an effect on the used-car price.

Mr. HENDERSON. How about the number of used cars that have to be sold in connection with the new car? Doesn't that have some effect?

Mr. HOFFMAN. Mr. Vance is covering that later.

Mr. VANCE. We are taking care of that a little bit later.

Mr. HENDERSON. The point I wanted to make is this. If it weren't for the used car market we would probably have a low-priced car, considerably below today's price for the new car.

Mr. VANCE. That is correct.

Mr. HENDERSON. It wouldn't have as much equipment, it wouldn't have as much power, it wouldn't have all the fine furnishings and the like.

Mr. VANCE. But from a social standpoint, Mr. Henderson, we have this situation. Suppose—to take this hypothetical case that you bring out—that all new cars were lower in price and suppose they were stripped cars, so to speak, and here is the important point in this hypothetical question that you ask, the important point is that the new car stays in the hands of the original purchaser substantially throughout its life because that is the only way in which your used car market would be wiped out of the picture. If that were true, it would be very difficult if not impossible for the low income person who can't afford to invest more than let us say $100 or $200 in a car to have personal transportation, because the only thing that gives him an opportunity to buy a car at that price with respect to the balance of transportation in it that is worth more than that price is that the original purchaser has been willing to take more than his share of depreciation.

Mr. HOFFMAN. I think there is one point there that in a free economy the customer has a choice and the customer has demonstrated that he much prefers a used car with what you call the gadgets and comforts to a new car that might be sold at a comparable price.

Mr. HENDERSON. But I don't know that that is complete freedom of choice because nobody in your group or the Big Three has ever undertaken to get down to that other level.

Mr. HOFFMAN. I think history would raise a question about that statement of yours because there have been numerous exceptions when the public has been offered a stripped car and the public has not purchased it. You get right down to the fact that if you offer a customer a stripped car—and such cars have been offered—the customer won't buy it. He will buy a used car that in his opinion represents better transportation value.

Mr. VANCE. On the point of whether manufacturers have attempted to offer so-called low-priced cars; from 1907 to 1939 there were a total of 110 different makes of cars offered to the public at prices ranging from $100 to $600 and the great majority of them were between $351 and $450.

Mr. HENDERSON. This isn't a comment to end all comments, but I would say that the general public would certainly welcome ver-priced new car that was something more than a stripped car. ether or not they can get it in the economics of the industry h the high value and the number of used cars is another question. But certainly the public hasn't completely dissipated its idea that it might get a brand-new car at something like a dollar a day as Ford was thinking about when he put out the first "Lizzie." I know that from the volume of correspondence I received when I was making a study of this industry. The number of people who feel that they ought to get a new car at less than the average price for the standard makes is tremendous.

Mr. VANCE. Of course the public would always like to get what they want for less money. That goes without saying. You speak of Ford. Three years or so ago Ford brought out another model car, what they called a 60 Model, and the first year that it came out it differed very little from the 85, the standard model which had been in production several years, except with respect to engine size, appointment, and a few things of that sort.

He made a difference of $50 in the price of the two cars. The Sixty, the lowest-priced car, never did get over, according to the best information we have been able to get. It never accounted for more than twenty percent of his production. He still sold, out of five cars, four of the higher-priced model against one of the lower-priced model, with this difference of $50 between them.

Now, I think that that is an illustration of the point we are trying to make, and that is that people, even in the low-priced field, do, when they buy an automobile, want a certain level or standard of accommodation, if we may call it that, including in the word "accommodation" all the various things that make up for convenience and comfort and so on.

Mr. HENDERSON. And the psychological advantage of having a new car.

Mr. VANCE. That's right, and it is the psychology of it that has resulted in Ford sales still being predominantly of the higher-priced model.

Mr. FISCHER. Would you regard the Crosley product as a stripped car product?

Mr. VANCE. It is more than a stripped car. It is a sub-standard car in size. Have you ever seen a Crosley?

Mr. FISCHER. Yes, I have. That is why I asked the question. It appears to be somewhat depleted of much equipment.

Mr. VANCE. It is a car that not only has been stripped of equipment, but it has been reduced in size as well, because neither the reduction in size nor taking of equipment off alone would have produced the low price which was the objective of the manufacturer.

Used car competition is a vigorous factor in the industry today. For each new car sold, two used cars pass into the hands of new owners.[1] It is estimated that in a year such as 1939, fully a million used cars are sold for $100 or less. It is even suggested that more used cars than new cars are sold between $500 and $700. The used car cannot be disregarded in estimating the potentialities of the market for low-priced new cars.

We cannot over emphasize the importance of visible advancing value in the new car in discussing the relationship of price to volume. For example, during the past several years, the buyers of low-priced automobiles which were offered in both deluxe and standard models have bought considerably more of the former than of the latter, electing to pay from $50 to $60 for the added features of the deluxe

[1] See "Exhibit No. 1518," infra, p. 11191

models; features contributing to convenience, to appearance and to improved service.

The public demand for more car is self-evident.

Manufacturers have been able to give advancing values each year because they have been free to devote a large portion of the economies worked out in production to this purpose.

However, if the savings from improved design and manufacture were to be consumed by increases in the price of materials, which would add nothing to the value of the car in the eyes of the buyer,

EXHIBIT No. 1518

Two Used Cars Sold For Every One New

Number of Used Vehicles Sold per 100 New Vehicles Sold

	Passenger Cars Only	Trucks Only	Combined Cars & Trucks
1930	185	97	172
1931	182	104	170
1932	224	123	209
1933	175	89	162
1934	164	80	148
1935	152	73	140
1936	164	81	151
1937	176	85	162
1938	236	111	216
1939 (10 Mos.)	212	95	193

Source: Monthly reports to Automobile Manufacturers Assn.

the relation between value and price in his mind would become less favorable and would inevitably affect the market adversely.

Our manufacturers themselves have fairly well exhausted the opportunities to finance any part of this needed annual increase in value out of their margin of profit.

There has been a drastic shrinkage on the profit side during recent years.

On the basis of computations made recently by the Federal Trade Commission, the industry's average net profit before Federal income taxes, on passenger car sales was $29 per car in 1937. In 1929 it had been $55.

Dr. KREPS. By that figure, do you mean margin or profit?

Mr. VANCE. Profit.

Dr. KREPS. Profit on capital invested?

Mr. VANCE. No, profit in dollars per car.

Dr. KREPS. It's gross margin, then.

Mr. VANCE. That is right, before taxes.

Dr. KREPS. It is true, is it not, that profit on invested capital, as shown by this same study, has held up?

Mr. VANCE. It was undoubtedly a reasonable profit. What the aggregate was, I don't know.

Dr. KREPS. Your industry has shown that profits per dollar of investment are likely to increase with lower prices and lower gross margins, and low cost distribution to the consumer.

Mr. VANCE. Profits haven't increased on any basis, whether the basis be number of units sold or investment, or dollar sales.

Dr. KREPS. Isn't it true that this same study you are quoting showed that profit per dollar of capital invested was even greater in 1937 than it had been in the average years in the twenties?

Mr. VANCE. I don't think so. I haven't the figures available.

Mr. AVILDSEN. Do you have any opinion on that, Mr. Hoffman? That was my impression. I felt the same as Dr. Kreps.

Mr. HOFFMAN. I think that is true. Of course that is confined to one or two companies. But I think perhaps the over-all picture would show a somewhat higher return on investment.

Mr. VANCE. I think we may be confused by these two figures. You probably are talking about the over-all profit of manufacturers. Let's take General Motors as an example. Don't forget that the consolidated profit of General Motors comes out of many activities. It comes out of the General Motor's interests in the Ethyl Gas Corporation, General Motors' activities in electric refrigeration, and various other things. What we are talking about here specifically is gross profit on automobile sales, on car sales, and for the first time the split-up of the consolidated profit of General Motors has been available in this Federal Trade Commission report, and in the consolidated report it doesn't show. For example, I think it is fair to say that the split-up of General Motors' consolidated profit as shown by the Federal Trade Commission study received a very substantial contribution from their subsidiary, the GMAC, which financed car sales.

Dr. KREPS. The technical methods of the Federal Trade Commission I think are excellent in that regard, and the figures which they use on profits per dollar of investment conform with the very best practice available. There is no mixture of the kind indicated. My question is answered simply when you say that manufacturers are distributing cars to the consumer at lower gross margins, and thereby, fortunately, getting more on their investment.

Mr. VANCE. That, without any question, is true.

Mr. HOFFMAN. I think the point Mr. Vance makes is an important one though, that if you divorce from General Motors' profits, profits on activities other than car manufacture—I don't know that this is true, but I think you would find that even with them the return on invested capital had decreased. They have capital invested in other activities, too. Taking car manufacturers per se——

Dr. KREPS (interposing). The study does that. It does make that distinction.

Mr. HENDERSON. I think the important thing is that the amount of actual capital investment for automobile companies had declined, but the capacity to produce had diminished very little. I think that is one of the most extraordinary records as to what is being done with the ability to produce in modern industry. The actual amount of capital invested was considerably lower, and therefore profits were applied against a lower base.

Mr. AVILDSEN. Mr. Vance——

Mr. VANCE (interposing). I have some exact figures that might be interesting along this line, Dr. Kreps. I am comparing 1929 and 1937 for another reason, but they will be illuminating, I think, on this point. The average wholesale value, that is to say the price received by the manufacturer, and this is for the whole industry, in 1929, was $575; in 1937, it was $690; the average net before taxes in 1929 was $55.30; and in 1937 it was $29. The percentage of net before taxes to the dollar of sales was 8.6 in 1929, and 4.2 in 1937.

Mr. AVILDSEN. Have you deducted Federal taxes in those figures in figuring the net profit?

Mr. VANCE. No; this is before taxes.

Mr. AVILDSEN. Haven't you deducted the Federal taxes? In my business we deduct taxes before figuring profit.

Mr. VANCE. We haven't deducted them for the reason that from year to year the Federal income tax varies widely, and therefore these figures in a comparative sense are more illuminating.

Mr. AVILDSEN. Still, it gives you an exaggerated profit if you don't deduct that.

For instance, if the Federal tax is 18 percent, and the profit is $29 a car, that means you may have a tax of $5 per car, making your profit $24 instead of $29.

Mr. HOFFMAN. One further point. Even in the case of that $29 profit, the sources of profit are 50 percent from parts sales and accessories.

Mr. VANCE. That is your operating profit. Those are the terms in which we think.

Mr. HENDERSON. That is the profit. You pay the tax on the profit.

Mr. AVILDSEN. But you don't pay dividends out of the $29.

Mr. VANCE. In normal times, and to a great extent even under conditions such as the present, the automobile industry can and does police the prices of materials with an effectiveness little realized.

The huge scale of automobile purchases is a perpetual inducement, not only to engineers and technicians of the manufacturers themselves but to suppliers and would-be suppliers, to develop substitutes or alternative materials or designs, at lower costs. Thus, we have seen iron and steel replace aluminum in crankcases, gear boxes and cylinder heads. We have seen the lightweight steel piston become a competitor of the aluminum piston.

We have seen steel replace wood, stampings compete with castings and forgings, improved sheet glass compete with plate glass. We have seen lacquer displace paint and varnish, and lacquer in turn partially displaced by synthetic enamel.

In the textile field, research has combined cotton in the warp and rayon in the woof to produce a stronger and more durable material and to free automobile fabric prices from complete dependence upon the price of wool.

Stainless steel competes with chrome plate, and plastics with both for many parts in a car, and one prevents the other from getting out of line in price.

Mr. HENDERSON. I have anticipated you several times, but I believe I have not this time. When you speak of the huge scale of automobile purchases as a perpetual inducement toward lower costs, you have left out what is to my mind probably much more important than this development of alternative materials and designs. That very scale of buying induces the toughest of competition on the part of suppliers, does it not?

Mr. VANCE. That is correct.

Mr. HENDERSON. There is probably no single item that has led to reduction of cost more than this concentrated buying power, is there?

Mr. VANCE. I think it is fair to say, Mr. Henderson, that in the past 30 years the automobile business has been largely responsible for the great development that has occurred in the machine tool industry, the great improvement in machine tools. I think that it has been directly responsible for a large part of the evolution and improvement that has occurred in the steel industry. Why? Because without that new volume which the automobile business created, without the large volume which the automobile business created, some of these very intricate and expensive machines couldn't have paid their way.

Mr. HENDERSON. That's right.

Mr. VANCE. Again, I want to get back to this point. The continuous mill wouldn't have been possible if it were not for the automobile demand for sheets.

Mr. HENDERSON. We had an example in connection with our steel hearings of the buying of ore.[1] Everybody else was in one category, but Mr. Ford was over here in a separate category. That is, if you wanted to sell to Mr. Ford, you had to do business on a competitive basis. In fact, this pressure for competition so far as the supplying industries for automobiles are concerned is probably as intense as in any large manufacturing field.

Mr. VANCE. I think that is true.

Mr. HENDERSON. There was some evidence in a study which I happened to make that there was overcompetition, if ever an economist can recognize overcompetition. Particularly in the drastic decline of the thirties, there was exercised an almost monopolistic power in some cases by the pressure which some companies could exert on some suppliers because of the tremendous volume of purchases.

Mr. VANCE. I don't think that was true of the industry as a whole.

Mr. HENDERSON. I don't make it as an indictment.

Mr. VANCE. I understand.

Mr. HENDERSON. I think it probably has been one of the greatest factors in keeping down prices, and I think we can run the risk, sometimes, of that intensity of competition in other industries for the sake of the over-all advantage we get.

Mr. VANCE. I have been a purchasing agent myself in this business. A purchasing agent's responsibility is not only to get a low price but it is to get two other things that are just as important in the business. He has to get service; that means delivery, and then he has to get quality, and if he fails in either of those two respects, his clever-

[1] See Hearings, Part 18.

ness in getting a low price doesn't mean anything. It is very quickly wiped out.

Mr. HENDERSON. If an automobile company is dealing with a tire company, it means getting a good grade of tires, doesn't it?

Mr. VANCE. Right; and they have to be there when they are needed.

Mr. HENDERSON. I think one of the significant examples of the competition induced by this scale of buying are the tire companies. These are pretty generally regarded as gigantic enterprises in the American economy, but, although history shows they are inclined to stray from time to time into the paths of noncompetition, so far as original equipment is concerned the evidence is pretty clear that there has been a high degree of competition. In fact, one of the complaints which the tire people make is that there is overcompetition, that they, in order to get this basic volume, have had to sell for less than cost to the suppliers. But leaving aside any judgment, the pressure exerted by this tremendous buying power does lead to competition——

Mr. VANCE (interposing). Of the keenest sort.

Mr. HENDERSON. Of the keenest sort, and it raises in some cases a question of stewardship, of how far that buying power ought to go.

Mr. VANCE. Of course, I think that the buying power exerts itself into the ranks of suppliers and even into the ranks of basic material manufacturers not only with respect to price, Mr. Henderson, but also with respect to research, improvement in technique, which in turn may mean lower costs and lower prices, but which also may mean higher quality and wider use. Let us take, for example, the development of alloy steels, which has been a major development in the automobile industry. Very important contributions in the development of alloy steels were made by the automobile manufacturers themselves, and turned over to the steel manufacturers in the form of requirements: "We want this, with such and such specifications," and so on.

Mr. HENDERSON. Well, you have chosen steel as an example. There is no doubt whatever that you get a better grade of steel in the automobile industry, because of these things you mention, for a price that is 40 to 50 percent under prices in other lines over a period of years.

Mr. VANCE. That is right.

Mr. HENDERSON. And the pressure exerted by this buying power is largely responsible for that?

Mr. VANCE. It has made for progress as well as price, as well as lower prices.

Mr. HENDERSON. That is right.

Mr. VANCE. There are a few raw materials which are essential to car manufacture for which no adequate substitute has been found—for example, tin for bearings, nickel and other alloys for high-grade steel, but happily, the quantities of these materials in the average automobile are small and the impact of their prices on the price of the finished product is in proportion.

Dr. KREPS. Has there been any of this substitution since the outbreak of the war? For example, have manufacturers been able to do something about the increase in price of burlap, in turning to other things?

Mr. VANCE. Oh, yes. Burlap is one of several materials which may be used for deadening the resonance of steel panels in a body, such as, for instance, in a steel floor and underneath the seat, something of that sort. We will use burlap only as long as its price is favorable in relation to various forms of cotton products, and when, as I believe is true today, the cotton products are slightly lower than burlap, suitable cotton products, an immediate substitution will be made in the material used, each functioning the same way, and just as effectively.

Dr. KREPS. Then that is a very effective check on acute price rises in, say, imported materials, is it not?

Mr. VANCE. That is right.

Dr. KREPS. Of the materials you use, what exceptions would you say exist? What materials do you have to have, do you have to pay for at the price that might be set by foreign governments or outside organizations?

Mr. VANCE. Imported materials?

Dr. KREPS. Yes.

Mr. VANCE. I should say the most important of them are tin, nickel, rubber. Rubber of course comes first, and possibly a few other metals which are used in very small quantities by the steel industry in making alloys which we think are essential. However, we do have a way out there. I mean to say that so many different combinations of alloys have been developed that we are not dependent upon just one analysis.

The great exception to what I have said about the ability of the industry to have some measure of control over the prices it pays for materials is, of course, rubber. A set of five tires on the typical automobile contains about 66 pounds of virgin rubber and other rubber parts bring the total per car to over 100 pounds. Roughly speaking, a cent change in the price of rubber means from $1 to $1.25 change in the cost of the car. There is no justification for the increase in the price of rubber which has taken place since the outbreak of the European wars. For years plantation capacity has been greatly in excess of demand, and there has been market control under the so-called Stevenson plan, which, within the past 6 months, was used to limit the supply of rubber coming onto the market to a quota of 50 percent. The principal areas of production are across the world from the locale of the European wars. Ocean transportation across the Pacific to the United States has not been subjected to the great hazards of war. The best estimates available indicate that pre-war prices were profitable to the grower, and barring extension of war activity to the producing area, there is no legitimate reason why rubber prices should not return to about last summer's level.

Dr. KREPS. Are rubber prices quoted in terms of pounds sterling, or dollars?

Mr. VANCE. Both. Of course, we don't deal in virgin rubber. Our interest in rubber goes back to the rubber fabricator, the tire manufacturers or the makers of other molded rubber parts, but the controlling rubber prices are those of London and Singapore, and of course the day-to-day fluctuations of rubber are quoted in their money. However they are translated daily, just as foreign exchange is translated daily, into our own money terms.

Dr. KREPS. If the price of rubber had not risen in pounds sterling, would it not have gone down in dollars because of exchange?

Mr. VANCE. Undoubtedly it would.

Dr. KREPS. That is, just roughly, if it takes $5 to buy a pound at one time and only $4 the second time, and if the price quotation doesn't change in pounds sterling, you ought to get the commodity for $4.

Mr. VANCE. That is true. Of course I don't think that the reduction in the value of the pound is necessarily controlling insofar as the whole rubber market is concerned. It is true that the British influence on rubber prices has been predominant, but rubber production is not by any means 100 percent controlled by British nationals, nor are the costs of rubber, if you please, determined entirely in terms of the English pound. For example, production control.

As another corollary to that, some of the American rubber companies have plantations in the Far East. Undoubtedly in terms of their capital investment, they amount to millions of dollars.

Dr. KREPS. Has there been an increase in the cost or risk of shipment?

Mr. VANCE. Yes; but after all, that hasn't been enough proportionately in the cost of rubber to account for anything like the change that has taken place. War risk insurance, of course, has increased on everything to some extent.

Mr. HENDERSON. Does that $1.25 make much difference?

Mr. VANCE. To the automobile manufacturers?

Mr. HENDERSON. Yes.

Mr. VANCE. Of course it does. Every cent makes a difference to the automobile manufacturer.

Mr. HENDERSON. Take the case of a small competing company, one that has had considerable difficulty in keeping in business. It might get down to determining whether they made or broke in a certain season, might it not?

Mr. VANCE. You mean the automobile manufacturer?

Mr. HENDERSON. Yes.

Mr. VANCE. Well, after all, the picture is this. When we sell an automobile, we don't sell a thing like a steel rail which is a unit, an indivisible unit of one kind of manufacture, but what we sell is an aggregation of many parts. There are over 1,200 separate distinct parts in an automobile, and that doesn't count every tack and screw and every bolt, but only the classifications of materials like bolts and screws and nuts, but it does count wheels and brakes and crank shafts and cam shafts and pistons and all that sort of thing. There are over 1,200 different parts that go into the manufacture of an automobile, so when we build and sell an automobile we are selling an aggregation of a great range of materials and of a great number of different pieces put together to make a functioning unit.

Now, it is perfectly obvious that if you have a bill of material containing 1,200 different parts in various quantities, 1 of this and 4 of that and 10 of something else, that with all these various items a cent difference this way and that way on that item and on this item adds up at the end of the 1,200 items to a very substantial sum, and these small items cannot be disregarded.

In figuring our costs for materials, which we do and have to do very accurately, we carry all of our costs out to the fourth place after the decimal. That is how important we regard the minor changes in price.

Mr. HENDERSON. I can recall talking with a small manufacturer some years ago who said he just had to get his costs down $2 or else some part of the bricks and mortar, the going value of his concern, would go with the automobile when it was sold, so it does make a difference particularly to the fellow who is trying to keep some position.

Mr. VANCE. That is correct.

Mr. HENDERSON. I think you would agree with me that it is quite essential that we have some small concerns in the automobile business, would you not?

Mr. VANCE. Yes, sir; we do, we agree with you on that.

Mr. FISCHER. May I ask a question. Has this increase in price of rubber, since the outbreak of the European war, been passed on to the consumer in the present retail prices of cars?

Mr. VANCE. Not in our case; no, sir.

Mr. O'CONNELL. You say there is no legitimate reason why rubber prices should not return to last summer's level.

Mr. VANCE. To about last summer's level.

Mr. O'CONNELL. On a basis of a supply and demand factor, but I take it quite possibly there is another factor in the situation maybe to prevent those prices from returning to last summer's level.

You indicated a few moments ago that your industry hasn't the ability to cope with the rubber price.

Mr. VANCE. That is correct.

Mr. O'CONNELL. Do you think the industry may have trouble coping with the rubber price? It is a controlled price.

Mr. VANCE. It is a possibility. All we have to do is look back over what has happened ever since the Stevenson control went into effect and we can find not one occasion but many occasions in which it seems to be, from all the facts that are apparent to us in this country, that control has been used to not only maintain but to increase price. That is what control in the rubber industry, as far as production and the plantation is concerned, was established for, to improve the price situation.

Mr. O'CONNELL. It would be naive to expect that it would not be used for that purpose.

Mr. VANCE. I should say it would be very naive to expect it.

Mr. O'CONNELL. And if it is used for that purpose, there isn't very much you can do about it.

Mr. VANCE. That we can do about it; correct.

Mr. HENDERSON. Suppose all the automobile manufacturers were to go into the parts-making business themselves.

Mr. VANCE. For what purpose, controlling the price of automobiles?

Mr. HENDERSON. Yes.

Mr. HOFFMAN. I would like to answer that question. If we had gone into that type of control 20 years ago, we would still have this same kind of car we are exhibiting out here because all the pressures to increase value would have been dissipated.

Acting Chairman BORAH. It is too complicated as a whole in the development of the automobile industry, with all the different kinds of parts.

Mr. HOFFMAN. The minute you develop price control you put a stoppage to the strain and stress to find some way to build a product a little better for a little less, and if we hadn't had the Stevenson control in rubber we probably would have found the producers laying awake nights figuring some way they might get costs down.

The moment you put control in it you put a stoppage to progress. That has been demonstrated. Certainly it is a perfectly fair statement that if we had had controlled prices in the automobile field, the incentive to progress would have been absent, and you would still be paying about $2,450 for a sedan instead of about $800.

Acting Chairman BORAH. Whatever profits from improvements have been made have not been passed on to the consumer?

EFFECT OF LOWER COSTS ON PRICES AND VOLUME OF DEMAND

Mr. HOFFMAN. I think Mr. Vance has covered this point, but Mr. Henderson asked if a dollar and a quarter made a difference. If you had any idea of the way our engineers will struggle to find some way of making one particular part a little better and 5 cents cheaper, you would have a clearer picture of what has gone on. It isn't a matter of dollars, it is actually a matter of pennies in this business, a penny saving; if we could find a way of building a part for 1 cent less and building it a little better at the same time, that is a major accomplishment. Each year the engineers are under a continual challenge to find some way to build that car a little better for a little less, and in an ordinary year we will pick up ten or twelve dollars, which we sometimes use to reduce prices, sometimes utilize by adding new gadgets or what we regard as improvements.

Mr. HENDERSON. Does the price of steel make any difference in the price of an automobile?

Mr. HOFFMAN. Oh, certainly; certainly.

Mr. HENDERSON. You differ with some very good authorities in the steel industry.

Mr. HOFFMAN. I have no knowledge of what the steel authorities might have said, but every part that goes into a car, the price of every part that goes into a car, has an effect on the price of the automobile, obviously.

Mr. AVILDSEN. Do you think that any small increase or decrease in the price of an automobile has an effect on the demand, volume of sales of automobiles?

Mr. HOFFMAN. Obviously, if you raise the price of a car $100, you cut down the volume demand, and therefore there is only one logical conclusion, and that is, that that $100 makes a difference. If $100 makes a difference, $1 makes a difference. I think that fact is obscured at times because there are other influences at work.

For instance, our market is so dependent upon the state of mind of the people. In a buoyant market you might lose sight of the fact that a $25 increase affects your volume, because the market itself is buoyant and things go along all right. It is similarly true in a depressed market, a $25 reduction would certainly not have enough effect to justify making a reduction, but it would have an effect; and I think anyone who makes a statement, if a statement has been made, that the price does not affect volume, is without warrant, because after 30 years of merchandising I am convinced that every dollar up or down has some effect on demand, some effect on volume—every dollar, whether times are good or times are bad.

Mr. AVILDSEN. Do you agree with that, Mr. Henderson?

Mr. HENDERSON. Well, if I were a Senator, I would point to my public utterances on that. I think you would find they would be 100 percent in agreement with Mr. Hoffman.

Acting Chairman BORAH. The rubber item in the automobile represents about 80 percent of the cost?

Mr. VANCE. Oh, no, sir.

Mr. AVILDSEN. Eighty percent of the rubber consumption of the country goes into the automobile business.

Acting Chairman BORAH. Oh, I see.

Mr. VANCE. To return to my opening statement that the automobile industry is one of the largest in our industrial economy, you may be interested in the percent of total United States consumption of certain important raw materials, accounted for by this industry in 1938:

Steel, in all forms	17%

Getting back to my statement that the automobile industry was at least indirectly responsible for the development of the continuous mill, the automobile industry uses over 50 percent of the cold-rolled sheets that the steel industry produces, and without that market the continuous mill wouldn't have been possible.

Mr. HENDERSON. This is another situation that delights me because again you are in conflict with eminent steel authorities who took complete credit for that development before this committee a few weeks ago. I think Mr. Hook took credit for that development completely.[1] I don't recall that he left any part reserved for the automobile industry.

Mr. VANCE. We are not taking credit for the technical development of the continuous mill. If I conveyed that impression I want to correct it. What I said was that it was the volume of purchases by the automobile industry.

Mr. HENDERSON. That exercised a pressure for quality and service and without that volume a continuous mill would have been redundant equipment.

Mr. VANCE. In other words, it is the automobile market that made the huge investment which the continuous mill represents a possibility.

Mr. HENDERSON. But going back to the previous statement, it is something more than just that volume. It is the pressure you exert on your supplier, because of the volume of your purchases that brings about a reduction in cost, is it not?

Mr. VANCE. To a great extent that is true.

In 1938 the industry—I want to correct a statement that I made—used 41 percent, I said "more than half"; the exact figure was 41 percent of all of the sheets produced by the American steel industry.

Mr. HENDERSON. Take this table showing that you used 80 percent of the rubber. Anything that is done in the way of limiting production of rubber, anything which the English Government feels it has to do about rubber, becomes immediately translated into one of your operating factors, does it not?

Mr. VANCE. Correct.

Mr. HENDERSON. So the people they are really touching is the automobile industry and through you the consumer.

Mr. VANCE. Correct.

[1] Testimony of Charles Hook, president, American Rolling Mill Co., on the development of the continuous rolling mill, appears in Hearings, Part 19, p. 10680 et seq. Further testimony of Mr. Hook appears in Hearings, Part 20.

Steel, in all forms	17%
Rubber	80%
Plate Glass	69%
Upholstery Leather	65%
Lead	35%
Tin	9%
Zinc	10%
Copper	12%
Nickel	29%
Cotton	10%

Corollary to the importance of the industry as a user of raw materials, it is estimated that, in 1938, 713,000 people were directly employed in the production of automobiles, parts, tires, and so forth, and another 1,165,000 in selling and servicing them. These figures do not include those engaged in the primary fabrication of raw materials, who draw part of their employment from the automobile, such as steelworkers, glassmakers, and so forth.

In varying degree, of course, but in the aggregate to a very important extent, all these people, their incomes, and the purchasing power of their families are directly affected by the ups and downs of automobile production, and it is not too much to say that costs and resultant prices have a direct effect on that production and therefore on them.

If means can be found to protect our industry from having to pay exploitation prices for certain essential imported materials, such as rubber, tin, and nickel, I feel reasonably optimistic about our domestic prospective material price situation.

Mr. HENDERSON. What would you suggest as a proper means of protecting your industry from exploitation prices?

Mr. VANCE. I rather anticipated that question, Mr. Henderson, but frankly I don't think that we are competent to answer it.

Mr. HENDERSON. Yesterday some purchasing agents testified[1] and there was at least a suggestion that since the individual companies had to deal with an organized supplier in these controlled materials the individual manager, operator, was rather helpless. Is there any idea in your mind as to what the nature of the means should be rather than what the specific means should be?

Mr. VANCE. When I say that I don't think we are competent I mean to suggest that I have two things in mind. The first is this: I know that so far as Studebaker is concerned, and I am quite sure this applies virtually to everybody else in the industry, we are not ourselves buyers of these materials. For instance, the biggest source of supply for nickel is Canada. With the exception of Mr. Ford, who does make some steel, the rest of us all buy our steel in what from the steel standpoint is finished form. We don't buy the nickel as an alloying element and put it into our open hearth or electric furnace to make the finished steel product. The steel company from whom we buy the finished product imports the alloying element, nickel in this case and I should say, for example, that the steel people would be in much better position to tell you what are their present experiences and what they think might be or should be done in this matter than are we. We are the secondary, not the primary, customers. The same thing is true of wool. We don't buy New Zealand or Australian wool. We buy the fabric from the textile people. And

[1] Supra.

we don't buy the virgin rubber. We buy rubber products. The tire companies and the various rubber companies buy the virgin rubber.

Mr. HENDERSON. Maybe Mr. Hoffman would like to speak on this.

Mr. HOFFMAN. Yes; I should. As I should judge, there is a determined effort being made to eliminate profiteering in the United States, and public opinion, of course, will support that adequately. I think if public opinion can be brought to bear on this question of profiteering as a result of foreign controls it might have some persuasive influence on those governments. In other words, after all, public opinion is quite a potent force and if brought to bear on this question I think the foreign governments would see that they had made a mistake in alienating American opinion as a result of prices that were unjustified.

Mr. HENDERSON. We have somewhat of a special situation here in which the usual competitive arrangements between a buyer and a seller are not present. I gather from some of the testimony we have had and some of the letters which have been coming in that many people feel there should be some resistance to exploitation, to profiteering, as you said, and what troubles me, as a believer in competition, is who should be responsible for, in your case, say, the organization of public opinion. Should it be the industry which is primarily the buyer? Should it be, for example, in the case of tin cans, the steel companies or should it be the tin can companies? Should it be an organization of manufacturers perhaps like the United States Chamber of Commerce or the National Association of Manufacturers, or should it be a governmental procedure? That is what I mean. Where do you think the responsibility ought to lodge for trying to bring about a better balance at least in these relationships?

Mr. HOFFMAN. I think the only effective opposition to these foreign controls and unduly high prices must come from the Government.

I don't think a resolution by the United States Chamber of Commerce would have any effect on the English Government's position on rubber control, for example. On the other hand, if there was evidence that rubber prices were unduly high and the American public was going to be subjected to profiteering on the part of foreign suppliers, I think if the foreign government's attention was called to that and its possible effect on American public opinion, some result might be achieved by government influence, but I don't see how any business group could accomplish it.

Mr. HENDERSON. I take it that in saying that you don't abandon or depart from your traditional attitude toward competition.

Mr. HOFFMAN. Not at all.

Mr. HENDERSON. You regard it as a special situation and if the Government, for purposes of protecting the economy against inflation, did come into that situation, it probably could expect help, could it not, from business groups and buyers without any thought that it was a step in the direction of regimentation, or something of that kind?

Mr. HOFFMAN. I certainly would agree with that. In other words, the attempt to break up one of the enemies of free enterprise, namely, controlled prices. The issue is very clear in my mind.

Mr. VANCE. It is governmental action supported by public opinion that can do this job under present conditions.

Acting Chairman BORAH. Taking the rubber industry, that trust is in the British Government and there is no way we can reach that except by what you might call diplomatic relations with that country. We can't reach it by any judicial process or anything of that kind.

Mr. HOFFMAN. That is right. It is all persuasive.

Acting Chairman BORAH. And the result of it is that we must rely upon what the diplomats may do.

Mr. HOFFMAN. I concur in that. In other words, I think if the British Government could be shown that as a matter of self-interest they ought to prevent the profiteering in rubber because of the effect of profiteering upon public opinion, such representations to them might be effective.

Acting Chairman BORAH. In view of the fact that the British Government is in possession of the commodity and in view of the fact that we have to have it, it would be rather difficult to convince them that it was not to their interest to get all the traffic would bear.

Mr. HOFFMAN. That is the problem, but I would think they would be responsive to the suggestion that American public opinion is quite important.

Acting Chairman BORAH. I am not arguing against you, but I am just thinking about the ineffectiveness of it because it is a matter to which a whole lot of thought has been given.

Mr. HENDERSON. Out of these 10 raw materials you have listed here, 6 of them either directly or indirectly are affected by the type of control mechanism existing in those materials abroad, not to mention some that are affected by controls in this country. If you set your industry out as a competitive industry you are dealing with a world which is increasingly composed of controlled suppliers.

Mr. HOFFMAN. Correct.

Mr. AVILDSEN. Mr. Vance, I noticed in the charts which were introduced here the other day by Dr. Lubin, in one headed "Daily Prices of Basic Commodities, 1939,[1]" that rubber advanced 50 percent early in September and then declined to a point at the end of November where it was 22 percent above the September 1 price. Do you know what accounted for that decline in price of rubber?

Mr. VANCE. I think that in the rubber industry, in fact I know that in the rubber industry itself, the initial prices immediately following the outbreak of the war were not representative of normal buying. They were, on the other hand, spot buying; they were spot prices which were dependent very largely upon the fact that at that time the amounts of spot rubber available in the principal markets at London and Singapore were very small. Those prices in the early days following the outbreak of the war were of no great significance.

Mr. AVILDSEN. Were they prices paid by speculators?

Mr. VANCE. Price asked by speculators, but they weren't prices that any large consumer of rubber actually paid.

Mr. AVILDSEN. I notice that another chart shows that tin went up about 23 percent early in September, then declined to a figure in November where it was only about 2 percent above the September 1 figures. Tin is a British cartel product too, I understand.

Mr. VANCE. Yes.

Mr. AVILDSEN. In other words, early in November you could buy tin at only 2 percent above the September 1 price and I should think

[1] See "Exhibit No. 1474," supra, p. 11060.

that with an increase in war-risk insurance and some other things there might have been a justifiable increase of 2 percent.

Mr. VANCE. Again I think it was spot prices that produced that peak immediately following the war. No large purchaser bought on those prices.

Mr. HENDERSON. No, but large purchasers now are having a great deal of difficulty in getting their forward commitments filled at those prices because of the feeling on the part of the tin producers that that price is too low. I want to point out, Mr. Avildsen, that there are other countries besides Britain in the tin cartel.

Mr. AVILDSEN. Do they have competition?

Mr. HENDERSON. No, that is just it; they remove competition by bringing in the other suppliers. What others are in on tin Dr. Kreps, do you know? The Dutch?

Dr. KREPS. The Straits Settlements, primarily, and Bolivia are the two largest suppliers.

Mr. HENDERSON. But regardless of who controls it, the impact on the American economy is the same.

Dr. KREPS. It is the same.

Mr. AVILDSEN. These prices on these charts going up and down certainly can't be the cartel prices. The cartel would have no purpose in jiggling the price up and down. These must be speculators' prices. Isn't that true?

Mr. VANCE. I think the sharp increase which occurred at the outbreak of the war which has since receded was largely the speculative spot price, which always follows a big disturbance in conditions.

Mr. HENDERSON. In this case, Mr. Avildsen, if that spot price jiggles too much, there is a buffer pool, as they call it, which is something like the Treasury has—a fund so it can buy and sell—in addition to the cartel agreement. In some cases, as the English have found out, there is still an additional pool, as there was in pepper and some other commodities, run by outsiders which will take care of too large a fluctuation from the established price.

Mr. AVILDSEN. Do you know, Mr. Vance, what the cartel has done on rubber and tin, disregarding the spot market?

Mr. VANCE. I know what the cartel, so called, has done on rubber.

Mr. AVILDSEN. What has been the advance by the cartel?

Mr. VANCE. Do you mean in price or in quantities?

Mr. AVILDSEN. In price.

Mr. VANCE. I think probably we have to tell the whole story, we have to talk about price and relaxation of control. In the second quarter of 1939, that would be for the months of April, May and June, the allotment of rubber under the international committee's plan, was 50 percent, that was the quota.

Dr. KREPS. Fifty percent of what?

Mr. VANCE. Fifty percent of a standard base, a theoretical capacity.

Dr. KREPS. Of production capacity.

Mr. VANCE. That is right. I am talking in terms now of virgin rubber coming onto the market from the plantation and the grower. The quota for the second quarter of 1939 was 50 percent. The quota for the first quarter of 1940, as I understand, is 80 percent.

Dr. KREPS. How does that information reach you? Is that announced by the cartel?

Mr. VANCE. Oh, yes; it is a very important bit of information for anybody who is concerned with the rubber industry, and when the committee meets, as it usually does, in London, it is an item of great concern. All the papers carry the following day what the committee has decided will be the quota for the succeeding 3 months' period. I think it is only fair to say that this increase in quota which has been gradual since the second quarter of the year—for instance I think there was an increase which was 60 percent for the third quarter, 75 percent for the fourth quarter of this year, and 80 percent for the first quarter of 1940—if those figures are not correct they are approximate and the range tells the story—has resulted among other things in this: That there is today in Singapore a very substantial amount of rubber that has been purchased by American users, such as tire companies and rubber manufacturers whose immediate problem is to get sufficient shipping space to bring that rubber to this country. Right at the moment the problem is shipping space to bring the rubber into the United States. There have been very substantial purchases and deliveries of virgin rubber in Singapore within the last few weeks.

Mr. AVILDSEN. At an advanced price or at the old price?

Mr. VANCE. I don't know what the average price would be that has been paid by these large purchasers, but in November the average price of rubber was about 20¼ cents, as against a price of 16 cents in August.

Mr. AVILDSEN. Are you talking about the price at Singapore or the New York spot markets? What is this price? Is it the cartel's price?

Mr. VANCE. Yes. I am talking about the average price at Singapore. Now I would imagine that the great majority of this rubber has been purchased slightly under the daily quotations. After all, a buyer of rubber who is buying in future quantities like a buyer of cotton, for example, in the South, is watching the market from day to day, he is buying on Tuesday and not on Wednesday, and so on.

Dr. KREPS. Do you know whether in setting quotas the cartel considers or has means of getting information concerning the needs of American consumers?

Mr. VANCE. Presumably that is the basis, not only of American consumers, but other consumers throughout the world. Undoubtedly they take into consideration the current demand and the stocks of rubber in the hands of fabricators and speculators.

Dr. KREPS. Is it your impression that the American consuming industries have a certain amount of representation or at any rate are heard by the cartel?

Mr. VANCE. I believe that they have some representation on the committee.

Mr. HOFFMAN. I think very definitely they have.

Mr. AVILDSEN. You would guess, Mr. Vance, that the cartel has been getting somewhere around 20 percent more for rubber in recent months, would you say?

Mr. VANCE. I would say that in November the average price was about 25 percent more than in August, between 20 and 25 percent more than in August.

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AVERAGE PRICE INCREASE ON AUTOMOBILE MATERIALS SINCE OUTBREAK OF WAR

Mr. VANCE. The purchase of a release of materials made by us in October compared with a similar purchase made before the outbreak of war showed an increase of only 1 percent in total material cost, and I doubt that today's purchase would be more than 1 percent above October. However, I should qualify this statement by saying that before the war we had protected ourselves on certain important materials, including rubber, so that our current experience is not a precise indicator of what has happened.

Mr. AVILDSEN. Will you explain what you mean by "release of materials"?

Mr. VANCE. What I mean by that is this. From time to time during the course of our production year, which is from September to September, we authorize our purchasing department to place material, that is to buy, for 10,000 or 20,000 or 30,000 cars, some definite amount of balanced purchase for our production schedule.

Mr. AVILDSEN. That includes all the 1,200 parts going into it.

Mr. VANCE. Yes.

Mr. O'CONNELL. Might it not be that in view of the very substansial volume that your industry has and the weapons that it is able to employ as a bargainer, that the reflection of increased prices might not be so evident in case of your purchases as it might be to other consuming groups?

Mr. VANCE. That is true. Paradoxically, in the purchase that was made in October we had increases which in the aggregate were more than 1 percent, but we actually had some decreases, and 1 percent was the net result.

Mr. HENDERSON. Mr. O'Connell's point, I gather, is that in a number of these materials a part of the actual price increase that took place was a withdrawal of discounts, special concessions, and the like. A large buyer probably would be able to insist on those as against the average buyer.

Mr. O'CONNELL. To be quite precise, I should think from what you had indicated about the volume of purchasing and the way you purchase, that in dealing with the steel industry in buying cold-rolled sheets you would probably be in a better bargaining position today as you were a few months ago than would the individual purchaser of some fabricated material, an office building, or something of that sort. In other words, you are such a substantial purchaser that you may be better able to deal with commodity increases in this country, I mean as distinguished with foreign materials.

Mr. VANCE. That is a very difficult question to answer precisely, for this reason: That steel prices are published, as you know, from quarter to quarter, and that the attitude of steel companies is, of course, that those are prices for everybody, and that they have no other prices.

Mr. HENDERSON. Now that is different from the steel industry's contention that the published price really meant nothing, that they very seldom got it except from the Government, and all the rest of you sharp bargainers got a lower price.[1] They did admit, however,

[1] See Hearings, Part 19, p. 10594 et seq.

that as volume started to go up they tended to come closer to that price.

Mr. VANCE. I said, Mr. Henderson, that that was their attitude. Their attitude was that these were published prices, and were prices for everybody. Now there have been times when it has been possible to buy steel at more favorable prices than the current published lists. There have been other times when it has been much more difficult. It depends to a great extent upon the supply and demand situation in the steel industry at a given time.

Mr. O'CONNELL. Let me ask you this. Preliminary to the posting of steel prices for cold-rolled sheets, say for any given quarter, is there or is there not a period of negotiation between the steel pople and the automobile people? I mean are you helpless or do you just wait for the posting of the price of cold-rolled sheets?

Mr. VANCE. Sometimes we do and sometimes we don't. What is much more effective in the purchase of steel by us than this poker playing game which you describe, negotiations so to speak, between the purchasing agent and the agent of the steel company at the moment that the purchasing agent wants to buy--what is much more potent with respect to the steel prices that we ultimately pay is that we watch the steel market and try to make up our minds when is the time to buy. Those of you who are familiar with steel prices of course know—I am telling you nothing when I say that there was a period late last spring when the steel prices were very unstable.

Mr. HENDERSON. You mean very competitive, don't you?

Mr. VANCE. Yes. There are degrees of stability in prices, as you know. There was a time late last spring when steel operations were at a low level and when prices were very unstable, and for a purchaser of steel that was the time to buy steel in substantial quantities for future deliveries, and that is what the automobile industry did.

Mr. O'CONNELL. The reason I asked my question was that during the steel hearing we had an explanation of the way prices are made for tin plate,[1] and in general as I understood it those prices were made by negotiation between the largest supplier of tin plate, Carnegie-Illinois, and the American Can Co., the largest purchaser of tin plate, after which, after previous negotiations, the price was posted for the period by the Carnegie-Illinois, and I wondered whether in your industry, which is comparable in some respects in that it is a very large purchaser of the other type of steel, the process were very much the same.

Mr. VANCE. I can't speak for the industry as a whole. From what Mr. Henderson said a few minutes back I would take it that you have some evidence that at least in the case of Ford those sorts of negotiations are entered into now and then. Of course Mr. Ford is in a peculiar position because he, himself, is a producer of steel, and he goes out to buy only his surplus requirements, and he has many markets from which those surplus requirements can come.

With respect to Studebaker alone, I would say that there is not the type of negotiation on each purchase which you indicate for the tin plate buyer.

Mr. HENDERSON. I think that is a fair statement. I think in tin plate, except for Weir and his contract with Continental, the buyers of tin plate took that negotiated price which was published as the

[1] See Hearings, Part 20, p. 10759.

basis for their contracts. As I recall, in the automobile industry the buying is not on the published price basis, but it is on the poker playing basis with each company.

Mr. Avildsen. Mr. Vance, when you bought that steel last spring were you assured that the price wouldn't go any lower? Did they give you a guarantee?

Mr. Vance. We didn't make a firm commitment; we simply took an option on tonnage.

Mr. Avildsen. They gave you an option on tonnage at a low price, so if the price went lower you had nothing to lose, you would buy at the lower price?

Mr. Vance. That is correct.

Mr. Avildsen. Was there any consideration for that option?

Mr. Vance. No; the consideration was our business.

Mr. Avildsen. You didn't have to give your business if somebody else gave a lower price, so there was no real consideration.

Mr. Vance. Not a tangible one, but a very intangible consideration. We consider that a supplier who helps us to keep our costs down or to reduce them is entitled to some consideration from us later on; that is to say, we favor the suppliers who cooperate with us.

Acting Chairman Borah. That is almost tangible.

Mr. Vance. Yes; that is almost tangible.

Dr. Kreps. Did you notice in your recent dealings any tendency toward firmness, toward a withdrawal of some of these concessions that were obtainable earlier in the spring?

Mr. Vance. I am quite sure that we couldn't buy steel today at the prices we paid last spring.

Dr. Kreps. About how much would you say the firming up would be in the price?

Mr. Vance. Pretty substantial.

Dr. Kreps. Very substantial.

Mr. Avildsen. Mr. Vance, getting back to this option they gave you last spring, they reduced the price to a very low figure, yet it did not inspire you to buy anything. You didn't part with any of your cash for that steel. You were still afraid it might go lower, isn't that true?

Mr. Vance. No; we were pretty sure it wouldn't go lower, but it is our practice to make commitments with respect to definite quantities of materials, only by this release method which I have described to you. We may make an agreement over a period of time with some supplier like a tire manufacturer for our requirements for a certain period. Our requirements are very indefinite, but we make actual releases, and therefore commitments on our pruchase orders, only from time to time as we release all the materials.

Mr. Avildsen. That was a contract to buy, and this other thing was just an option. I don't see what the steel company got out of such a deal. They didn't get any orders from you, or the assurance of any orders.

Mr. Vance. They got our good will, and that is pretty important. As the Senator said, it comes pretty close to being tangible.

Mr. Avildsen. If another supplier came along with a lower price you would not have exercised that option?

Mr. Vance. If that were true; yes.

Mr. Henderson. You would probably have asked the company with which you had the option if they wanted to meet it.

Mr. VANCE. That is right. That is a matter of fair play, not a matter of legal obligation.

Mr. HENDERSON. Your intention when you took the option was really to give your business there, and to give them some idea of what their production schedule would probably be so far as your business was concerned. The commitment really meant, "We don't know exactly what our sales are going to be, but as fast as we see them we will give you releases on this."

Mr. AVILDSEN. But that reduction did not stimulate any purchases on your part, did it? You didn't buy any more steel because of that reduction.

Mr. VANCE. No, sir.

Dr. KREPS. Does the volume of your purchases depend on the activity you anticipate you are going to have?

Mr. VANCE. Correct.

Dr. KREPS. With the increased activity that has occurred recently, what tends to happen to your inventory?

Mr. VANCE. Our inventory on October 31 of this year—we haven't the figures for the end of November—was 10 percent less than it was on October 31 a year ago.

Dr. KREPS. Would you say that that was usually the case, that with increased activity inventories might tend to go down?

Mr. VANCE. I think it is pretty generally true in the automobile industry because of the greater velocity of the industry this fall as compared with last fall. Inventories turn very rapidly. We are turning our inventory at the present time in less than 30 days.

Mr. HENDERSON. That is true at this particular period, but take the occasion of the upsurge of 1936–37. Pretty generally automobile companies did have a substantial increase in inventories at the year end, did they not?

Mr. VANCE. There are many factors that may affect an inventory position temporarily.

Mr. HENDERSON. Your inventory position at the present time is quite different from what it was at the end, say, of 1937.

Mr. VANCE. At the end of 1937? You are correct.

Mr. HOFFMAN. I think that question perhaps merits a little breakdown. If you take the period when we had the upswing in business in 1937, there would be little, if any, increased inventory. The increased inventory at the end of 1937 came as the result of a very bad guess on volume during the final quarter.

Mr. HENDERSON. And it included a guess on steel for a number of you.

Mr. HOFFMAN. It included a guess on steel and various other component parts of the car.

Mr. VANCE. Actually what happened was this: Business was very good in the early fall of 1937, until about the middle of October, and then in the middle of October, when we ran into the so-called 1938 depression, in the automobile business at least the drop in business was very precipitate, and the angle of the drop was such that inventories couldn't, within a few weeks up to the year end, be brought down to the new level.

Mr. HENDERSON. But the prospective increase in prices that came along in 1936 and 1937 did lead to a kind of buying, did it not, in steel?

Mr. VANCE. No.

Mr. HENDERSON. Not on the part of your company?

Mr. VANCE. No. I think the significance of the inventory situation in the automobile business today, in contrast to a year ago, is just this: We have had, in the last few weeks, a very substantial increase in activity in the basic industries which supply the automobile companies with large quantities of materials—steel, for example. Now, the question is a very natural one: Has that upsurge in activity on the part of suppliers led to an increased inventory in the hands of the fabricators, namely the automobile manufacturers themselves? The answer is "No."

If the answer were yes, if this greater activity in the steel business, for example, had resulted in large accumulations of steel in the hands of automobile buyers, it would be an indication that in this particular instance, at least, production was running ahead of consumption. That is not true.

Acting Chairman BORAH. Would it inconvenience you if we should adjourn until 2 o'clock?

Mr. VANCE. No, sir.

Mr. HENDERSON. I will not be here this afternoon. I should like to ask some questions.

Mr. AVILDSEN. I think I have a number of questions that I would like to ask this afternoon, but if Mr. Henderson has some now, why don't you let him ask those, and then finish your statement?

Mr. HENDERSON. I wanted to go back to this last response you gave. So far as your particular business is concerned, you do not feel that production is going ahead of consumption?

Mr. VANCE. No, sir.

Mr. HENDERSON. Your orders ahead are keeping pace with your production?

Mr. VANCE. More than that. They are greater than they have been in years.

Mr. AVILDSEN. Are the steel mills carrying the stock of steel for you?

Mr. VANCE. No, sir; we are pressing them for deliveries.

Mr. HENDERSON. I gathered from the answer you gave Dr. Kreps that although we have had the statement that steel prices were not increased, there has been a substantial increase in the price you would have to pay for steel at the present time.

Mr. VANCE. There would be, I believe, if we had to go into the market today.

Mr. HENDERSON. So the posted price may not have gone up, but the actual price to the buyer has gone up.

Mr. VANCE. You might say the price has strengthened. The posted price is stronger today than it was 6 months ago.

Mr. HENDERSON. Mr. Vance, I might not. A steelman might, because that is the usual way it is expressed.

Mr. AVILDSEN. Mr. Vance, when will you run out of this low-cost steel? You are still getting deliveries at the low cost. When will that cease?

Mr. VANCE. Toward the end of the first quarter of 1940.

Mr. AVILDSEN. You will be getting deliveries practically until the end of the first quarter of 1940 at the old price? After that date you will have a substantial increase in the cost of your car, is that right, due to that?

Mr. VANCE. That is correct.

Mr. O'CONNELL. Unless you are able to buy——

Mr. VANCE (interposing). Unless the situation changes between now and then.

Dr. KREPS. It has been reported in various places that these concessions amounted to something like $6 a ton. From your general knowledge of the industry, would you say that that was somewhere near, somewhat in excess of, or somewhat lower than the figure you believed existed, say, last spring?

Mr. VANCE. Well, the differential varies on different classes of steel products. I would say that was a fair average.

Acting Chairman BORAH. Shall we recess or shall we finish?

Mr. HOFFMAN. Could I remind you that if we do recess, we would very much appreciate the members of the committee seeing this exhibit that we have.[1]

Dr. KREPS. I would suggest that we recall the witnesses at 2 o'clock.

Acting Chairman BORAH. We will take a recess until 2 o'clock.

(Whereupon, at 12:15 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

The hearing was resumed at 2:10 p. m. upon the expiration of the recess.

Acting Chairman BORAH. Mr. Vance, you may proceed.

Mr. VANCE. Domestic producers of raw materials and the primary fabricators thereof have shown little indication of a desire, or perhaps I should say of an inclination, to take advantage of the present situation, to extract higher prices from their customers.

In this connection I should say to you that in some respects our concern as to price changes is even greater with respect to the nonautomotive commodities which affect the general level of the cost of living. Because, after all, basic raw materials themselves do not constitute more than about 10 percent of the cost of an automobile. A good 70 percent represents labor cost, not only in automobile plants where wage rates are currently at a record high, but in every one of the hundreds of industrial operations which have a share in the prefabrication of the basic materials.

Dr. KREPS. Mr. Vance, analyzing the operations and expenditures, in your own plant, what percentage of your total expenditures goes for raw materials?

Mr. VANCE. Do you mean for basic raw materials, unfabricated?

Dr. KREPS. For all the raw materials that go into the making of a car.

Mr. VANCE. Well, I think, first of all we have to define what we mean by raw materials.

Dr. KREPS. Let's put it this way—make it materials.

Mr. VANCE. My point is that practically all of the materials which we buy are prefabricated to some degree.

Dr. KREPS. Yes. I should not have said raw materials. I should have said for commodities, that is for materials——

Mr. VANCE (interposing). As distinct from labor in our own plant?

Dr. KREPS. As distinct from labor in your own plant, as distinct from disbursements for possibly rentals and the like.

Mr. VANCE. About 75 percent.

[1] Mr. Hoffman refers to a display of Studebaker automobiles in the courtyard of the Senate Office Building.

Dr. Kreps. About 75 percent. Then what percent of your total expenditures go in the form of pay rolls and in the form of labor?

Mr. Vance. Between 20 and 25 percent.

Dr. Kreps. The balance all goes to labor?

Mr. Vance. That is, of the element of cost exclusive of overhead other than labor.

I understood that to be the point you wanted to make.

Dr. Kreps. Yes; exclusive of overhead other than labor.

Mr. Vance. That is right.

Dr. Kreps. This break-down you have just given is a break-down of what might be called direct costs?

Mr. Vance. Costs of material and labor and that part of overhead which is labor.

Dr. Kreps. Now, in terms of the total costs of the car, including administrative overhead, advertising and sales expense and the like, transport, rentals, what percentage are your direct costs of your total costs, roughly? What do they average, usually in the industry, over a period of years?

Mr. Vance. I am trying to give you as accurate a figure as I can. My best off-hand estimate is 85 percent.

Dr. Kreps. Then that would mean that of your total outlays, possibly between 15 and 20 percent goes for labor?

Mr. Vance. No; more than that. Of the total outlay? That is correct.

Dr. Kreps. I want merely to be sure that this 70 percent figure was your estimate for all the integrated processes——

Mr. Vance (interposing). Down to the basic raw materials.

Dr. Kreps. Down to the basic raw materials. Of course you know that that sort of a telescoping process could be done for profits and for interest and dividends.

Mr. Vance. Correct.

Dr. Kreps. And all the way back, and it would be perfectly easy for me to demonstrate that upwards of 70 percent of the cost of the car represents profits, or represents dividends, or represents almost any other factor, by cumulating the figures backward. Actually, of course, labor in the economy doesn't get more than two-thirds, of all income. In certain industries, such as service industries, labor costs are high. In fact, almost the whole cost is labor, only compensated for by the fact that in other industries where you have heavy overhead expense the relative labor expense is low. Your charges in your industry are relatively heavy for machinery and equipment.

Mr. Vance. That is correct.

Dr. Kreps. So that this statement of your interest in raw materials versus labor is not strictly applicable to your operations. It is applicable rather to the whole of the automobile industry as you view it.

Mr. Vance. My statement was pointed to this, that our interest in prices of materials and commodities is by no means confined to the basic commodities which enter directly into the cost of the automobile, as an integral part of the automobile, but we are more vitally interested, if anything, in the price level and price change of commodities which affect the general cost of living, because we, as the ultimate fabricator, if you please, have to pick up into our costs, and therefore into our prices, all of the pre-fabricator's costs including his costs of labor, which are affected by the price of non-automotive commodities, commodities which affect the general cost of living.

Dr. KREPS. That is right. In other words, I want to make the point that this wasn't automobile labor that got 70 percent.

Mr. VANCE. Oh, no; indeed.

Mr. AVILDSEN. I think that is a very good point that you made.

Mr. VANCE. It is the labor in the steel mills, the labor in the textile plants, and even the labor on the farm, and so on.

Industrial profits are lower than they used to be in relation to sales, and in relation to investment. No better example can be found than the automobile industry. But the way to increase profits or to create them to take the place of losses is not by increasing prices but by protecting and increasing volume. By the same token that increased national income is a better solution to our governmental revenue problem than are increased taxes, so an increased volume of production is a better solution of an industrial revenue problem than are increased prices.

Dr. KREPS. I wish that last statement could be on the desk of every economist and officeholder and industrialist in the country.

I think, Mr. Avildsen, you have a series of questions.

Mr. AVILDSEN. One question I would like to ask about is the current selling prices for automobiles, whether they are based on pre-war costs of materials, whether they anticipate any rise in the cost of materials entering into an automobile, or whether you would have to raise the price of your cars if there is an increase of say 10 percent in the next few months.

Mr. VANCE. Of course in the matter of what factors were taken into consideration in establishing current prices we can speak only of Studebaker. In our case current prices were based on pre-war prices. We established a price of our Champion, our lowest priced car, the car that we are selling in greatest volume, about the middle of August before the war started. We established prices on our other passenger car models about the middle of September, and even though that was after the European war had broken out and there was an obvious upset in prices, nevertheless the prices of the cars established in September as well as of those established in August were based upon pre-war prices of materials.

Dr. KREPS. Wasn't that in advance of the establishment of prices elsewhere or is my memory wrong? Didn't you establish your prices for this year in advance?

Mr. VANCE. We did in the case of our low priced car; we were the first to announce 1940 prices in the low price field.

Dr. KREPS. How, generally, are prices established in the automobile industry? Can you tell us how you got to these conclusions about price ahead of the industry?

Mr. AVILDSEN. I think we have in mind there the fact that in the steel hearings and other hearings it is the custom of the smaller producers to follow the lead of the larger producers in regard to prices.

Mr. VANCE. What you mean is whether or not there are price leaders in the industry?

Dr. KREPS. Yes.

Mr. VANCE. Yes; I think there have been many price leaders in the industry from time to time as circumstances have changed. Very obviously in the low-priced field, at least in the beginning, Ford was the price leader. Why? Because he was the original exploiter, the original developer of it. Later on, when Dodge Brothers decided to build an automobile and hadn't even designed it, they were perfectly free to enter any field, any place in the price range of the industry which they chose to enter.

They didn't choose to enter the lowest price field but picked another field because they saw from the operations, the current operations and sales of other companies, that that field offered a satisfactory opportunity to them. I think that in answer to the specific question of whether or not there are price leaders in the industry, that I can say that whenever a company, or rather more precisely whenever a make of car of a certain size and specifications at a certain price appears to develop a wide appeal, which is demonstrated by expanding volume, regardless of what the price level may be, it becomes a price leader.

As an illustration of what I mean, if X company should bring out a car of a certain size to sell to the public at $1,200, which today is in the high-price range, and did actually secure a larger volume of business from the public by reason of the appeal of the car and the price combination, a larger volume of business than the rest of the industry anticipated, the rest of the industry so to speak, would say, "Well, here these people have demonstrated that here is a field bigger than we thought, and perhaps we in our effort to cover this market as widely as possible should bring out a car of about that same size and about that same price."

Dr. Kreps. Is your price followed or is it somewhat lower than prices announced subsequently.

Mr. Avildsen. You are talking now about the low price car?

Mr. Vance. The current prices, the delivered prices delivered at the factory. Of course in the low price field.

Dr. Kreps. What is the trade name of that car?

Mr. Vance. I will tell you the different cars with the prices. Using the two-door sedan or coach.

Mr. Avildsen. Is that the biggest seller?

Mr. Vance. Yes; I am speaking of that first because it is the biggest seller. Current delivered factory prices are as follows: For the Studebaker Champion, which was the first 1940 price announced about the middle of August, $700; for the Ford 85, $704; for the Chevrolet, $699; for the Plymouth, $699. For the regular four-door sedan, Studebaker Champion, $740; Ford 85, $750; Chevrolet, $740; Plymouth, $740.

When we move into the range of de luxe models, the differences are a little greater. The Studebaker Champion at $785, the car that is in the courtyard, compares with the Ford de luxe 85 at $812; the Chevrolet de luxe model at $802, and the Plymouth de luxe model at $805.

Dr. Kreps. Have you noticed any repercussions on volume due to the fact that your price was a little lower and that you led the field in announcing the price?

Mr. Vance. It is very difficult to estimate it. Undoubtedly that is so, but as Mr. Hoffman stated this morning, here is an instance, and this so frequently happens, where a price change is accompanied by a very decided current, one way or the other, in business. Now business in these past few months since 1940 models went into production has been very decidedly on the upgrade. By reason of other factors than price, if we hadn't made any change in price, general business nevertheless would have followed this pattern we are familiar with, and under those circumstances it is impossible to say what proportion of our increased demand is due to the specific thing. There are too many factors pushing business ahead at the moment.

Dr. KREPS. Business has improved very substantially over last year?

Mr. VANCE. Correct, and unquestionably the price adjustments downward that we made have had an effect.

Dr. KREPS. Would you feel that if by virtue of pyramiding costs, labor costs included, you would be compelled to charge higher prices that would be likely to diminish the volume of sales?

Mr. VANCE. It undoubtedly would have been a factor, but I can't tell you what factor, how much in other words it might have slowed up the natural demand that we have as far as general business is concerned.

Dr. KREPS. But, as I interpret your testimony, one of the very real reasons you are much concerned about unwarranted increases in price of materials and labor is the fact that any price increase is going to mean higher costs and therefore higher prices necessary for your product out of the diminishing volume of goods you can make, and involve you in a vicious spiral of lower volume, higher costs, and higher prices and still lower volume?

Mr. VANCE. Doctor, we have actual demonstrations of that in our ordinary operations. For instance, we brought out the Champion in the spring of 1939. It was offered to the public about the first of April. As is true with respect to other makes in the low-price field, we offered a regular model and a de luxe model. You may recall that I told you in my testimony that people paid from $50 to $60 more for a de luxe model and more de luxe models are sold in the low-price field than regular models. When we established our initial prices on the Champion last spring we made approximately the same spread between the regular model and a corresponding de luxe model that competition in that field made.

In other words, $60 per car. Our regular sedan for example sold delivered for $740 and the de luxe model for $800, $60 apart. We were disappointed in the proportions of our sales as between the regular and de luxe models and as a partial corrective of that situation we reduced the spread when we announced 1940 model prices in August from $60 to $45. We left the price of the regular sedan as it was, namely, $700; we reduced the price of the de luxe model from $800 to $785, making the differential $45 instead of $60, a difference of only $15 in an $800 article, and since that price change was made we have seen a gradual increase in the percentage of de luxe models sold as against regular models sold.

Another illustration of the same thing that has been occurring in the last 2 or 3 months is that during 1939 we had a smaller differential in our higher price cars between the four-door and the two-door sedan than prevailed generally in the industry. We increased that differential slightly in our 1940 prices and we have seen the proportion of two-door sedans in the higher price models go up as compared with what it was in 1939 season, as the result of that small change.

Those perhaps are concrete evidences of the fact that a difference of a few dollars and a difference very small in percentage does nevertheless have an effect on the purchase of such an automobile, even a relatively high-priced automobile.

Mr. HOFFMAN. I wonder if I might answer your question as to our fear of the effect of higher prices. Our concern is over unbalanced prices. A general price increase applied in the same percentage to all commodities might not be disturbing, but if automobile prices were forced up and other prices remained unchanged, automobiles would be put at a disadvantage as against other commodities.

As a consequence our industry is particularly subject to that type of change.

Mr. AVILDSEN. Mr. Hoffman, could you tell me approximately the net worth of your company as compared with General Motors?

Mr. HOFFMAN. The net worth of our company is approximately somewhat more than $20,000,000.

Mr. AVILDSEN. About how much is the net worth of General Motors?

Mr. HOFFMAN. We will ask Mr. Pearson.

Mr. AVILDSEN. Approximately a billion dollars?

Mr. HOFFMAN. It is over a billion dollars.

Mr. AVILDSEN. Over 50 times the size of your company?

Mr. HOFFMAN. Eight hundred and ninety-five million. That was in 1937. It is probably today over a billion dollars.

Mr. AVILDSEN. That is still not far from being 50 times the size of your company.

From my impression of the great expansion of mass production, I am curious to know how you can compete with a company so much larger than yours. Your volume of sales must be ever so much smaller than General Motors, and I would like to have you tell the committee, if you will, how you can compete with these larger companies, because in all other investigations before this committee we have found that the small company didn't have much chance against the large integrated companies.

Mr. HOFFMAN. Well, to give a really adequate answer to that question it would take a dissertation of several hours.

I will try to do it in 3 or 4 minutes, and you will have to recognize that it is not adequate.

What you have really asked is whether or not we can produce an automobile and sell it at a price which makes it an equal or better value than cars produced by the big integrated companies, because despite the fine sentiment that Mr. Leon Henderson displayed toward the smaller companies—I am sorry he is not here—I don't think Mr. Leon Henderson would give us 5 cents more for our cars because of that sentiment.

In other words, when it comes to buying automobiles the only thing that counts is equality of value. As a matter of fact, the independent company has to give the public a little better value because of the assumption that you expressed that the big companies are in a position to give better value. So we have, to use baseball parlance, one strike on us when we offer you our product.

Mr. AVILDSEN. What about two strikes?

Mr. HOFFMAN. We will admit one strike, not two. That question breaks down into these parts. First of all, if we are to produce equal value can we compete in engineering with the bigger companies? The answer there is that the quality of engineering in a motorcar is dependent on the quality of engineering brains and not the number of engineers and draftsmen you employ, and I think the record not only of Studebaker but several other independent companies in the matter of contributions to the art would be an adequate answer to that question. In other words, we are able to employ as fine engineers as there are in the business.

Mr. AVILDSEN. How about research? I understand General Motors have elaborate research laboratories that must cost several hundred thousand dollars a year to operate. Certainly a company of your size couldn't conduct research on that scale.

Mr. HOFFMAN. We have spent more than that in research, but we can't engage in research to find out why grass is green, Mr. Kettering's famous illustration.[1] That is long-pull research of a kind, but as far as product research is concerned we will spend just as much money on product research per unit, taking Studebaker as a unit, as is spent against any other make of car as a unit. We have to. Unless we did we wouldn't keep up with engineering. In that connection there is this fact. We have a little freer hand; in other words, our engineers when they start out to design more Studebakers are designing only for Studebaker and we can base our decisions only on Studebaker, whereas the engineers of one unit of the bigger companies might develop some improvement but obviously the impact of that improvement upon the entire line has to be considered, so we have always felt that we had an advantage when it came to product engineering in the smaller company.

Mr. AVILDSEN. Haven't the great developments come out of the laboratories of large companies as a practical matter?

Mr. HOFFMAN. Some of them have, but if you take a record of the 10 or 15 most important developments in this industry, over the last 10 or 15 years, I think you would find that Studebaker and other independent companies have produced their full quota, because I think we have got the brains. In other words, after all, the development in the art doesn't come from the number of engineers you have; it comes from the quality of the engineering brains you employ, and we have 2 or 3 or 4 men who are recognized as top-flight engineers and they will produce their full quota of improvements. If you will just survey the records of the automobile product in the last 10 years you will find independent companies have contributed their full share and perhaps considerably more than that, in our opinion, which might be prejudiced.

The next question is can we complete in styling, because we are in a fashion business—in other words, you have simply got to keep the styling up to date. We think there that we are under no handicap. We go outside and employ stylists, because we find it is better to have our stylists away from our production men and engineers. They are somewhat inclined to be influenced by the practical considerations, perhaps overly influenced. Our designing department is on Fifth Avenue, New York. We employ an outside designer who also designed the Broadway Limited and designs ice boxes. No company can employ him for his full time because he is not interested. We can employ him for such time as we need him each year from the standpoint of styling automobiles.

[1] See Hearings, Part 2, p. 355.

So we are under no handicap on engineering or styling, which brings us up to the question of whether or not from a production standpoint our costs can be held down to the point at which they are competitive.

Well, that involves consideration of a development which we ourselves promoted, and that was the steel body in the automobile industry. The steel body brought about an entirely new situation, because it calls for very heavy annual tool expense.

When you come to the tooling for steel bodies, plus sheet metal that goes with the steel body, a company to keep up to date has to count on an annual expenditure of approximately $2,000,000. That is for one set of tools.

In that particular phase of operations the big companies have an obvious advantage because of overhead spread. They will spread the cost of tooling over a large number of cars, and the unit cost will be low.

They, of course, have to have several sets of tools to build a million cars. One set of tools might be good for 250,000 cars, but when you go beyond that you get into duplicate sets of toolings; nevertheless it is an item of cost which, in my opinion, would make it very difficult for any company to build a small number of cars per year and be competitive. The burden would be too great.

You reach a point, however, in volume, at which you become competitive. Our volume this year will run about 110,000 units, which puts us, from as far as a distribution of tooling cost is concerned, in a sound position competitively. They may have a little advantage on unit cost, but not enough to put us out of the running. If we were building 10,000 cars we would be out of the running, because that would mean a $200 charge per car, and we couldn't absorb it, because the public won't pay a dime for inefficiency, and that would be an example of inefficiency.

Mr. Avildsen. About how many units would General Motors produce this year?

Mr. Hoffman. A million five hundred thousand of various makes, but still our unit cost on 110,000 cars will not put us at any serious disadvantage. It will be very slight.

There are offsetting advantages. The smaller company, in our opinion, has the obvious opportunity of maintaining a better labor situation. It is our own fault if our relations with our employees are not on a somewhat sounder basis and friendlier basis than could prevail in the case of a big company with scattered units throughout the country.

After all, Mr. Vance and I live right on top our plant. We are right there in South Bend, and when things come up that might be the cause of friction unless they are quickly met, we are there to deal with them, on a personal basis. Mr. Vance and I, whenever anything serious comes up, meet with our men ourselves, and with due respect to the legal profession, we have never had a lawyer in the meeting. We have just met with our own men, and we have tried to iron out the differences, and we have been successful in so doing.

That means that you automatically have a better labor efficiency. In other words, it is our contention that when men feel friendly toward the management and feel that there is a mutual interest, there is an intangible quality that goes into their work that gives you a definite advantage, so that answering your question, we felt that if we could get our production up to 100,000 cars a year or more, we would be in a position to compete successfully, and on even terms, with the Big Three, and be penalized only to the extent that we have to offer a better value than they do in order to attract the customer.

Mr. AVILDSEN. About how many employees do you have?

Mr. HOFFMAN. We have at the present time about 8,000.

Mr. AVILDSEN. I suppose your labor costs are lower in South Bend than in a city like Detroit.

Mr. HOFFMAN. No; we pay the same rates. That has been a matter of policy with us. We pay the same rates Detroit pays.

Mr. AVILDSEN. Do you work on hourly rates or piece rates

Mr. HOFFMAN. We work on piece rates.

Mr. AVILDSEN. Is that customary in the industry?

Mr. HOFFMAN. We are the only company in the industry doing that today, speaking of the over-all picture.

Mr. AVILDSEN. Do you think that accounts for your greater efficiency?

Mr. HOFFMAN. It is certainly one of the factors, because in piece work you have an automatic incentive toward high production and you have no argument about it. You are an employer yourself, and you know the moment you establish a day rate, and then have to depend on a quota to get that day's work out of the man, he immediately feels that you are asking too much in the way of work, but if, on the other hand, he is being paid for whatever work he does, you have avoided all of the argument, and in the case of our own employees—it is a matter of their own election.

In other words, we haven't forced piece rate on them. They have elected to remain on piece rate because they felt that we have fairly administered the piece rate system, and they don't want to go off piece rate.

Mr. AVILDSEN. What is your minimum wage in South Bend?

Mr. HOFFMAN. Our minimum wage today in South Bend is 72 cents for sweepers.

Mr. AVILDSEN. In other words, if a man doesn't earn the piece rate, he at least gets 72 cents an hour?

Mr. HOFFMAN. That is correct.

Mr. AVILDSEN. Why doesn't General Motors use the piece rate system?

Mr. HOFFMAN. I don't know. I can't speak for General Motors. I know the day rate came through Detroit. We were affected for 1 or 2 weeks. One or two of our departments felt they wanted it. They went on day rate, and then found they were making less money and went back to piece rate of their own volition.

I was going to say that I think, perhaps, the most adequate answer I could give briefly to your question as to whether we compete is by reciting the figures for this year, because we will sell this year something in excess of 110,000 cars, as against 52,000 cars last year, or considerably more than 100 percent increase.

The general industry increase is between 35 and 40 percent, so that, whereas, last year we got approximately 2 percent of the total business done, this year we expect to get something over 3 percent of the total industry volume.

Mr. AVILDSEN. You will show a fair profit on those cars?

Mr. HOFFMAN. We will show a fair profit.

Mr. AVILDSEN. Will your profit be as large as the General Motors or Chrysler profit?

Mr. HOFFMAN. General Motors' profits are always subject to the qualification that they have a diversification. I don't think our per car profit will be as great as General Motors or Chrysler, because we have to give a better value, so we have to take a penalty in the way of profits, not excessive, but it might amount to $5, $10, or $15 a car.

Acting Chairman BORAH. Is that all?

Mr. FISCHER. Is it your opinion that a direct or indirect interest on the part of a manufacturer in a financing company tends to keep within the control of that manufacturer the distribution of automobiles to retailers?

Mr. HOFFMAN. Well, I don't know quite how to answer that question. We have an arrangement with the Commercial Investment Trust by which they are our official financing company, but we have had it always clearly understood that the question of the financing arrangement was entirely up to the dealer's decision. We have tried to persuade our dealers to use C. I. T. service as against some service that resulted in the customer being charged an excessive finance rate. Our only policing has been done on rates, and not on companies. In other words, we don't care where a dealer finances, just so he doesn't finance on a rate in excess of that offered by C. I. T.

Mr. FISCHER. You don't think a manufacturer's direct interest in a financing company would enable that manufacturer to offer a product to the purchaser at a lesser price?

Mr. HOFFMAN. I don't quite understand the question.

Mr. FISCHER. The point I make is that if a manufacturer is interested in a finance company, is he able ultimately to offer the purchaser a product at a lesser price?

Mr. HOFFMAN. He would be able to if he were willing to take the finance profits and consider them for the purposes of reducing car costs, but the answer is, that isn't the way business is done.

Mr. FISCHER. Yes.

Mr. AVILDSEN. I have one more question. Looking over these cars in the courtyard, I got the impression that your current 1940 was a little smaller than the Chevrolet, Ford and Plymouth. I wondered how—I assume that that smaller size enables you to get your price down to a point where you could compete with them, but I wonder how you can overcome the consumer resistance to the size angle. I should think the average customer would want a car as large as a Plymouth and Chevrolet if he is paying about the same price.

Mr. HOFFMAN. Are you in the market for a car?

Mr. AVILDSEN. No, I am not.

Mr. HOFFMAN. That is rather an interesting question, because we were much concerned with it. That Champion you saw down here was the result of consumer studies made some 4 years ago. I am sorry Mr. Henderson isn't here, because I would like to have had him present when I told some of the results of those studies.

We had decided that in order to increase our volume to a point where we could compete, we had to break into the low-priced field, and the question was, how? We decided to go right to the consumers themselves and find out what they wanted; that is, purchasers of low-priced cars—to find out what they wanted in the way of an automobile. We found a very insistent demand for greater operating economy than was offered by the cars in the low-priced field, but we found no evidence whatever that the customer would accept anything in the way of a compromise in the matter of comfort, in the matter of ride, in the matter of equipment, in the matter of quality. What the customer wanted, as the customer always does, was a car that would give him everything offered by the three low-priced cars, plus, if anything, a better ride, plus operating economy.

Obviously, we couldn't hope to give that same sized car and at the same time offer better operating economy, because operating economy is a matter of weight. It costs so much, it takes so much gasoline, to haul around so much weight. We went to our engineers and said to our engineers, "Here are the results of the survey. The public apparently is ready and waiting for a car that will give better operating economy and a better ride and equal or better quality, but it looks rather hopeless, perhaps," and they said to us, "No; if you will give us a free hand in designing a car, let us tackle this problem in the same way that the railroad engineers have tackled the problem of the modern streamlined Pullman, which weighs about 42 tons as against 75 to 80 tons in the old-fashioned Pullman, we can do just what they did.

"We can give you a lightweight car which will give a better ride and at the same time better operating economy, and as far as inside dimensions will accommodate five people comfortably. But we can't" they said, "be handicapped. You mustn't ask us to take the Commander engine and put in smaller pistons." That is the general practice in the industry—to have one engine running through the line. "You can't ask us to take the Commander engine and at the same time take out weight. You have to give us an absolutely free hand, and we cannot be asked to have any part of the new car interchangeable with your higher priced cars."

That was a very serious question posed to us, because it raised this question, as to whether or not the public was ready to buy automobiles on a transportation basis, or whether they would still be wholly influenced by the size of the package, because the point you brought out is quite true. This car is not as large as a Ford, Chevrolet, or Plymouth.

Mr. AVILDSEN. How much less in weight is it?

Mr. HOFFMAN. About 500 pounds.

You have a paradox in the automobile business. The medium price cars of today, the Studebaker Commander, Oldsmobile, Pontiac, all medium priced cars, weigh approximately a thousand pounds less than 12 or 13 years ago. There has been a constant reduction in weight, and at the same time, improvement in ride and operating economy. But in your low priced field the weights have gone up. They used to weigh 2,600 pounds, now they weigh 2,900 pounds, partly because of this matter of compromising design, in order to get interchangeability of parts, of which much can be said in defense. But our engineers said, "We can't give you the car you want unless you give us an absolute free hand."

Mr. AVILDSEN. What do you mean by interchangeability? I understood all of your parts are interchangeable. If I take a piston out of one of your Champions and put it in another, it will be interchangeable.

Mr. HOFFMAN. I mean interchangeable between lines. It is general practice in the industry to design a part for your low-priced car sufficiently heavy to be used in other models as well. The cylinder block will be made of sufficient weight and size so it can be bored out and used in the higher priced model. There is much to commend that practice.

Mr. AVILDSEN. If I buy a thousand-dollar car I might get the same engine as in an eight hundred dollar car?

Mr. HOFFMAN. Not necessarily, but if you bought a thousand-dollar car, it might have the same cylinder block they use in an eight-hundred dollar car.

Mr. AVILDSEN. Just the cylinder block?

Mr. HOFFMAN. And many parts of the car, many parts used throughout the car. We had to turn our backs on all that and we had to ask this question as to whether the public was ready to buy a car that would give better operating economy, and a better ride, but was smaller in size, and we didn't know. Mr. Vance and I made the decision to gamble 4½ million dollars on our guess that the public was ready to buy on that basis, but it was a gamble, because the size of the package has always been considered the most vital selling point in a product, and all we can say is that we have been happily gratified at the intelligence of the public, because it has been buying more of these cars than we could produce ever since we put the Champion into production. We estimated we might possibly sell 50,000 cars the first year of production. That was our highest hope. I think we will sell approximately 100,000.

Mr. AVILDSEN. Suppose the large companies decide to make a lightweight car. Wouldn't they have an advantage over you with their larger production if they cut out all that iron and so forth?

Mr. HOFFMAN. No; they wouldn't if we can maintain our present volume level, because of what we have put into this car—you see the thing that deterred the industry from building this type of car was this fact: that the weight you take out is very low-cost weight—cast iron, 2 cents a pound. In other words, it cost almost as much to build a car of this type, the type of the Champion, as it does a bigger automobile. There is very little saving, around $20. We decided to put most of that $20 back into the car through quality and to try to offer this job as a high-quality car in the low-priced field. We made a definite attempt at least to build the highest quality car being offered in the field by taking the savings that came out of weight reduction and putting them back into better trim, better hardware, items of that kind.

Mr. AVILDSEN. How much can you reduce the operating cost by taking out these 500 pounds?

Mr. HOFFMAN. You can reduce your gasoline and oil consumption, tire consumption and similar items from 10 to 25 percent, an average of 20 percent.

Mr. AVILDSEN. Wouldn't these large companies be forced to make similar changes to compete with that saving?

Mr. HOFFMAN. There is always a lag. In other words, even though this car is all we think it is, there will be a long lag because they have so many more dealers than we have and so many more points of sale, and they have also a natural claim on their present ownership. In other words, if a person has been using a Ford, Chevrolet or Plymouth and is well satisfied with it, the natural thing for him to do is to go back to the dealer he knows and purchase another new car of the same kind, so after all we are not talking about a big share of that business. That market is good for around a million and a half cars a year. We would be happy with 10 percent of it, you see, as compared with their 90 percent. It will take a long time, really, as the result of any competitive pressure from us, to force General Motors or Chrysler or Ford to change their programs.

Mr. AVILDSEN. Are the costs of the products going into your car higher than the costs going into General Motors? I assume General Motors would buy 10 times as many spark plugs and tires and so on. Do you buy them cheaper?

Mr. HOFFMAN. No.

Mr. AVILDSEN. They have no advantage over you?

Mr. HOFFMAN. No. We will buy this year over $50,000,000 worth of supplies. When you are a $50,000,000 buyer you get prices that are competitive with anyone. In addition to that, you have, I think, a very genuine interest on the part of most suppliers in maintaining some competition among the independents, and as a rule they give the same prices to the stronger independent companies that they do to the big three.

Dr. THORP. May I pick up one point that interests me? You spoke about a saving of $20 which you then put back into hardware.

Mr. HOFFMAN. I didn't say hardware.

Dr. THORP. Well, hardware and such quality. How would you go about deciding whether or not the consumer would rather have that $20 put back into the car rather than to have the price lowered $20?

Mr. HOFFMAN. That comes out only with what we call intuition, which comes out of experience, and nobody knows. We might be wrong, but as far as surveys of consumers will guide us it is perfectly evident that the consumer prefers the higher quality to the $20 lower price.

Dr. THORP. How far would you carry that? Apparently you are used to putting problems up successfully to your engineers. Suppose you went to your engineers and said: "We want a car that we can sell for $450. We think there are consumers who will buy for $450." Would your engineers come through with a car that would at least provide transportation?

Mr. HOFFMAN. It would be no problem whatever to build a car that would sell for $450.

Dr. THORP. What you feel is that there aren't enough consumers now kept out of the market, or let's put it this way, consumers who can buy second and third-hand cars, so that there is not an additional market that could be tapped by a new car at that level.

Mr. HOFFMAN. From some 30 years' experience in this business I would say that the competition from used cars, which Mr. Vance covered this morning, would be so keen and so fierce that any stripped car—it would have to be a stripped car—that you put on the market simply could not attain a volume to justify the investment. You see, this thing has been tried time and again and it has always failed. The public has always preferred the fully equipped used car 1 year old to the stripped car brand-new.

Mr. FISCHER. You have no plants or affiliates in Canada or European countries?

Mr. HOFFMAN. We have a plant in Canada which we are not using, because they reduced the duties in Canada and we can manufacture in the United States more economically.

Acting Chairman BORAH. Gentlemen, you have given us a very instructive hearing and we thank you for your appearance.

(Whereupon Mr. Hoffman and Mr. Vance were excused.)

Mr. AVILDSEN. I would like to suggest that we arrange to have the charts presented by Mr. Vance entered in the record.

Dr. KREPS. I should like to have them in the record.

(The charts referred to were marked "Exhibits Nos. 1514 to 1518" and appear on pp. 11183–91.)

Acting Chairman BORAH. The next witness is Mr. Buell.

Do you solemnly swear that the testimony you shall give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BUELL. I do.

TESTIMONY OF RAYMOND LESLIE BUELL, RICHMOND, MASS., ROUND TABLE EDITOR, FORTUNE MAGAZINE

Dr. KREPS. Dr. Buell, for the purposes of the record will you state your full name?

Mr. BUELL. Raymond Leslie Buell.

Dr. KREPS. What is your present position?

Mr. BUELL. I am Round Table Editor of Fortune Magazine.

Dr. KREPS. Previous to that what was your position?

Mr. BUELL. Former president of the Foreign Policy Association.

Dr. KREPS. How long have you been thinking and writing in the field of international relations on which you are about to testify?

Mr. BUELL. Since 1921.

Dr. KREPS. You may proceed.

EFFECT OF EUROPEAN WAR ON AMERICAN ECONOMIC SYSTEM: EVALUATION OF TRADE AGREEMENTS AND OTHER SANCTIONS AS EFFECTIVE CONTROLS OF WAR-TIME TRADE

Mr. BUELL. As a result of the outbreak of war in Europe, the American economic system has been affected in a number of ways. As a result of increased demand and costs—actual and anticipated—a number of prices have already increased, and the problem is how to prevent maladjustments from arising which will adversely affect the functioning of our enterprise system. My assignment is to discuss this question from the standpoint of America's export and import trade.

Although many individual buyers are mostly interested in the adverse effects of the war upon the price of their materials, and although others fear that the war will injure their exports, I wish to start by discussing what to me is the most important problem of all—namely, the effect of the war upon the general balance of payments of the United States.

There are those who assert that the United States will not develop an unusually large war trade during the present hostilities, unlike the trade which developed in the last war. The belligerents have been preparing for this war so long and have become so self-sufficient that some believe they will not need to rely upon the United States as they did between 1914 and 1917. It is too soon to give a categorical answer to this question. But it should be remembered that the first effect of the outbreak of war in 1914 upon the United States was depressing. Both exports and imports fell off in August 1914, the first month of the war, in contrast to increased exports and imports both in September and October of this year

It was only in 1915 that the belligerent trade really got under way last time. In view of mammoth airplane orders it may start sooner this time, depending upon the future nature of the war. If the present war is to be a war of nerves and diplomacy, in which small neutrals receive more punishment than belligerents, the consumption of materials may be relatively small; but it is doubtful whether the nerves of the belligerents will stand this kind of war indefinitely; and once fighting starts in the air in a big way, war exports should increase. The fact that the belligerents are denied access to our credit market should not prevent the development of this trade. It is estimated that Britain and France have net available resources in this country amounting to about $10,000,000,000 which is about 4 times the amount borrowed here by the Allies between 1914 and 1917. Moreover, the United States imported gold amounting to $1,752,000,000 in 1938. If Britain and France can continue to mine gold they will have another means of meeting their obligations here. At the same time the dollar value of such trade may not be as large for the same volume of goods as during the last war simply because the Anglo-French buying agency will not push prices up by competitive bidding.

Even if the war trade does not develop, the United States will undoubtedly increase exports to Latin American countries and to other neutrals formerly dependent upon belligerent buyers, if means of payment can be found. Government credit may possibly be extended to assist Latin-American countries to pay for American exports. Nevertheless the United States is confronted with the danger of developing a one-way trade, possibly approaching that which existed between 1920 and 1929, which will impose a severe strain upon American prices and create other maladjustments, particularly if the bottlenecks in the American economic system are not soon removed.

In 1938 the export surplus of goods was 1.3 billion dollars more than imports, due to the drop in imports on account of the domestic slump. Nevertheless the export surplus of October, 1939, was $117,000,000; and as the war develops the positive balance of payments may actually increase, particularly since the offsetting factor of American tourist expenditures in Europe is being eliminated. This trade may suddenly come to an end when the means of payment is exhausted. The payments now being made in gold are largely of questionable value to the American people and cannot be continued indefinitely, since the United States has already about 65 percent of the world's gold. If the United States is not to lose the value of this gold, it sooner or later must resort to foreign gold loans, but such loans only can be repaid to the United States in goods and services, which again involves developing a passive balance of payments as other mature creditors have done.

The only sound solution, under such circumstances, is to increase imports of goods and services or decrease exports. The latter solution is undesirable, however, because it means a brake on recovery and reemployment. The increase of imports in relation to exports, however, in the upswing of a business cycle may mean that a check will be placed on rapidly mounting domestic prices, and that the country as a whole will receive useful goods in payment for its exports. I believe this situation should be constantly watched by the Department of Commerce and State Department and that Congress should either delegate powers to the President to meet a dangerous condition in the balance of payments, or that he should make periodic recommendations to Congress.

What concerns many American interests is not this general problem, but the particular maladjustments which may arise as a result of the war. These may arise out of the establishment of drastic Government controls over exports and imports by belligerents, and the fixing of prices which may equally react against American business interests. Beginning September 5, the United Kingdom required exchange permits for all imports into the country. In addition, many imports are subject to license and a large number of imports are temporarily prohibited. Many industries such as wool, foodstuffs and steel are completely controlled by government. The British Government has taken over the Australian wool clip and the entire African coco crop. Under the nonferrous metals order of 1939 the British Government requires all purchases of copper, lead and zinc to take place under license at maximum prices fixed in accompanying schedules. In France imports of all merchandise except gold are subject to special import license, as they are in Canada. Moreover, on November 17, 1939, the British and French Governments signed an economic accord establishing six Anglo—French executive committees—to carry out common action regarding munitions supply, raw materials, shipping and economic warfare. In addition to coordinating industrial production these committees will equalize any hardships caused by the reduction of imports and eliminate competition in foreign buying.

The establishment of these strict governmental controls over foreign trade and the very nature of belligerent trade may prove injurious to particular American interests. Although the belligerents will increase their purchase of munitions and finished products from neutrals, they will inevitably have to cut down imports of nonessentials, particularly in the field of consumer goods. Already the British Government has imposed an embargo on American apples and pears and reduced by half similar purchases from Canada. As a result American apple exports are down about 75 percent from last year, and the pear exports have been even further hit. Such losses are important to an industry which in the case of apples normally exports 15 percent of its product, and of late winter pears which exports 46 percent. American growers naturally fear that apples from Canada and pears from Argentina formerly marketed in Britain will now crowd in over the United States tariff. Although this fear has not yet been realized, it is partly due to the fact that the Argentine pears have not been harvested.

Still a different type of problem would be created if the Government controls over articles normally imported into the United States would operate to our disadvantage. Although the price of rubber has risen only moderately, I understand that American importers are having some difficulty in securing releases of rubber to replenish depleted stores. Moreover the British authorities have fixed the domestic price of lard and pork at such a low figure that, it is feared, the price here of such products will be adversely affected, because of the amount exported to Britain.

Again, belligerent Governments may discriminate against Americans in the allocation of exchange. Thus the British Government already has cut to 50 percent the normal dollar revenue which may be remitted to this country for the rent of films. Military operations themselves may disrupt needed imports from Europe. Fifty percent of the total paper requirements of the United States is imported such as pulpwood, wood pulp and newsprint, a large part of which comes from Finland and the other Scandinavian countries. If Russia succeeds in dominating these countries, this pulp trade will in all probability be disrupted, to the detriment of American interests. Generally, allied governments may have it within their power to divert trade of every type to each other and away from neutrals, as a means of strengthening their resources in a desperate struggle.

The question is whether neutral America, even if benefiting from a general increase in exports, is going to be injured by belligerent buying or lack of a willingness to sell, and what if any steps should be taken by the Government to protect these interests. In approaching the question, the American Government and economic groups involved should, in my opinion, take into account the following considerations:

1. First, the belligerents are fighting for their national existence, and must follow their own interests; if the United States were in the same position it would do the same.

2. Second, if certain American interests will be adversely affected by the war, other interests will be benefited. We cannot eat our cake and have it too. If certain farm exports have been hurt, the import of Polish ham has been stopped and domestic ham has received increased protection. If the effect of the war has cut down imports of jute bagging, the position of domestic cotton manufacturers of Osnaburg and narrow sheetings has improved.

3. Third, to a certain extent the increased price of imported materials and the difficulty of maintaining certain exports is due to the United States Neutrality Act which has withdrawn American shipping from European combat zones, and which inevitably increased freight and insurance rates, as well as producing certain delays in the movement of goods.

Dr. KREPS. You mean imports from European countries, do you not, in that connection?

Mr. BUELL. Wouldn't it be the same thing.

Dr. KREPS. If such shipping is diverted in the oriental trade, would it be necessarily true?

Mr. BUELL. If you could find substitute sources of supply or substitute markets, but certainly they haven't been found yet, and that is why these maladjustments, if they exist, may be due to the fact.

Dr. KREPS. Of the increase in price that has occurred in imported materials, do you believe that the materials from the Orient have shown less increase than those from Europe?

Mr. BUELL. I didn't know there had been any marked increase in imports and certainly the increase in imports has not exceeded the exports.

Dr. KREPS. Increase of price in the materials?

Mr. BUELL. The only article I am familiar with is rubber, and that has increased quite moderately.

Dr. KREPS. Would this consideration affect quite as much the price of rubber as it might the price of articles imported from Europe?

Mr. BUELL. Of course the Neutrality Act does not apply to the Orient, as I understand it.

Fourth, as yet it is not clear how serious the maladjustments may prove to be as a result of belligerent acts, or whether they will not correct themselves. October foreign trade figures show certain declines in exports of fresh fruit, but increases in canned fruit and manufactured foodstuffs, and great increases in cotton. It is too early to determine the underlying trend in foreign trade, or the manner in which belligerent controls will be exercised. Long before the war broke out, many governments controlled foreign exchange or licensed foreign trade; consequently the transition from a peace to a war economy involves a much less shock both to belligerents and neutrals than it did in 1914. No doubt many existing obstructions to trade will be removed once belligerents have completed the adjustment of their economies to a military objective.

The very fact that severe price controls have been introduced may protect importers here from runaway prices. Thus the price fixed by the British authorities for African cocoa is about 5 cents a pound c. i. f. landed in New York, which compares with a price the day hostilities broke out of 4½ cents, which was within three-quarters of a cent of the all-time low. The prices fixed under the nonferrous metals order work out at less than the price for similar metals in the United States. Thus before the American price of zinc was lowered yesterday, the price in Canada for prime spelter worked out at 3.05 cents per pound in comparison with a price of 6.89 cents in New York.

It can be assumed that Britain and France will make every effort to maintain their exports to this market because they need dollar exchange. Although the British Government has taken over the Australian wool clip, the amount is so large that Britain will undoubtedly wish to sell much more than the 10 million pounds released to the American buyers. If not, the South American supply and substitutes should prove available. Belligerents realize that if they charge uneconomic prices to the United States a buyers' strike will take place which will lead to a search for substitutes and possibly permanent loss of the American market. The position of the American importer has been improved by the depreciation of the pound, although as a result exports to Britain become more expensive.

The London Economist of November 4, 1939, page 163, says [reading]:

> In recent weeks the British authorities have been at some pains to keep the price of tin, and to a lesser extent of rubber, down. Tin has risen in New York less than the non-ferrous metals that America herself produces.

The Economist criticizes such a policy, saying that it loses sight of British foreign trade interests, and the article even advocates a system of differential prices for sterling under which the United States would pay more dearly for British goods than other countries. Should such a policy be adopted, or should there be outright discrimination against American buyers, the United States might have a legitimate ground for complaint. So far, however, instances of such discrimination seem to be rare if they exist at all.

5. American businessmen and business organizations, profiting from the experience of the last war, have shown an unusual awareness of the danger of rapidly increasing prices and of recovery based on a war boom. Indeed, they have shown during the past 2 months real

industrial statesmanship in averting such dangers. I do not believe many such industries will erect new plant purely for the purpose of meeting war orders, unless they make provision at the same time for quickly writing off such plant. Others are working two and three shifts instead of expanding plant capacity on war orders. Many manufacturers, I understand, are worried about receiving payment for war orders; and apart from this, are primarily concerned with domestic peacetime recovery. As a result, some of the fears as to runaway domestic prices have vanished. To cite one example, at one time such a shortage of steel scrap existed that the proposal to impose an embargo on such steel was frequently made. Yet the price of steel scrap was actually declined from $22.50 to $18.58, or $3.92, since the first week in October. The reasons for such decline have been increased production of new scrap as a result of increased domestic activity, the movement of scrap out of hiding, and the knowledge that recent reports of export sales have been exaggerated.

I advance these considerations not in support of the thesis that the United States should do nothing to meet the maladjustments which may arise out of the foreign trade situation. I do believe it is possible to exaggerate these maladjustments, and I am of the opinion that drastic measures of Government control over exports and imports should not be established until the need for such control is demonstrated and until other remedies have been attempted and failed. If, however, events should prove that American importers of rubber, for example, are having a difficult time in getting releases, or if the price of rubber should shoot up to more than a dollar a pound, as it did under the Stevenson plan, or if belligerents would dump large surpluses of nonessentials into this market for the purpose of obtaining vitally necessary exchange, then a case for Government intervention would arise. However, I believe that the problems now envisaged could be met by (1) Government negotiations, or (2) the exercise of existing governmental powers over foreign trade if negotiation should not bring mutually satisfactory results.

Dr. Thorp. You spoke about the higher shipping costs. Do you have any information as to whether the shipping costs have increased since the neutrality act? My impression is that the increases came before the enactment of that legislation.

Acting Chairman Borah. There has been some on some things. I don't know whether it has been general or not.

Dr. Thorp. Some shipping increase since the neutrality?

Acting Chairman Borah. On certain particular matters.

Mr. Buell. In any case I should think they might have been increased in anticipation of the act.

This problem of protecting the American price of imported raw materials, the source of which is controlled by international foreign cartels or governments, is not new. President Hoover showed an active concern over international controls of raw materials insofar as they affected the United States. Moreover, before the London Economic Conference of July 20, 1933, Secretary of State Hull advanced a proposal to the effect that international commodity agreements should contain provisions for the protection of consuming countries. In 1934–35 a subcommittee of the House Committee on Foreign Affairs made an exhaustive investigation of the International Tin Control. Whether or not as a result of the American viewpoint, the tin and rubber cartels both now make provision for consumer representation, at least in an advisory capacity.

I believe that the State Department is in a strong position to protect the legitimate economic interests of the United States through negotiations with belligerents. It should be able to induce belligerents to charge fair prices and to grant releases of materials needed by American industry and, if the need arises, even to impose quotas on shipments to the United States of commodities which otherwise might be dumped in our markets.

While it is true that the belligerents must consider primarily their own interests, I believe they will meet any reasonable request of the United States. With the repeal of the arms embargo, American markets are now open for belligerent purchases, and it is to the interests of belligerents buying in this market that American industry be supplied with the necessary imports.

The present gold policy of the United States, although adopted supposedly for purely domestic reasons, operates greatly to the advantage of those belligerents having gold to sell. And in our trade agreements the United States has made tariff concessions to France and Britain which remain unchanged, although these belligerents have now restricted the importation of certain items upon which tariff concessions were made to the United States before the outbreak of war. Generally speaking, France and Britain wish to do nothing that might antagonize the United States. And I believe that the State Department could meet many of the questions which may arise by the conclusion of Executive agreements with belligerent governments.

Already two examples of negotiation may be cited. On November 30 the Department announced its intention to negotiate a supplementary trade agreement with Canada to deal with the special emergency arising out of the marketing of silver and black fur. If this agreement leads Canada to take measures to prevent the dumping of fur into this country, a precedent may be established for the future. A further example of a different nature is the agreement signed October 9 by the Commodity Credit Corporation with the Imperial Tobacco Co. of Britain, relative to the purchase of American tobacco. Because of difficulties in obtaining exchange, this company had to discontinue its purchases of flue-cured tobacco in this country. But, as a result of this agreement, the Commodity Credit Corporation advanced funds enabling this concern to buy a quantity equal to the normal purchases throughout the remainder of the marketing season, or about 175 million pounds. In this case the foreign corporation buys for the account of the Commodity Credit Corporation, and the theory apparently is that Britain will be able shortly to raise the exchange restrictions so that it may be repaid.

Should this and other types of negotiation fail to lead to a satisfactory adjustment of difficulties, I believe the Federal Government already has adequate sanctions at its disposal. For example, the trade agreement with the United Kingdom contains several escape clauses which the State Department might employ to terminate the agreement should it prove impossible to negotiate a settlement of questions arising out of the war. In my opinion, the renewal of the Trade Agreements Act in June is particularly important, because it gives the State Department the flexibility of negotiation needed to meet new conditions as they arise, in the field of wartime trade, without vesting in it detailed controls interfering with the market mechanism.

A further direct sanction may be found in the Antidumping Act, which gives the Secretary of the Treasury power to impose an antidumping duty if investigation establishes that a commodity is being imported at less than its foreign value, to the detriment of an American industry. Similarly, section 303 of the 1930 Tariff Act authorizes the imposition of countervailing duties so as to offset the payment of export subsidies. Section 337 of the same act declares it is unlawful to engage in "unfair" methods of competition in the importation of articles into the United States the effect of which is substantially to injure an industry efficiently and economically operated in the United States. And further, the President has the power to deny to foreign governments which discriminate against American commerce the benefits of duty reductions in trade agreements, which otherwise would be generalized to them under the law.

Again, under the Trading with the Enemy Act, as amended in 1933, the President has the power to apply exchange prohibitions against any foreign nation in the event of war or national emergency, or prevent all transfers of credit between banking institutions. Further, an act of September 8, 1916, provides that when during a war in which this country is not engaged the President finds that the laws and practices of a belligerent country discriminate against American ships and citizens as compared with citizens of any nationality other than that of such belligerent the President is authorized to withhold clearance from one or more vessels of such belligerent country or deny commercial privileges in this country to the belligerent in question. Thus, if as part of the Anglo-French economic control the United Kingdom gave the citizens of France privileges not extended to citizens of the United States, the President apparently could invoke these powers.

For its part, the Department of Agriculture has certain powers which it may use to protect agriculture. Under section 22 of the Agricultural Marketing Agreement Act the President, after investigation by the Tariff Commission, may impose quotas upon agricultural imports if they threaten to interfere with any specific control program undertaken by the act, including marketing agreements. Such quotas cannot reduce imports less than 50 percent of the average between 1928 and 1933. Moreover, the Federal Surplus Commodities Corporation may purchase agricultural commodities, employing them for relief purposes, and thus support a market which formerly depended upon exports. For example, this Corporation began to buy apples in October, and I understand plans to purchase 10,000,000 bushels this year—which is nearly 20 times last year's purchases—on the understanding that the industry divert a like quantity to byproducts. As a result of such purchases the price of apples has improved.

It should further be pointed out that under the Webb-Pomerene Act exporters may come together and form export associations, which might prove useful in bargaining with belligerent governments.

Thus the Federal Government already has a vast panoply of powers over foreign trade. Experience may demonstrate the need of procedural changes to hasten action under existing laws. But I do not believe in extending existing powers until after it is established that they cannot correct the serious maladjustments which may arise, since, as I point out later, the vesting of power in the Government over the detailed process of foreign trade may disrupt a relatively free domestic economy.

Also, I believe that the Bureau of Industrial Economics, which I understand is being established in the Department of Commerce, should establish a service upon which any businessman in the United States can call for assistance in meeting difficulties over exports and imports as they arise. I believe this service should also set up an advisory committee composed of practical businessmen, theoretical economists, farm and labor leaders, and representatives of consumers, to meet periodically and discuss these concrete cases and the general foreign trade situation. As a result of deliberations of this committee and the conclusions of the Bureau of Industrial Economics, the Department of Commerce could bring matters to the attention of the State Department to be handled by negotiation if deemed necessary.

To summarize, I believe that the short-term problem should be met (1) by careful analysis over an adequate period to determine how real are the particular trade maladjustments caused by the war; (2) establishment of a service in the Bureau of Industrial Economics of the Department of Commerce, supported by an advisory committee, to receive complaints and requests for information from individual business concerns affected by the war; (3) negotiation by the State Department with the belligerent concerned to remove the maladjustment; (4) the exercise of the sanctions already vested in the Federal Government over foreign trade if it becomes absolutely necessary to protect an American interest.

I realize that a more radical approach to this problem would be to establish a Government export or import agency and place all foreign trade under license and have it carried on by barter agreement. The statement has been made that the outbreak of war has killed the whole philosophy of the Hull trade program, which looks to the restoration of multilateral trade carried on by competitive private enterprice and the generalization of tariff reductions through the unconditional most-favored-nation clause.

While it is true that the outbreak of war has led to the extension of Government controls over foreign trade, this problem is not new; and, in my opinion, it would be a catastrophic mistake for the United States Government to abandon the Hull trade program now, both from the short-term and long-term points of view. The United States in its trade agreements thus far concluded has been able to negotiate satisfactory arrangements with several countries regarding exchange controls. The State Department has not insisted that such controls be abolished but it has merely demanded most-favored-nation treatment. For example, article V of the agreement with the United Kingdom says [reading]:

> If imports of any article into any of the territories of either High Contracting Party should be regulated either as regards the total amount permitted to be imported or as regards the amount permitted to be imported at a specified rate of duty, and if shares are allocated to countries of export, the share allocated to the territories of the other High Contracting Party shall be based upon the proportion of the total imports of such article from all foreign countries supplied by the territories of that High Contracting Party in past years * * *

Even though regulations arising out of belligerency may be exempt from this article, certainly the United States would have the basis to claim most-favored-nation treatment if confronted by any discrimination arising out of the war. If we abandon most-favored-nation treatment now, a legal principle which works in our favor would disappear and countless irritations would arise. From the political standpoint the desertion of most-favored-nation treatment by the United States now might give rise to a system of tariff discriminations under which this country would treat one Latin-American republic differently from the other, and I am inclined to think that such discriminatory treatment would assist in undermining the marked progress which has been made in international relations under the "good neighbor" policy.

I believe even more strongly that the preservation of the principles of the Hull trade program is important from the long-term point of view. If this program is now abandoned in favor of Government barter or quantitative restrictions on all exports and imports, I believe forces might be unloosed which would take this country into State capitalism and eventually bring about far-reaching controls over the domestic economic system. Whenever a governmental authority rations exports or imports it automatically gets control over the price and output of certain industries. The market mechanisms are replaced, or at least interfered with, by bureaucratic administration, and new maladjustments are frequently created which very easily lead to the fixing of domestic prices, quotas of production, and wages. If the United States abandons the principles underlying the Hull trade program for the quota and barter system, we will tend to move into, I believe, the German type of economic system. I am opposed to this system because I do not believe it can lead to the efficient production and distribution of goods unless the energies of the state are concentrated upon some emotional and unified objective, such as rearmament or war.

Dr. KREPS. Dr. Buell, in that connection, in your study of subversive movements abroad—communism, fascism, nazi-ism, and military Marxism in Japan, isn't it almost always true that they are associated with military-mindedness, with, as you say, some emotional and unified objective such as rearmament or war? Can you think of any such subversive movements that have not been tied to a military dictatorship of some sort?

Mr. BUELL. I think the result has been a military dictatorship, but certainly the Communist movement was not established originally by a desire to establish a vast armament program. It was a means to an end, as I think it is in most every one of these countries. I think the Nazi Party wanted to throw off the chains of the Treaty of Versailles and wanted to remove the inequalities of the Versailles Treaty, but they found that once they moved in the direction they took, they were militarizing the whole country, but I don't believe it was a conscious policy in the beginning.

Dr. THORP. May I ask, when you are talking about controls, are you talking about Government controls? For example, would you feel that if foreign trade were controlled by the Webb-Pomerene Act, as such, that was a different form of control and not to be considered in the same class?

Mr. BUELL. I think that could be more readily watched by Government. As I point out later, I think international administrative controls must be established over international cartels. I can see a case for a cartel in certain cases of raw materials, but I don't believe, if we are going to have any form of world organization which will protect the interests of the consumer countries, that these cartels can decide for themselves, without any superior responsibility, what they are going to do. And under the Webb-Pomerene Act you have that control.

I read with much interest the testimony here before this committee several weeks ago.[1] I think it was the Steel Export Association—wasn't it?—that showed to me the dangers of the Webb-Pomerene Act very decidedly, but it might be, nevertheless, useful in meeting the emergency conditions, particularly if the Government continued to control it, but when the Government itself sets the quotas there is nobody above the Government to protect it.

Dr. THORP. There is a distinction to be made between controls by the Government and controls by a business organization or by some other government. The thing you are most worried about is the matter of control by our own Government.

Mr. BUELL. I am worried about a control by Government which fixes quotas, prices, and wages.

Dr. THORP. That is, the prices and quotas are fixed by some other government over a commodity coming into this country; that doesn't worry you in terms of destroying competitive situations, so to speak?

Mr. BUELL. In that country or here?

Dr. THORP. Here.

Mr. BUELL. Why certainly. If those governments use that power, as they may easily do, without respect to their costs, to indulge in what we know here as unfair competition, I certainly think, as I endeavor to point out, that the Government has not only a right but an obligation to protect our individual interests against it. I can see how belligerent countries might, through power of government, dump huge quantities of goods in here, irrespective of cost, simply for the purpose of getting exchange, which would destroy our competitive market, and for the sake of preserving the competitive system here, Government would have to intervene, and I believe that the first step should be to negotiate, and say to the belligerent governments, "Since you already are on the basis of a war economy, you can put a quota on much easier than the United States can." If they don't do it, I think we ought to exercise these powers that we have to keep them out.

Dr. THORP. I just wanted to get clearly in my own mind as to where the line is to be drawn between the Government stepping in and doing those things, and this new phase of your testimony in which you prophesy State socialism when the Government does these things. Perhaps it is a matter of degree.

Mr. BUELL. Certainly it is a matter of degree, as most things are, but there is much difference, in my opinion, between taking a concrete situation, such as silver fur from Canada, and saying to the Canadian Government, "Here is a situation we want to clear up by negotiation," and issuing a law under which the Government would say that all requests for imports into the United States must come here to be licensed in accordance with a schedule of some authority in Washing-

[1] Testimony of S. M. Bash, member of the board of managers of The Steel Export Association of America, is included in Hearings, Part 20.

ton To me there is not only a difference of degree but of principle involved if the negotiation with respect to silver fur fails, then it may be we ought to resort to the Anti-Dumping Act or something like that to impose a penalty to keep it out. I don't see that that kind of defense under the Anti-Dumping Act is a step toward state capitalism. I think, on the contrary, it is an essential measure to protect our competitive system here.

Dr. THORP. I don't want to discuss in detail that particular point, because it is not important. I would like to suggest that my own personal opinion is that you can't rely very heavily on an anti-dumping act as a form of defense. The type of evidence that is required, particularly with regard to foreign costs and with regard to the effect on the domestic industry, is so difficult that experience would indicate that the Anti-Dumping Act, as it operates at present, is of very little effect; but I introduce that just as an aside.

Mr. BUELL. That is why I indicated that possibly procedural changes in these laws to speed up action might be desired.

Acting Chairman BORAH. The Anti-Dumping Act might be helpful in keeping things out which we do not want to come in, but the thing that seems to be most difficult to deal with is how we are going to control the matter of bringing into this country the things which we very much need while those things are under the absolute control of a foreign cartel. Take for instance rubber, which we have been discussing this morning. It would be within the power of this cartel to raise the price of rubber so as to be very destructive of a big industry in this country. I don't know, myself, how we are going to control that except through the mere power of persuading the Government of Great Britain to modify their position.

Mr. BUELL. Well, there are two other alternatives. One is substitutes. I am not an expert in these matters, but I understand that we can now manufacture domestic rubber, chemical rubber, for about 50 or 60 cents a pound. We are now paying, I think, about 20. The second is the development of rubber as a long-time project in Brazil. Those are the two alternatives.

Acting Chairman BORAH. Of course those things are possible, but I was thinking of meeting this situation as it now confronts us.

Mr. BUELL. I think we can do that now if it arises and, I don't believe it is going to arise. It is to their interest to obtain dollar exchange here, and they have been very conservative, it seems to me, in the way they have exercised their control over rubber since the war started. But they will need our exchange much more, I think, than they will need all their rubber, and I think it is a matter of interest with them to see to it that the price is moderate, and if they don't then certainly we have powers which could be exercised against them which are quite drastic.

Mr. O'CONNELL. It seems to me that it is very possible for people to have widely divergent views as to what the policy of Great Britain would be as regards what they will do in the price of rubber. Admittedly they need foreign exchange. It is also true that they need as much foreign exchange as they can get, and I take it that the higher the price of rubber, the more foreign exchange, assuming there is no buyers' strike, because they get more for their rubber.

It seems to me it runs a little counter to general human experience to assume that people who have the power to control price, when they power is usually brought into play because of their influence on price, would not be expected to exercise that power in an effort to get as much as they could.

Mr. BUELL. I agree that you can not entrust your own interest to a monopoly, and expect it will exercise self-restraint.

Mr. O'CONNELL. That is exactly what we are confronted with.

Mr. BUELL. Yes. My answer would be that we have the possibility of substitutes in the case of rubber, but we also have very strong sanctions which we can exercise.

Mr. O'CONNELL. I am inclined to agree with what Senator Borah meant, that substitutes may be a long-range solution.

Mr. BUELL. I don't understand that to be true.

My understanding is that chemical rubber can be produced for 50 cents a pound in this country.

Mr. O'CONNELL. That would mean that it might have the price of rubber below 50 cents, instead of 20, as it now is.

Mr. HINRICHS. Would you regard that as a reasonable form of protection?

After all, among other things, for example, we have been talking about the desirability of maintaining low prices in the automobile field. Rubber has played a part in the cost of automobiles and other products as well. An increase of 150 percent as a form of protection seems to me to be some assurance that we can still run on rubber tires rather than go back to the horse and buggy, but as a form of economic protection, it doesn't seem to me to be particularly effective. Does it to you?

Mr. BUELL. Well, as I point out, if this war goes on and spreads, the hope of getting a low-priced competitive economy in every country is going to disappear. I don't see how it is possible, as I am going to point out, to maintain a domestic low-priced competitive economy in a world dominated by monopolistic totalitarian governments controlling foreign trade.

Acting Chairman BORAH. I think that is manifest, but if the war goes on for another year or two, and an article like rubber becomes vital to a situation, we really now have no means of taking care of our situation—that is, I mean, effectively, of taking care of our situation, unless we can make a satisfactory arrangement with the government which controls the cartel. That is the way it seems to me, and it seems to me that it is a difficult problem that is presented here.

We may control our own affairs, we may do this, we may do that, but, for instance, suppose Great Britain sees fit to increase the price of rubber, and we say that "We think you ought to restrain your use of this power." She will naturally ask, "In whose interest is it to restrain it?" And she may say to us that "While you need rubber, we need wheat, we need corn. We need this and we need that. Now you won't let us have it unless we pay cash, and we haven't got the cash, so if you are going to ask for rubber, we ask for credit." What would we say?

Mr. BUELL. I would like to hear your answer on that, Senator.

Acting Chairman BORAH. We would say credit, and the cash-and-carry proposition would disappear like the mist before the sun.

Mr. BUELL. Well, Senator, if the State Department said to the British Ambassador that "If we can't reach an agreement on the fair price of rubber, the President will exercise his powers under the act of

September 8, 1916, to exclude British ships from our ports," do you think they would keep the price up?

Acting Chairman BORAH. Well, that would depend upon the war situation entirely. But the President would not say to Great Britain, in the present situation with reference to the war, or any situation which will arise with reference to the war, and Great Britain knows perfectly well that the President will not say, "We will prohibit your ships from coming into our ports." They would know that better than we know it.

Mr. BUELL. I can't speak for the President.

Acting Chairman BORAH. I can't speak for the President, but I know him well enough to know that he would exercise a vast amount of common sense in this matter.

Mr. BUELL. Of common sense?

Acting Chairman BORAH. Yes.

Mr. BUELL. Do you mean to say he would not exclude British ships from our harbors in order to bring down the price of rubber?

Acting Chairman BORAH. I do, if the war situation is as it is now, and the issues remain as they are now.

Mr. BUELL. Would Congress think of passing a law stopping the export of bombing planes in order to bring about the price of rubber, in their view?

If Congress believed the price of rubber was too high, would it pass a law saying that unless, by such and such a date, the price came down, the export of bombing planes is hereby prohibited? Would Congress pass that?

Acting Chairman BORAH. Of course, you have said you don't know what the President would do, and I don't know what Congress would do.

I bring up that illustration not with the expectation of its being a conclusive proposition, but it presents the evil of the situation, as I see it.

Mr. BUELL. Senator, if this war goes on, there are going to be manifold evils inherent in war, and I don't see how there is any absolute protection against these evils. In fact, I think they are going to get worse.

Acting Chairman BORAH. I agree with you.

Mr. BUELL. Can I proceed?

Acting Chairman BORAH. Yes, sir.

Mr. BUELL. I am opposed to this system because I do not believe it can lead to the efficient production and distribution of goods unless the energies of the State are concentrated upon some emotional and unified objective, such as rearmament or war, and because I feel that the adoption of this system is incompatible with political democracy, private initiative, and civil liberties. There is a grave danger that the United States will nonetheless move in the direction of State capitalism both because of the short-sighted demands of pressure groups within the United States and of the international situation. The keystone to the retention of the American system, therefore, is the continuation of the Hull trade program. Should this program be emasculated by giving one-third of the Senate a veto over each trade agreement, it would be tantamount, in my opinion, to rejection.

I also believe that if we wish to preserve our economic and political system during this present emergency and prevent price maladjustments and inflation from taking place; if we wish to check the trend toward State capitalism in this country, government must adopt a policy of attacking the deterrents now holding back domestic recovery. The Temporary National Economic Committee has already inquired into certain monopolistic practices of industry and such matters as fair prices.

In my opinion, it should also examine such questions as whether the capital market is functioning properly; whether existing tax legislation discourages enterprise capital and purchasing power; whether excessive wage rates and other restrictive practices in certain industries, together with the lack of apprentices, will produce labor bottlenecks holding up recovery; whether the railroads need to undergo far-reaching measures of consolidation. Our whole agricultural policy needs to be probed to determine whether it aims at merely cushioning necessary adjustments in agriculture, flattening out short-term market fluctuation, and bringing about soil conservation, or whether it is the beginnings of State capitalism.

Dr. KREPS. Defining State capitalism, would you care to tell us what it is you understand by that?

Mr. BUELL. By example, State capitalism is an economic system which you find in every great country outside of the United States today. France and Britain have had to adopt a form of it in entering this war, in which Government controls the major aspects of economic life, detailed economic decisions, licenses exports and imports, decides on priorities between this industry and that; controls private investment, makes huge public investments, fixes wages, quotas of production and prices.

Dr. KREPS. You are not using it at all, then, in the ordinary technical economic sense in which State capitalism merely means Government ownership and operation of at least the capitalistic enterprises?

Mr. BUELL. Well, I think that distinction has been pretty well eliminated on the basis of European experience. The Russian system is a system of State nationalization. I don't think the Russians would admit it was State capitalism.

Dr. KREPS. That is what they call it.

Mr. BUELL. They call it State capitalism?

Dr. KREPS. Yes.

Mr. BUELL. But I think as far as results are concerned there is very little difference in practice between the war economy in Germany and the war economy in Russia. There are certain differences but it seems to me they have a good deal in common. I was trying to use a term which embraced all of those various forms. They are each different, according to the national characteristics.

Dr. KREPS. You see, Dr. Thorp's point raised a while ago is still vital. There are forms of control such as the policeman at the corner and the red lights and green lights, which you will admit release enterprise and release movement.

Mr. BUELL. I won't admit it; I insist they are absolutely essential.

Dr. KREPS. I was trying a moment ago to see whether you made a distinction between forms of restrictive governmental controls and those that release the flow of production and flow of communication. I take it that you would agree that antitrust laws operate in the latter sense?

Mr. BUELL. I want to say something about that in a minute.

Dr. KREPS. I was wondering whether your distinction was one of civilian controls which are responsive to actions of Congress regularly elected, and the kind of controls which seem to me tend to subvert democracy, controls such as those you refer to in Germany, Italy, Russia, Japan; subversive movements that march in, usually, in uniform.

Mr. BUELL. I don't think that makes much difference. I read recently an economic history of the German Republic, and it is quite a striking thing that the economic system of totalitarian Germany was inaugurated by a democratic parliament, supposedly controlling the anti-Weimar Republic. You had what you call a system of political wages, a system of political prices; you had 40 percent of the banks owned by the State, as you know; you had the nationalization of a large part of enterprise; you had labor legislation which went even beyond the Wagner Labor Act in prohibiting company unions, and insisting that unions should be independent.

Dr. KREPS. But you had cartels.

Mr. BUELL. You had cartels in addition to what I am saying, but as far as the labor system is concerned, you had a system of compulsory arbitration, but the result of it is that the Government soon came to impose its wishes upon labor and capital equally under the republic, and when the thing didn't work it was the Government that was blamed for all the woes of the country; the Nazis came in as a reaction and carried it a step further.

Dr. KREPS. You had a cartel system of operation of industry and the cartel backers, the chief one of which has only recently been compelled to flee, were the ones who financed and put Mr. Hitler in power. In other words any cartel system, any system of control which is not subject to democratic processes, is likely to be a militaristic, regimented system.

Mr. BUELL. I don't think that distinction is nearly as important as you do, Mr. Kreps. You had the democratic control in Germany but when you put the decision of prices and quotas of production in the hands of a parliament what basis does it have to operate upon to determine whether the allocation of resources is efficient or inefficient?

Dr. KREPS. But that is not what happened. I dispute your facts. The price of potash was determined by the potash cartel and the cartel was dominated by large business concerns. If you get your economy dominated by irresponsible elements, then your economy is headed for the kind of regimentation that you have been talking about.

Mr. BUELL. Are you meaning to say that an elective legislative body or civil service which meets your definition of responsible, can decide prices, fix prices and quotas of production and wages and prevent these constant maladjustments which have arisen in both Russia and Germany?

Dr. KREPS. No; I simply said they did not have the price-determining function under the pre-Hitler German Government.

Mr. BUELL. You are not denying that the Weimar Republic had very wide social powers?

Dr. KREPS. That is true.

Mr. BUELL. From my standpoint I would prefer, if this country gets into a situation in which Government has to control all prices and quotas and production and wages, to nationalize the whole thing.

Dr. KREPS. I am interested still to see you meet Dr. Thorp's point of the types of control that you feel do not involve this danger.

Mr. BUELL. I think I am developing that, if I may finish this.

In this connection I would like to point out the importance of the tariff as a means of checking domestic price increases, arising out of a monopoly or over optimism. In many cases our tariff duties on manufactured products are so high as to eliminate all effective competition. The reduction of such duties would often mean that the manufacturers would reduce their prices to a reasonable level, which would permit them to increase sales even in the face of foreign competition. In the case of commodities for which there is a flexible demand, reduction in price usually means increased consumption, greater employment, reduced unit costs, and greater profits over the long run. The tariff is a powerful instrument of bringing about a sound price policy in this country.

A properly administered tariff policy, such as embodied in the present trade-agreement program, can serve as a check upon the freezing of administered prices at a high level. I would like to see our tariff lowered so as to admit foreign goods to the equivalent of say 5 or 10 percent of the domestic production of leading articles. Such a margin would create really competitive conditions in every industry and keep down prices to the advantage of the farmer and consumer. At the same time, limiting such tariff reductions to say 5 or 10 percent of the domestic production would constitute a virtual guarantee of the best of the market for American producers. Here I am talking about tariff quotas and not actual quotas.

Likewise the tariff can be an important instrument in the conservation of natural resources. By lowering the tariff increased amounts of raw materials such as copper, petroleum, zinc, and other materials may enter this country and thus slow up the exhaustion of domestic reserves. At a time when domestic oil production is being prorated to conserve natural resources, the conclusion of the Venezuelan trade agreement of November 6, 1939, reducing the import tax from one-half to one-quarter cent per gallon on an annual quota from all countries of 5 percent of the total quantity processed inside the United States, is important.

In this kind of process the marginal high cost producer would probably be eliminated; but marginal high cost producers in certain lines of activity have got to be eliminated if the competitive principle is to function in this country and efficient production resumed. The workers displaced would then be absorbed in more efficient pursuits elsewhere. One school of planning would give the central authority power to fix administered prices and to allocate quotas to conserve natural resources. It is much more consistent with the system of free enterprise to accomplish the same end through a wise policy of tariff reduction.

I realize that an attack on deterrents is difficult from the political standpoint, but I am convinced that this approach must be made if the American system is to continue to function. The Hull trade program and the antitrust prosecutions of the Department of Justice are, so far as I know, the only two concerted efforts now being made to remove deterrents to the functioning of private enterprise and to unloosening the fetters upon efficient production. I believe this approach must be extended if we are to escape from a Government-directed economy which has descended upon nearly all the rest of the world.

Finally, I am convinced that even the Hull trade program or a forceful domestic policy aimed at deterrents, will not succeed in maintaining and restoring the American system if the international situation continues to deteriorate. Should Germany conceivably win this war, or should the whole of Europe become dominated by the Communist form of organization, Americans would be excluded from trading with Europe, at least upon a basis of competitive enterprise.

The same thing will happen if Japan succeeds in establishing the so-called new order in Asia, for its object is to build up a vast self-contained unit in the Orient from which all outside competitive trade would be barred. In its note of October 6, 1938, to Japan the United States declared that all shipping in China was becoming dependent upon a Japanese agency for allotments of space and stevedoring facilities, and that the Japanese Government was proceeding to organize a monopoly of both the wool trade and tobacco in North China, as well as two special promotion companies which would control the investment and regulation of large sectors of economic enterprise.

Japan today has monopolized navigation on the Yangtze, excluding all foreigners. Partly as a result of the establishment of the "yen bloc" embracing North China, Manchukuo and Japan, America's share in China's total exports fell from 28 percent in 1937 to 11 percent in 1938, while Japan's share increased from 10 percent to 15 percent. It is true that the imports to Manchukuo from the United States were larger in 1938 than in 1937, but this was due largely to the purchase of American trucks for Japanese armies. The trade which took place was noncompetitive and would be eliminated by Japan to a large extent if its self-sufficiency drive succeeds.

Some observers even believe that should Japan succeed in its objectives in China, it will not only monopolize trade to the detriment of the United States but will utilize cheap and virtually compulsory Chinese labor to dump exports into foreign markets, even more extensively than it has done during the past 15 or 20 years. Moreover, Japan, if it carries out its present plans, will grow the cotton formerly imported from the United States by Japan. The industrialization of an independent China might mean the elimination of its raw-cotton trade with the United States; but in return an industrialized China would increase its purchases of other articles from America.

A China completely dominated by Japan, however, would mean the loss of the American cotton export market as well as of possible industrial expansion.

Should Japan succeed in dominating also the South Seas, which now produce much of our tin and rubber, it presumably will have raw-material surpluses for sale, but the terms will be fixed by Japan largely alone.

Thus, in the event of a long war, particularly culminating in German and Japanese victory, the United States may find itself excluded from foreign markets unless it goes out and vigorously fights for them, and will be confronted with the danger of foreign imports being dumped in this country produced by low-paid, overworked, and even conscripted foreign labor, such as Germany today is imposing upon the Poles and Czechs. Should such conditions come into existence, or should a Communist system come to dominate both Europe and Asia, the United States would either have to renounce foreign trade and go upon a basis of self-containment, which in itself is a form of state capitalism, or it would have to go into export and import controls and embark upon a diplomatic if not military struggle for markets. Consequently, the United States has a vital interest in seeing to it that a type of world reconstruction takes place at the end of this war under which the system of private enterprise again can function. Even if Britain and France win this war, a long, drawn-out struggle may fasten upon them a state-economic system which will work against the long-term economic interests of the United States. Nevertheless, I believe that the United States has a far greater opportunity to induce them to restore some form of free enterprise and in reaching equitable agreements about international economic problems, than in case the totalitarian states are victorious.

To repeat, I fear the introduction of a quota or barter system, or the general restriction of exports—except possibly for such exceptions as have already been made in the case of tin scrap and helium—for the purpose of meeting what may prove to be minor difficulties, will have profound repercussions upon American business and political institutions. Domestic industrial freedom is inextricably bound up with a large measure of freedom in international trade. In a world of quotas and barter the state is bound to expand greatly its control over domestic industry.

Virtually every economic and nationalist group in this country professes to believe in democracy and free enterprise. If we wish to be free, however, we must understand the conditions of freedom. The genuineness of our assertions are going to be put to the test during the next few years both in the field of domestic and foreign policy.

If Congress yields to the clamor of pressure groups and throws out the Hull trade program in favor of the barter system, the one remaining great power upholding a system of free enterprise will have hauled down the flag. I want to keep the flag flying, but to do this, we have got to have a foreign as well as a domestic policy.

I have already raised some longer-range aspects of this problem than this particular hearing probably permits, but I hope very much that before it concludes its deliberations the Temporary National Economic Committee can inquire into the kind of a world order needed for the proper functioning of a free economy here at home. I do not envisage the establishment of free trade and laissez faire upon an international basis; but there is wide agreement that there can be no peace restored to the world until trade barriers are drastically reduced.

Moreover, international administrative controls must be established over international cartels. Arrangements such as the Ottawa agreements and the preferential export tax on tin found in the British Empire must be drastically modified. Agreements must be reached upon competitive subsidies, whether of commodities such as wheat or sugar, or on merchant marines. Other international agreements looking to common action on public-works programs and fiscal policies should be concluded.

International lending for genuinely productive purposes must be resumed. Just as in our domestic economy, we must have effective Government intervention, not only to control but also encourage private enterprise, as well as meet generally accepted social needs, so internationally the shackles now holding back world production must be removed by a judicial combination of private initiative and intergovernmental planning.

In the present tense situation it may sound Utopian even to mention such possibilities. But I believe that unless we move in this direction, our own interests will be greatly injured. Purely from the economic standpoint, this country cannot indefinitely meet an armament bill which in the 1941 Budget may reach two and a half billion dollars, without suffering a further impairment in the standard of living, particularly in the present state of our economy. Moreover, if we wish to prevent the loss of the greater part of our seventeen billions of gold we must endeavor to rehabilitate a world economy on the lines of a modified gold standard.

The maintenance and development of the American economic and political system depends, in my opinion, upon the restoration of a peaceful and orderly world. In contrast, a policy of passive indifference to foreign events means, I fear, that America will gradually drift into state capitalism, possibly bringing with it all the consequences which state capitalism, whether it be called communism or fascism, has produced in other countries.

Dr. THORP. Mr. Buell, you have spoken about the powers which the Government now has. Do you have any proposals for modifications or new developments which you think ought to be adopted rather promptly?

Mr. BUELL. No, sir. I believe, if I may summarize, that first we should establish how serious these maladjustments are going to be; secondly, we should endeavor to remove them by negotiation, and then if negotiations fail we should test the extent of the present powers. The only possible change which I would make would be procedural changes to hasten, to speed up, these questions of hearings and other matters which you have mentioned. I don't know enough about the technical aspects of those laws to be in position to make a definite proposal.

Dr. THORP. In regard to the trade-agreements program specifically, do you feel there should be modification or extension of the powers now there?

Mr. BUELL. I would not propose it now.

Dr. THORP. It has been proposed that there should be congressional approval of trade agreements. What is your feeling on that suggestion?

Mr. BUELL. I think that that, instead of facilitating procedural action would tie the hands of the Government so that they would be less able than at present to meet a situation as it arises. In the first place, Congress is not in session all the year, and in matters of tariff you have in past history at least what we call logrolling, trading of special interests. I think it is perfectly consistent with democracy to delegate certain decisions, having defined the principle, to administrative bodies. We have done that, the best example being the Interstate Commerce Commission in respect to railroad rates, and I think that if we discontinue that practice with respect to the trade-agreements program, the limits of which are defined by the statute, the extent of the reduction of which is defined by the statute, we will further hamstring the Government and increase the difficulty of meeting these situations quickly. The virtue of the trade-agreements program is that it does give a flexibility of negotiation which would be absent in the event of a statutory term or in the event of a requirement that Congress would have to approve the agreement.

Acting Chairman BORAH. Dr Buell, you spoke about pressure groups which are seeking repeal of the trade agreements. What to you mean by pressure groups?

Mr. BUELL. I mean groups which have limited economic interests at stake who are endeavoring to bring pressure.

Acting Chairman BORAH. What do you mean by pressure? Do you mean simply presenting their cause?

Mr. BUELL. I didn't say there was anything improper about their action. I simply said it should be resisted.

Acting Chairman BORAH. "Pressure groups" of course, as you know, has a certain meaning used on this Hill, and that is that effort is being made to do something other than to present actual facts with reference to the matter, political pressure, and so forth.

Mr. BUELL. I assume that has taken place, too. I would assume that these groups would make it very difficult for a man to be reelected if he voted against them.

Acting Chairman BORAH. That group would be the voters.

Mr. BUELL. It would be the voters, but I didn't say what they would be but I said I assumed these groups would make it as difficult as they could to prevent the man's reelection.

Acting Chairman BORAH. That is the business of democracy, is it not?

Mr. BUELL. Surely; that is why I have made these statements, so that the other fellow will get busy.

Acting Chairman BORAH. Yes, well; he will be busy. What I am trying to find out is whether you mean anything, when you speak of pressure groups, other than the effort of those who are dissatisfied with those agreements to present the matter in its proper way to those who make the laws of the country.

Mr. BUELL. I don't know what you mean by "proper." If you will leave that word out I will accept the definition.

Acting Chairman BORAH. What I mean by "proper" way is simply, as you see, by submitting it to the voters and letting the voters elect those who represent their views.

Mr. BUELL. That is perfectly all right with me, but my point is that the people who carry on the propaganda in this country for measures do it in a perfectly legitimate way from their standpoint, from what I regard as limited economic interests, whereas, the great mass of consumers, people who have most to profit by the policy, either don't understand it or are not organized to present their case. That, to me, is the great problem in our democracy, I am frank to say.

Acting Chairman Borah. Well, it is altogether probable that the State Department is as well organized to present its side as the farmers are to present theirs.

Mr. BUELL. Government propaganda in a democracy isn't very effective.

Acting Chairman BORAH. I wish I could believe you. The only pressure that I know of—and I think I am fairly familiar with it—is an effort to present this matter to the voters. Now if the voters in Nebraska, for instance, should be in favor of repeal, the voters in

Massachusetts might be opposed to it, and when they come together in the Congress to vote upon the matter you would have an expression from the different parts of the country as evidenced by the action of the voters. That couldn't be considered in any proper sense a pressure group.

Mr. BUELL. I am not saying whether it is proper or improper. I say we have a great problem in our democracy, the problem of organized lobbies in Washington which are not registered. Congress has passed a law requiring the registration of foreign propagandists. I think that is fine, but I think we ought to have a law requiring the registration of domestic lobbies, and I think that is really a serious problem in our democratic government. I don't say whether it is proper or improper, but I am convinced that the general interests of the consumer and the people who believe in the broad aspects, in the long-term aspects of this problem, are not represented adequately in our system.

Acting Chairman BORAH. The only way you can have them represented is through submitting the matter to the voters of the country.

Mr. BUELL. The elections are on personalities and broad issues.

Acting Chairman BORAH. Yes; that is true.

Mr. BUELL. And I don't believe that the Hull trade program or the antitrust laws as a rule is going to get into an election.

Acting Chairman BORAH. However, the Hull trade agreement came from the Congress of the United States. Without that Mr. Hull could not act, supposedly. Now is there anything improper at all in returning it to the Congress of the United States to receive its judgment anew as to whether it should be continued?

Mr. BUELL. It has to be returned in June when the act expires.

Acting Chairman BORAH. It can expire without being returned, but is there anything improper in returning it to the Congress, that is to say in resubmitting it, in having the voters pass upon the question?

Mr. BUELL. Of course not. I would be delighted to have the voters pass upon the question.

Acting Chairman BORAH. I understood from your statement that you supposed that there was a certain lobbying interest aside entirely from what the people might have to say that were seeking——

Mr. BUELL (interposing). I certainly believe there are lobbying interests. I think that is a great problem in our Government.

Acting Chairman BORAH. Do you know anything about who they are?

Mr. BUELL. I have seen a number of various studies on the lobbies in Congress.

Acting Chairman BORAH. Do you know of any lobbying interests in connection with the repeal of this reciprocal trade law?

Mr. BUELL. The organizations working against it are a matter of record down here.

Acting Chairman BORAH. Do you know of any organizations except such organizations as are affected, like the farm organizations, people like that? I don't know of anybody really who is opposing it excepting agriculturalists.

Mr. BUELL. I don't know as to who the detailed organizations are. I don't think that is quite relevant to my point, that we need to have organizations which would exert equal pressure—I don't use that word in any improper sense—representing a much wider point of view, the point of view of the consumer and people interested in the long term, in addition to the people who are interested in a limited interest.

Acting Chairman BORAH. If this question should be resubmitted to the people in the next campaign that would take it to every voting precinct in the United States.

Mr. BUELL. I am all for that.

Acting CHAIRMAN BORAH. What is that?

Mr. BUELL. I am all for it.

Acting Chairman BORAH. That is all. Thank you very much, Doctor.

The committee will stand adjourned.

(Whereupon, at 4:30 p. m., the committee recessed until 10:30 a. m., Thursday, December 7, 1939.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

THURSDAY, DECEMBER 7, 1939

United States Senate,
Temporary National Economic Committee,
Washington, D. C.

The committee met at 10:45 a. m., pursuant to adjournment on Wednesday, December 6, 1939, in the Caucus Room, Senate Office Building, Mr. Avildsen, presiding.

Present: Mr. Avildsen, acting chairman; Messrs. Arnold, Hinrichs, and Brackett.

Present also: Willard Thorp, Department of Commerce; Kemper Simpson, Federal Trade Commission; Theodore J. Kreps, economic adviser, and John E. Hamm, economist for the committee.

Acting Chairman Avildsen. The committee will be in order.

The first witness will be Mr. Nelson.

Do you solemnly swear the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. Nelson. I do.

TESTIMONY OF DONALD M. NELSON, EXECUTIVE VICE PRESIDENT, SEARS, ROEBUCK & CO., CHICAGO, ILL.

Acting Chairman Avildsen. Will you give the reporter your name and business position?

Mr. Nelson. My name is Donald M. Nelson, executive vice president of Sears, Roebuck & Co., Chicago, Ill.

Acting Chairman Avildsen. Will you tell us how long you have been in that business, Mr. Nelson?

Mr. Nelson. I have been in that business since April 1, 1912.

Acting Chairman Avildsen. Do you have a statement you would like to read?

Mr. Nelson. I have a short statement which I would like to read first, Mr. Chairman.

When the present European war broke out about September 1, a very rapid switch from a buyer's to a seller's market took place almost overnight, and at the same time, as you know, basic commodities had a very rapid rise in price. For the moment it looked as if prices on finished products, influenced by the rising commodity prices, might run away as they had done during times in the past when similar rapid rises took place in basic commodities, particularly in 1937. However, industry in the present situation, it seems to me, displayed great statesmanship and prevented a run-away price situation, and what is even more to its credit, I believe displayed greater statesmanship in advising its customers not to load up on merchandise.

The present generation of industrialists have learned through bitter experiences some very interesting lessons on the necessity of keeping a balance in our economy, and have learned that stability in price structure is more important to their welfare than is a rapidly rising price structure. As a matter of fact industry has learned that rapid increases in prices, even though they may temporarily bring profits, are bad for all concerned, including themselves.

Dr. Thorp. Mr. Nelson, when you use the word "industry," are you referring there to manufactures, or would you want to broaden that to include the distribution activities?

Mr. Nelson. I am thinking, Dr. Thorp, of industry in general terms, manufactures and distribution as well.

It has learned that paper profits are not real.

The present price situation is quite different from that experienced during the last World War. I shall not try to develop this except to say that the price rise during the last World War developed much more slowly, probably because the last World War found us in the decline of a depression, and the present European war found us coming out of a depression.

The retailer had some unpleasant experiences during the last World War which prepared him to tackle the present situation with judgment and restraint. During the latter period of the last World War prices and wages soared rapidly and even after the war came to an end prices continued on their upward way. The suspension of hostilities caused war industries to rapidly demobilize and the purchasing power of the people was rapidly decreased but prices still remained high. Not alone were prices of consumer goods abnormally high during the World War but due to the high earning power of workmen and farmers, there was a tremendously large demand for higher priced luxury merchandise; the sale of $10 to $15 silk shirts was common. Not alone did the dollar shirt go up to $2.50, but there were very few of them sold relatively.

And I would like to stress that point, Mr. Chairman, because it seems to me it is a thing that hasn't been well covered in reviewing the experiences of the retailer during the last World War. The retailer got a great deal of blame for high prices, but the demand came so largely on high-priced luxury merchandise due to the abnormal earning power that the public generally got the impression that prices were much higher than they really were.

Keeping his stocks in line with the demand of the buying public, the retailer had his stocks loaded with high-priced merchandise and there was a shortage of lower priced staples. Then the public stopped buying high-priced goods and the retailer found his inventory completely unbalanced. The general feeling of the buying public was that retail prices were entirely too high. The Government felt forced to take drastic action to bring about a decrease in the cost of living and during that period the Lever law, which had been passed by Congress some time previously, was attempted to be rigidly enforced by the Department of Justice.

Fair-price committees were set up in various communities to take arbitrary action in many cases against the retailer. The retailer has always borne the brunt of criticism in periods of rapidly rising price because it is he who must pass the higher prices on to the consumer, and no one likes to pay higher prices even when they feel they are justified. During the period the retailer lost caste in the minds of the public. I feel in most cases the criticism was unwarranted. But, more important than losing caste, was the tremendous losses the retailers had to take in marking their inventories of high-priced goods down to lower levels. The profits made during the inflationary period were wiped out. This experience is fresh in the minds of the present generation of merchants, and in the present situation they have exercised their influence to prevent a threatened run-away price rise, knowing full well that they must take most of the blame, justifiable or unjustifiable. The retailer realizes his great responsibility to the buying public, and acting as he does, as purchasing agent for the buying public, has as his aim keeping on the sane path with respect to the pricing of his merchandise.

PRESENT PRICE TRENDS AS VIEWED BY A LARGE RETAILER

Mr. Nelson. I should like to point out that although commodity prices advanced in some cases as much as 25 percent during the first 2 weeks of September, and the wholesale prices of all commodities rose some 6 percent, Fairchild's composite index of retail prices shows an increase of less than 2 percent. Piece goods, and men's and women's wearing apparel retail prices show a rise of less than that, showing, I believe, that the retailer has done a good job in preventing prices from increasing faster than purcahsing power. Of course, unless the wholesale prices decrease some from the present level, the retailer eventually will have to pass on higher prices. However, at present I feel the retailer has the situation very well in hand.

This price situation is one that industry should continue to give a great deal of thought to, and must exercise the soundest judgment in continuing to keep the price level in line with purchasing power. I think there is no dispute over the fact that our major problem is to utilize all of our economic resources to the fullest extent. We should do everything we can to keep our production going at full speed. To do this we must keep our price levels in proper balance with the purchasing power of the people, particularly of the farm groups.

Industry must continue to keep prices relatively low, depending upon increased production wherever possible to bring about decreased overhead and lower costs. Labor leaders, too, should exercise their statesmanship in not allowing increased hourly wages to raise unit costs to a point where prices will be out of line with purchasing power, and production slowed up. Workers should depend upon increased employment to raise weekly and annual wages. None of us want to see the mistakes of 1937 repeated.

I do not at the moment see any necessity for any governmental agency to police the price situation. I believe that industry is fully aware of its responsibility and that competition between retailers in the field of distribution will act as the necessary brake in preventing abnormal price increases, making governmental action unnecessary.

When we think of the price situation today, we make the mistake, I believe, of comparing prices with subnormal levels of the year 1939 rather than making our comparison with normal levels. Prices at the present time, and I believe even for next spring, on necessities in consumer goods, will be low even after the necessary small increases are made. I have before me a record of our general catalog selling prices from fall 1923 to date, and I shall cite several instances for the benefit of the Committee.[1]

Eighty-square percale, which is the material used in making house-dresses and children's dresses, an item very important in the budget, in the fall of 1929 sold for 26 cents a square yard, and even in the spring of 1934 sold for 18 cents, and now, at the present time, in our catalog at 12 cents. For spring 1940, 80-square percale will be priced at 13½ cents, just a little more than half of the fall 1929 price.

An 81 by 90 standard sheet is now selling for 71 cents; in the fall of 1923 this same sheet sold for $1.59; and for spring 1940 will be priced at 76 cents, a very nominal advance.

Double L sheeting, which sold in the fall of 1923 at $1.55 for 10 yards is now selling for 62 cents for 10 yards, and for spring 1940 will be sold at 69 cents for 10 yards.

A standard chambray work shirt which sold in the fall of 1923 for 85 cents is now selling at 47 cents, and will be sold at 48 cents in the spring of 1940.

Chairman AVILDSEN. Are those increases due to the wage-and-hour law?

Mr. NELSON. To a very large extent.

Chairman AVILDSEN. To what extent?

Mr. NELSON. I should say that about—you see, these prices that I am reading show an increase of somewhere around 7 to 8 percent. Now, of that, in the case of cotton goods, the testimony before the committee, which recommended a wage to the Wage and Hour Administration, of which I was the chairman, showed that it would bring about an increase of some 5 to 6 percent, even with the increase of wage to 32½ cents, which was the wage recommended and which was put into effect by the Administrator.

Chairman AVILDSEN. Would that increase be in the retail price or the wholesale price?

Mr. NELSON. Sir, that was the increase in the wholesale price.

Chairman AVILDSEN. Five to six cents?

Mr. NELSON. That's right—5 to 6 percent, not cents, which would be the same when passed on to the retail price.

Chairman AVILDSEN. The retail price would go up by the same percentage?

Mr. NELSON. The retail price would go up by the same percentage, due to the wage-and-hour bill alone. Now, we must also remember that the textile industry hasn't made any profit for a long number of years, and while it has not been particularly concerned with that phase of the situation at the present time, when we have to switch from a buyer's to a seller's market, the mill is naturally going to make a profit if it can. Some of that increase is due to an attempt on the part of the mills to make a profit, which I think we can't condemn them for.

Chairman AVILDSEN. Would you say that we are now in a seller's market?

Mr. NELSON. Definitely in a seller's market, although it is, in the last few weeks, I believe, switching back to a buyer's market. The big rush of buying is over and as soon as the production runs out, I believe we will see a switch again from a seller's to a buyer's market,

[1] For further discussion of this subject see pp. 11277, infra.

which will tend to bring those prices more into line with the actual increase made by the wage-and-hour bill alone and by the price advance in the price of cotton.

Dr. KREPS. At what percent of capacity was the industry operating in June of this year?

Mr. NELSON. Well, I don't have those——

Dr. KREPS. At what percent of capacity is it operating now?

Mr. NELSON. I would say that it is operating at full capacity at the present moment.

Dr. KREPS. Suppose it increased its operations from, let's say, 75 percent of capacity to a hundred percent of capacity, would labor costs tend to go down or go up?

Mr. NELSON. Well, labor costs, of course, would tend to go up, but overhead and fixed charges and so forth on a percentage basis would tend to go down.

Dr. KREPS. Therefore, would the labor cost per unit of production tend to increase or decrease?

Mr. NELSON. Well, the labor cost per unit of productivity, of course, might increase and still have prices go down.

Dr. KREPS. Does labor efficiency and productivity in the textile industry increase as industry produces to capacity, the way it does in every other industry?

Mr. NELSON. I think it does, sir.

Dr. KREPS. And when labor productivity increases, does not the cost per unit of product decrease?

Mr. NELSON. It tends to; yes, sir, it does. But it is a question—I am not an expert on textile manufacturing so I can't answer your question with any great degree of authority, but I should say that the increase due to the wage-and-hour bill would offset that increase in efficiency due to productive capacity.

Mr. ARNOLD. But I thought you said that the increase of cost per unit of material had gone up about 5 or 6 percent?

Mr. NELSON. That is right, sir.

Mr. ARNOLD. That means that after they have gone up to full volume, even after that, it is increased 5 or 6 percent?

Mr. NELSON. No, sir; I haven't the figures on that; I am not an expert in textile manufacturing, but I was saying that the testimony before our committee, the Wage and Hour Committee, prepared by the Bureau of Labor Statistics, estimated that the increase due to raising the wage to 32½ cents would be around 5 to 6 percent, sir.

Mr. ARNOLD. Were those figures based on full capacity or 75 percent capacity?

Mr. NELSON. I don't recall, sir.

Dr. KREPS. Those figures would probably be based on the same capacity?

Mr. NELSON. I presume they were.

Dr. KREPS. Therefore, it is easily conceivable that when industry increases its operations from 75 percent capacity to full capacity, the wage cost per unit of product might easily have gone down rather than up?

Mr. NELSON. That could be true. I am sorry that I don't know enough about that particular thing to be able to answer your question.

Mr. ARNOLD. And the cost, however, of the product has gone up, the wholesale price has gone up?

Mr. NELSON. Has gone up, yes.

Mr. ARNOLD. And therefore there is a very fair chance that that wholesale price is not based upon the additional price of labor.

Mr. NELSON. I think that in the case of cotton textiles, particularly in sheets and wide sheeting, it is my personal opinion that the price advance has been greater than has been justified.

Mr. ARNOLD. Therefore, your statement that there was no necessity to police the price situation would have to be qualified a little bit.

Mr. NELSON. I am afraid that I didn't make very clear what I meant there, Mr. Arnold.

I saw after I read this, when I came in—I wrote that section last night on the plane coming out, may I amplify it a minute?

Mr. ARNOLD. I interpret that to mean that you don't think there is any need for any antiprofiteering legislation. I will agree with you.

Mr. NELSON. That is exactly what I mean. I didn't mean the existing agencies of government—I felt this way; the existing agencies of government, the Department of Justice, T. N. E. C., and the Federal Trade Commission, had, in my opinion, sufficient police power to prevent abnormal price increases due to abnormalities of monopoly and so forth, and that it was not necessary that antiprofiteering, or separate, distinct bodies, be set up to police the price situation. That is exactly what I meant by that situation.

Mr. ARNOLD. I thought we agreed and I wanted to make that perfectly clear.

Mr. NELSON. I notice it is stated rather unfortunately.

Mr. HINRICHS. May I amplify one statement?

Mr. NELSON. That is a man who can——

Mr. HINRICHS (interposing). This isn't shedding light, I think, on the problem of the committee, but merely to clarify the record.

The figures to which Mr. Nelson referred, showing the wage distribution, were compiled by the Bureau of Labor Statistics. The estimate as to the increased labor costs that might result in 32½ cents were made by the Wage and Hour Administration. That is not a field in which the Bureau of Labor Statistics has been functioning in connection with these wage hearings. It is entirely incidental as far as this committee is concerned. It was based on the figures that were prepared by the Bureau of Labor Statistics.

Mr. NELSON. That is a more accurate statement.

Mr. ARNOLD. Of course, I think it should be added, for the purposes of the record, that the present Anti-Trust Division has only 10 men on the project for the United States, so I would say it is unlikely that we are getting perfect enforcement, and I would say there is a very fair chance that some of the theoretical price raises due to higher wages in textiles are not based upon actual wages paid, but only upon the wages which they ought to pay if there were better enforcement.

Dr. KREPS. Summarizing that, would you not say that with the increase in the percent of capacity of operations in the textile industry there had been an increase in labor productivity?

Mr. NELSON. I would think so, sir.

Dr. KREPS. And, therefore, possibly a reduction in per unit labor costs, at least that is the experience in other industries. There has certainly been a reduction in per unit overhead costs of all sorts.

Mr. NELSON. That is right, sir.

And may I point this out to the committee, that when I tell you that a sheet which is now priced at 71 cents, will be priced in the spring of 1940 at 76 cents, that does not take into account all of the price rise that has occurred at the present moment. We must anticipate prices, because our prices remain in effect for 6 months. These prices will be in effect in our catalog until July of 1940, and we must anticipate what we believe the actual price increase in the wholesale commodity will be.

Dr. KREPS. Isn't it true, moreover, that there were plants in the textile industry already paying more than the minimum provided in the wage-hour law, at least in certain areas of the country, were there not——

Mr. NELSON (interposing). Right.

Dr. KREPS. These would not find their costs of production affected at all by the increase in wages given to certain people in certain areas where wages were below the wage-hour minimum?

Mr. NELSON. That is very true, sir, except that what happens in a normal situation is this: The price at which the commodity is sold is controlled for them very largely by people who may have been paying very low prices, and they may not have been able to get the proper price for their product, due to competitive situations, due to paying lower wages than those set up.

You and I are competitors, and you are paying a lower wage and you set a certain price for your product. I may be paying a higher wage because I feel that that is the social thing to do, or I am forced to competitively, or by any number of reasons. You set my price to a very large extent, assuming we are making exactly the same product and there is no difference in relative value of the product from the consumer's point of view.

Mr. KREPS. In your experience with businessmen, Mr. Nelson, do you find that the hard-pressed firms, the small firms, are the ones that dominate the price picture?

Mr. NELSON. In certain industries that is true.

Let us take, for instance, the field of cotton work garments, work shirts, overalls, cotton garments for children. You will find that the marginal mills, to a very large extent, do set a price pattern which all must follow.

Dr. KREPS. Generally, however, you would state that the larger firms which, on the whole pay the better wages, make the better profits, would tend to set the price?

Mr. NELSON. When you get out of this very highly competitive field of cotton garments and textiles, I would say you are right.

Dr. KREPS. Therefore it is problematic, it is debatable whether there has been this increase in costs of 5 or 6 percent which is alleged to have occurred.

Mr. NELSON. No, I believe that the 5 or 6 percent increase in costs is actual.

Dr. KREPS. Despite the decrease in overhead cost per unit?

Mr. NELSON. I was going to qualify that to this extent, that I do not know on what those prices are based. We went into those prices very closely in the committee, because it was quite important that we know under the law that making the recommendation for a wage would not decrease employment. It is a fact, of course, that as prices go up the volume goes down, unless all move up together, unless there is a balance in our economy. You can't have one price segment sticking its head out and increasing its price without decreasing the volume, and we went into those figures very, very carefully, and I believe them to be as accurate as you could make prognostications.

Dr. KREPS. On the assumptions made.

Mr. NELSON. That is right. I am not qualified to tell you whether or not——

Mr. ARNOLD (interposing). May I call your attention to a few other assumptions which I think are implicit in those price levels. No one knows much about this, but you would say, wouldn't you, that 10 men in the Department of Justice enforcing the wage-hour law all over the United States wouldn't get much enforcement, wouldn't you?

Mr. NELSON. Yes, sir; and I think, sir——

Mr. ARNOLD (interposing). And, further than that, you would say that it would be the tendency of an employer who wasn't paying the wages and hours nevertheless to base his prices on the wages?

Mr. NELSON. Definitely.

Mr. ARNOLD. Therefore the wage-and-hour law, unenforced, would have the tendency of raising prices without raising the purchasing power of labor. In other words, it would give them the psychological excuse for raising prices, and since it was unenforced, wouldn't give the additional purchasing power to labor which would balance it.

Mr. NELSON. That's right, and I should say that one of the major problems before this administration is the enforcement of the wage-and-hour law, and enough people ought to be put on so there will be rigid enforcement. We can never know whether a law is sound or unsound unless it is enforced, and if you have one segment of a community which is paying a price and another segment is not, you will certainly have an unbalanced economy.

Mr. ARNOLD. You also have this situation in unenforced law, don't you: It can be used by certain organized groups in some communities to get the increased wages?

Mr. NELSON. That is right.

Mr. ARNOLD. And that will create a tendency of the people in those communities to lose their business——

Mr. NELSON (interposing). Right.

Mr. ARNOLD. To other communities where it isn't being enforced, so that unenforcement will not only have the difficulty of raising prices without compensating wage advancement, but it will also dislocate industry by moving it from an enforcement area to a nonenforcement area.

Mr. NELSON. I believe that is absolutely sound.

Acting Chairman AVILDSEN. Do you think the psychological advantage Mr. Arnold mentions with regard to getting the higher price, even though they are not paying the higher wages due to evasion of the law, would exist in a buyers' market, or only in a sellers' market?

Mr. NELSON. In a sellers' market, and we are talking now about the present situation, where there is a sellers' market. In a buyers' market, then, it would have the opposite effect. The man who is paying the lower wage would depress the price situation, particularly in those communities where they were observing the law.

Acting Chairman AVILDSEN. How long has the sellers' market existed in the textiles?

Mr. NELSON. Since September 1, and it is weakening rather than strengthening at the present moment.

Acting Chairman AVILDSEN. And if that tendency continues, we will not necessarily have this situation Mr. Arnold describes?

Mr. NELSON. Except that it will always be there, and it is impossible for me to tell from a theoretical point of view just how important it will be, but I am assuming that the proper thing to do is always to enforce a law that is on our statute books.

Acting Chairman AVILDSEN. I agree with you, but that particular psychological advantage is only good in a sellers' market.

Mr. NELSON. That is true.

Acting Chairman AVILDSEN. And on the law of average, that market is a rare market in the textile industry.

Mr. NELSON. That occurs in my experience only in a period of rapidly rising prices, or where some set of conditions creates a shortage or scarcity.

Acting Chairman AVILDSEN. In the last 10 years, how many sellers' markets have you had in textiles?

Mr. NELSON. In textiles probably not over three. I am making a guess at that; it isn't from an accurate recollection.

Acting Chairman AVILDSEN. Were they of relatively short duration—a few months, perhaps?

Mr. NELSON. I would say 3 to 4 months.

Mr. SIMPSON. Mr. Nelson, from what you said to Mr. Arnold, I assume that you do not believe in antiprofiteering legislation or in price fixing.

Mr. NELSON. At the present moment I do not see the necessity for it. That is what I answered to Mr. Arnold.

Mr. SIMPSON. I am not going to suggest by my question that I do believe in governmental price-fixing or antiprofiteering legislation, but in line with that testimony, it occurred to me that you might give your reaction to this conclusion.

During the last war there was a good deal of price fixing, governmental price fixing. The Federal Trade Commission, the War Industries Board, fixed prices on a great many things, yet by your testimony you admit that there was a rapid and disastrous rise of prices for which industry, and economy as a whole, had to pay during the 1921–22 reaction, and for some years afterward.

Mr. NELSON. That is right.

Mr. SIMPSON. I am not suggesting that I believe in antiprofiteering legislation nor in price-fixing, except that I think cost-finding for the purpose was useful, because it answered a great many of [illegible] questions about which we have to speculate, that is, questions [illegible] regard to the effect of the rise in wages and change in overhead costs per unit of product with change in use of the existing plant capacity.

I think the cost figures are useful because they give us a picture of the unjustifiable increase in prices in this industry or in that industry, but what I would like to know is, if prices begin to rise very rapidly, what would you suggest?

Mr. NELSON. Well, sir, if there appears to be a situation that industry itself can't handle, and I mean by that that I believe the first step in any situation is for industry itself to try to handle the situation without governmental interference—we are talking strictly on the antiprofiteering and price-fixing and so forth—then I believe some agency like T. N. E. C., who can, in situations where industry can't, handle and explain the price rises, might be very useful, assuming we had a complete run-away situation, which I do not anticipate, and, in addition, a situation where the industry itself could not handle it.

Let me give you an example of exactly what I mean. The National Retail Dry Goods Association, I think, at the very outset of this war, took a very wise action when they set up an emergency committee of merchants from all over the country who were to meet and discuss among themselves price increases and call upon industry itself, who had made prices, assuming that run-away prices had occurred, as we all felt might have been probable the first week of the war. The very effect of that has a deterent effect when an industry must explain its prices to its customers, and I believe that that is a very wise way of handling the situation within industry itself.

Now, assuming that that industry will not explain and can't explain, and that it has got together—I believe there are agencies of the Government who can be called in. The Department of Justice is very anxious to find those particular cases. I think, if I know them rightly, they will be very anxious to know every instance where price increases, quite general among the trade, can't be explained, so I do not see the necessity for a separate body set up on the basis of cutting across the present lines of law enforcement. That is exactly my position in this case.

Mr. ARNOLD. May I use you as a sounding board for what is essentially testimony on my own part?

Mr. NELSON. All right, sir.

Mr. ARNOLD. If I have stock in the Winchester Arms in New Haven, and it goes up on account of the war, the psychological tendency would be to call that profiteering, wouldn't it? The increased profits of the Winchester Arms would appear to be profiteering, wouldn't it?

Mr. NELSON. No; may I interrupt you in your giving your testimony?

Mr. ARNOLD. May I use another example. Let me contrast this. Suppose there is an enormous increase in a war industry in New Haven which causes an opportunity for householders to double the price of rents. Now, the chances are that in an ordinary political situation the householders are close enough to the plain people so that the price of rents ought be considered legitimate, and the increase in the war profits would be considered illegitimate. That is a political guess, isn't it?

Mr. NELSON. Yes; politically, perhaps.

Mr. ARNOLD. And therefore, when you start to draw up an antiprofiteering law, you are going to try to get a law which will justify the low income householder in increasing his rents, and which will attempt to curb the profits of the Winchester Arms?

Mr. NELSON. Yes; I should say that would be a very natural thing to do.

Mr. ARNOLD. And you can't state that in terms of Winchester Arms and householders, can you, because the law must be general; therefore, you try to get an abstract standard of unreasonable profits, don't you?

Mr. NELSON. That is right.

Mr. ARNOLD. That will run undoubtedly into a test of constitutionality, but even if it doesn't, you will find that many of the worst cases of profiteering are on the part of people who are losing money, isn't that right?

Mr. NELSON. That is true.

Mr. ARNOLD. And, therefore, the tendency of the enforcement of such a law is to boost prices. In this instance, suppose that all the small retailers should start to profiteer on sugar. You would attempt to attack them on the ground that they were making unreasonable profits, and they would show you that they had lost money in 10 years, and 80 percent of them went bankrupt, and you would end that inquiry by raising the prices, wouldn't you?

Mr NELSON. That is right.

Mr. ARNOLD. Isn't that generally the tendency of antiprofiteering legislation?

Mr. NELSON. I think it is. Of course, the thing that has always worried me in connection with the expression "profiteering," just as in the use of the word "monopoly," is that the use of the word "profiteer" has such a broad application and doesn't apply to all situations. The householder who had raised his rent might be just as much a profiteer as a very large industry, and still we don't think of him as a profiteer.

Mr. ARNOLD. We unconsciously think of a profiteer as a man who is making a lot of money.

Mr. SIMPSON. Out of us.

Mr. ARNOLD. And actually the worst profiteers are often people who are pricing themselves out of the market and losing money.

Mr. NELSON. Right; exactly, sir.

Mr. SIMPSON. Having had some experience with the Food Administration, having made some analysis of the Food Administration experience, and having studied the costs and the work done in price fixing in the Federal Trade Commission, it occurs to me that the most unsuccessful way to control prices was through the method of profit legislation. The Food Administration determined that every man should make the same rate of profit. The low cost man was assumed to make the same rate of profit on his invested capital, or on his cost, as the high cost man, which made for a difference of prices in the same market, and that is an economic absurdity.

The other method of fixing prices would be more reaching toward the Federal Trade Commission way, on the basis of costs. Obviously it is an impossible job to determine the costs of producing every commodity in the United States and to try to fix prices on the basis of costs of production.

Mr. Culver, who is now dead, a former member of the Federal Trade Commission, a very able man, once suggested an idea I would like to try out on you. He said, instead of going to all of this trouble of determining costs of producing every product and establishing the bulk line, the marginal producer, and fixing the price on the basis of marginal costs, why shouldn't we take an average of prices for various products over a 3-year period preceding this period and fix prices on that basis of that average? What would you say as to that, if we should need governmental control of price?

Mr. NELSON. Well, I would want to think that through a little more, but I believe that price fixing is never effective, and I think that in any situation that I know anything about, or contemplate happenings, even if unfortunately we should be drawn into the war, assuming that you have free competition and no collusion, I think that the competitive situation will prevent abnormal prices for any period of time.

Now, there may be a very short period, but I think that the competitive forces, if kept in free motion, and that there be no back-ups, no dams to the forces of competition, will take care of this price situation.

Mr. SIMPSON. Mr. Nelson, you must believe that there were some industries that were competitive in 1917 and '18 and '19, there were some industries in the United States that were still competitive, were there not?

Mr. NELSON. Yes; I think that is true, sir; but I don't believe you had exactly the same set of competitive situations in those days that you have now.

Mr. SIMPSON. Even if there were no collusion, the temptation to raise prices in time of war, when the demand increases, particularly after a period of bad business, such as we had from '32 on in this decade and in 1912, '13, and '14 in that decade, is a great temptation to get as much as the traffic will bear. I mean, you can't expect businessmen, even if they are not in collusion, to hold down prices, can you?

Mr. ARNOLD. The farmers were attempting to raise prices at the beginning of the last war, weren't they? They would have liked to have done it, wouldn't they? The cotton people would have liked to see prices go up.

Mr. NELSON. I think everyone would like to see their own go up and not have to pay more for anything that anybody furnishes.

Mr. ARNOLD. Did the cotton people succeed in getting their prices up during that campaign to buy a bale of cotton?

Mr. NELSON. They did not.

Mr. ARNOLD. And the reason was there was free competition?

Mr. NELSON. May I answer your question with regard to prices? Unless there is a scarcity which brings about an artificial restraint which eliminates, of course, competitive forces, but I don't foresee that at the moment because of our productive facilities and the decrease in growth of our population and a lot of other factors, I believe that our present productive facilities have changed the situation entirely from the period that prevailed in 1917.

Mr. SIMPSON. You mean the capacities have increased so much.

Mr. NELSON. Yes.

Mr. SIMPSON. Aren't you, Mr. Nelson, talking about a period before the Government went into the market and started to buy and put up prices? After the Government started to buy, after these so-called shortages appeared, there were rises in every price.

Mr. NELSON. That is right.

Mr. SIMPSON. And we are now envisaging a period when that will happen, not perhaps at the present or not in 1940—we are considering '15, 1916, 1917, and what may happen if those so-called shortages appear.

Mr. NELSON. Well, perhaps; the whole thing seems so improbable to me—that such a set of conditions will happen—that is is hard for me to get my mind focused on what to do if it does happen.

Mr. ARNOLD. Suppose it does happen, suppose there is a drastic shortage in some commodity. Do you think that the Government is going to be able to lower the price when there is a tremendous shortage?

Mr. NELSON. I do not, sir; I don't believe they ever have been able to.

Mr. ARNOLD. In other words, competitive forces, as with the farmers, may create problems, but they will take care of prices.

Mr. NELSON. That is right; I believe that to be true.

Acting Chairman AVILDSEN. It is a fact, though, that competition among the buyers will cause prices to rise in a period of shortage.

Mr. NELSON. In a period of abnormal shortages.

Acting Chairman AVILDSEN. The competition causes the price to rise.

Mr. SIMPSON. Especially the Government suppliers, isn't that true?

Acting Chairman AVILDSEN. Yes; that is true. In 1920 the rises that we had in a great many commodities were due to the bidding between the buyers for the commodity. Isn't that true?

Mr. NELSON. Yes, that is true; but you also have to view the whole thing in its perspective in order to answer that question. You had an entirely different set of conditions.

One of the reasons that during that time your transportation facilities weren't as efficient as they are today was that we didn't have the speed of transportation, and one of your difficulties was that with the tremendous volume of business you did you had to buy so far ahead because of your transportation facilities. That is one factor. Today you have your consumer groups quite actively organized all over the country, who I believe are going to be very vocal if a set of conditions comes about which causes abnormalities as between communities to arise. I just think that your whole set of conditions today is so different from what they were at that time that it is very hard for me to see just what set of conditions might bring about this so-called price fixing, because I am so unalterably opposed to price fixing. I think that when you start fixing prices you have to completely regiment the whole economy, because one step leads to the other, and I can't conceive of any place where you start fixing prices at one part of the economy without fixing a lot of other factors, which leads you into a complete control.

Dr. KREPS. With reference to price fixing would you say that it made any difference by whom the price fixing was done, whether a body with governmental sanction or a body without governmental sanction?

Mr. NELSON. No, sir. It makes no difference, in my thinking, because with governmental sanction even, other factors have to be controlled. The minute you control prices, set prices, you must control production; the minute you control production you must control the price of labor, and so on right straight down, one leads to the other, until very soon the whole economy is regimented the minute you start on this price fixing at any place in the economy, in my belief, other than a purely temporary measure.

Mr. ARNOLD. Therefore, if there were a situation where the Government had to put in a very large order which would dislocate the market, the tradition of condemnation proceedings is a better tradition than price fixing, isn't it? For instance, if the Government wants to buy a lot of land, the beaten path is for them to go into court and condemn the land and keep it down rather than to do it by price fixing all land in the community.

Mr. NELSON. Right.

Mr. ARNOLD. And that principle followed with large Government purchases would be a better principle.

Mr. NELSON. I believe that that can be done, that that is a very possible thing to do.

Mr. ARNOLD. Were you aware that in 1931 with the tremendous increase of prices in Germany due to the unrestricted operation of the cartel system, they did appoint a commissioner to fix prices?

Mr. NELSON. Yes, sir; I am aware of that.

Mr. ARNOLD. I understand that they succeeded in lowering no prices whatever because of the political forces in such a situation, that they only lowered the price of beer and chimney sweeps and something of that sort. Those political forces, even if you got a theoretical price fixing, would operate in any situation.

Mr. NELSON. Definitely, in a democracy such as ours, and I think the tendency when prices are fixed is to set prices too high in a democracy rather than set them too low.

Mr. SIMPSON. As a matter of fact, the prices fixed during the last war were often so high the manufacturers sold under those fixed prices.

Mr. NELSON. I believe that to be true.

Mr. SIMPSON. They might have been called chiselers but they did. In line with Mr. Arnold's statement, when the Government purchased it did insist upon costs and a basis for determining a fair price, but my line of questioning or testimony had an entirely different point of view. When the Government comes in and buys, makes large orders, giving large orders, it has an effect on all prices, not merely on the price of that product which the Government itself takes, and that has a tendency to raise prices.

Mr. NELSON. Well, are you talking there of the cumulative effect of increased production on purchasing power?

Mr. SIMPSON. No; I am thinking of Government buying in time of war; it tends to raise prices generally.

Mr. NELSON. Oh, in time of war, possibly so.

Mr. HINRICHS. Doesn't the effect of the Government buying depend quite as much upon the way in which the Government places its orders as upon the machinery through which it places them, whether it tries to use price fixing or condemnation principles or anything else? Take, for example, the case of your police shoes that you have listed down here. I ought to know immediately how many adult males there are in the country—about 30,000,000 might not be a bad bet, with a production of 30,000,000 pairs of shoes in the year, or something less than 3,000,000 a month. If the Government insisted upon satisfying an order for 4,000,000 pairs of shoes for 2 or 3 months' delivery you would expect that to kick prices out through the sky, no matter what machinery you had, perhaps not for the Government, but certainly you would expect in your next catalog to be pricing police shoes substantially higher, wouldn't you?

If any time you have a Government order coming in for a huge volume in proportion to capacity and for very short delivery, even though it didn't affect the Government price it would certainly affect the price that retailers would have to charge.

Mr. NELSON. Oh, quite definitely that is true, Mr. Hinrichs.

Mr HINRICHS. So that the way in which Government orders are placed, the gradualness with which they are introduced into the market, using time as one of the essential dimensions of the order, is quite as important a device as far as the Government is concerned in controlling prices as anything in the way of legal machinery, isn't it?

Mr. NELSON. I would think that was true, and of course in contemplating what would happen to prices in the event of our entrance into the war, it would seem to me that today when wars are being fought, as they are, largely by industry, our whole productive facilities would have very largely to be turned over to the prosecution of that war, and in doing that there isn't any doubt but what we might have to make complete changes in our domestic economy, in retail competition and a lot of other factors. I am not answering your question; I am trying to assume during normal times. Now if the Government comes in and we have to utilize the full resources of our industry to win that war—and that is what we would have to do, it takes today some 17 men behind the lines to support 1 man in front, whereas formerly, during the last war, it was 8 to 1—that means that we should have to regiment our industry, and just how to contemplate it at the moment is something that I am not authority enough to say.

Mr. SIMPSON. Mr. Nelson, what do you think of this idea? Even if we didn't go into price fixing because the experience of the last war shows that it wasn't very successful, yet it might be useful to have a number of industries covered by cost investigations so that we could watch and see whether the price increases were justified by costs per unit of product, even though those costs were not used for statutory purposes, were not used for fixing prices. What would you think of having costs on many basic commodities in order to determine whether the price increases were justified by costs? [1]

Mr. NELSON. Well, it would be probable in view of the very, very rapid rise in price caused by artificial factors, assuming large Government buying and all of those things, that you might have to have some method by which retailers who if they felt prices unjustified were being asked of them which they in turn would have to pass on to the consumers, could be helped; it seems to me it would be very helpful to the retail profession to have some sort of information of that kind. Naturally, the informed consumer will not blame the retailer for the price increase. He can't be informed unless he knows what price increases are justified.

I am talking now only in case of abnormalities which I do not foresee at the present time at all. I don't see them in the offing.

Dr. KREPS. Certainly at the present time you would like to know whether there has been an actual increase as alleged in costs of producing certain cotton textiles, in view of some of the considerations which have been previously mentioned; namely, the fact that the industry is operating at a large percent of capacity, that overhead costs and other fixed charges per unit have gone down, and so forth.

Mr. NELSON. We make it our business to know.

Dr. KREPS. Although you would admit that at the present time we don't really know what the costs of textiles are, whether they are lower or higher.

Mr. NELSON. You mean the general public information as to whether they are lower or higher?

Dr. KREPS. Yes. Neither in the Government nor so far as I know among consumer organizations nor probably among other business

[1] Subject resumed p. 11266 infra.

do we really know whether today the per-unit cost of textiles, certain textiles, has increased, say, due to the wage-hour law, or whether the wage-hour-law increases that we think might occur and would occur if the industry operated at the same capacity have been more than absorbed by decreases due to these other factors.

Mr. NELSON. That is right, but assuming that there can be no collusion on the part of textile manufacturers in the setting of those prices, it is my contention that competitive forces when they get out of line will bring them into line very rapidly in our present economy. It might help to know that prices should only have gone up 10 percent instead of 11 or 12 or 15, but I think that competition will very quickly bring them into line today, assuming that there are no illegal collusions, which I am sure, with the Department of Justice watching, there can't be.

Dr. KREPS. You would agree, then, that if you have volunteer price fixing and there is a good deal of volunteer price fixing in the economy——

Mr. NELSON (interposing). That is a natural thing to come about. I think that is a perfectly natural thing that it does come about.

Dr. KREPS. You would agree that the presence of an emergency demand, such as war demand, would tend to bring about greater disturbances in prices than would occur ordinarily when, we will say, the buyers have more control and retailers can exercise more restraint?

Mr. NELSON. Yes; assuming that you have artificial shortages, that is true.

Dr. KREPS. Would you define an artificial shortage? When you say artificial shortage, do you mean that the industry is operating at capacity and that there is a demand for more than the capacity of the industry?

Mr. NELSON. Yes. For instance, suppose that the Government, assuming Mr. Hinrichs' situation takes a large number of shoes, we will say takes 40 percent of the production of the shoe industry, and at the same time you have your unemployed all going back to work and wanting shoes; that might temporarily bring about an artificial shortage in the particular type of shoe that those people wanted to go back to work with. That is what I call an artificial shortage. Or you might take hides, you might not have enough leather to go around and have buyers bidding for lots of leather.

Dr. KREPS. Then if you have increases in prices occuring on the order of, say, 25 or 30 percent, and if prices behave in what we call staircase fashion—remain at one level for a long time and then jump, then remain at another level for a long time, and then maybe fall—would you say that such price increases could be due to artificial shortages if the industries concerned are operating at, let's say, 55 to 70 percent of capacity? Would you call that an artificial shortage?

Mr. NELSON. No; not if they are operating at 75 percent of capacity, I wouldn't.

Dr. KREPS. That would then be an instance where volunteer price fixers are utilizing a favorable situation and probably increasing greatly the responsibilities of the Department of Justice in enforcement of the antitrust laws, would it not?

Mr. NELSON. Well, I wouldn't want to answer that categorically; I would want to know a lot more of the set of conditions and the picture. For example, in the present instance in the case of prices on sheets and sheeting, I think prices are higher than they should be. However, I do not think that that is collusion, just from my experience. I think that has been due to the taking of an abnormal amount of jute bagging in the world for various purposes, and that particular construction of cloth may be used for the making of bags. My point is that that rights itself very quickly and the consumer doesn't suffer necessarily in the meantime, because of these competitive forces I am talking about. There is enough inventory brought ahead so that the prices do not rise.

In the case of sheets, prices have not yet risen to the consumer. The retailer has been in many cases feeding out his inventory at the prices that he bought the goods for, based on previous costs, even though the cost in the basic market has advanced some 9 percent. Discounts have gone down from 45 off list to 35 off list. Still, if you go in the open market you won't find the price of sheets has increased to any great extent. That is where the retailer exercises statesmanship in not taking advantage of an immediate increase in the price of sheets to raise the price of his own. Part of that is due to these competitive forces that I am talking about, and the utilization of supplies which are on the market. Within a short period of time those prices will seek their level. Does that answer your question?

Dr. Kreps. Yes; it does.

I have one other question. I noted from your testimony that modern war is an industrial war and therefore the major thing that the economy needs is maximum industrial production.

Mr. Nelson. That is right.

Dr. Kreps. Do you feel the economy reaches maximum industrial production under conditions of competition?

Mr. Nelson. Oh, yes.

Dr. Kreps. And that it can shift its production most rapidly when there is greatest flexibility under competition?

Mr. Nelson. That is right.

Dr. Kreps. Dr. Thorp has pointed out that in the World War production never reached levels in 1918 and '19 that had been reached earlier, before extensive controls, military and otherwise, had come in to disrupt the economy. Wouldn't it be true in a modern war that any governmental action such as antitrust action which keeps the economy flexible would tend to keep that economy producing at the full and make that economy have maximum effectiveness for fighting the modern kind of war?

Mr. Nelson. Well, of course, I believe that a free economy is always the most efficient kind, and I think a free competitive situation will produce the maximum flexibility to an economy. That is one of the reasons why I am so fundamentally opposed to price fixing as such, because I think it tends to freeze situations in the economy which prevents the utilization to the maximum. You do not get any play of competition. For example, when a price gets too high today, unless you have a law which compels the consumer to buy he doesn't have to buy. He stops buying and production goes down again. We had that happen in 1937. If you follow the record of 1937, I think the prices went entirely too high, went out of line with purchasing power; consumers didn't buy and prices came back in line again, only they always go just as far below the normal level when they go down as they go above.

Mr. ARNOLD. It is perfectly true, isn't it, that in a period of flurry consumers are apt to rush in and raise prices for no good reason?

Mr. NELSON. When they believe there are going to be shortages, scarcities.

Mr. ARNOLD. There are 1,400 consumers' organizations with which Mr. Donald Montgomery, of the consumers' counsel, is in touch. Those organizations are very poorly informed; they are willing and anxious to do something, but they are very poorly informed. Don't you think that an information service to those consumers might do something in preventing some of these flurries?

Mr. NELSON. Yes; if it could be done quickly enough and be informative enough. Now, I think that the great difficulty with information services, particularly on costs, is that they can't be prompt enough. Naturally, if the Government is going to say, "This should be the proper cost," it is going to have to do that after a long and tedious investigation of what are costs, because those of us who went through the N. R. A. experience, as Dr. Thorp did, know that costs are not a definite thing. They are indefinable in many cases, and I believe that to do that on the basis of costs quickly enough, in our economy, to give the consumers the thing they want—I thought through that very carefully, and it seemed to me at first that perhaps an information service was the ideal way to handle it, Mr. Arnold; but as I think back to the great difficulty of getting agreement on what are and what are not elements in costs, I am rather discouraged in feeling that that is the way to tackle the situation.

Mr. ARNOLD. Well, let me give you an example of where I think information services work. In agriculture, all over the United States, there are county agents who are in touch with the farmers, generally educating them on agricultural problems.

Mr. NELSON. That's right.

Mr. ARNOLD. It seems to me that that service has created a great deal more intelligent buying on the part of farmers of the things they have to buy—cattle and sheep and feeders and things of that kind—than they had before that information.

Mr. NELSON. That's right.

Mr. ARNOLD. And it probably has done at least something to iron out the violent swings up and down of production, overproduction and underproduction. Don't you think that possibly something like that county agent system to consumers might be developed in each State?

Mr. NELSON. Yes, I think there is a very interesting activity there to be explored. As a matter of fact, you do have now, as you know, with the county agents, county extension people who are teaching "buymanship" to the women in the country. I think the women in the country are getting more information on how to buy and what to buy than people in the cities are. I think one of the necessities is to give the people in the cities some of that same kind of information.

Mr. ARNOLD. Now, suppose that this man in each State, put there for experimental purposes, should also be in touch with all of the retail trade associations; he would probably find that the secretaries of those associations were more interested in the long-run conduct of the association than they were in the particular short-run profits of any of their members, wouldn't they?

Mr. NELSON. That would be hard for me to answer, sir.

Mr. ARNOLD. Well, there would be made, if this willingness on the part of the retailers and the retail associations exists, as you point out——

Mr. NELSON (interposing). It does definitely exist.

Mr. ARNOLD. There could be made a very important liaison arrangement between these consumers and the association?

Mr. NELSON. That could be done. Now, if you are talking about the trade association of purchasers of the material, I would say that that probably was true.

Mr. ARNOLD. Well, the trade association or the local merchant——

Mr. NELSON (interposing). That's right.

Mr. ARNOLD. And so on, and so forth. The local merchant doesn't know a great deal about his own buying, does he?

Mr. NELSON. Yes; I think he does.

Mr. ARNOLD. You think he does?

Mr. NELSON. Yes; I do. I think his whole success depends upon how well he buys.

Mr. ARNOLD. Yes; but his success is not conspicuous if you look at his bankruptcies.

Mr. NELSON. Well, that is true of most all of us.

Mr. ARNOLD. Well, no; I think there are more bankruptcies in local merchants than there have been in concerns like Sears, Roebuck.

Mr. NELSON. That is because there are more local merchants.

Mr. ARNOLD. In percentage, what does the percentage run, about 80 percent, doesn't it?

Mr. NELSON. I think if you use the record in the mail-order business, you would find in the early days of the mail-order business there were that same record of failures.

Mr. ARNOLD. But not today?

Mr. NELSON. Because there aren't as many mail-order concerns today.

Mr. ARNOLD. I was trying to build up a case for the superior efficiency of Sears, Roebuck, not for size.

Mr. NELSON. Well, modesty prevented me from answering you.

Mr. ARNOLD. In other words, the same agent could not only assist the consumer in his buying but also perform a useful function in the buying of these retailers?

Mr. NELSON. Yes; that could be so; I can see that.

Mr. ARNOLD. For informational purposes?

Mr. NELSON. I could see that an information service of that kind, provided the difficulties of getting at accurate enough figures and authoritative enough figures, quickly and promptly enough, could be overcome, could be of tremendous value to the economy as a whole.

Mr. ARNOLD. Now, of course, in the county agency, suppose that their figures are no further away, at worst, than the figures in other commodities, but nevertheless they have introduced a knowledge and a technique of buying in farmers over a period of years which is far superior to the old method, in spite of the fact that the same difficulties of guessing on this and that product that the buyers are buying exist as on anything else; now, that might be hoped for among consumers generally.

Mr. NELSON. I think there is an interesting field there to explore; that is a very interesting field to explore, and I wouldn't want to say offhand, without thinking it through very completely, just how that might be done so it could be of value to the economy as a whole; that is, informing not alone retailers, small retailers——

Mr. ARNOLD. I am anticipating in there some testimony I have to give tomorrow.

Mr. NELSON. Oh, I see.

Mr. SIMPSON. Mr. Nelson, do you think you have to have complete and accurate costs for the current period in order to check price increases? [1] Wouldn't it be satisfactory, for example, on cotton sheeting, say, cotton sheets, to have the cost, we will say, in 1936–37, know what the costs were then, and then introduce certain factors for changes in wages and changes in prices, and with adjustments for overhead based on different rates of capacity, couldn't you figure pretty well what the cost of sheets in 1939 are on the basis of what they were in 1937 and 1938, or would you get a pretty good indication?

Mr. NELSON. Yes; you would get indications. The only difficulty, as you know, when the Government put out the information, it would be attacked, and unless the information is accurate, it is subject to attack, and when it is subject to attack, in a democracy like ours, you have all sorts of influences brought to bear all along the line on the agency doing that particular job.

Mr. SIMPSON. I can't agree with that, Mr. Nelson. I think that the Government has made many cost studies in many industries; every department of the Government is making them, and they haven't been attacked. The Federal Trade made a good many, the Tariff Commission has made many cost studies, and there have been very few attacks on costs during past periods. Then, with certain adjustments, the retailer, the consumer, the Government, could know whether the price increase was justified. I am not suggesting that these cost indicators or cost estimates be used as a basis for price fixing; I am merely suggesting they be used as information services in the way Mr. Arnold suggested.

Mr. NELSON. Perhaps I misunderstood your question. I thought you were asking me the question: Could we use approximate costs or should they be actual costs? When you refer to the studies of the Federal Trade Commission and the Tariff Commission and others on costs, the Department of the Interior, those are studies, that took a long period of time. I was merely answering to the question of givin approximate costs. When you give approximate costs, they are sub ject to attack unless they are very close to the actual.

Mr. SIMPSON. Well, take petroleum refining, which just happens to come into my mind; I could mention seven or eight other examples. We have costs from 1924 to 1934–35, for every year, of all the refineries in the United States, the important refineries and some of the small ones. Wouldn't it be relatively easy to bring that material up to date? The Tariff Commission, the Federal Trade Commission, are doing just that sort of thing in certain industries. Wouldn't it be useful to expand that kind of service?

Mr. NELSON. It would be.

Mr. SIMPSON. As a guide?

Mr. NELSON. It would be very useful. As I say, I have toyed with the whole question of whether or not authoritative information given to consumers would be of value, and came to the conclusion that it would be too slow a job to be of real value to them.

[1] For previous discussion of this subject see p. 11261 supra.

Mr. SIMPSON. You mean to find the actual cost of producing cotton sheets today, you would have to wait until the period was over before you could, and the books were closed, before you could find the actual cost?

Mr. NELSON. Exactly, and in the meantime, the cost had gone somewhere else.

Mr. SIMPSON. Doesn't the manufacturer do exactly that? Isn't he brought cost sheets by his cost accountants, which are really estimates, until the books are closed at the end of the year, which serve him as an indication of the price below which he cannot sell and make a profit?

Mr. NELSON. That is true, except that so many factors depend upon the amount of his productive facilities that he is using, you see. Now, you make estimates of cost and then you determine your margin above or below that in an industry, but if you follow the cost sheets of an industry, you will know that is constantly varying with the amount of production that is going through your plant.

Mr. SIMPSON. That is one of the adjustments we have to consider, sir.

Dr. THORP. Mr. Nelson, I would like to get back to this matter of some of the factors that have been operating recently. I think it would be very helpful if you could give us some indication as to what consumer buying has been over the last few months.

Mr. NELSON. Consumer buying has been good, but not in any sense hysterical. I mean, the consumer hasn't fallen all over himself to go in and buy goods. He didn't—I think he rather yawned when people talked about price increases and just said, "Oh, yeah?" and was buying, as he needed the goods.

Dr. THORP. That is, you don't feel that at the time of our so-called flurry in early September, there was active causation coming from consumer buying?

Mr. NELSON. No; I do not. I think it was not due to consumer buying at all, sir.

Dr. THORP. Now, our present rate of production is up some 30 percent over it was last summer. Would you feel that that rate of production parallels any new demand which is making itself evident?

Mr. NELSON. Well, I have the feeling that production is running ahead of demand at the present time; just how far ahead, of course, we have no figures to show, except that I really believe that the unit increase in sale to the consumer has been equal to the unit increase in production of consumer goods. Now, just where that inventory is and whether it would be troublesome, is one of the things that I am trying to make up my mind on at the present time.

Dr. THORP. Are there considerable shifts from time to time in the inventories held by retailers?

Mr. NELSON. Yes; particularly of large retailers, particularly when there is a violent switch, such as occurred now, from a buyer's to a seller's market, and naturally, one goes in to buy—I am talking now about the larger retailer—goes in to buy all the goods that he can get up to the limit of his facilities to store them, his capital, and so forth, at the old price before the switch took place, and there always is a reservoir of goods at the old price, which go rapidly into inventory, when that switch takes place.

Dr. THORP. Would you feel that one of the important factors of the last several months has been a demand from retailers to build up inventories at the old prices?

Mr. NELSON. No; I think it has not come from retailers particularly. I think if you view the inventories of retailers and the demand for consumer goods as such, I think you will not find that that increased production came just from that field. I think it came from industry in general building up itself, rather than the retailer.

Dr. THORP. In other words——

Mr. NELSON (interposing). From my experience, the retailer has been very moderate in building his inventory at the present time.

Dr. THORP. So that the gap between the rate of production and the flow of goods in the consumer's hands has, or is, piling up inventories back in the system prior to the retailer?

Mr. NELSON. Prior to the retailer, I believe. Now, what I think has happened, when we had relatively—we will say that an inventory was a hundred million dollars just prior to September 1. All industry, including producers of all kinds, built that up, we will say, to a hundred and ten, and then bought from hand to mouth at a hundred and ten, rather than allowing it to pile up. I think inventories are fairly well in hand, from what I know of it, and not out of line particularly anywhere. But when you made the switch from the buyer's to the seller's market, the inventory went up as a result of that, and then hand-to-mouth buying occurred from that point on. Do you follow?

Dr. THORP. Yes. Do you feel that there are threatening at the present time any shortages of goods in any important field?

Mr. NELSON. I don't know of any in any important field.

Dr. THORP. Do you feel that we are pressing against our capacity to produce in any important field?

Mr. NELSON. I do not; not in relation to sales at the point of the consumer sale.

Dr. THORP. So that from the point of view of a general summary of the demand situation and the supply situation, as it exists at the present, consumer demand at one end and the ability of industry to produce at the other end, you don't see any threatened shortages which would presumably reflect themselves through these competitive forces, which you referred to in higher prices?

Mr. NELSON. I do not, except, as I said, in the case probably of wide sheeting, where we had an abnormal situation due to the bag industry buying wide sheeting or sheetings in place of jute, which they formerly used for bags, and I think that was purely temporary.

Dr. THORP. Shifting to another point—did you want to ask something, Mr. Hinrichs?

Mr. HINRICHS. Just on that one question; wide sheeting is one of the two or three cotton textiles for which normal equipment is not interchangeable, isn't it?

Mr. NELSON. That is right; the looms must be wider than the ordinary, and therefore——

Mr. HINRICHS (interposing). Therefore, if this shift from jute to cotton were to be a permanent shift, you would expect to see some increase in equipment?

Mr. NELSON. Oh, naturally. But that would be purely a temporary situation, and there would be equipment built very quickly to take care of the increased production.

Mr. HINRICHS. So that you have something there which is more or less strictly in line with normal or orthodox economical thinking and unanticipated demand, sudden demand, on the equipment of an industry?

Mr. NELSON. That's right.

Mr. HINRICHS. That forces prices up, and the profit margin probably along with it, for the time being, but does not indicate in any sense a crisis condition.

Mr. NELSON. Not at all. If that profit margin continues, those mills now producing unprofitable lines due to intense competition will get into the thing in a very large way.

Mr. HINRICHS. Or even the present mills making wide sheetings may expand; either way.

Mr. NELSON. Either way.

Dr. THORP. You spoke about the interest of the retailer in keeping prices down. Why is he particularly concerned with holding prices down?

Mr. NELSON. Well, he is concerned in at least two or three directions. In the first place, the retailer knows that when the price level moves up too rapidly and his customers haven't gotten the proportionate increase in their purchasing power, he loses business. The retail trade is a very competitive trade, and no one wants to lose a position in the industry, so that when prices move up too rapidly, that particular retailer will lose his position if prices go up too high in ratio to his consumers. You have another set of conditions that I think force the retailer to do it. He realizes that as his prices move up, he must have more capital in order to have the same assortment of goods; in other words, if a retailer today had his inventory at $10,000, to take a small figure, enough for him to have a stock of goods, if prices go up 15 percent, he must have $15,000 in capital to have the same assortment of goods. In other words, it takes more money to run his business. Now, the retailer has learned, because he has been stung during the last decade, or rather two decades, from 1920—we had the experience of 1920, the fall of 1920, the rise again and then the fall—and he knows that when prices go up too rapidly, they are bound to come down and when they come down—or let's put it another way: As they go up, he can't raise his prices as fast as goods go up, but when they come down, he has to drop them as rapidly as they fall or his consumers may stop buying, due to the competitive play. Perhaps I have generalized too much in that, Dr. Thorp, but that is——

Dr. THORP. Under the present situation, would you feel that if forces were such as to require retailers to advance prices, it would be a threat to our continued business activity?

Mr. NELSON. Yes, naturally, unless the whole economy moves up; unless the farmer gets an increase in the prices of his products. That is why, to me, it seems that industry has been statesmanlike in not letting these prices run away. I was very fearful after the first week in September that prices were going to start running away and that we would have an upset in our economy, and it was a source of great satisfaction to me to see the way industry did exercise that restraint in keeping its prices down.

Dr. THORP. How much can the retailers do to keep prices down? Are they rather helpless in these situations?

Mr. NELSON. No, I think they can do a great deal. Let's assume—I just mentioned sketchily this committee that I think the National Retail Dry Goods Association very wisely formed. Now, I believe that they can be very instrumental through that committee in bringing pressure to bear on manufacturers who are raising prices unduly. Naturally, if the price of the raw material goes up too high, as in the case of leather, we will say—hide prices have advanced about 43 percent since the 1st of September. Shoes, on the other hand, have only advanced in price—I am talking the wholesale market—about 14 percent. Well, now, let's assume that leather would keep on going up. I think that all the retailer could hope to do would be to see that the manufacturer of shoes did not raise the price faster than leather went up. He cannot, of course, prevent the basic commodity; he has no control of it, and he has no way to get at it.

Dr. THORP. Suppose that at the same time, we have an increase in volume of sales by retailers; is it possible for them to absorb some of these higher wholesale prices because of the fact that their retail margin is spread over larger volume?

Mr. NELSON. Oh, yes; just as in manufacturing, if a retailer uses more of his plant facility and his sales people are employed longer numbers of hours per day and so forth—in other words, as his volume increases, it is possible for him to absorb price increases without passing them on. Just what percentage, I wouldn't be able to tell you at the moment.

Dr. THORP. I suppose you must, for certain commodities, be placing large enough orders so that if you moved into a market with that order, in a careless sort of way, you could disturb the market very considerably, couldn't you?

Mr. NELSON. Yes, we could.

Dr. THORP. What procedures have you found for helping a market to keep orderly when you come into it with large buying?

Mr. NELSON. Well, in the first place, of course, the procedure that is most helpful is that of knowing what those costs are, and what the productive facilities are in the market, in a community, and placing your orders in such a way that they don't disturb it. A retailer can spread his buying over a period of time, presumably in the way the Government could not; if we had 5,000,000 men in the field that we had to equip, you have got to have 5,000,000 pairs of shoes immediately for those people. A retailer can spread that out over a period of time and not put an extraordinary demand on the productive capacity of the plant at the time he is buying; in other words, we might place very large orders and have them delivered over a year's time, you see.

Dr. THORP. In other words, if you can space deliveries over a period of time, it helps greatly?

Mr. NELSON. It helps a great deal in preventing these abnormalities that you have mentioned.

Dr. THORP. Suppose that you were required to ask for public bids for the commodities which you were taking; what effect would that have on prices—rather than being able, as I assume you do, to negotiate through the industry and deal with the situation rather flexibly?

Mr. NELSON. Well, of course, public bidding is a subject that I don't know a great deal about. We haven't studied it a great deal. There are, in public bidding, some forces tending to bring prices down and other forces tending to increase them, depending upon the position of the industry at the time you put out your tenders.

Mr. ARNOLD. You may not have studied it, but you have no intention of putting it in, have you?

Mr. NELSON. No; not at the present time.

Mr. ARNOLD. You have studied the question of bidding in general, and buying most economically, and you are not now intending to go into it?

Mr. NELSON. Not under the present set of circumstances.

Mr. ARNOLD. Aren't you a little cautious in your statement about public bidding there?

Mr. NELSON. I am always cautious when I am talking about a field that I don't know much about.

INFORMATION CONCERNING PRODUCTIVE FACILITIES AND THEIR USE, MARKET CONDITIONS, AND INVENTORIES USEFUL IN PREVENTING RUNAWAY PRICES

Dr. THORP. We have had some discussion here about the fact that better information with regard to inventories, the conditions in the market, might be helpful in providing stabilization.[1]

Mr. NELSON. I think they had been very helpful. I think that one of the—I tried to impress it upon everybody that I have met in the Government, that one of the best things that I know of to prevent run-away prices is information on productive facilities, amount of production utilized, inventories, back orders, and so forth, orders placed. Now, it seems to me that if that information, if industry in general has that information, you will prevent abnormalities. By that I mean you will prevent inventory accumulations.

The things that cause the greatest disturbance in our economy are these inventory accumulations, with the resulting dumping of a lot of goods on the market when the demand falls off.

I have always felt that we needed more information on industry in general, on the conditions facing industry at the present moment.

Acting Chairman AVILDSEN. That information also should be timely, Mr. Nelson; we all know that. If it isn't timely, it is of no value.

Mr. NELSON. Definitely. If it is purely statistical, it is of no value.

Dr. THORP. Now tell me, What would you say regarding time of inventory information? I will give you an example. In the Department of Commerce we have just sent out questionnaires to a number of firms, asking what their inventory was on November 30. We are hoping to get those answers in by December 20, and to publish them promptly, as soon as we can tabulate them.

Suppose that a number of answers come in in January. We know they all won't come in by December 20. Would they be worth tabulating; and then suppose——

Mr. NELSON (interposing). Yes; I think so.

Dr. THORP. More in February. What I'd like to know is how timely does it have to be to be of value to you as a buyer.

Mr. NELSON. Well, the thing is this, if we had none, let's assume that after this first rush of buying went on in the month of September, if even now, after all of that, we knew the situation with respect to inventories, orders placed, orders unfilled, and so forth, why it would be extremely helpful. I think the length of time depends upon the time after the movement takes place.

[1] Supra, p. 11110 et seq.

Now, you can very definitely judge an inventory movement over a period of a month or 2 months, after an event. The principal thing is, after an event, an abnormality in demand, to be able to know what has happened to inventories.

Dr. THORP. Now, tell me, How extensive do you think that inventory information should be?

Mr. NELSON. I think it should be just accurate samplings. I don't think it needs to be absolutely accurate. I think if it is within 5 to 10 percent in accuracy, it is plenty good enough for information of industry as a whole.

Dr. THORP. But I mean, it must not be limited only to the manufacturers.

Mr. NELSON. Oh, no; it ought to be samples of the whole economy, so we know what the inventory is in the economy.

If you just limit it to manufacturers, you have only got a portion of it, and it is apt to lead you to wrong conclusions, but if you know how much is in the hands of the manufacturers, how much in the hands of distributors of all kinds, and there are samplings of that, I think you will get an inventory picture that would be exceedingly helpful to everybody.

Dr. THORP. Do you think we could get that on a voluntary basis?

Mr. NELSON. I think so.

Dr. THORP. Do you think that in the time of rising prices, artificial shortages, speculation, and so forth, that all the jobbers and speculators will disclose their inventory position?

Mr. NELSON. All would not, no, but I think you will get enough samplings to be able to, I think there are enough people in the country who are really interested in seeing us have a balanced economy rather than an abnormal one today, to want to do that thing.

It may take a little selling, they may have to understand just what you want them for, it may take—there might be a little skepticism at first as to how they can be used, but I feel after the figures are once set up in the basis of index numbers, rather than as actual amounts, it isn't actual amount that is necessarily the valuable thing, it is index numbers, how much the condition has changed.

Dr. THORP. If a sort of Gallup poll is taken of the inventory situation, that is practically what you are recommending.

Mr. NELSON. That is right.

Dr. THORP. Why couldn't a job like that be done by the National Retail Dry Goods Association, for example, instead of waiting for the Government to do it? It wouldn't be such a tremendous undertaking, I should think. It is done on a voluntary basis. It is so important, I mean, why wouldn't your association, for example, do such a thing?

Mr. NELSON. Well, I couldn't speak for the association at all, but——

Dr. THORP (interposing). Has your association considered it, getting such information on that kind of a basis?

Mr. NELSON. I don't know, sir; but I would think that that wouldn't mean anything, particularly, because it would be only one segment of your economy. I think you have got to get all the segments in order to get at the correct information.

Dr. THORP. But I mean, get information as to the suppliers of the commodities that your industry, your association sells—textiles, shoes, and so forth and so on.

Mr. NELSON. Well, as a matter of fact——

Dr. THORP (interposing). You would know how to buy, you could buy more intelligently.

Mr. NELSON. Yes, as a matter of fact, our company does that, as far as we are able to do it, right along without the Retail Dry Goods Association, but that is one of the most important single things we have to do, and we do have a great deal of that information.

For instance, we have to know, when we are pricing—I gave you the prices now that we are going to quote for next spring. We have got to have as much information as we can get about price movements over the next 6 months, in order that we may put those prices into effect.

Now, that catalog will be on the press within a week, and those prices have to hold until next July, so it is necessary for us to get it, knowing how valuable the information is to us, in those segments that interest us.

It seems to me it would be extremely valuable to retailers as a whole, to manufacturers, to distributors, to everybody.

Mr. ARNOLD. Your point is that the Government can do a better job than the uncoordinated efforts of every association?

Mr. NELSON. Exactly. You can get segments of it that one group can't get.

Mr. HINRICHS. It can also, can't it, protect one group against another group?

Mr. NELSON. That is right.

Mr. HINRICHS. That is, the information simultaneously available for all segments has value to all groups, but the information in detail with reference to one group in the hands of another group might give the second group a bargaining advantage.

Mr. NELSON. That is right.

Mr. HINRICHS. That the first group would be unwilling to let it have.

Mr. NELSON. I think there was a time when industry was very reluctant to give out its wages, and today that is a perfectly normal proeedure for it to do, through the Bureau of Labor Statistics.

I think when they recognize the value of inventories to themselves, purely selfishly, not alone their own inventories of their own segment of economy but inventories along the line, they would be perfectly willing to do it, Mr. Hinrichs.

Mr. HINRICHS. On that inventory picture, let's take one of these cotton textile situations that has gone into history so we know what it was.

Back in 1936, in June of '36, broadcloth was selling at 12.2 cents a yard, on the quotation to the B. L. S. wholesale price division.

Mr. NELSON. Broadcloths, that would be very low very low for broadcloth.

Mr. HINRICHS. In April 1937 it was 16.5 cents, and 27-inch print cloth, 64–60, went from 3.9 cents in June 1936 to 6 cents in April 1937.

Now, there is no question in your mind, is there, that the cotton textile industry was a highly competitive industry in 1936 and '37?

Mr. NELSON. That is right. It certainly was.

Mr. HINRICHS. The price movements that occurred there did not reflect a movement in costs. There was an increase in costs, an increase in raw cotton, some increase in wages, but the price increases that occurred from the summer of 1936 to the spring of 1937 were substantially larger——

Mr. NELSON (interposing). That is right.

Mr. HINRICHS. Than the movement in costs. So that you don't expect in fully competitive situations to see prices minutely geared to costs, or to cost movements. If you go from a buyers' market into a seller's market in the spring of the next year, your profit margin is going to change very substantially.

Mr. NELSON. Well, you will have a situation as you had in the textile industry. You see the figures all the time. It is a very low profit industry. There are many segments of the industry that worked for a number of years without profit. Naturally when you switch from a buyers' to a sellers' market they have to make a profit or they go out of business.

If they didn't have hope that at some time they were going to make a profit, they would go out of business, so that I think when we say that price movements in the textile industry do not go directly with costs, we have also to take the question of profits in the industry. Are the prices which we set as our base the abnormally low prices, so competitively low that there is no profit in it for the manufacturer? If so, they will not necessarily move as costs move. Naturally the manufacturer must find some period when he makes a profit or he goes out of business.

Mr. HINRICHS. The mere publication of cost information, while it would be of substantial advantage to know more in terms of costs than we now do, mere changes in costs as such are no guide to whether you are still dealing with a competitive situation that is essentially reasonable or unreasonable in cotton textiles.

In textiles for that period, for example, you would have assumed that the market reflected the buying orders going into the market, more than any manipulative activity.

Mr. NELSON. That is right.

Mr. HINRICHS. And the fact that the buyers also knew that that wasn't related to cost wouldn't have shed much light on their practice. Every intelligent buyer at that time knew that this movement was larger than the movement in costs in textiles and still proceeded to buy.

Mr. NELSON. That is right.

Mr. HINRICHS. Well now, during that period, in retrospect, you believe that there was a very large accumulation of inventory all along the way, don't you?

Mr. NELSON. I am sure there was.

Mr. HINRICHS. Were you, as a rather well informed buyer, convinced of that as early as 1936, the end of 1936?

Mr. NELSON. No; not at the end of 1936. We were not convinced of it until April of '37.

Mr. HINRICHS. By which time the damage had already been done.

Mr. NELSON. Had already been done.

Mr. HINRICHS. I judge, therefore, that in spite of the fact that you are probably the best informed buyer in the country, you may even have lost a little money in textiles at that time.

Mr. NELSON. We did, sir.

Mr. HINRICHS. Wouldn't that price rise which was unrelated to cost have been more nearly controlled by having information available on rising inventories than by any other device that could have been developed for the cotton-textile industry, even if that information had been a month or so late? That was a market that lasted for 8 months, and at almost any point in those 8 months inventories would have given you a rising flag of warning.

If you had had the inventory information, even a month or so late, wouldn't it have modified your buying policy and that of other well-informed large buyers in such a way as to control a runaway market that pretty nearly wrecked the industry?

Mr. NELSON. Well, yes; I think it would have been valuable to everybody concerned to have had more information at that time on inventories, and I have felt that the textile industry has those figures. They have them among themselves, and they could be very easily made public, but they wouldn't mean anything until they have all the other segments included with it, you see.

Mr. HINRICHS. That is, if the textile mills merely release the figures which they now have, it would place them still further at the mercy of the jobber?

Mr. NELSON. That is right; you would have to have all of the figures in the economy. You would have to know the position of the retailer, the position of the distributor, so the manufacturer would know what those figures really mean. All he knows today is that in the mills there is or is not an oversupply of goods. He doesn't know anything about the demand that is going to come to him. The point I have made is that if he knew all along the line as much as the buyers do about the condition in the market, it would be of value to him as a manufacturer.

Mr. HINRICHS. You actually wouldn't have been protected as a retailer if you had known the mill-stock figures at that point?

Mr. NELSON. Mill stocks alone? No, sir.

Mr. HINRICHS. Because mill stocks were declining in spite of the fact that the general movement in the economy was up.

Mr. NELSON. That is right.

Mr. HINRICHS. So that you would have had to have figures at all points almost down to the retail trade, and with those figures——

Mr. NELSON (interposing). They should have been all the way down to the retail trade. My point is, about inventories, that they should be all the way down to the distributor.

Mr. HINRICHS. And with that information on hand you would have had much less in the way of a runaway market probably, than you did have.

Mr. NELSON. Provided we can give them a long enough time to work to know what is a normal demand.

Mr. HINRICHS. I don't mean that sort of thing can be cured overnight, but with that series of figures developed over a period of 2, 3, 4, 5 years, we would have something that would guide buying policy.

Mr. NELSON. You would prevent, I believe, abnormalities in the situation where you have rapid spurts and then a fall-off and then a period of lethargy for a while, as always happens in a market that runs away. I believe that the preventing of those abnormalities will be of value to everybody concerned. It will be of enough value to the manufacturer so that he will want to contribute his figures; it will be of enough value to the distributor so that he will want to contribute his figures; and enough value to the retailer so he would want to contribute his figures on a large enough sample so as to get at the facts.

Mr. HINRICHS. And with that many people interested, there is enough interest to enable the Government to go out and get those figures, preferably on a voluntary basis, but at least to get them. We can't operate in the market without anything as vital as inventory information, even if it changes the speculative position of one or two operators.

Mr. NELSON. That has been my feeling.

Mr. SIMPSON. Speaking of statistics, and I am not trying to underrate the compilation or gathering of statistics, but something struck me, that during the last decade and a half we have had more statisticifying than ever in any other period. We have had Standard Statistics giving us figures, we have had all sorts of information, yet we have had the most unusual fluctuations in the cycle. Business didn't take the warning in '29, didn't take the warning in '37. How do you account for that? Why is it that we have had these tremendous shifts in price, fluctuations in the business cycle during a period in which we have had more statistical information than we have ever had before.

Mr. NELSON. I have the feeling, sir, that one of the reasons we have had them is that we are in the position of just having a little too much without having the essentials. In other words, I think that the essential part of it all is this whole question of inventories, unfilled orders and so forth, and I think that all of these other statistics only tend to complicate the situation without knowing definitely what the status of demand is, and production. I felt that was the void in statistics, and I think you will find that most everyone who is today attempting to evaluate the future of the economy will try to arrive at some sort of a figure in his own mind that gives him the condition of inventories.

Mr. SIMPSON. There are only a few buyers in the market as clever as Rothschild, who said he bought on the way up and stopped before other people did. Don't most businessmen, when they see inventories piling up, say, "Well, I had better get in now too, because everybody else is?"

Mr. NELSON. That depends a great deal upon whether or not they expect shortages or expect rapid price increases and so forth. I think the judgment there—and one of the things I was going to comment on in your question is, I think today with all of the statistical services and with the rapid flow of information you have more mass psychology than we have ever had before in the picture. Each one knows what the other is doing, and if the leader is wrong there are a lot of others wrong with him.

Acting Chairman AVILDSEN. In other words, Mr. Nelson, you feel that even after you get all this inventory information we are still going to make mistakes, and buyers are going to buy too much?

Mr. NELSON. Oh, yes; I don't think it is a panacea.

Acting Chairman AVILDSEN. You had information on inventories in '36 when you state your company bought too much in the textiles line. You had this Gallup poll type of information that you told us about.

Mr. NELSON. Fragmentary, yes.

Acting Chairman AVILDSEN. Substantially as much as you have today?

Mr. NELSON. From the standpoint of what the manufacturers had. We didn't know what other retailers had.

Acting Chairman AVILDSEN. Do you now know what other retailers have?

Mr. NELSON. No.

Acting Chairman AVILDSEN. The retail association doesn't try to collect these figures?

Mr. NELSON. No.

Acting Chairman AVILDSEN. It would be a simple thing for them to do, wouldn't it?

Mr. NELSON. It would be simple, but expensive. There are a lot of people involved in it.

Dr. THORP. We have talked about the effect on purchasing power of increased prices. Are there circumstances in the quality of goods which are part of this picture also that we need to think about as one of the effects of why these swings in prices, and price levels?

Mr. NELSON. Yes; that will always come about, because of the tendency of the public to want to buy within certain price ranges. For example, when a work shirt gets over $1 in price the demand seems to fall away much more rapidly than at any other time. Now, in the minds of the public, $1 is just enough to pay for a work sshirt, no matter how much things cost. The great tendency, then, a you approach that dollar in price, will be to attempt to build a shirt,that will meet that particular situation. In some cases, unfortunately it is done by taking out yardage, or it may be done by using lower count cloths, and so forth, but there is in the retail trade certain price points at which everyone wants to try to sell. Whether or not that is a fetish I don't know. I believe it is not. I believe that there is a definite reaction of the public toward certain price levels.

Now there is another way in which, during times of rapidly rising prices, there may be changes in the construction of cloths and so forth, all of which will fit in and enable the retailer to have something that will sell at that particular price range.

Dr. THORP. So that in a period of rising prices, if one merely looks at the prices he may understate the change in the cost of living, so to speak.

Mr. NELSON. It could be understated, especially if there had been a very rapid rise in price. For example, you may be selling a suit of clothes at, say, $22.50. Well now, when woolens are very low there will be a much better quality of wool going into that $22.50 suit, than when there is a rapid rise in price, but you may try to keep that price of $22.50 as long as you can, because it is a price at which you have tested consumer buying, and you know at that price they buy freely, therefore your whole inclination is to try to keep as close to that price point as you possibly can.

Dr. KREPS. Would you like to put the rest of your paper in the record?

Mr. NELSON. Didn't I finish the paper?

Acting Chairman AVILDSEN. You got down to work shirts when I interrupted you, I believe.

Mr. NELSON. I forgot all about the paper.

An overall which sold for $1.25 in the fall of 1923 is now selling at 65 cents, and will be sold in the spring of 1940 for 72 cents.[1]

A full fashioned staple weight silk hose sold for, in the fall of 1923, $1.98 a pair, is now selling at 89 cents a pair, and will be sold for 94 cents a pair.

[1] For other future prices, see p. 11250 supra.

A 45-pound cotton mattress which sold in the fall of 1925 for $6.48 is now selling for $4.98, and for spring 1940 will be sold at $5.48.

Dr. THORP. May I ask here—your reference point back in the twenties varies for the different products. Can we assume that the price given in the twenties is selected as being the highest price during that general period?

Mr. NELSON. No; in setting up our prices it may be the point at which we introduced the thing. We have that record back over a period of years, you see, and 1923 is the farthest back that we go. Some items were introduced in '25, some in '30, and some in other times.

Acting Chairman AVILDSEN. Mr. Nelson, would these increases in price represent an increase in quality or merely an increase in the cost to you of the goods? Is this the same mattress, for instance?

Mr. NELSON. Yes; everything I am giving you is exactly the same. There is no change in quality at all. I have picked items, and these items we picked are only items where there has been no change in the quality. It is a 45-pound mattress, it has the same ticking on it, the same thread count of ticking and the same quality of linters. The linters may vary somewhat, but very little.

Acting Chairman AVILDSEN. I understand this catalog will go out when?

Mr. NELSON. It will go out January 15th.

Acting Chairman AVILDSEN. And it is good for how many months?

Mr. NELSON. It is good for 6 months, at least until the end of July.

Acting Chairman AVILDSEN. As a practical merchandising problem, what would you do if these price advances did not hold and retailers were able to sell merchandise of this sort at the same prices that they sold earlier this year, for example? How would you meet that competition of the retailer who, I suppose, would be able to sell below your price?

Mr. NELSON. We would meet it in two ways, neither of which is particularly effective. We would get out a new catalog at a considerably lower price or we would refund to the customer. For example, let's say that this sheet was worked out to a point where 71 cents was the proper price; we would refund 5 cents to the customer. None of us are effective in increasing our sales; we are just out of luck if our prices are too high in the catalog.

Acting Chairman AVILDSEN. Would you try to correct that by sending out a flyer?

Mr. NELSON. A flyer or bargain counter bulletin, but it is not effective. Unless these prices are right we have guessed entirely wrong.

Dr. THORP. If prices are higher, how do you manage?

Mr. NELSON. That is just our hard luck. If prices are higher there is no way we can get more money unless there is a very abnormal situation, such as occurred in the price of tires, the price of rubber, some few years ago when rubber went up to $1.25 or $1.30 a pound. We had reserved the right to increase the price in case of government tax or anything of that kind, but practically, except in a very abnormal situation, it would cost us a lot of money. We have no way of raising the price. If that sheet goes up to a dollar apiece we would have to sell it for 76 cents. So it is a pretty good gage of how we feel about the price level for next spring.

Dr. Thorp. If one can summarize these, they indicate that you feel that retail prices next spring will not advance materially over retail prices at the present time.

Mr. Nelson. That is right, will not go our of line. My own reason for introducing them was to give the committee some indication of how we felt about prices for next spring and what the effect would be.

Acting Chairman Avildsen. Does this mean you are protected by your suppliers so you can sell at this price?

Mr. Nelson. In some cases, yes; in other cases, no. If we thought the market was too high at the present time and wouldn't come down we would sell at market price in pricing our catalog.

A police shoe which sold in the fall of 1924 for $4.98 is now selling for $3.98 and will be sold in spring 1940 for $4.25.

A set of harness which sold in fall of 1923 for $52.50, is now selling for $39.95 and will be sold for, in spring 1940, $42.45.

I just want to call attention to the fact that harness, which is practically all leather, has gone up about 43 percent.

Acting Chairman Avildsen. Why shouldn't the price go up more? It has only gone up here 5 percent.

Mr. Nelson. The reason for that, sir, is the lag that occurs in our being able to buy goods that were made up prior to the price increase; in other words, there is in the hands of our manufacturer, in our own stocks, a considerable quantity of leather that was bought on the 10-cent basis, some on the 11 cent, some on the 12 cent, some on the 13 cent, and the average of it all enables us to be considerably under the present market. Now, if we thought that having that price at that point, $42.45, would result in a runaway business to a point where we couldn't take care of our business, we would have to increase the price.

Acting Chairman Avildsen. In other words, these manufacturers who have these stocks of low cost leather are not working on the theory that they are entitled to the replaced cost of their inventory. They are willing to sell the finished article at a price which represents an old cost and not the replaced cost.

Mr. Nelson. It has been my experience that all manufacturers that I know anything about in the consumer goods industries particularly, work on the basis of averages rather than on the replacement market. They are not able to get it on a replacement market.

Acting Chairman Avildsen. Of course that indicates real competition in their industry too.

Mr. Nelson. That is right; it is a competitive situation within their industry.

Acting Chairman Avildsen. If it were a sellers' market they would then use the old argument that they are entitled to replaced cost on their inventories, probably, would they not?

Mr. Nelson. I don't think so. I find that most manufacturers want the price level as low as they can in order to get greater volume of business, and if you just jump it up to present replacement cost immediately you don't get the volume; the fellow who is willing to sell out some of his inventory at a lower price gets the volume, gets the business.

Acting Chairman Avildsen. How about merchants, retailers generally? Don't they work on the theory that they are entitled to replaced cost?

Mr. NELSON. I think all retailers would like to do it, but I don't think they can do it. The competitive forces in the retail trade are too great.

Acting Chairman AVILDSEN. Do you think they should do it if they can? Do you think it is sound for them to do it?

Mr. NELSON. I think it is sound to this extent, that the small retailer must do it or he is eventually put out of business.

Acting Chairman AVILDSEN. Why?

Mr. NELSON. Let's say that you and I are small retailers. We have a business of $10,000; that is all we have, and the price level goes up 100 percent. We can only have half as much stock when the price has gone up 100 percent as we could have before it went up. Therefore, unless we keep a little bit ahead of the market, with the market advancing in price, the small retailer has no way to protect himself. I think you will find that is the experience in Germany during inflation, and so forth.

Dr. THORP. Why is that peculiar to the small retailer? Isn't the same problem there for the larger retailer?

Mr. NELSON. Yes; except the larger retailer has more ways to protect himself because he buys ahead farther. The small retailer hasn't as many ways of protecting himself.

With the larger retailer, he has another factor, too. In other words, he gets a much greater turnover of his stocks, and the faster he turns over his stocks, of course, the better utilization he can make of his capital.

The retailer, when he gets into that, is the same as the manufacturer when his labor costs go up too high. As labor costs go up, a manufacturer tends to become more efficient because he attempts to get greater productive facilities with his present capacity. Just so with the larger retailer, he has more resources to get a greater turnover and thereby not be forced to increase his capital.

Dr. THORP. It is because he is replacing more quickly.

Mr. NELSON. Exactly.

Dr. THORP. And he gets to the replacement what is, in effect, a replacement cost, although it may be, in fact, based on the purchase cost.

Mr. NELSON. Well, it may or it may not. I am only talking to the general theory. May I just comment on one thing? I am only talking to the general theory of the question, should a retailer sell out at the price at which he bought it, or should he follow replacement costs?

And I say to you that the smaller merchant does not follow replacement costs insofar as he is able to in competition; he is gradually using up his capital.

Acting Chairman AVILDSEN. If the cost goes up 40 percent and he raises his prices accordingly, isn't he profiteering, isn't he taking an excessive profit on what he bought?

Mr. NELSON. I don't know what profiteering really is.

Mr. SIMPSON. Well, Mr. Nelson, many wholesale grocers admitted when we investigated them after the last war that they had considered their replacement cost as their cost, that is, the wholesale grocer; if the cost of a can of tomatoes went up 50 percent, that was his cost, and to prove that he was profiteering, he made percentages of return on invested capital or on costs or relation to their retail price, that were so enormous that there wasn't any question of it.

Mr. NELSON. But how much did he give back when prices went back down again? In other words, with this small retailer, here he is with this stock of goods and the prices drop again. Unless he has gotten some additional profit on them going up, he is wiped out when prices go back down again.

Mr. SIMPSON. Of course, that is one of the reasons that prices go down again, because he wants too much profit on the way up. If they didn't go up so fast, they wouldn't have so far to fall.

Mr. NELSON. That is almost like the chicken and the egg, isn't it?

Mr. SIMPSON. I think another thing that you said that rather surprised me was that retail prices dropped as rapidly as wholesale prices. In the course of your testimony, I drew that from what you said.

I think Dr. Thorp, who perhaps knows these index figures better than I do, would agree with me that retail prices never do come down as fast as the wholesale prices or as the prices of manufactured goods

Mr. NELSON. That isn't my experience, sir; naturally, I think the retailer, like everyone else, doesn't want to take losses, and when these prices go down, he has markdowns to take.

What I was remarking to was that I think the competition is so great today that unless he does it he loses business. I think you will find today very definitely, it has been my experience, if sheets drop 10 percent in the wholesale market, some live retailer in the market starts selling sheets on the low basis, and when he does everyone has to follow. That is my experience. Perhaps statistically it might not bear it out.

Mr. SIMPSON. There is no use getting any more statistics if you don't believe those of the Department of Labor, and they show very definitely, and all statistical services show very definitely, that retail prices tend to drop much more slowly than wholesale prices of manufactured goods. For instance, retail prices of shoes tend to drop, I assume it is like other commodities, less rapidly than the price of leather or the price of hides, because on raw materials fluctuation in prices is much greater; they go up perhaps more rapidly and they certainly come down more rapidly.

Dr. KREPS. That is only logical, Mr. Nelson, because wholesale prices usually are quoted on raw materials, and although the raw material expense may go down into the finished article, wage levels are also notorious in lagging behind in a drop of prices.

Mr. NELSON. That is what I was going to say, but I don't know just what measure you use. If you say that retail prices go down as rapidly as basic commodity prices, I would say "No." I am talking about the price of the finished product that we buy.

Mr. SIMPSON. Some of your finished prices are not elastic.

Mr. NELSON. That is right, just as they do not necessarily go up as fast, they might not necessarily come down as fast as basic commodities.

Dr. KREPS. And that in part would be your answer to Mr. Avildsen why it was that harness did not go up as much in price as leather; namely, that the cost of raw material content of the harness might have gone up 40 percent and yet be compensated for by a considerably smaller percentage increase in the price of the finished product?

Mr. NELSON. Yes; except that labor is a small percentage, depending on the percentage labor is to the total cost.

Mr. SIMPSON. And overhead items.

Mr. NELSON. Yes; labor and overhead items.

Acting Chairman AVILDSEN. Getting back to the harness manufacturer, you say it is perfectly proper for him to sell harness on the basis of his old cost, yet if leather went up 40 percent and stayed up 40 percent and then he put in a big inventory at that higher price and then a decline came along, you wouldn't pay him the prices for his harness that represented his actual cost at that high price. You would say to him, "You will have to fix your price on the basis of replaced cost of leather," wouldn't you? In one case you would expect him to use replaced cost and in the other case actual cost. Why isn't he in the same boat as the retailer? If he has very little labor in the commodity, he is practically a dealer in leather, just putting in a little labor on it as he sells it.

Mr. NELSON. Yes; you are opening up a question there that I think would take a considerable amount of explanation. In our business——

Dr. KREPS (interposing). I might interject, Mr. Nelson, that we plan to put on a witness this afternoon who will go into that in detail in that particular relationship, so if you do not——

Mr. NELSON (interposing). I would just like to answer it. It won't take me but a few moments to answer it. In our business we regard the manufacturer as our partner in the business. The two of us are attempting to work out a plan to get as much of the consumer's business as we can, and each make a profit on it.

How do we two go about doing it? We do it by averaging on the way up and we attempt to buy it together, and if we get stuck with inventory we will each take our portion of the loss. I think that quite rightly on the basis of ethics, if you please, a man who has to take the loss ought to be entitled to take the profit.

Business isn't done that way. We are not able to do it due to the play of competitive forces, if you gather what I mean to try to generalize in a few words.

Acting Chairman AVILDSEN. I see. You feel that you have a different relationship from the ordinary buyer who just buys wherever he can buy most advantageously; you work with this manufacturer.

Mr. NELSON. We have to. The quantities we buy are so large that we have to work with him very closely, and the two of us together attempt to solve the customer's wants.

Acting Chairman AVILDSEN. You still didn't finish this statement.

Mr. NELSON. Plow shares which sold at $3.70 in fall, 1923, now selling for $3.35, will be sold in spring 1940 at the same price.

These, I believe, are farily typical items which make up the budget of the people in the lower income groups.

In general, even with the present commodity markets which are up considerably from the low, prices for spring 1940 will be well in line with prices at which the same articles sold in the spring and fall of 1936 and 1937.

In other words, I believe that the situation we have here is about like that one we had in the fall of '36 and the spring of '37.

Acting Chairman AVILDSEN. Are there any questions? Would you care to add any more?

Mr. NELSON. No; thank you, sir.

Acting Chairman AVILDSEN. I want to tell you, Mr. Nelson, that you have made a very valuable contribution to our record here and the committee is greatly indebted to you.

(The witness, Mr. Nelson, was excused.)

Acting Chairman AVILDSEN. The committee will stand adjourned until 2:30.

(Whereupon, at 1:05 p. m., a recess was taken until 2:30 p. m. of the same day.)

AFTERNOON SESSION

The hearing was resumed at 2:36 p. m., upon the expiration of the recess, Mr. Clarence Avildsen presiding.

Acting Chairman AVILDSEN. The committee will be in order. The first witness is Dr. Albert Haring. Is Dr. Haring here?

Do you solemnly swear the testimony you shall give in this hearing shall be the truth, the whole truth, and nothing but the truth, so help you God?

Dr. HARING. I do.

TESTIMONY OF DR. ALBERT HARING, SECRETARY, AMERICAN MARKETING ASSOCIATION, BLOOMINGTON, IND.

Acting Chairman AVILDSEN. Give your name and address to the reporter.

Dr. HARING. Albert Haring, Bloomington, Ind.

Mr. HAMM. Dr. Haring, you are connected with the American Marketing Association, are you not?

Dr. HARING. Yes, sir; I am secretary and ex officio director.

Mr. HAMM. Would you tell us something about the American Marketing Association?

Dr. HARING. I would be very pleased to.

The American Marketing Association is a professional organization whose aim is to improve the promotional standards in the field of marketing and distribution, which, of course, includes retailing, selling, and to try to move that field onto a basis of scientific operation based primarily upon a projection of the physical types of research in the field of distribution.

It is old in the sense of its member organizations. The teachers in that field are about 15 years old in organization, but the current group was formed through a merger of the American Marketing Society and the National Association of Marketing Teachers 3 years ago, and today I think it is fair to say that this organization represents a very large proportion of the better-known men in the field of marketing and distribution.

Mr. HAMM. You may proceed with your statement.

Dr. HARING. This prepared statement is aimed particularly at a consideration of the position of the small merchant when prices change.

PROBLEMS OF THE SMALL MERCHANT WHEN PRICES CHANGE

Dr. HARING. The small merchant is characterized by very limited working capital. Reference to the Census of Business shows that independent stores in the food group average annual sales of $11,451 and also that they are predominantly a small-store group with 47.8 percent of the stores having sales of less than $5,000 per year and only 2.2 percent of the stores having an annual sales volume equal or exceeding $50,000. The failure rate among independent stores is high and the two main causes of such failures are inadequate working capital and inefficiency or lack of business experience. There is reason to believe that between 40 and 50 percent of the independent food stores in business at any one time will not be operating 5 years later. The reasons for the failure of the unsuccessful stores throw strong light upon the weak points of those stores which are reasonably successful. As a result, working capital and adequate management are key factors in judging the effect of business change upon the independent food dealer.

With a stable price level, the independent merchant buys at one price, marks this purchase price up, and then sells at the retail price which he has so determined. When prices begin to move upward, the wholesale price rises first. The initial increases are often so small on items retailing for less than 20 cents that an increase in the retail price of a full cent per item is not warranted. If the dealer permits his retail prices to remain the same, his gross margin shrinks and this will decrease profits, and, should profits disappear and losses occur, this will be absorbed by a decrease in working capital. In case the dealer increases the retail price by a full cent, he may be criticized for unduly enhancing prices. Such a quick retail price rise is not usual because retailers face competition and make adjustments to changing conditions somewhat sluggishly.

As further increases move the price level sharply upward, the food dealer must adjust his selling prices. There is ordinarily some lag with the result that the prices at which the dealer buys rise more sharply than the prices at which he sells. This tendency has the effect of shrinking the margin between buying and selling price, thus leaving the retailer a smaller amount of gross margin per dollar of sales to meet his costs and yield a profit.

It is true that the part of the inventory which he has on hand, which he sells after raising his retail prices, acts somewhat as a cushion for the small dealer. This is, I believe, a relatively unimportant factor.

Dr. Kreps. Does the experience record of retail stores indicate that their profits as a whole go down in periods of rising prices?

Dr. Haring. There is a compensating factor in that a normal rise in price is usually accompanied by increased pay rolls, and if this occurs, a larger volume of retail sales in terms of units may result. Families begin to buy more. So the margin may shrink, but the total sales volume increases, splitting the overhead among more units, and thus decreasing the unit cost somewhat, and so, in normally rising prices, with enhanced business activity, a retail store, even though taking a partial loss on inventory, may show somewhat greater net profits.

Dr. Kreps. And conversely, it is in periods of price decrease that the mortality among retail stores is likely to be large?

Dr. Haring. It is likely to be large then, but it occurs quite frequently in the smaller stores, regardless of business conditions. They get caught whenever there is a change of any sort.

The dollar sales volume for a specific quantity of goods will increase and rising prices are likely to be accompanied by greater pay rolls and enhanced industrial activity so that store sales volume will expand. These factors may or may not compensate for the unfavorable price situation. A very sharp upward movement of prices, therefore, is likely to find independent dealers increasing their consumer prices too slowly to protect themselves.

In operating a store, there is need for a certain amount of physical inventory. As prices rise, the cost of this physical inventory moves upward and the only place where the extra funds can be obtained is from working capital. If prices move up 50 percent, the increased value of the inventory is largely obtained by moving cash or working capital into inventory with the possible result of an inadequacy of cash. When the merchant sells for cash only, the amount of funds flowing in will also be increased proportionately in a short time. In case the dealer sells upon a credit basis, the credit extended will be comparably inflated. Indeed, if the food dealer's volume of business expands on account of improved business conditions, the credit extended may increase more than proportionately, thus causing the dealer to carry a greater credit burden and to deplete further his working capital

That "more than proportionately" probably deserves a slight explanation. It is a question of personal opinion, somewhat. It is difficult to prove. When people get jobs, when one member of a family has had a job and another gets a job, it has been my experience that they begin to buy before the second job realizes money. When the activity of a firm makes it add new men, those that have had jobs feel more secure, and they begin to buy, and that projects over immediately into retail credit more than the actual increased earnings and puts the pressure of credit on the small retailer.

Dr. KREPS. Does this tie in at all with the increase in bank credit that often occurs in such periods? Wouldn't it be true, that at about this point retailers and other distributors would go to the banks and increase their borrowings somewhat? In that way the price rise rather perpetuates itself, does it not?

Dr. HARING. Taking manufacturers and wholesalers and larger retailers, that is undoubtedly the case. When you take the really small retailer, of which we have several hundred thousand in the food field, it is rather doubtful whether he can turn that quickly to banking facilities, and how much he can really utilize.

The figure for retailers doing a sales volume of $5,000 a year or under, if you project that back, means about $100 a week, of which he probably pays $75 for the goods, leaving $25 for his wages, rent, light, heat, and the like. He is a small operator. It is difficult for him to turn to a bank. He really has to turn to his wholesaler, and the wholesaler turns to his bank. If you take a larger-sized retailer, of course, he can move direct.

Acting Chairman AVILDSEN. You mean to say these men work on a gross profit of only $25 a week?

Dr. HARING. It might be $30, but you are very close to the actual facts as given by the Census Bureau when you make that statement.

Acting Chairman AVILDSEN. How long, on the average, do they last in business?

Dr. HARING. There are a number of studies available. Those entering business go out rapidly, and, roughly speaking, the figures I quoted gave 40 to 50 percent going out within 5 years.

One of the men who studied the field very carefully, Dr. Wilford L. White, of the Department of Commerce, stated that one of the main reasons, possibly, for their being in business is to obtain their own groceries at wholesale prices. That is one of the big factors that keeps them going.

Dr. KREPS. It is sometimes said that in a period of rising prices, unless a grocer increases his retail prices at the time when prices increase, he will be unable to replace his inventory, the volume which he can purchase thereafter is likely to be less, and his services to the community are accordingly reduced, as his working capital is more or less fixed so that he is unable to use bank credit for expansion. Is that true?

Dr. HARING. He would be unable to expand it if the wholesaler could not handle that by increasing the credit extended to him. He personally is in a very poor position to obtain credit from any source other than the wholesaler.

Dr. KREPS. Isn't the period of rising retail prices, and even of rising wholesale prices, a period in which bankers revise their estimates, a period in which they more readily grant credit, and, therefore, on the whole, a period in which small retailers, as well as the larger retailer, can get more credit? In fact, it is probably the one period in which he does most of his borrowing, isn't it?

Dr. HARING. That is absolutely correct with respect to the tendency of bankers to revise their estimates of business concerns. In spite of this, there are many small food retailers who, in the banker's judgment, would still be rated too low to give credit.

Dr. KREPS. But it is your definite impression, none the less, that the chain of causation as far as the retailer is concerned, runs from the higher prices to the increased credit, rather than from increased availability of credit back to higher prices for retail commodities?

Dr. HARING. I am inclined to agree with that.

Dr. KREPS. That means that those people who think they explain price changes in terms of the amount of credit available probably are ignoring some of the fundamentals of manufacturing and distribution.

Dr. HARING. When you put your facts and line them up to prove the opposite case, it looks very strong. I, personally, am inclined to line them up this way.

The sharp upward movement of wholesale prices thus puts the independent dealer, particularly the small food merchant, in a position where it is very difficult for him to maintain working capital adequate for efficient operation.

If the independent merchant could foresee such price rises, it might be assumed that he could make large future commitments and thus protect himself or, possibly, realize a speculative profit. It is doubtful whether or not the independent merchant has sufficient shrewdness to foresee correctly price movements. Even where he does forecast correctly, his limited working capital virtually makes speculative buying in large quantities impossible. Some of the larger retail food operators undoubtedly indulge in forecasting and a certain amount of speculative purchasing of staples. Competition between the larger food chains and others, however, is sufficiently keen to force the sharing of such speculative gains with the public. It is probable that such practices upon the part of the large operators are partially responsible for the independent merchant's inability to raise retail prices as fast as wholesale prices move upward.

The wholesaler is of aid to the independent retailer in this. He informs and advises the retailer to some extent. He in turn may buy ahead in some quantity and extend the retailer greater credit to somewhat cushion this disadvantage, but on the whole the small food retailer does not have the managerial skill nor the working capital to protect himself at all adequately, in my opinion.

Dr. Kreps. Not even the storage space, isn't that right?

Dr. Haring. Correct.

When a high speculative wholesale price level collapses, the high but relatively lower retail price level remains comparatively stable for a short time. Dealers endeavor to unload inventories purchased at high prices before cutting retail price levels. Soon, however, one or more merchants will rebuy at lower prices and slash consumer prices. When prices fall rapidly, a slash by one major retail competitor purchasing new goods forces all to reduce prices before clearing out higher-priced inventories. Retail prices fall more slowly than wholesale prices, but, in a period of rapidly falling prices, most independent dealers sell a large amount of merchandise at prices which involve a sacrifice when their purchase price is considered. Because of the pressure of competition, the favorable results which might compensate for the troubles of rapidly rising prices do not materialize. And store sales volume also falls.

One exception should be noted for both rising and falling prices. There are, occasionally, particularly in rather segregated small towns, service stores whose patrons are relatively low-income-group people, who need credit because they are near the subsistence margin, and these stores occasionally have a virtual monopoly of this small market, making it possible for them to be in a better strategical position in handling the problem of both rising and falling prices. Actually they have a slight increment, a monopoly profit, at all times. As communication and transportation improve, these are slowly filtering away.

Dr. Kreps. Would you say that the methods by which retailers and wholesalers are now doing business have changed as compared, say, to the World War period? It is frequently said, for example, that after the 1920 collapse, distribution as a whole went on a hand-to-mouth basis. With the maintenance of a hand-to-mouth basis this speculative danger would seem to be less than during the war.

Dr. Haring. There is no question but that both at the time you indicate and starting in 1929 the hand-to-mouth wholesale and retailer operation has shown a tremendous growth. I would not care to guess whether that is cyclical in nature and will slowly disappear, partially, or whether it is going to be a permanent operation. Undoubtedly inventories such as carried 25 and 30 years ago are becoming much rarer. I think we will never have a complete reaction to the pre-war inventory situation.

Dr. Kreps. In other words, management in a modern retail organization tends to stress much more the factor of turn-over than did, say, the old general store?

Dr. Haring. That is undoubtedly correct. That emphasis, however, is greater in the larger and more experienced operators, and the fact that the small food dealer is more or less hand to mouth is a question of necessity rather than preference in many cases.

Dr. THORP. There is another change, though, isn't there, that offsets that somewhat, and this is that the consumer of food has become more hand to mouth, if you will permit me to use the phrase. In World War time, and perhaps up to 1933 or thereabouts, many of these independent food stores extended credit, but they reached the limit of being able to act as relief agencies somewhere during the depression, with the net result that this activity, the retailing of food, has largely become a cash basis, and therefore you have some reduction on the capital requirement, the capital tied up by the independent retailer, which perhaps is the other end of the hand-to-mouth kind of situation.

Dr. HARING. The statement I would agree with 100 percent with respect to the increased amount of cash purchasing. When, however, you divide your retail food outlets into supermarkets, chains, voluntary chains, and unaffiliated independents, deleting the typical cash operators, the supermarket and the chain, when you drift over into the voluntary and particularly the unaffiliated field, the standard method of operation is still credit. Now it is a more limited credit than it was. Retailers object to carrying someone for 90 days, but it still is fundamentally a credit-service type of operation.

This brief discussion leads to one general conclusion; that is, that both rapidly rising and sharply falling wholesale prices place a good deal of unfavorable pressure upon the independent food merchant. The converse of this statement is that stable or mildly changing prices are more favorable because they do not force the independent food dealer toward buying and selling practices which are likely to deplete his working capital and threaten his solvency.

At this point, in order to give a brief set of summary figures, I would like to submit some four diagrams which have been worked out with some care in conjunction with the Cooperative Food Distributors of America, which show the World War picture with respect to retail and wholesale price lags and the effectiveness of control over some of these prices. I don't think it is necessary to describe them. They simply verify in general the broad statements that have been made.

Acting Chairman AVILDSEN. They may be received.

(The charts referred to were marked "Exhibits Nos. 1519 to 1522" and are included in the appendix on pp. 11366–69.)

Dr. HARING. Price variations within a city and between cities and market areas are normal, indeed inevitable, for several reasons. Some of these reasons, certainly not all of them, are—

(*a*) Transportation facilities.
(*b*) Warehouse or storage equipment.
(*c*) Wholesalers and their efficiency.

These three factors affect the cost of merchandise bought by food retailers. Good transportation facilities with prompt delivery make it possible to maintain minimum inventories and pay minimum freight charges. Adequate storage space permits carload freight rates to be obtained and cuts warehouse costs. Numerous efficient, competitive wholesalers of sufficient size to purchase in carload lots—to secure minimum freight rates and, in general, the lowest available prices under the Robinson-Patman Act—provide the food retailer an opportunity to obtain good service and satisfactory buying prices:

(*d*) Types of retailers.
(*e*) Retail efficiency.
(*f*) Newspapers and radio.
(*g*) Type of population.

Where there are various types of food dealers—independent, voluntary chain, chain, supermarket—of high efficiency in active competition and using aggressive newspapers and local radio for advertising, and where the population is price conscious and notes food advertising, consumer food prices will be relatively low and price differences between stores will be at a minimum. Stores granting credit and giving free telephone order and delivery service will charge more than cash-and-carry units, but prices will differ little above the cost of efficiently furnishing those services.

Assuming reasonable efficiency, prices upon identical goods may differ by 10 percent or more within a city and by 20 percent or more within a State. And, with such differences, each food dealer may be making the same small profit or no profit at all. When it is recognized that some concerns are efficient and others very poorly run, it is possible for prices to vary quite materially without any profiteering actually taking place.

Just one little item to illustrate how we become accustomed to this: Practically all of the supermarkets and many other operators sell Baby Ruth candy bars, gum, and similar things, three for a dime, and yet, in hundreds of outlets over any town or city, those are sold for 5 cents straight. Now the difference there is a difference of a third in price, or 33⅓ percent.

Dr. THORP. Professor Haring, I wonder if you would be willing to supplement your statement by indicating what you mean by the word "profiteering"?

Dr. HARING. That is a difficult statement. In general, I consider profiteering, in my own mind, to refer to the taking of an abnormal profit, probably based upon unjustifiable circumstances. That is too strong, but certainly profiteering means to me more than a very low margin of profit.

Dr. THORP. That is, in your mind, it relates to the level of the profit?

Dr. HARING. Yes, sir.

Dr. THORP. And you have, I take it, then, some feeling as to what is a fair profit?

Dr. HARING. That is an even more awkward question. In general, in business (considering the Government's activities in the World War, where they set as a fair profit "cost plus 10 percent," or 10 percent for net profit) I would say that, when the profit is under 5 percent on sales, that our heritage and background indicate that the burden of proof is on the person who claims that to be profiteering.

Dr. THORP. I wanted to get that clear; 5 percent on sales, not on invested capital?

Dr. HARING. Reverting again to the World War period, that is what the Government did—that is the stand it took. Actually, the retail operators in the last 10 years that have made 5 percent on sales or even 3 percent on sales over the decade as a group are rare. You would have to hunt a long while to find them and in the food field, you might need a microscope.

Dr. THORP. You would feel that this fair rate of profit would be the same for enterprises in various industries, enterprises in various places, enterprises in risky activities and less risky activities, and do you feel there is a standard that can be applied to all industries?

Dr. HARING. If so, it must be a flexible standard. Obviously, a drug firm, one part of whose service it is to keep on hand for emergency certain types of pharmaceutical and other medicines, which will have a turn-over of once every 3 months or even 3 years, would have to have a larger net profit on sales, to counteract the factor of turn-over, which, on the other hand, could be much more modest for a grocery store with a much faster turn-over. Many of the large grocery operators have had profits on sales running from 1 to 1½ percent of sales that have been very satisfactory.

Dr. KREPS. I was going to say, if you figure the rate of profit on sales, wouldn't it be true that 5 percent in some fast-moving lines might give a very great return on invested capital, and, in other cases, a margin larger than that would give no return at all?

Dr. HARING. Yes. I tried to state it very carefully. I will see if I can mend my words, that when a rate of profit on sales of 5 percent or less was obtained, it was really up to the critic to prove that it was profiteering, and, in some lines, that would be undoubtedly true. In other lines it might not be. Now, even there, you come across this problem: Let us suppose that a really efficient competitor enters an area where there is great inefficiency and can cut the retail price, assuming this would be possible, 10 percent to the consumer and still make 5 percent on sales. That would be giving the consumer the benefit, and a very high profit to the operator, and you would have to credit that to the inefficiency of the competition.

I think what you would want would be more and better people of his nature to increase a little the efficiency and then work down that profit margin.

RELATIONSHIP BETWEEN MARK-UP ON COST AND PROFIT ON SALES

Dr. KREPS. What relationship is there between this figure that you term profit on sales and mark-up on cost?

Dr. HARING. I just don't know how to answer that. I don't have your question clear in my mind. Could you reword it, please?

Dr. KREPS. Suppose that a firm customarily marks up its furniture 40 percent on cost, meaning that for every dollar it has to pay, it charged $1.40. That mark-up on cost could be expressed as a percent of sales, could it not?

Dr. HARING. Right.

Dr. KREPS. I could do it in my head if I had chosen a dollar and a half instead of a dollar forty.

Dr. HARING. That's right. Ordinarily, in the field of retailing, your percentages are spoken of as a percentage of sales price.

Dr. KREPS. Now, the question I was really getting to was this: In general, are there any figures that are quoted by experts in marketing or merchandising concerning the percent of mark-up or the percent of profit per dollar of sales, that they ought to get? Is there any general mark-up figure such as 20 percent or 33⅓ or 40 percent or something like that? It varies by line of merchandise.

Dr. HARING. It varies by line of business. Your druggist, for example, dropping into the fair-trade area where they have stated their aims, feels that they should have a 50 percent mark-up, which is a 33⅓ percent margin. In the food field, they would rather like, or try to get, about 25 percent mark-up, which would be a 20 percent margin, depending on your type of operator. You have a tremendous variation in retail cost. There have been reported to be reputable supermarkets which claim to be operating on a cost of about 6 percent of sales. In the case of certain service independents in combination stores, we get up to 15, 16, 17, or 20 percent. There is a tremendous variation there.

Dr. KREPS. Wasn't it drugs that you named?

Dr. HARING. Yes.

Dr. KREPS. If they secured or are able to enforce a gross margin of 33⅓ percent on sales, that, I take it, would be in excess of the 5 percent which you spoke of a moment ago as being fair.

Dr. HARING. The drug costs vary, of course, but for our purposes I think we can say they are about 27 percent, which would give us 6 percent. Now one of the troubles with all our retail price figures I think might well be mentioned at this point. We frequently do not get the mark-down sales, what proportion of the merchandise is mark-down, what volume is sold in those mark-down sales. Similarly, there is a tendency in the food figures not to get the week-end specials, which account for a tremendous volume of food moved.

As I understand it, most of the food indices collect the figures the early part of the week, although the big food movement is your Friday and Saturday movement which is ordinarily characterized by a series of what are known as specials, very favorable prices on certain items which ordinarily move in quite large volume. So, even in this case, what your druggist is asking for is a top price from which he will, as occasion comes, cut, and that is one of the outstanding weaknesses of our retail-price information, that we don't get some of those things.

Mr. HINRICHS. Mr. Haring, I was interested in the point that you just made with reference to the pricing of specials. It is not all due to accident that those special sales aren't priced. Don't you feel that in general those special sales bear some kind of a relationship to prices in the earlier part of the week? That is a recurring phenomenon, isn't it? The amount of the mark-down depends partly upon what was earlier being carried.

Dr. HARING. Yes, sir. It is a recurring phenomenon. Many people, however—I can speak for only a relatively small sample; I probably haven't talked to more than 400 or 500 people on the subject—quite accountably buy goods on Saturday, let us say, and buy enough, and they are eating the hash of the Saturday purchase Monday night or Tuesday. A good deal of food is purchased Saturday. Sometimes special sales in canned goods will be for very limited times; whether a full week or a full month, all the figures undoubtedly catch some of them, but I have a feeling myself that this is quite a factor.

I have watched the operation in Bethlehem, Pa., very carefully, because I had an interest, and there the supermarkets had set up a system of cashing the pay checks of the Bethlehem Steel Co. I have seen any number of families come in, particularly on days when there were specials, and load up. I watched the store checks, and many checks would total $14 and $15 for a laboring family. How long that would last them I don't know. They would take advantage of, let's say, 8½ cents—14 cans for a dollar, and buy the 14 cans. I don't know what proportion of the total food trade that is, and I don't know how we could find out, either.

Mr. HINRICHS. Those special sales prices, however, tend to be somewhat erratic and to some extent peculiar from store to store. Wouldn't that be true?

Dr. HARING. That would undoubtedly be true, but there is a tendency for every operative who is depending upon prices as one of the major factors for his patronage, to have such specials with a surprising regularity.

Mr. HINRICHS. All that I was trying to get at was the point of view of measuring long-time changes in the level of food prices. For example, in making a comparison of this year's prices with last year's prices, there is a degree of certainty that attaches to the comparison of Tuesday prices in even a relatively small sample that would not be present in a comparison of week-end specials if you were limited, as Government agencies necessarily are with a limited budget, to prices from a comparatively small sample of stores. We can't cover the entire marketing system to catch these prices. Obviously, it would be desirable to have such a provision if it could be had.

Dr. HARING. And you are quite correct that there is no reason to assume on the face of it that if you take Monday prices one year and compare them with Monday prices next year they might not be very comparable, probably as comparable as any other device you could work out. On the other hand, when the prices are used to compare with costs of operations and profits and you begin to talk in terms of profits, of course you have got to consider those other prices.

Mr. HINRICHS. I think we would agree with you entirely there. That is, if you are coming down to a margin comparison and a profit comparison and that sort of thing, it is necessary to go at that with a very intensive and careful study of all of the surrounding circumstances, and one of those would be the volume of merchandise that moved at mark-down prices.

Dr. HARING. There might be stated just a little bit about the psychology of price cutting. Insofar as seems to have been determined, if you could take 10 items with a list price of $1 and cut them each to 91 cents, you would sell more goods, but if you took 7 or 8 of those items and cut them to 96 cents or 97 cents or 94 cents and then took the remainder and cut them to 81, that is ordinarily conceded as being a better business plan, and that is one of the things that makes the price profit concept in the retail field so difficult to handle.

According to the census, there are some 532,010 food stores in the country. Many of these stores, as already shown, are small. Any form of direct supervision of this great number of stores would probably cost more than it could save the people. Moreover, there is doubt as to whether these food dealers have made any exorbitant profits during recent years.

Dr. THORP. Mr. Haring, what would your guess be with regard to the total picture of these 500,000 stores? Let's make a guess that perhaps 100,000 of them survive only 1 year. Would that be a fair guess?

Dr. HARING. That would be a fair guess.

Dr. THORP. Now in those cases you would have obviously a very considerable loss of capital.

Dr. HARING. Right.

Dr. THORP. So that if we were actually considering this general activity as in terms of a profit-making type of activity, it would be true, wouldn't it, that it is a loss activity in which consumers are getting this form of distribution through, in a sense, subsidy provided by individual savings, borrowings, and such things?

Dr. HARING. There are so many complications that I would not care to deny a word that you have suggested, but let us look at one or two. The small independent store is a most interesting proposition on an employment basis. If we were hired by an outside organization, and, let us say, during the late twenties were making $50 a week, we might take a cut when the depression became severe, to along about $35, possibly even $30 a week. At that time it is quite probable, in terms of a retail store, that the store would become unprofitable and be closed, or we would decide that we wouldn't work for that little for this corporation.

But you take that same picture with an independent food retailer. He is his own boss, he likes to run the business, he gets his groceries wholesale, and he has a job, his wife has a job, and the children have a job, and it is quite possible that he may run his wages down to zero, or, as you indicate, even lose, and still he isn't on the unemployment basis, and therein you come across a wage figure. The only way the Census Bureau, with these small proprietorships, was able to handle this problem was to take the charges where they were available and then compute them and project them for the rest of the stores. We run across some very difficult concepts as to whether they did or did not make a profit. The field divides itself, roughly speaking, in some such manner as this: Some 40 percent of the food business, lumping it all together, is done by the chains through various types of operations, and your voluntary groups of memberships probably would account for another 40 percent, although many of these member stores do a small volume of business through the voluntary hook-up, leaving some 20 percent of the business, let us say, that is handled by unaffiliated independent food stores.

There may be a little disagreement on the broad scope of those figures.

Dr. THORP. That 20 percent of the business represents what part of the half-million stores?

Dr. HARING. Maybe 300,000. I am shooting out of my head. I could look it up. That may be off somewhat, but that is it roughly speaking.

Dr. KREPS. In this connection, what is it that you understand by the high cost of distribution?

Dr. HARDING. There we come to meet the twentieth-century fund report and various other things. My feeling is that distribution is high cost when for this type of (let us say, these small stores) service food retailer, the cost of the independent is materially above the average for his type and kind, considering size of city and other conditions. That is my concept.

Dr. KREPS. Isn't it quite true, shifting for a moment to manufacturing, that under conditions of monopolistic competition you get industries in which few firms operate, in which prices charged are high, in which you get excessive capacity, with the result that price behavior tends to be more stable, production unstable. The industry prices itself often at such a level that profits are relatively small. They have on occasion priced themselves out of the market. We say that that characterizes to some extent the phenomenon of monopolistic competition.

Might it not be true in retailing that you have a pattern of essentially similar sort. Granted you do not have few competitors, none the less you have a psychology against cutting prices. The price cutter is regarded essentially as a chiseler, with the result that you have too large a gross margin, too many people go into that field. None of them individually make large profits. Yet in the aggregate they cost society too much in terms of service rendered.

To use a very homely illustration, any farmer knows that you are likely not to have very good wheat over a straw pile, not because the ground isn't fertile but because the ground is too fertile and too much wheat tries to grow. No individual stalk gets much in the way of wheat in the ear. Similarly here in retailing, margins are too high, you price yourself out of the consumer market, you develop excessive capacity, the only difference being that in manufacturing that excessive capacity is concentrated in large blocs, whereas here with split ownership excessive capacity is split up among thousands of small firms.

Dr. Haring. There is no doubt but that size and low cost of retailing within broad limits are factors, and if you examine the cost of doing business of this typical smaller retailer of $5,000 volume or less in foods, and take one of $25,000 and one of $50,000, and take your available figures, you will find that the larger volume, to that point at least, will show a distinct saving in cost, and naturally there is a tendency on the part of the thousands of small food retailers to obtain a margin which they think will keep them in business and lead to a profit, and that has given the more efficient operators continually an opportunity to advertise price, because their costs are lower.

Possibly food prices, analyzed in the way you attack—that is, the margin necessary for the small retailer to make a profit—are higher than they need be, but if the consumer has an alternative of going and paying cash at the supermarket, or going and charging at an efficient voluntary chain unit, we might assume that the consumer doesn't know that much and isn't that careful; but if they do, that shrinks that margin about where it should be, and I wonder if the fact that this occurs isn't represented by the number of these small operators that go bankrupt.

Dr. Kreps. You don't think that the number of the small operatives who go bankrupt is probably a function of the ease with which persons of small capacity and small-business experience are attracted into what seems to them a relatively simple line of enterprise, and that if freedom of enterprise, so to speak—meaning by that freedom to enter the retail field—were made conditional upon possession of a larger amount of capital, or demonstration of a larger amount of business experience, or the competition that existed was competition by large concerns operating on a smaller gross margin, the number of failures might be materially less?

Dr. Haring. The number of failures I feel perfectly confident would be materially less, but the attractions at present I do not think are profit so much as the two things that stand out, your own groceries at a wholesale price, and employment, and your hope for the best.

I am rather inclined to believe that the prices of the most efficien operators in the field would not be influenced if these people disappear that they are doing their job, and it is up to the consumer, and th small independent has to adjust his price to get enough business t keep going or he goes out. Now there is a large social waste takin place through these people coming in and going out and losing thei small savings, and there have been a number of proposals that possibl we ought to license these people, require a certain amount of capita make them take an "exam," like a doctor, but up to date that has no taken hold the way some of the other proposed changes in our syster have.

Dr. THORP. Are there some illustrations of that having been actu ally done? Are you familiar with Wisconsin's control over automobil dealers, for example?

Dr. HARING. I am familiar with some phases of it. Automobil dealers, did you say?

Dr. THORP. Yes.

Dr. HARING. I am familiar with the licensing system from the poin of view of controlling installment-selling technique in a number o States. I did not know they had done that on the basis of capita however, or proof of retail efficiency.

Dr. THORP. I believe there is a State regulation in Wisconsin whic requires one to get approval from the State government before on can enter that field.

Dr. HARING. Do you happen to know whether there is any grea test involved, any examination?

Dr. THORP. No; I don't know. I was hoping that you might.

Dr. HARING. No, sir; I am sorry; I have examined that set-up onl from the installment angle, where they are licensing, and in a numbe of States, I think, that has been very happy.

Dr. KREPS. At any rate you would agree that the mere fact tha there are a number of retailers who fail is not ipso facto evidenc either of a subsidy being given to consumers, or of a level of mark-u being too low. It might very well be that consumers suffer becaus of the high mark-up and the economy as a whole suffers because o inefficiency in distribution, and that measures which would look towar increasing efficiency of distribution might very well make it unlikel for so many inexperienced, undercapitalized persons to enter the field

Dr. HARING. There is no doubt but that a limitation on inexperi ence and lack of capital would help a great deal. As a matter of fact that probably is one of the thoughts in the mind of Congress whic they recognized when they passed the George-Deen Act for trainin in the distributive trades.

Dr. THORP. I wonder if I may ask if you have any opinion yo would like to give with regard to equalizing this competitive situatio through chain-store taxation.

Dr. HARING. My personal reaction, and in that very controversia field it must be personal, is that if the chains are able to sell at lowe prices through some unfair advantage, we ought to eliminate that un fair advantage. If they obtain their advantage through open an aboveboard efficient operation, it seems highly undesirable to tax th consumer that amount because it will raise consumer prices and thu give the inefficient, who make the next higher price level, an oppor tunity to continue in business.

Now, insofar as the chain retains the business and the Government collects a tax, it will have to get taxes anyway, and there is probably no great harm, but insofar as it puts a chain out of business and the result is the consumer pays a higher price and the Government gets nothing, it seems to me it is open to grave doubt.

Acting Chairman AVILDSEN. What do you mean by the chain having an unfair—what were the words you used?

Dr. HARING. Unfair advantage. I used that wording because the investigations which led up to the Robinson-Patman Act, in the minds of Congress, indicated that in some buying practices the large buyers had unfair advantages, otherwise Congress would not have passed the act. Now, when you examine any of those facts, there is a tremendous difference between men in the field as to whether those price differentials were justified or unjustified in a multitude of cases. In some individual specific cases they were undoubtedly very differential. When you take a thousand cases, for example, the people in the field do not agree whether they were unfair or not. Certainly the Robinson-Patman Act in general has had the effect of limiting quantity discounts.

Acting Chairman AVILDSEN. Have you finished your formal statement?

Dr. HARING. I was given a third subject here, which I am a little bit afraid of, but I will try.

According to the census, there are 532,010 food stores in the country. Many of these stores, as already shown, are small. Any form of direct supervision of this great number of stores would probably cost more than it could save the people. Moreover, there is doubt as to whether these food dealers have made any exorbitant profits during recent years.

The Federal Trade Commission found that, during the prosperous 1920's, the food chains made net profits of between 2 and 3 percent of sales. The comparable figures are available for the industry only in fragments, and in general follow the statement that I have made in writing here, that they are considered to be smaller than the chain profits. As a matter of possible interest, the National Association of Retail Grocers felt so strongly that that was the case that they wrote to me and asked me if there was anything I could use in my testimony, and I said I would like to know what they had on independent profits, and they indicated the fragmentary sources which I already had, and said they were so sure that this was the present situation also, that, if I wanted to read testimony in a month later, they would go to any amount of trouble to collect figures. They are convinced that the present margin of profits is even more modest, rather than greater.

Dr. KREPS. Here you use "net" profits. That isn't the same as mark-up, is it?

Dr. HARING. No, sir. That would be net profits on a sale with, theoretically, all expenses paid.

Dr. KREPS. What would you say the gross mark-up was on cost, or sales?

Dr. HARING. Possibly I had better look at that this way. There is a tremendous variation in cost. Your supermarket, depending on various authorities, will run, oh, an average of 9 to 10 percent. Then you would add their part of the chain operation, which would be 13-percent margin on selling price that they would require.

Now, your straight grocery chains probably would have a cost around 12 percent, and that would give them a margin of 14 to 15 percent. Your combination stores, combinations of groceries and meats, have a little higher cost than your dry groceries, which might shoot them up a couple of percent, and your independents are a little higher up the line than that, so you would probably have a gross margin in groceries today from about 11 to 25 percent, all being efficiently run. That is a general picture, and some of these representatives of these retail trade associations would want to get some fractions in there and change them a little, but that is a composite over-all picture.

Dr. KREPS. Now, if you want to convert this figure of net profits into profits per dollar of invested capital, you would need to look at turn-over of inventory, wouldn't you?

Dr. HARING. And you would need to look at invested capital. Your effect depends to a considerable extent on whether you own your property.

Dr. KREPS. In manufacturing there is a substantial group of industries which consider themselves fairly lucky if they make a dollar of sales per dollar of invested capital a year. What would you say would be the relationship between sales and invested capital in merchandising, particularly in the food chains here mentioned?

Dr. HARING. Well, it again has a tremendous variation, but I would say that a well-run chain ought to get a turn-over of pretty nearly eight times.

Dr. KREPS. Its sales ought to aggregate from 8 to 10 times its invested capital?

Dr. HARING. Times its inventory. Now, its invested capital varies so much that you can't use it. Some of the larger chains are now going so far as to pretty nearly rent all their stores and rent their trucks and run them on a lease basis, and you just can't reach a figure, because of the variation of individual operation, on capital.

Dr. KREPS. Of course such rental figures would be included in cost.

Dr. HARING. That is correct.

Dr. KREPS. Therefore a net profit figure of 2 to 3 percent of sales would, in your judgment, making the most likely kind of estimate, mean 8 times 2, to 8 times 3, percent of profits on invested capital. That is between 16 and 24 percent on invested capital.

Dr. HARING. No, sir; the inventory wouldn't be, or turn-over in that sense wouldn't be, the measure of the invested capital. There would have to be more than that. There is a good deal of working capital. But your successful chains ought to make, on the basis of their invested capital, 8 to 10 percent.

Dr. KREPS. During this period do you know whether or not that was what they made?

Dr. HARING. You are now getting over into the area of possible watered stock and various and sundry other things, but the operations during the last decade of the well-run chain, where they haven't been in any particular tax trouble and the like, in the food field, would, in my estimation, run along about that figure.

Acting Chairman AVILDSEN. What does A. & P. make, if you know?

Dr. HARING. Again you have your problem of capital and capitalization. One year I remember, in the thirties, A. & P. made

$15,000,000 on sales, I believe, of 900 million, which gives you about 1½ percent on the sales basis, net, and that gave them a satisfactory dividend on their common stock, I believe.

Acting Chairman AVILDSEN. You don't know what the percentage of profit on invested capital was?

Dr. HARING. There is where I am very dubious about any evaluation of stock at market price, or the like.

Acting Chairman AVILDSEN. I mean by invested capital the difference between the total assets and the liabilities other than stock and surplus.

Dr. HARING. I am sorry; I wouldn't care to guess at the A. & P.'s investment on any specific year. They have changed their operations radically in certain years.

Acting Chairman AVILDSEN. Do they publish a balance sheet that would show all that?

Dr. HARING. Yes, sir; that is all available in the standard operations.

Acting Chairman AVILDSEN. You might, if you care to, submit such a balance sheet for the record later.[1]

Dr. HARING. I will be pleased to.

Is there any chain besides A. & P. that you would like?

Acting Chairman AVILDSEN. No; I think not, but if you can find out what their earnings are on net worth, which has nothing to do with the market value of their shares, or how much water there may be in the shares—I mean the net worth is, what is the company worth? Take their assets and deduct their liabilities and that is the net worth.

Dr. HARING. I have been a little bit of a skeptic. I have done it for certain companies at certain times. I am still skeptical, but I will be glad to submit it.

Acting Chairman AVILDSEN. Why are you skeptical?

Dr. HARING. It is a question of how your inventories are calculated and a question of various evaluations.

Acting Chairman AVILDSEN. If the inventories are calculated at cost or market, whichever is lower, which would be the policy followed by such a company——

Dr. HARING (interposing). And what they own, and they do own some things, how they have evaluated those at their current or purchase price; and that is why I have always been dubious.

Acting Chairman AVILDSEN. You may proceed.

Dr. HARING. The chains during that decade are generally conceded to have been a very profitable type of food retailing, yet their known profits were not exorbitant. In the less prosperous times since 1929, food chain profits have fallen. The profit figures for small independent food stores are not officially available in detail, but it is usually conceded that the average profit is low, probably materially under chain profits. The facts do not indicate any widespread profiteering over a period of time.

Dr. KREPS. You base that statement on other facts than those you put here in the record, do you not? You just admitted a moment ago, that you cannot reason from 2 and 3 percent on sales to any conclusion about the reasonableness of the level of profit on invested capital; that would depend on turnover and a host of other factors, would it not?

[1] Subsequently submitted, entered in the record on Dec. 18, 1939, as "Exhibit No. 1683" and appears in appendix, infra, p. 11380.

Dr. HARING. You are absolutely correct, sir. In the case of food chains in a broad way, when those things are applied in a broad way, the figures come out at what I think—when I submit those and possibly others, you will reach the conclusion that they are not exorbitant. They have been reasonably fair.

Now, the reason that the independent figures are so bad is this: Again, imputed wages of management. So many of the figures, for example, received by the Census Bureau have to impute wages. Now, they impute those on certain bases that are probably the best they can do, but if you came across a wage-and-hours bill which was applicable to that, why, you would have to put them out of business because they pay themselves too little.

Dr. KREPS. Isn't it probably a fatal error of consumers ever to exhibit a willingness to buy large amounts of a specific item at materially enhanced prices?

Dr. HARING. It is usually unique when it occurs, but apparently with the time of year where a number of people did canning, with a hangover of the sugar psychology of the World War period, in certain, I don't know how widespread, but in certain well, known areas, that very thing happened. It projected itself even more broadly. I know in one isolated case, that one of my marketing association members bought a hundred and twenty dollars' worth of canned goods. He was going to eat this winter.

Dr. THORP. Have you any information that might indicate that the retailers themselves contributed to this jump in sugar prices by encouraging consumers to buy?

Dr. HARING. The facts seem to be that the amount of sugar in the country was perfectly adequate, but that, with the quick psychological reaction, the people cleaned out retailers who had difficulty, of course, in getting sugar for the next morning in some cases. They put the pressure on the structure above them, some of the operators possibly feeling exactly the way the consumers did, and actually advertised specials of sugar at higher prices, and sold very large quantities of it.

Dr. THORP. If the retailers had determined to keep the price of sugar down and had advised consumers that that would be their policy, would that have been of any influence?

Dr. HARING. Of course, that is rather antagonistic to human nature, when you have an opportunity to sell out at a good price, to advise your customer not to buy.

Dr. KREPS. You should say, contrary to monopolistic human nature, because quite obviously where you don't have monopoly, but where you have competition, it is equally human nature to sell all you can, is it not?

Dr. HARING. That is correct, and I suppose that the situation that existed in certain towns was a group of competitors who were in a semimonopolistic position because, for a few hours or a very few days, they could not lay their hands upon reserves adequate to fill their demand at available prices.

Mr. HINRICHS. Isn't that largely nonsense in terms of public policy, anyhow, to even talk about temporary monopolies? I mean, we have enough in the way of monopoly in this country without worrying about whether Joe Zook in the upstate corner of Pennsylvania, for the time being, happens to be the only man selling sugar. Of course he is, but is there any way in the world that you can conceive of dealing with these temporary flurries in the market when they occur?

Dr. HARING. Would it be appropriate to ask if the witness is permitted to cheer at the statement of the committee member?

Mr. HINRICHS. Well, what I want to drive at is that there is an enormous amount of excitement that is occasioned by things that probably, from a social point of view, are highly undesirable, but where there is no realistic method of approaching them as problems of regulation. The things that we can do in a situation of that sort are perhaps to have available a greater regular flow of information, better information, with reference to what the situation is. If we could have as much competition as we normally get in the grocery field, if we could have that in all fields, we could feel relatively happy and we wouldn't need to talk about monopoly, even though instantaneous monopolies might develop at one time or another.

Dr. HARING. My thought is that your statement is excellent and that the way the sugar boom, if you could call it such, was broken by the Government making an announcement about increasing certain allotments and the like, in a way offers the technique for handling that sort of problem without getting involved in a great many details and expensive supervisions.

One practical and inexpensive solution which might well be workable lies in publicity. Mass psychological movements are not secret but public. Newspaper and radio statements ought to burst quickly any unfounded bubble. Where violent price rises are justified, a more severe problem arises. Even here, publicity ought to do the job.

A newspaper or radio column may be permanently worth while to serve the people as consumers of foods. In such a column, the justifiable rise and fall of retail prices could be stated, not technically, but in terms of the recent past. For example, when meat prices ought to rise, such a statement might read, "Lamb is scarce this fall and lamb prices will be greater. If your dealer increases lamb prices over 2 cents a pound, however, he is overcharging you." And the dealer who tried to get 4 cents per pound more for lamb would have quite a bit of explaining to do. No dealer, in addition, can afford to lose steady customers, and every retailer knows that a customer, once doubtful about the honesty of a store, will soon shift to a competitor.

Now, before I am questioned, I would like to make this statement. It came up in this morning's testimony and discussion. I have been very much impressed by the effect of the radio and newspaper announcements upon the activity of our farmer group, both in the way they sell and in the way they buy and in the way they follow prices, and although possibly only a very rough job can be done in the consumer field, today our consumers are not very well informed in terms that they can look at.

Now, from up above to down where the consumer is, is an opportunity to do a job, and I think that that sort of publicity will give a quick reaction—it could have had in this sugar case that came up—and it brings up the question, Should the Government do it? Well, I merely suggest that question; I don't know who should do it.

Acting Chairman AVILDSEN. Have you ever talked to any publishers of large metropolitan newspapers about the question?

Dr. HARING. No, sir; I have not, because——

Acting Chairman AVILDSEN (interposing). Would it not interfere with their advertising business?

Dr. HARING. It might, but it shouldn't. The big advertisers ordinarily in foods use a good deal of price bases, and what they advertise are usually their specials and it is inconceivable that their specials would have prices higher than any such column would indicate.

Now, in the process of time, the agricultural prices have gotten into the papers, the movie programs have gotten into the paper, the reviews of the movies are in the papers, and it seems to me the thing could be built up and the newspapers would find it one of the services that they could perform, and I believe might well be willing.

Dr. KREPS. At any rate, action on a local scale would be what you would recommend here, would it not?

Dr. HARING. Yes, sir. The local problem of the town of 5,000 people with some agriculture, and let us say, one small factory, with or without any chain unit or supermarket, is entirely a different problem than the metropolitan one of New York or Washington or Philadelphia or Chicago.

Dr. KREPS. Therefore, while information might be furnished in part from some central, say, Federal agency, the real task of massing effective publicity and of taking remedial measures, so far as retailing is concerned, would have to stay in local hands.

Dr. HARING. I think that is highly desirable. It is my own feeling that this sort of a job is one which business, through chambers of commerce, better-business bureaus, trade associations, might find a very fruitful one, rather than having the Government go in directly. I personally feel that in this sort of thing, there probably is a desirability of having a little threat in law, if certain stores may not be willing to "play ball" and, in a little bit of a monopolistic situation, rate though it may be, try to take advantage of it, but insofar as possible, the Government has much more to gain by possibly furnishing facts and then stepping out of the picture.

Dr. KREPS. What facilities do localities have for bringing pressure to bear?

Dr. HARING. The one thing the woman food buyer is resentful about is being overcharged when she can prove it, and I think that the women of these local places could give some dealers a discipline such as no government could give.

Dr. KREPS. How do they do that? Are there local organizations that act on behalf of consumers to police retailers? At any rate, they inform consumers in the locality about the best bargains?

Dr. HARING. It is very awkward to judge merchandise upon any known set of standards compared to the way consumers will rate it in desirability. The most you can do, I believe, is to assume the retail structure the way it stands, the price level at a time of reasonable business, and talk about increases and decreases as they ought to come in dollars and cents at their store. It may be a flexible level, and then let them search around to find the type of set-up they want, in quality, in grade and service, and let the stores adjust to the consumers.

Dr. KREPS. Don't certain cities—I may be wrong in this—but doesn't New York City, for example, have a bureau of markets, that gives advice daily to consumers?

Dr. HARING. Their bureau of markets, I believe, runs a daily program, particularly on things that may arrive in the city currently. Now, New York is particularly fortuitously located for that because many foods from the West and other distant places, moving with a diversion in transit privilege, are shunted into New York if they don't find a good sale elsewhere, with the result that you have a little bit of a dumping situation, and they perform a good service in that they indicate the appearance of bargains. But until I examined this subject some 6 weeks ago and ran across this in the bibliographical references and looked it up (and I have been interested in the consumer movement) I just had never heard of it, so it hasn't had any widespread pick-up over the country. I just casually heard about it, but——

Dr. KREPS (interposing). But it is such an agency that you have in mind as being a fairly good agency, locally, to keep the local consumers informed?

Dr. HARING. I would rather put it that way, that is one of the local possibilities.

Dr. KREPS. That you think ought to be developed?

Dr. HARING. That is correct, in the smaller towns I think that the local businessman, in a less official way, if you get the information coming down from the top, I think that business itself can provide without very much Government help or assistance, a way of interpolating the useful information that will be effective. You cannot build a mountain in a minute, and I think it is time we started. If we get our consumers looking for such information, then when a critical time comes, such as in this sugar case, they won't do foolish things, as long as they can have confidence in the information from the top being honest.

STATE PRICE CONTROL LAWS

Dr. KREPS. Now, suppose they find that their action is not as effective as they would like to have it, due, let's say, to some united front among manufacturers or distributors or retailers. Are there local laws, State or municipal, that can be invoked by the consumer?

Dr. HARING. Yes; there are a number in the States, and a very recent summary, which I believe to be very dependable, is one made out by the American Retail Federation, with the date of November 3, 1939. It lists four types of State laws: Antitrust, laws prohibiting hoarding, laws prohibiting the destruction of food, laws giving State agencies and municipalities authority to control prices, with a tabular summary of these laws for each of the 48 States, which may be of interest to the committee, and I would like to submit it. The coverage is not thorough as regards the number of laws and their enforcement, but we have the structure on our lawbooks, largely constitutional and already formulated, for giving these groups or municipalities or States, or some local unit, the backbone power to be able to drive in, if essential.

Dr. KREPS. It is your impression, then, that invoking these measures that are available locally, is about as far as compulsion of any sort should go in the retailing and distributing field?

Dr. HARING. Assuming that the laws that seem desirable are projected to cover more States and municipalities than they now do, we have merely the structure and some of it is very excellent and some of it may work badly.

My feeling is that if forceful regulation is necessary, it should go back further, go back to the wholesale market. Now, the wholesale market is a very broad picture, but the point I want to make is this: The retailer buys and depends on a certain mark-up in terms of percent; in some fields the wholesaler buys and he has a certain mark-up, usually in terms of percent. Now, somewhere back along the line is an individual or a firm who, in a case of rising prices or scarcity, is setting its prices quite probably without much relation to cost, with much more relation to demand. Now, insofar as possible, your regulation ought to take place back there at a place which varies for different commodities, but certainly it isn't in the retail field.

Possibly I should read the written testimony I have.

Dr. KREPS. Would you like to finish the reading of the written testimony? I would ask, Mr. Chairman, if that could be submitted for the record [indicating statement of the American Retail Federation, to which the witness had referred.].

Acting Chairman AVILDSEN. Would you like it to be filed with the committee, or do you think it should be printed in the record?

Dr. KREPS. I think it should be printed in the record.

Acting Chairman AVILDSEN. It may be printed, then.

(The statement referred to was marked "Exhibit No. 1523" and is included in the appendix on p. 11370.)

Dr. HARING. In case forceful price regulation is deemed necessary for foods, the wholesale market is a more logical field in which to enforce price controls because (*a*) there are many fewer wholesalers than retailers; (*b*) there are wholesale markets with recognized prices in many commodities; (*c*) wholesale houses are larger in size with more adequate personnel and records; (*d*) wholesale prices gyrate much more severely and rapidly than retail prices; and (*e*) retail prices are determined by marking up the prices at which retailers purchase.

To some extent, you can say exactly the same thing for wholesale prices, where goods move from manufacturer to service wholesaler to service retailer. It is somewhere back beyond the retailer.

It may seem that I stated that in a confusing manner. That wasn't my thought. My thought was that it was a problem of the individual commodity or group of commodities, and I was pushing the problem back without saying where it should fall for a specific item.

Practically, a control of wholesale prices and retail margins is simpler than to try to control retail prices directly. Even under emergency conditions, a newspaper and/or radio statement about food prices daily might well be the most effective and economical weapon to bring thousands of small food dealers into line. An adaptation of the technique now in use to inform farmers of the wholesale prices of crops and livestock might well be applicable.

Dr. THORP. May I ask if you would be willing to indicate on what basis you would arrive at a decision as to when forceful price regulation might be deemed necessary?

Dr. HARING. Assuming for the moment that any problem of monopoly would be handled by the appropriate Government division and we can eliminate that, it is my feeling (and it follows Mr. Nelson's this morning) that our productive capacity is such that this result would occur today probably only in a national emergency, such as war.

Dr. THORP. You would feel that in a national emergency such as war, it would be necessary?

Dr. HARING. It would, I feel, be necessary then because there is one consideration if you are in a war, and that is to win. Anything you can do to make the adjustments as little rough internally as possible in the process of moving a large output of industry from domestic consumption into war consumption, should be done to ease the shift.

Dr. THORP. I take it, then, that you are talking about price regulation, not merely in terms of foods, but complete price regulation?

Dr. HARING. That is correct, sir, because the thing you immediately run into is the general lag in the rise of wages, and that precipitates some of the critical problems on our working class which, if possible, should be the last vitally affected.

Dr. THORP. I would like to ask a question, too, in one other general area. In recent years, there have been a number of laws, both Federal and State, which, it seems to me, have tended to limit the freedom of the retailer in determining prices—the Robinson-Patman Act, which has limited the freedom of certain retailers, the buying end, the resale price-maintenance laws, which tend to transfer certain problems of price determination to manufacturers, the unfair trade practice laws, with their mandatory mark-up provisions. What is your feeling about the significance of these limitations on price freedom during a period of price disturbance; will they be stabilizing factors or disturbing factors, or what?

Dr. HARING. One of the greatest difficulties in answering that question is that a large proportion of our retailers, I don't think any-one knows how many, have never heard of the laws even in States where they are in force. I recently talked with Professor Gault of the University of Michigan, who did a study in 1939 on the repercussions of the Fair Trade Act on prices in Michigan. He found a large proportion of the dealers whom he interviewed had never heard of it, even though the State had this, and I have had similar reports from other sources. So we have one problem there that is difficult to answer. They have had no effect up to date.

Mr. HINRICHS. That is, they have done no harm because they have been violated; is that what you mean?

Dr. HARING. They have done neither harm nor good, because the retailer didn't know they were there, nor did the operator.

Mr. HINRICHS. Don't you think that is possibly a rather dangerous situation from the point of view of the habits of a democracy and having due respect for law?

Dr. HARING. My small son taught me a new answer, and the answer is, "oh." Of course, these laws have been aimed at what are known as specials or loss leaders, as in price cutting, where it has proven advantageous to certain dealers to cut prices much more on a few special items than on the general run of merchandise in their stores, to bring people in.

They then can make a gain in a number of ways: They can sell additional goods at full margin, they can create a customer who will "repeat," or for the price-cut item they may substitute a different brand which, although selling at a still lower price, gives a full margin. Now, it has been claimed by many independent dealers that these large operators had loss leader prices at cost, below cost, certainly below cost, plus their operating expenses. They felt that that was unfair.

If you read some of these laws, you will find that the food dealer must lawfully sell at cost, either his replacement or purchase price, whichever is lower, plus all his operating expenses, including overhead and everything you can literally think of, and then if you examine the operation in this State you find that some court or some committee or some commission has said, "We will take that as cost plus 6 percent." It is probable that the most efficient supermarket in the food field can't sell for a cost of less than 6 percent, and that would seem to be, if the independent was right there, some justification in setting a minimum price of cost, replacement or original, whichever is lower, plus the operating expenses of the most efficient competitor—in theory that is. Now practically, if you are going to do that——

Dr. THORP (interposing). Would your theory still hold for that excess distributing capacity?

Dr. HARING. In the highly competitive food field your efficient operators are moving at pretty close to capacity. The reason I said theory was simply this: that there is a disagreement as to what the most efficient operator is, exactly what his costs are, and I suspect if you are going to do that, if you have simply got to say the supermarket is supposed to operate from 6 to 8 percent, let's make it cost plus 6 percent.

Dr. THORP. I didn't mean excess capacity of the individual store, but excess capacity in the industry, so that in fact since you put this in the realm of theory, shouldn't the return be less than cost until it has eliminated the unnecessary factors in the industry?

Dr. HARING. In that competitive industry that minimum would put out a great many, as a minimum, without that being involved. As a matter of fact, the really efficient operators, regardless of type, usually are doing a fine business in spite of any competition. From the way I phrased a good many of these things you may feel that the independent is entirely inefficient. The well-run independent in the food or any other line is not on the way out, decidedly not.

The latest careful analysis based on actual shopping recently appeared in the Journal of Business of the University of Chicago, by Professor Phillips of Colgate, and over a period of three surveys scattered over about 12 years he went to all the stores in one or two cities in New York State and priced some fifty-odd items, and he found that cash chain prices the last year were running about 7 percent under the independent store average, of course less than that under the most efficient independents, and he came to the conclusion that probably the efficient offering of the service charge, credit, delivery, telephone order, in those areas was probably approximately 7 percent, because the various competitors seemed to be in a healthy condition.

Dr. THORP. You have been answering in terms of your feeling about the unfair-trade laws. How about the resale-price maintenance and the possibility there that a manufacturer if he wishes to do so can force advance of retail prices?

Dr. HARING. In the food field those are $99\frac{44}{100}$ percent not used. As a matter of fact, there have been isolated attempts, I believe, to experiment, but in the true food field there has been so little use that you cannot reach a conclusion. In the field of drugs, liquors, and in one or two cases gasoline, more information is available, mostly in the drug field. The general conclusion seems to be something like this: that the initial effect has been to lower the prices on these controlled items as handled by independents, raise them as handled by chains and other large scale price retailers with a net result that is indeterminable except that many of the big operators may have seen Macy's ads about their own line of drugs and put in their own private brands. Just what the composite result will be I don't know.

Dr. THORP. Is the private brand something which any retailer can use?

Dr. HARING. Any retailer can try. The difference between a private and a national brand amounts to something like this. The national brand is well recognized as standing for a certain standard of quality and workmanship, style, and durability. We recognize that when we pick up an Arrow shirt or Hershey chocolate. Now that same item, without any name on it, in the field of textiles represents a shirt; you look at it and it looks all right, you feel of it and it feels all right, but you have no guaranty as to whether it will shrink or whether it will wear, or as to the purity of the ingredients.

In other words, the national brand has salability when it is bought and the private brand hasn't. If a dealer wants to handle this unknown brand and put a name on it, he has to go out and create the salability and that costs him money. Obviously, the private brand without any mark or guaranty has less value, it has had no money spent on it. It is a question of whether the dealer can create that salability as cheaply or less cheaply than the manufacturer.

Where there is a big operator in a wide profit line—I mentioned shirts, to the best of my knowledge Macy's handle only their own shirts, I know they did several years ago; to the best of my knowledge they handle none but their own brand today; they have created that salability. Now in some fields you can; in some fields it is difficult. It is quite likely that the largest and best-known retail operatives do that much more effectively than the smaller and less well known. In the food field that is one of the real advantages claimed for joining a voluntary chain. A voluntary chain, such as I. G. A., is big enough and strong enough to create for a very little expenditure, say, for a can of corn, salability for I. G. A. corn, and in certain areas at certain times they follow the policy of saying to their member stores, "Carry the leading national brand in your area and the I. G. A. brand, stock only the two brands."

Dr. THORP. In those cases is any control exerted over the retailer as to what price it shall sell at?

Dr. HARING. It is his own brand and he fixes the price. There is no question about his ability to fix it and how he fixes it. Of course he has a right to make it as flexible as he wishes, but one of the big factors is that he has no competition on exactly the identical brand which is controlled.

Dr. THORP. Your answer, I take it, in regard to resale-price maintenance is that in the first place there is very little of it in the food field.

Dr. HARING. That is correct.

Dr. THORP. Of course there are some cases, gingerale, salad dressings, and certain specific items.

Dr. HARING. That is correct.

Dr. THORP. And that if the manufacturers endeavor to use this as a method of forcing higher prices upon retailers, the private brands will enter the field and prevent such coercion of higher prices.

Dr. HARING. To a very large extent the private brands exist in the field, and that effect will be something like this: The national brand is selling for 21 cents today and the private brand for 19 in the supermarket or chain. Your price control will probably increase the national brand price, let's say 21 to 23. That makes a 4-cent differential instead of a 2. That will give that private food brand a tremendous impetus. I think so much of an impetus that our major food manufacturers will be a long while in even experimenting.

Mr. HINRICHS. Am I correct in inferring from what you said with reference to private brands that the situation that you have just described will put the completely independent dealer at some disadvantage, the small-scale dealer, that is he would have some difficulty in establishing the status of the private brand and yet might very well face, even in a small community, the competition of chains or of supermarkets that were able to operate with private-brand goods.

Dr. HARING. That is correct unless he does what is logical for him to do under the circumstances, join a voluntary chain. In general that opportunity is always open to him. There may be some dealer that is so poor and so small that no voluntary chain would have him and he is probably due for bankruptcy, but a going dealer can always get the voluntary chain.

Mr. HINRICHS. Outside of the grocery field, the private brand is particularly feasible in the large metropolitan center and the large outlets of that center, so that the smaller communities in rural areas served by smaller outlets would have substantial difficulty in availing themselves of the advantages of the private brand outside of the grocery field, which is so open to the voluntary chain method of dealing.

Dr. HARING. That is one of the holes that has been very adequately plugged by organizations such as that which Mr. Nelson represents. That is where your mail-order house comes in; in general, both Sears and Ward handle only private brands.

Mr. HINRICHS. So that it is not the small community that suffers, but the dealer in the small community.

Dr. HARING. That is correct, and where that situation arises you will find that your mail order sales will jump.

Mr. HINRICHS. Just one other question; going back to your discussion of newspaper publicity, in your sentence about "workable lies in publicity," I thought "lies" was a noun. I wonder, in order to avoid making it a noun in the newspaper column, where you advocate saying that in some conditions lamb should be 2 cents a pound higher but not more, if you were given such a newspaper column today would you feel that you had all of the information at your disposal that was necessary in order that your column was not in fact a practical and inexpensive solution through possibly workable lies?

Dr. HARING. The point you make is very well taken, and some place some impersonal agency has to step in to analyze the factual material which is furnished. I remember my first experience in watching the Department of Agriculture where they sealed the officials up and finally sent the report out. That is a drastic way of doing it, but somewhere in the process there has to be impartial analysis, all the facts feeding into an impartial group, where someone who can be trusted absolutely is present at the analysis and probably that is a representative of the Government, although it would be my feeling that as your factual material for the wholesale markets is fed in, that businessmen with a Government representative sitting in would make your wholesale analysis, which then follows the projection down through.

Mr. HINRICHS. I am asking a slightly different question. I am not asking how this material should be analyzed, but there would seem to be an obvious responsibility on Government if the work is not being done by any other agency, to furnish that type of information which is necessary for intelligent buying in the markets. Our whole economic theory presupposes that there are intelligent buyers and that decisions with reference to price can be intelligently arrived at.

I am asking you whether if you were acting as a Government agent or acting in an impartial capacity as a representative of consuming interests or anything else, you would feel that you had at the present time sufficiently definite information so that statements could be put out in this very specific form that you have suggested, or are there large holes in our information that need to be plugged as a prerequisite to the kind of solution that you have suggested here?

Dr. HARING. There are undoubtedly large holes.

(Mr. HINRICHS assumed the Chair.)

Acting Chairman HINRICHS. Would you care to suggest any of those that should be filled?

Dr. HARING. We have a technique for furnishing information, good information, on a number of commodities in various States. Probably in bread, the furthest we go now is flour prices. In fruits and vegetables and citrus fruits, we have certain telegraphic auctions and things like that to furnish information. On wheat, we have similar exchanges; for certain types of things like pork, we get like quotations. That coverage is not adequate, and to some extent in giving prices you have to consider the quality. One of the movements that any sort of control is going to force us toward is possibly not labeling as forcefully as some people have recommended but at least dividing our canned goods into broad classifications. You can't talk about the price of canned goods until you talk about at least a broad grade. So this is merely one phase of a broad development which started and is moving with minutely increasing momentum toward helping the consumer to get better value for his dollar.

Acting Chairman HINRICHS. That is, you would feel that information was needed both with reference to the standards of commodities and that you would require more with reference to wholesale prices at various stages in the marketing process. Is that correct?

Dr. HARING. That is correct, and in some areas that will be absolutely the only method of the consumer being able to judge. I dare say that if we had dishes of six grades of canned peas or canned corn or canned beans and tasted them all, we would do a very poor job of grading as regards quality. We must have some standard. The only standard we have today is price, and it is quite possible under some circumstances for a private brand, particularly, to be highly overpriced.

Dr. KREPS. I would like to ask just one more question. A good deal of testimony which you have been giving proceeds on the theory, or may I say hypothesis, that price increases are accumulated, pyramided, to the retailer, who is more or less helpless. Without examining how valid that thesis is, I want to ask you your opinion on the opposite thesis: To what extent do consumers and retailers make prices? To what extent can consumer organizations and the pressure of retailers—and you have indicated in your statement that retailers as a group are very much interested in keeping prices down so that they can do volume merchandising—to what extent can such action in your judgment be effective?

To phrase the question in another way, is the retailer fundamentally a consumers' buying agent or is he merely a manufacturers' selling agent?

Dr. HARING. Sir, primarily the attitude I have taken has been the problem of the rather small food retailer. I suspect that the rather small food retailer has little to do with representing the consumer. He doesn't do a very good job of it. But when you take retailing as a whole, if the consumer doesn't buy, that has repercussions and in many cases the consumers, through their reactions, have given retailers the opportunity to serve much better.

For example, there is the illustration of the grade and quality of the tools introduced by the "five and ten," tools running from a nickel to 25 cents, contrasted with the hardware tool made for a skilled carpenter at, let us say, $1 or $2.

In that development, undoubtedly the "five and ten" and similar outlets did represent the consumer; they located the consumer need, picked it up and pushed it back, and have done a very fine job of it.

The very small retailer in any field is more representative of the manufacturer or wholesaler and more or less at his mercy.

Dr. KREPS. There is nothing further today, Mr. Chairman. I suggest we recess until tomorrow morning, at 10:30 o'clock, when Thurman Arnold and Mr. Leon Henderson will testify.

Acting Chairman AVILDSEN. Mr. Haring, I want to thank you very much indeed for appearing.

(Whereupon, at 4:30 p. m., a recess was taken until Friday, December 8, 1939, at 10:30 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

FRIDAY, DECEMBER 8, 1939

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:40 a. m., pursuant to adjournment on Thursday, December 7, 1939, in the Caucus Room, Senate Office Building, Representative Reece presiding.

Present: Representative Reece, acting chairman; Messrs. Avildsen, Arnold, and Brackett.

Present also: S. T. Pike, Department of Commerce; Hugh B. Cox, and Fowler Hamilton, Department of Justice; D. E. Montgomery, Department of Agriculture; and Theodore J. Kreps, economic adviser to the committee.

Acting Chairman REECE. The committee will please come to order. The committee shall be pleased to hear Mr. Thurman Arnold, if you are ready to proceed.

TESTIMONY OF THURMAN ARNOLD, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF JUSTICE, WASHINGTON, D. C.

PROPOSED ORGANIZATION FOR PREVENTION OF UNJUSTIFIED PRICE INCREASES

Mr. ARNOLD. Mr. Chairman, I would like to read a statement and then answer questions from the members present about the things I propose. This statement is going to be pretty definite and pretty concrete, and it is going to be on the lines of remedial action, at least on some of the problems that have been presented to this committee.

A hearing on unjustified price rises must include consideration of what should be done in an immediate and practical way. There is always danger that practical action may be neglected because of the temptation to search for permanent, comprehensive and logical solutions of economic problems. Such searches are interesting, but they belong to the realm of ideas rather than to the field of practical action. It is apparent from the testimony given before this committee that no drastic and far-reaching price legislation is within the realm of possibility today, and I mean political possibility. There has been no evidence submitted that any drastic long-term plan for regulation in this field would receive any substantial public support. Indeed, the planners themselves are not in agreement.

One thing stands out as a result of these hearings which should be accepted as a political fact. It is that the American people believe in a competitive system based on maximum opportunity for free enterprise, and that they think such a system can be maintained under present laws without fundamental change. They demand an organization which can make present laws effective. Therefore, I propose to present today an immediate practical plan of organization to attack the problem of price rigidity by freeing competitive forces. It is a program which could be started in a week's time without further legislation, provided sufficient funds and personnel were available.

This plan of organization has four principal objectives:

> 1. To make the voice of consumers an effective force as a counter balance against pressure groups.
> 2. To prevent the unreasonable use by aggressive groups of the necessary privileges of collective action, granted by Congress or the common law to agriculture, labor, and business.
> 3. To attack unjustified price increases in one industry at a time in the light of the specific problems of each industry.
> 4. To provide access to the legislature for such special problems of business, labor or agriculture which demand special treatment or regulation in the light of their particular facts and which cannot be reached under existing laws.

The demand for such an organization has been intensified by the recent war. Dr. Lubin in his testimony [1] at this hearing indicated that in the absence of any regulatory action price rises already begun will continue; that the cost of living will increase, bringing with it demands for increased wages; that the result will be the same severe economic repercussions that occurred 20 years ago—an economy with widely expanded industrial facilities and increased agricultural acreage resulting from price advances—an expansion financed at inflated values with the consequent burden of high fixed charges and mortgage indebtedness; that the burden of these fixed charges upon agriculture and industry imposed a long period of readjustment which was reflected in the depression of 1921, and constituted an important factor in the depression of the thirties.

Dr. Lubin's testimony also shows conclusively that the dislocation of prices does not occur by any general rise in all industries, but rather by the aggressive and inflationary action of groups of particular industries immediately stimulated by the war.

The conclusion is obvious. It is not general remedies we need but the application of a flexible instrument which is capable of taking up one industry at a time. Our proposed plan or organization is based on the premise that such a flexible instrument can be found in the Sherman Act if it is properly coordinated with other activities of Government.

The Sherman Act does not attack unjustified profits of individuals. It concerns itself only with the activities of organized groups. It is effective because production and distribution in this country are operated by organizations and not by individuals. It is flexible because it judges the reasonableness of each organization by its performance.

The Sherman Act can become an effective instrument of price control if the following essential conditions are met:

> 1. A study of business, industry by industry, giving consideration to all pertinent facts relating to each industry.
> 2. Investigation of each industry in its entirety, rather than piecemeal.

[1] Supra, pp. 11021-65.

3. Easy contact by consumers of regulatory representatives so that complaints of consumers may be made articulate and form the basis for proper investigation. Effective consumer representation must be created in determining price policies.

4. Creation of an agency or tribunal before which hearings may be conducted in situations wherein existing laws are inadequate, or in which conflicting decisions require immediate legislative clarification, or in which enforcement of the antitrust laws would result in destructive competition.

Such a tribunal should not be an agency with unexplored power and without experience in dealing with business problems. It can be set up within the present governmental framework by coordinating the activities of the existing governmental bodies which are especially devoting their attention to the freeing of competitive forces. These organizations are the Antitrust Division, the Federal Trade Commission, and the Temporary National Economic Committee itself. They must be geared to work not only with each other but also with consumers' organizations and trade associations in industry.

In line with these essential conditions I would like to sketch a plan of organization which I believe is sufficient for existing needs. This plan has developed pragmatically out of our experience in the Antitrust Division in conducting nation-wide investigations upon consumers' complaints. Our experience during the past 6 months in the nation-wide investigation of the building industry particularly has furnished what I believe to be the key for future development of a permanent organization to investigate and act upon unjustified price disparities.

Let me allude briefly to our building investigation.[1] Last July I presented to this committee an outline of how we then proposed to attack the restraints in the building industry.[2] Congress, with the active support of this committee and particularly its chairman, had provided sufficient funds to make available 80 men for a Nation-wide investigation of the building industry. For the first time in the history of the Antitrust Division there was an attempt to investigate and prosecute on a Nation-wide scale all the illegal restraints existing in a particular industry, from the producer to the ultimate consumer. We made preliminary surveys in 26 cities. Limited personnel and travel funds compelled us to postpone more intensive investigation in half of these cities. Although the investigation has really just commenced the results furnish extraordinary proof of the cooperation that can be obtained from businessmen when they are assured that their complaints will be intelligently considered and investigated and that legal action will be taken where required to eliminate abuses of power.

In the broadest sense the building investigation is an undertaking for the benefit of consumers. It goes much further than the protection merely of a single group of businessmen. Many groups will benefit. But the greatest advantages will be the development of more efficient methods in low-cost housing which are being hampered by the unreasonable activities of present organization.

Our experience in this building investigation has resulted in several discoveries which make it useful as a pattern for an extension of this

[1] See Hearings, Part 11.
[2] Ibid., pp. 5152-5156.

type of activity to the problem of the distribution of other products to the ultimate consumer.

We have discovered that vigorous investigation brings results beyond the actual cases that are prosecuted. These results spring from a realization by those engaged in the industry that an actual hazard exists if they violate the law. In investigating the building trades we are not dealing primarily with the criminal class of our population. We are dealing with ordinary law-abiding citizens who are caught in a vicious system which they are incapable of overturning without the aid of the Government. The presence in a city of an organization engaged in antitrust investigational work gives to those law-abiding elements in an industry an assurance that they will not be forced into illegal practices through the necessity of protecting themselves against the unlawful aggressions of others, or through fear of retaliation. The presence of our investigators, therefore, in and of itself, has been sufficient to stop illegal practices. I do not wish to use the names in this connection because where we get cooperation, there is certainly no object in throwing the names of the cooperators into the public press, and therefore I withhold the names of both the city and the individuals.

In one city, for example, since our investigation began, lumber prices have dropped 18 percent and sand and gravel prices have declined 22 percent. The low bid on a large electrical contract which was readvertised was 21 percent under the previous low bid.

A second discovery we have made is that when there is an honest effort to prosecute impartially every unreasonable restraint affecting building costs, whether it comes from manufacturers, contractors, or labor, most of the criticism and misunderstanding as to our purposes disappear and we get adequate public support. The public understands the reasons for our action in the building industry. They have been brought down from the realm of abstract law. I do not know of a single city in which our building investigation has been carried on that public support has been forthcoming.

I cite only one from literally hundreds of editorial and newspaper comments, from the Pittsburgh Press of November 14, 1939, entitled "Don't Drop This Great Work." The editorial says in part:

> Thus far only an investigation of electrical costs—which resulted in 58 indictments—has been completed, and the jurors are now studying heating and ventilating phases.
>
> Yet despite the fact that the investigation is far from complete, there has already been a sharp drop in building costs which had allegedly been kept up through collusion between unions and contractors, bid-rigging and similar practices. On the Municipal Hospital, for instance, the low bid for electrical work submitted after the investigation had gotten under way was $33,000 under a low bid submitted before it started. Sand and gravel prices have dropped from $2.45 to $1.65 a ton since the inquiry began, and similar reductions have occurred in some other cases.
>
> We believe that the savings in Pittsburgh alone would be sufficient to pay the entire costs of the national investigation. Few efforts undertaken by the Federal Government promise such important results at such low cost.
>
> We sincerely believe that the elimination of racketeering, artificial restraints, collusion, bid-rigging, and similar restraints on building would result in such reductions in construction costs as to lead to the long-expected and long-delayed building boom, which has been nationally acknowledged as the surest way to induce economic recovery. The Pittsburgh district, we are convinced, would receive more benefit from elimination of unwarranted building costs than from any other single economic development. Work would be created for thousands of craftsmen, the real estate market would be stimulated, and all forms of business would profit directly or indirectly.

I may say that those are not our observations. I hope they are not too optimistic. I am citing, them, however, to show the typical enthusiastic reception which this type of activity gets from the consumers' market. I have also cited an article which has been reprinted in 600 newspapers which I think is typical but I will not take the time of the committee to read it. It follows on the national scale with similar comments to the Pittsburgh Press.

(The article referred to was marked "Exhibit No. 1524" and is included in the appendix on p. 11373.)

Mr. Avildsen. May I ask a question? You mentioned the percentages of saving which have been brought about, reductions of prices in these building materials. Have you followed the thing through to see what has happened to the cost of a typical example?

Mr. Arnold. We haven't the faintest idea. We are so busy breaking up what we consider these restraints that we don't know, and I am citing these editorials and these figures from the commentators simply to show the enthusiastic public reception. Actually, of course, it is awfully hard to tell. The cagey buyer in a market may be able to do much better than the buyer who is not so cagey, and for instance in one city there is only one kitchen cabinet which can be put in a house because of sub rosa agreements. If you as a buyer knew of those sub rosa agreements maybe you could get another, but it is very difficult to get statistics about these things. We have made no attempt ourselves to make any of these comparisons.

Mr. Avildsen. Have you any guess as to how a man building a house in Pittsburgh has benefited in actual dollars as a result of this? For instance, gravel has gone down so much, lumber has gone down so much. Has labor gone down?

Mr. Arnold. I would prefer not to make those guesses myself. We take this position. The situation in building is a lot like the situation in automobiles when they were trying to keep Henry Ford out. What is the use of making guesses as to what can be accomplished by free experimental development of this industry? We don't have the force to get statistics. We don't think it is an essential matter of proof.

As I say, we are short-handed, actually, in trying our indictments.

Mr. Avildsen. All we know is that a man who starts to build a house today is going to have a lower cost at Pittsburgh than he had 6 months ago.

Mr. Arnold. There is no question but that these restraints are disappearing. For instance, in another city, the name of which I don't want to give, after calling the contractors before a grand jury they all stopped their bid depositories, every one of them. That was all that was necessary. We are not publicizing the names. We accomplished our objective and we do know that you are going to get actual competition among those contractors as long as the men are in there. It would be utterly impossible to tell just how much we will save in a situation like that.

A third discovery is that a staff in the field equipped to investigate thoroughly the complaints in a given locality, obtains an amazing amount of voluntary assistance from groups who otherwise might not have taken the initiative to complain. A display of activity invariably causes businessmen and consumers who have been the victims of improper practices to take heart and offer their active cooperation. In one large city, for example, there were a number of bid depositories operating in a way which we considered to be in restraint of trade. The members of these depositories were interviewed by our investigators. In a short time every one of them informed us that he was ceasing the practice we were investigating. This was done before we had developed any case against them. They told us they were doing it because they believed that if other unlawful restraints were cleared away from the building industry they would be better off without these depositories. Although it would be unfair to announce publicly the names of the individuals concerned or the city where this happened, I think I can safely say that this is typical of what is happening in many places.

I am using the building investigation as a pattern for activity in all fields where prices are behaving unreasonably.

A fourth discovery is that these results will not be permanent, in building or any other industry, if the staff is withdrawn. If we were to withdraw our investigators from any locality where we have already accomplished beneficial results, it is almost certain that within a year the old abuses would reappear. As we have often asserted, the problem is similar to that of controlling traffic. There must be a traffic policeman on a crowded corner. If the policeman is there the law will be obeyed. If we have an adequate staff in the field to receive and investigate complaints we will get the complaints and the investigations will accomplish beneficial results. If the men are not there, nothing will happen and the consumers will get discouraged and the law will be ignored.

The problem of enforcement, therefore, requires two things:

1. An adequate prosecuting group sufficient to break up the organizations imposing restraints, which can be withdrawn after the prosecutions are over; and

2. One or two men assigned permanently in each State to preserve the gains by hearing complaints and keeping in close contact with the situation.

A large permanent staff in the field is not necessary. One or two men located in the larger cities to receive complaints and make investigations would be sufficient, if the public knows that we have men in reserve who can be called out in the event a local situation gets out of control. The men permanently allocated to each State could act as a clearing house for consumer information and complaints. With such an organization we could change what is now an unorganized protest into an intelligently organized enforcement movement. With various existing consumer groups, such as farmers, consumer associations, trade associations, women's clubs, State and Federal officials, retailers, manufacturers, wholesalers, and unemployed persons disseminating information gathered by the resident field staff, profiteering would become unprofitable.

America is being organized rapidly into various types of associations. These include trade associations, labor unions, fair trade committees, collective bargaining agencies among farmers and laborers, and so forth. Each of them, either by common law or statute, is given certain reasonable privileges of organization to meet its particular problems and to raise it to the level of an effective competitor in a highly organized industrial society. The purpose of the antitrust laws is to furnish a brake or a balance wheel to see that the privileges of organization granted either by the courts under the rule of reason or by Congress are not distorted into instruments to maintain the arbitrary power of a few.

I may say that my assistant, Mr. Fowler Hamilton, has prepared just one example which I will ask him to give at the end of this statement, which shows how such privileges may be abused and how simple it is to stop the abuse of such privileges.

One principle of antitrust enforcement mentioned briefly heretofore needs amplification. There is need for a body that can hear cases involving situations which the antitrust laws appear to be inadequate for such treatment as the facts require. To illustrate, let us suppose that a huge surplus exists in a particular industry which disorganizes it; that to dispose of the surplus an agreement is made to restrict the production of 95 percent of the industry. The combination would go far beyond any reasonable extension of the principle established in the *Appalachian Coal case.*[1] From an economic view, however, the industry would be entitled to a hearing on the question of whether it was confronted with some peculiar problem requiring special treatment. It is obvious that a treatment which will throw men out of work and decrease the supply is the natural course for private industry to take. It may be the only solution, but certainly this conclusion should not be reached without exhaustive study. Other methods of dealing with the surplus should be examined. This is a typical case where some sort of tribunal which has the confidence of Congress and a close connection with the executive branch of the Goverment is imperatively required.

Other particular cases might arise out of reconciling conflicting legislation or conflicting decisions. In some cases a business problem might be cleared up which otherwise would take years of litigation or which might involve such a threat of pending litigation as to deter the industry from attempting to solve it. Another type of problem which such a body might consider would be one in which liasion with Congress is needed, as in the case of abuses of various privileges such as patents and copyrights.

Business should be provided with at least an opportunity to present its contentions before a regularly organized committee with experience in monopoly problems whenever it feels that the existing law prevents efficient operation. And what is true of business men is true of consumers also. Such a tribunal with power to investigate facts and make recommendations to Congress in specific cases could exist anywhere in the Government. Nevertheless, it seems to me obvious that the present Temporary National Economic Committee has already established an organization which would be admirable for that purpose. It is the only committee on which there are representatives not only of the Senate and the House but also of executive branches of the Government. It has already developed experience and technique in hearings on problems of particular industries. I would suggest, therefore, that sufficient appropriation be provided to allow this Committee to continue as a tribunal to hear and investigate facts regarding any particular industries which have difficulty operating under present laws and in connection with an antitrust enforcement program.

[1] 288 U. S. 344.

Obviously, without a Nation-wide antitrust enforcement program such a tribunal would have no important business before it. People do not ordinarily run to Congress except with special axes to grind. Antitrust enforcement, however, inevitably compels businessmen to face the particular problems which would be presented to this committee.

So much for general discussion. I have set forth what I conceive to be the objectives of a practical plan for dealing with unjustified price increases.

Mr. AVILDSEN. Could you explain a little further just what this tribunal would do? Would it in your opinion have power to say to these businessmen after investigation, "You may go ahead and do so-and-so and you will not be prosecuted under the Sherman Act?"

Mr. ARNOLD. No; I think such a delegation would be impossible. I am seeking no legislation, whatever. I am simply stating that this committee should use its present powers of recommending to Congress special legislation. This is simply a tribunal which can hear special facts as it is now doing and recommending legislation to Congress. The only difference between the activities contemplated and the present activities is that the committee would take up instead of the entire economic field, such special cases is it thought needed alleviation.

Mr. AVILDSEN. Let's take the example you gave of this industry with a 95 percent surplus, and so forth. Suppose they came in here and told their story to the committee. Do you mean the committee, if they were inclined to agree with these men, that they should have some relief would make a recommendation to Congress for special legislation for that particular industry?

Mr. ARNOLD. Yes. Let me illustrate the technique actually going on, not in an organized way. We are prosecuting Western Union and Postal Telegraph. It appears that efficient distribution of written communications is imperiled by the fact that there doesn't seem to be any way for either of those companies to prosper. There is also the problem of the A. T. & T. with its teletype and the radio with its radio tubes; there is also the problem of 18,000 men who would be thrown out of work if the Postal Telegraph disappeared. There was a resolution to investigate that in connection with the antitrust prosecution, introduced by Senator Wheeler and I don't wish to comment on it because the matter is now pending before the Interstate Commerce Committee, but if there are inequities in that situation which cannot be solved by the antitrust prosecution, and I suspect there are, it will receive ad hoc specific treatment from Senator Wheeler's resolution. Now I think that such a thing, which is often necessary, should be a regularized procedure, and I can think of no better type of committee than this one to handle that. In other words, that was accomplished because there was sufficient pressure and sufficient interest to do it, but every businessman should have that sort of an opportunity and he shouldn't have to have any particular axes himself to get it.

Mr. AVILDSEN. Do you think they are actually getting somewhere in that telegraph case?

Mr. ARNOLD. I don't think that I want to go outside of my field in comment. Yes; I hope so, but the hearings have yet to be held and I don't want to anticipate Senator Wheeler's hearings. In any event, that opportunity should be offered for somebody to hear the economic side of the complaint; the mere opportunity is worth while.

So much for the general discussion. I will now get down to a specific plan.

1. There should be about 50 qualified men immediately employed—my suggestion is approximately a man in every State, in New York possibly more than in some of the more thinly populated States like Massachusetts—by the Antitrust Division and posted at strategic points throughout the country to head up the investigation of consumers' complaints and promote cooperation with consumer groups.

Dr. KREPS. When you speak of consumers there, Mr. Arnold, you mean to include industrial consumers just as much as domestic consumers?

Mr. ARNOLD. Industrial consumers just as much; for instance, automobile dealers who are complaining of impositions, almost any of these consumers.

May I amplify a little this way: Under our present staff and in the past, we are taking up only Nation-wide industries—the Aluminum Co., the General Motors Auto Finance Corporation, and that type of situation. Now we should carry on the consumer type of investigation, which does not take up one large company but takes up a product from start to finish.

These men should be economists or lawyers with economic training. They should be instructed to inform themselves fully in regard to the business problems of the State where they are located and the methods of distribution employed there. They should become fully acquainted with the trade associations, labor organizations, cooperative associations and consumers' organizations in the States to which they are assigned. They should become local clearing houses for complaints from consumers and businessmen. In effect, they would function as listening posts and channels for the reference of complaints to the Antitrust Division or the Temporary National Economic Committee. These men would not have control over policy, but they would refer all inportant questions of policy to the Antitrust Division for decision. The Antitrust Division would then make one of the following dispositions of each complaint referred:

a. Clear violations of law would be referred to a grand jury for such action as seemed warranted. While I believe that civil penalties would afford a more effective method of enforcement for violation than the present criminal process, I have already stated to this Committee that under present statutory provisions the criminal process is the most effective one.

Dr. KREPS. Isn't it a rather effective deterrent just to summon businessmen for investigation?

Mr. ARNOLD. That really is, Dr. Kreps, one of the most effective deterrents we have; for instance, in one city, there was going to be an increase in restaurant prices during the recent flurry. I suspect if it had occurred, it would never have come down. We had pretty good information that the boys were all set for that increase. We simply called them before a local grand jury and all desire for the increase disappeared.

Now, the advantage of that is this: No one knew anything about it; the grand jury was completely secret, there was no necessity of those men having to save their faces. If we were wrong, there was no harm done. Had those men been publicly called before this Committee, they would immediately have been put in a position where, if the Committee was wrong, whether or not the Committee was, they would have to put in a defense and a fight would have developed. So the mere existence of this grand jury touches the man with a guilty conscience, or makes the man who is really going too far, reconsider his position, without any publicity whatever, and there certainly wasn't enough to indict anyone in that situation. The whole thing was cleared away.

(Mr. Avildsen assumed the Chair.)

Acting Chairman Avildsen. What business did you say that was?

Mr. Arnold. This happened to be restaurant prices.

Acting Chairman Avildsen. Restaurant prices?

Mr. Arnold. Yes. Now, I don't want to give the name of the city or the individual.

Acting Chairman Avildsen. No.

Mr. Arnold. In another case, a labor union was about to close up a Nation-wide industry. The same sort of thing came up there. The difference was settled and there was no strike whatsoever, and there was no necessity of the labor union being forced in a public position to save its own prestige. So the mere existence of these grand juries is a tremendous potential enforcement possibility.

b. Where further development of the facts seems necessary and cannot be obtained by field investigations, the grand jury should be used to get additional facts. Such use of the sitting grand jury to obtain information or facts is often in itself a most effective method of enforcement. The grand jury should be used as a real investigating device and not alone as a means of obtaining indictments—and that is the historic function of a grand jury, not simply to indict people but really to find out what is going on in the community, in such a way as not to create public scandal or suspicion on anyone's part.

There should be no hesitancy to recommend that no true bills should be returned where such result is indicated as proper by the facts.

c. Conditions which have created the complaint should be discussed wherever possible with the business organization concerned, with a view to removing the source of the complaints.

d. Wherever complaints indicate a situation in which the antitrust laws appear to be inadequate, they should be referred to the Temporary National Economic Committee.

e. Complaints involving intrastate commerce should be referred to the appropriate local officials and at all times the local representative of the Antitrust Division should be in touch with the State enforcement agents so that cooperation between Federal and State Governments is always consistent and coordinated.

For instance, I was informed by a Virginia attorney that no case had ever been brought under the Virginia antitrust laws, and that most of the Virginia attorneys had never heard of it. Now, that is not a statistical conclusion; it is simply a statement, and I think it is approximately true. We are going to get that cooperation from local officials if we take the lead, if these men are in the field, explaining to local people what these laws can accomplish for them.

Now, as to the next question, of intrastate and interstate commerce, that can be solved in a very simple way with State cooperation.

Where someone says intrastate commerce, the local man steps forward. When somebody says interstate commerce, our man steps forward, and this constant fight over this vague line can be largely eliminated.

So much for it in general. The 50 men whom we wish immediately—and I want to emphasize that we want them immediately, because if we are going to pull our five men out of Pittsburgh, we want to leave one man in Pennsylvania; otherwise, most of the effects of our present building drive are going to disappear.

Now, second——

Acting Chairman AVILDSEN. Excuse me, Mr. Arnold, but do you know whether all the States have adequate antitrust laws?

Mr. ARNOLD. Not all of them; I can't tell you offhand how many, but I would say that the majority of them do. We are having a survey made of that—wouldn't you say?

Mr. HAMILTON. Yes; and the laws vary.

Mr. ARNOLD. They vary a lot. Some of them have jokers in them. My belief, however, is that where a State does not have an antitrust law, where this unused instrument is adequate, the interest of the consumers themselves who see the ability to get a cheap house across the State line, is going to have a tremendous effect upon the development of their local antitrust laws, and, at present, they know nothing about them.

Well, then, with that organization, a permanent organization, there should be about 100 additional men provided who would be located in strategic points throughout the country, available to support and assist the activities of the men assigned to head up this work in each State. These 100 men would be called upon from time to time to assist the men in charge of these investigations in each State. They would be assigned according to the needs of particular States. Obviously, there would have to be some flexibility about these assignments, but our present estimate is that the work could be adequately handled by having one key man responsible for handling complaints in each State, with about 100 men to assist and support this work throughout the country.

Now, that is from experience, based upon this line. We have not quite a hundred men out. How many men do we have out on building?

Mr. HAMILTON. I think somewhere between ninety and a hundred.

Mr. ARNOLD. We have about 90 men out on building today. We have them in 12 cities. Let's take the case of Pittsburgh, because there seems to be so much, at least local, enthusiasm for what we are doing. When we have established reasonable business habits in Pittsburgh, those men would be withdrawn and, we will say, put in Philadelphia. The local man, the State man, could maintain the teams in Pittsburgh and he could be considered primarily as a contact man, as a person to advise, and this mobile group of a hundred men would be called on only in a situation where you needed to break a set of vicious practices, and a hundred men can do it. Less cannot do it. The hundred men are based factually upon our experience today with 90 men who are now operating in 12 cities. They can operate in only about 12 cities at a time, but that is enough.

3. The Temporary National Economic Committee should be made a permanent organization. It should be announced that this is the proper tribunal before which to present matters where hearings are sought not strictly pertaining to law violations, and also when it is

desired to have consideration given to amending present laws to deal with particular industrial problems.

4. There should be set up somewhere in the Government a bureau of industrial economics to furnish an objective survey of the facts of any industry for the benefit of the agencies which deal with the antitrust laws. Such a bureau might, of course, have other functions. However, I do not wish in this report to go beyond its immediate relationship to the plan under discussion.

5. The total annual appropriation for all these activities for the Antitrust Division and the Temporary National Economic Committee as a permanent body would not exceed $2,000,000. That sum, of course, is in addition to the present appropriation allocated to the Antitrust Division. We are about to spend nearly a billion dollars a year on armaments alone. The type of organization outlined herein would permit effective control within reasonable limits of prices, and save millions annually to consumers. And I think two millions a year would do it. The present building drive represents an expenditure of not more than $300,000, doesn't it?

Mr. Hamilton. Yes.

Mr. Arnold. That is at its height. It represents an expenditure of not more than $300,000. Of course, we are short-handed. we do not have enough traveling expenses, but the need for these drives will decrease as people get understanding of what we are doing.

This proposed organization is not directly concerned with the two other instruments of Government which have the most effect upon prices. I refer to the taxing and spending powers. However, it does indirectly affect the results which are to be achieved by the use of these powers in the following ways.

1. It is most important that wherever Government subsidies are granted to any industry, the industry be cleared of the restraints which prevent experimental competitive development and increased volume so that these subsidies will not be the means of establishing even more firmly in power aggressive organizations with arbitrary control of prices. Government spending without antitrust enforcement is simply the distribution of bonuses to a favored few.

There is bound to be a lot of Government spending in this country in the immediate future. Part of it will come from our own Government because our problems of providing low-cost housing, relief, and a balance of agricultural with industrial prices are not yet solved. Part of it will come from foreign governments in amounts increasing as the war continues. In such a situation, our task is to turn this spending into a benefit to competitive enterprise, a means of lowering prices through increased volume, and a stimulus to business in general. If we do not perform that task, the potential stimulus to recovery offered by this spending will create an artificial prosperity in a few industries while other industries are put at an actual disadvantage.

2. Since the proposed plan of organization provides for direct access to Congress, it may be expected the spending power may be more carefully used as a stimulus to industry in which the restraints of trade have been removed.

It is my sincere conviction that success or failure of the efforts of this committee depends on whether it succeeds in setting up a permanent organization capable of enforcing the antitrust laws through the cooperation and understanding of business, labor, agricultural organizations, and consumers. We all realize that fundamental changes in the law will not be made and that new tribunals with broad and sweeping powers to accomplish the task here outlined have not been established. They are political facts. Therefore the question before us is whether the antitrust laws are going to continue to be a series of crusades or whether we can settle them to an even, steady, fair, and consistent application of their principles in cooperation with private organizations.

What the organization I have outlined will do is to reestablish consumer sovereignty in this country.

The results which these men can achieve may be illustrated by an enterprise which, although not similar in purpose, would be similar in organization. I refer to the county agents in agriculture, who by a process of education have done marvels for efficient production and buying through cooperation among the farmers. The same thing can be done with the committees of the women's clubs and the consumers' associations and the secretaries of trade associations. Consumer representation in Government is sorely needed. The consumers today are interested in price problems as they have never been before. The only thing needed is a sufficiently decentralized personnel so that their efforts may be directed intelligently. This is not enforcing antitrust laws with a club; it is enforcement by public education, interest, and cooperation.

I am convinced that the rank and file of the members of every industry realize the benefits that can come from freedom of independent enterprise. For example, the secretary of a large trade association, distributing certain basic materials to the building industry, told me that he had no doubt his own association was vulnerable in our investigation. He added however:

> Nevertheless, I am for your investigation because it is going to clean up the conditions which compel us to take action of dubious economic value.

Take the case of labor as another example. The rank and file of no group will benefit more by the volume that will follow the breaking of log jams in the building industry. In one case of a jurisdictional strike, a single labor leader held up a million dollars worth of employment, which would have gone to the members of his own union in the winter when it was most needed, because of a jurisdictional dispute over two millrights. Not a single member of the Central Building Trades Council supported the strike. Men who had worked for 30 years in the plant had to go out against their will, in spite of the fact that the employer himself had been voted fair to labor.

We do not believe that the rank and file of labor desires to see their organizations used for purposes which have no relation to wages, hours, health, the speed-up system, or the right of collective bargaining. Indeed, the use of organizations for such purposes has been the principal basis for attacks on labor by its enemies. Those who desire to prejudice labor in the minds of the public are constantly citing the occasional case of the employer being prevented from using more efficient methods and being held up by a jurisdictional strike, or the utilization of labor unions by labor leaders to conspire with employers for their own personal gain or aggrandizement. The rank and file of labor is at present powerless to stop these practices. A fair antitrust policy will do two things for them:

1. It will prevent them from exploitation by small groups who do not have the interests of labor at heart, and they need the same sort of protection the small businessmen do.

2. It will develop case by case the freedom of labor to organize for legitimate labor disputes. This freedom has been seriously handicapped by leaving the enforcement of the antitrust laws in the past against labor to private groups with no responsibility as has been done in the past. The Antitrust Division will utilize its labor prosecutions to take the yoke off the back of labor by ridding it of the control of those who betray its own fundamental interests. The resulting sound trade-unions will draw the teeth of labor baiters.

Acting Chairman AVILDSEN. Are there any questions?

Dr. KREPS. I have none.

Acting Chairman AVILDSEN. Have you any?

Mr. COX. No.

Acting Chairman AVILDSEN. Have you any other statement?

Mr. ARNOLD. I should like to have introduced into the record at this time an explanation of a single and typical case of the unreasonable use of a privilege granted by Congress and the kind of things which this type of consumer organization could bring out. It is a *Robinson-Patman case.*

Mr. HAMILTON. Well, it is the various States' so-called unfair-trade-practice laws which prohibit sales below cost, and in some of the States the statute permits the trade association in an industry to make a cost survey and determine what the minimum cost shall be. Then the trade association promulgates its findings, but instead of breaking them down into the various items of cost, the trade association promulgates so-called minimum legal prices. Of course when the privilege is not abused it may very well constitute a reasonable exercise of joint control to eliminate price cutting and destructive competition. On the other hand, I have here, which I would like to introduce for the sake of the record, some excerpts that we have made from bulletins that have been promulgated by trade associations, which show in great detail the extent of the control that such an association will have in setting prices in a given community. They have here a list of several hundred prices that have been promulgated for various types of tobacco. Now these prices are enforced by the trade association threatening any distributor who sells at lower prices than those set forth, with criminal action. The price is absolutely uniform, absolutely rigid, and apparently makes no variation for varying efficiency on the part of different distributors and makes no allowance for the fact that one distributor may be able to secure his product at a cheaper price.

The names that originally appeared on these exhibits have been stricken off because we don't regard this an investigation. We are merely offering it by way of illustration of what may be a troublesome situation.

Acting Chairman AVILDSEN. You are not disclosing what State is involved?

Mr. HAMILTON. No; we didn't feel free to do that. Mr. Arnold has mentioned here in his memorandum the number of States that have the statute, and the exhibits we are offering are drawn from a trade association operating in one of the large American cities.

Acting Chairman AVILDSEN. All States have this law?

Mr. HAMILTON. Eight States now have this statute: Arkansas, California, Kentucky, Michigan, Montana, Utah, Washington, and Wyoming.

Acting Chairman AVILDSEN. Have they been in force very long?

Mr. HAMILTON. Well, I think that probably the period of time in which they have been in effect would vary from 3 to 5 years in various States.

Acting Chairman AVILDSEN. Yesterday, Professor Haring of the University of Indiana testified that an investigation in the State of Michigan on the retail food dealers disclosed that practically none of them knew of the existence of such a law in the State of Michigan.

Mr. HAMILTON. Well, doubtless, the activity of enforcement would vary with the vigor with which the trade association pursued the matter.

Mr. ARNOLD. In any event, I am using this as an illustration to show our attitude toward the laws which are frequently alleged to be inconsistent with the Sherman Act. You all will recall that a judge in Chicago declared that because of conflicting policies of agricultural legislation, the Sherman Act no longer applied to agricultural products. Fortunately, the Supreme Court of the United States has just reversed that decision, and there actually is no inconsistency.

I would like to have the various laws which appear to be inconsistent with the Sherman Act thought of in this way: Congress and the courts share the responsibility of determining what reasonable combinations are. I do not think the Antitrust Division, as an enforcing agent, should take public positions on whether they like the resale price-making laws, the Robinson-Patman Act, because it becomes our duty, when such laws are passed, to see that they are not abused, and the more of them that Congress passes, the more danger there is of the various types of abuses of which this is typical.

Now, if we have agents, men in the field, who are in touch with consumers, who can explain this sort of activity, we are going to get the pressure from consumers to see that these are not abused; we are going to get the outlet of the T. N. E. C., where there is an effort that they are abused, and where they are used for improper uses, and the antitrust law may take care of them.

One final word with respect to what such a man will do, to put it very specifically. We hope in the building trades to get out a consumers' book which covers all of the restraints which we intend to prosecute. Now, unless we publish a Government pamphlet, it is no good at all. In the hands of a man in the State of Pennsylvania, who is in touch with the women's club organizations, the committees from the Rotary, the Lion's Clubs and all that sort of thing, that book can become the most efficient enforcement you ever saw. All they have to do is to explain it, and people are not going to stand up against it, and that is the thing, in practical operation, if we can get this extension into the field of our activities, that we want.

(Representative Reece resumed the Chair.)

Mr. AVILDSEN. I believe, Mr. Chairman, that this is to be printed in the record.

Acting Chairman REECE. Without objection, it may be admitted for printing.

Mr. AVILDSEN. This is the exhibit referring to State unfair-trade-practice laws.

(The document referred to was marked "Exhibit No. 1525" and is included in the appendix on p. 11374.)

Mr. AVILDSEN. Do you know, Mr. Arnold, whether any of these States have endorsed these laws against merchants?

Mr. ARNOLD. Oh, yes; they have been.

Mr. HAMILTON. The most effective method of using this type of thing is merely the threat of enforcement.

Mr. ARNOLD. Of course, the most interesting case was about a year ago in Maryland, where the Treasury received bids, there were identical bids submitted to the Treasury; wasn't it on cement?

Mr. HAMILTON. Yes.

Mr. ARNOLD. The Treasury withdrew the bids—I mean withdrew it, the bidding—because the bids were identical, and submitted it again, and they got one low bid and immediately thereafter the low bidder was brought before a grand jury for violating the State fair-practices law. That was one of the most amusing examples of this thing.

Mr. AVILDSEN. Are there any other questions? If not, the committee thanks you very much, Mr. Arnold, for your very valuable contribution.

Is the next witness ready?

Dr. KREPS. There isn't another witness, Mr. Avildsen, but there is a summary which we felt might be useful for the committee, and I would like to read it.

Mr. AVILDSEN. You may proceed with the summary.

STATEMENT OF THEODORE J. KREPS, ECONOMIC ADVISER TO THE COMMITTEE

SUMMARY OF PRICE HEARINGS

Dr. KREPS. Summarizing the hearings, it is quite clear that business, Government, labor, and consumers are united in opposing abrupt and disruptive price increases. In the last 4 months, business statesmanship has risen to a new high. But the dangers of price "blitzkriegs" still remain. No one expects prices in the near future to get seriously out of balance, but everyone that does or must make a forecast is apprehensive of price rises. Continued vigilance is necessary. It is only the watched pot that does not boil over.

As shown by price experience during the World War, only a handful gain from skyrocketing prices. The losers are Mr. and Mrs. America. Consumers are pinched by the rising cost of living. The rank and file of labor, particularly the great mass of unorganized common labor and the vast group of clerical labor in white-collar jobs, are caught in a vise. Their wages and salaries lag behind prices. Wages and salaries never rise as quickly nor as far as prices. Those managing educational and eleemosynary institutions are likewise injured, their income from tuition and endowment being relatively fixed.

Manufacturers also lose, as was shown by the testimony of Mr. Hoffman and Mr. Vance,[1] because mass production, low cost, low gross margins and fair profits depend upon mass distribution and low prices. If the prices of the materials or labor they use rise abruptly, their costs and prices rise. Fewer automobiles are sold and manu-

[1] Supra, pp. 11181-11223.

factured. Overhead and other fixed costs per unit of output rise. Profits disappear.

Primarily, those who gain when prices are spiraling are the speculators, and many of them, of course, lose their shirts later, for inevitably, the price bubble bursts. Inventory values collapse. Thousands of retailers, service enterprisers, and small-business men are liquidated. Farmers are saddled with oppressive debt burdens. The spector of unemployment and hunger stalks the homes of millions of workers. Post-war depressions inflict disaster everywhere. It is only the exceptionally strong and the lucky who are able to grow stronger.

But we are by no means helpless. As the testimony has shown, price inflation is not inflicted from on high. It can be prevented, provided, of course, action by business and Government is prompt and forceful. At the present time, there is a lull. The threatened emergency of last September is past, and vigorous fighting abroad and consumption of materials there seems unlikely until next spring.

In this period, calm analysis can be taken. Productive capacity here and particularly in our North and South American neighbor-economies has greatly increased. European purchases are being carefully made, and limited largely to necessary munitions, other materials being secured from the Empire and from neutrals who are willing to extend credit.

There does not seem to be a reason for any considerable price rise. This is particularly true when you consider costs. As industry approaches capacity operation, its overhead costs are distributed over more units of product. There are interesting figures to show that labor costs have gone down. An article in the United States News for November 27, 1939, says, "Signs all point to an upswing," and states, "Labor costs in 1938 and 1939 have been declining." They make a computation which shows labor cost declining from 94.5 in 1937 to 93 in 1938 to 88 in 1939. They go on to say, "Labor costs are still below anything in the twenties."

That is what you would expect as business increases its operations, and the productivity of labor increases.

Mr. AVILDSEN. Of course, we did have an increase in labor costs in Detroit just recently as the result of the Chrysler strike, I believe, 3 cents an hour?

Dr. KREPS. Yes; there are special situations, but this is a general, overall computation.

Mr. AVILDSEN. But we can't reasonably expect labor to decline at this time. We can't expect to find labor decreases since December 1, 1939, for example.

Dr. KREPS. The computation will show that even there, with capacity operations, labor costs per unit of product are going down.

Mr. AVILDSEN. But not actual labor rates.

Dr. KREPS. No. But the labor rates are relatively unimportant.

Mr. AVILDSEN. You refer then, all through here, just to labor cost per unit?

Dr. KREPS. Yes; the kind of thing that makes employers raise their prices. It isn't labor rates that determine employers' labor costs; it is the productiveness of labor.

Mr. ARNOLD. For instance, in the Aluminum Co. the labor rate has more than doubled and costs have gone down tremendously, while the wages were being doubled.

Dr. KREPS. Exactly.

Now, therefore, is the time to take stock, and the most pressing of all is the need for information, and especially information upon inventories. The figures now available are fragmentary. At best, they give values, although we did get some excellent new figures into the testimony. Yet, the businessman who wishes to meet and avoid buying hysteria, the governmental and industrial purchasing agent, the distributor, in fact, all of them need information, commodity by commodity, preferably in terms of physical quantities, at each of the stages where inventories customarily pile up. It is interesting to note that all of the witnesses agreed that it is imperative that the Department of Commerce receive additional funds to collect and distribute information on inventories.

It seems to me that now is also the time to improve governmental buying policy. Government procurement inflated prices during the World War—that is a matter of record, and some of the witnesses have shown that in isloated instances, it may have been a disorganizing factor in the present market.

Next, plans ought to be formulated for meeting the problem of abrupt price rises in certain imports, notably, rubber, wool, shellac, various botanicals and silk. About the only effective device now available, it seems to me, is the trade-agreements program. I know that others were cited, but while the category may seem long, when you compare or examine carefully what these devices permit, you find them of little usefulness.

Let me turn, for example, to the testimony of one of the witnesses who was asked what could be done to prevent or do something about a dollar price for rubber.[1] He cites, for example, the Antidumping Act and, of course, that does not help at all. That protects our market against low prices, not high prices. There was cited also the President's power to stop shipping, by which he is authorized to withhold clearance for one or more vessels of such belligerent country or deny it commercial privilèges in this country. But that is again contingent on dollar rubber being charged to us and 50-cent rubber or 20-cent rubber being charged elsewhere.

In other words, that can be used only in event of price discrimination.

The Webb-Pomerene Export Act was also cited. Well, of course, that doesn't give us any protection against these prices that come in the form of dollar rubber. So I want to come back to the statement——

Mr. AVILDSEN. Who was the witness who made that statement?

Dr. KREPS. Mr. Raymond Leslie Buell of the Foreign Policy of Association.

I want to come back to the statement that about the only effective device in the foreign field we now have is the trade-agreements program and, of course, if that is allowed to lapse, we have none at all.

But obviously, the most important of all is the cooperative effort by business and Government to maintain price balance. Mr. Paul G. Hoffman of the Studebaker Corporation, Mr. Don Nelson of Sears, Roebuck, Mr. George Renard of the National Association of Purchasing Agents—each and every business and governmental witness

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[1] Supra, p. 11235.

at this hearing endorsed and emphasized the importance which has been consistently attached to the goal of price balance.

In the words of President Roosevelt's Committee on Price Policy nearly 2 years ago in the President's press release of February 18, 1938 [reading]:

> An important factor that determines whether we shall succeed or be blocked in our endeavor to attain full employment and a high level of income is the behavior of prices. In this connection, careful attention must be given to (1) the relations of the prices of various groups of commodities to each other; (2) the relation between commodity price levels and the level of debt burdens and costs; and (3) the direction and rate of movement of the general price level. The measures employed at any given time to further this policy must fit the needs of that time—

I want to emphasize that point—

> Prices of different groups of products must be brought in balanced relations to one another. Continued high prices of many commodities not subject to highly competitive market forces intensify the downward pressure of all other prices * * * For industries, such as agriculture, that operate at a high level of capacity, even when business activity is at low levels, the restoration of profits must come primarily through higher prices.

I think that fact is still true today.

> Our program——

Mr. AVILDSEN (interposing). Excuse me, Dr. Kreps. Your office has put out several statements as to price changes, commodities which have risen in price in recent weeks and so forth. Is that done on a regular basis? Do you do it once a week or once a month? What is your program?

Dr. KREPS. That is done on the 1st and 15th of the month.

Mr. AVILDSEN. So there will be one out pretty soon now?

Dr. KREPS. Yes.

Mr. AVILDSEN. Are you going to continue that practice?

Dr. KREPS. As long as the committee orders us to do it.

Mr. AVILDSEN. You don't know whether the bulletin for the 15th of December will show any further increases?

Dr. KREPS. I would have to consult our staff over in the Bureau of Labor Statistics to know that.

Mr. AVILDSEN. Do you know whether there have been any increases in the last——

Dr. KREPS (interposing). I am under the impression that there are.

Mr. AVILDSEN. You may proceed.

Dr. KREPS (reading):

> Our program seeks a balanced system of prices such as will promote a balanced expansion in production.

That is the end of the quotation.

Among the most effective devices for maintaining price balance, as Mr. Thurman Arnold has shown this morning, is the enforcement of the antitrust laws, for it should be noted with emphasis that prices in many instances do not rise; they are raised. Even at the present time, our testimony has shown that most of the prices which have been able to maintain the levels of last September are those in which competition is restricted by a national or international cartel or control. For example, you will remember rubber and zinc, copper and tin, and particularly silk.

Mr. PIKE. One question on that import, Dr. Kreps. Tin is thoroughly cartelized, as much almost as anything in the world, and pretty effectively so. In my memory, it hasn't risen at all. I wonder what method was used there. As I remember it, you speak to one, Captain Lyttleton, in London, and he tells you what the price of tin is and is going to be. But as I remember it, it hasn't risen. I wonder what sort of pressure was put on a cartel, governmental or by, perhaps, not over a half-dozen consumers in the United States.

Dr. KREPS. I haven't looked at the details, but I do not believe that the operations of the cartel are open to public view, nor is there is any public documentation.

Mr. PIKE. Not here, but in London, it is a pretty official thing and well known, and the operations are fairly open.

Dr. KREPS. Yes. The information which is conveyed is the kind that does appear in some of the newspapers and some of the financial magazines; I agree.

Mr. PIKE. Then, on the rubber thing, while it is cartelized, let's say, the price could be controlled up to, we will say, 35 or 40 cents a pound, but above that point, half a dozen of these new substitutes, like du Pont's Neoprene or three or four other things, come in and hit that price, and as I remember it, from 35 to 60 cents, and probably at a lower price if the demands were larger.

I would think that the control would be automatic around there, rather than at a dollar.

Dr. KREPS. Yes, that is true. The dollar figure was not cited except as a——

Mr. PIKE (interposing). No; but it can scare people if you use it, if you don't realize that somewhere long before the dollar price comes into effect, half a dozen manufacturers of substantial size can go in and make very satisfactory profits and turn out a very satisfactory substitute in quite large volume.

Dr. KREPS. At any rate, we could have prices rise threefold from present levels.

Mr. PIKE. Yes.

Dr. KREPS. Before you could have limitations on price even from substitutes.

Mr. PIKE. That is better than eight.

Dr. KREPS. Yes.

Relative to tin, this exhibit[1] shows that the increase that occurred in the price of tin, is now about 20 percent——

Mr. AVILDSEN (interposing). Of course, those are spot prices and do not necessarily reflect the cartel price, isn't that true?

Mr. PIKE. I think that is pretty well so.

Mr. AVILDSEN. Well, we learned in cases of some of these other commodities that they were not cartel prices, they were spot prices.

Dr. KREPS. That is true, and I would have to examine these to make sure.

Mr. AVILDSEN. For instance, the rubber chart showed that rubber went up 50 percent in a few days. We know that cartels did not raise the prices.

Dr. KREPS. No. In that case the cartel restricts the quantity. Cartels operate, of course, in various ways.

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[1] See "Exhibit No. 1471," p. 11054.

Mr. AVILDSEN. I understand that, but I mean these prices are spot prices, I believe, and not——

Dr. KREPS (interposing). That, I should think, might readily be true.

Mr. PIKE. But there is no trade in there, so the spot price is the cartel price. On zinc, incidentally, the price has dropped half a cent since that testimony. I don't know the percentage, but probably of the order of 8 or 10 percent, since Dr. Lubin's testimony was given earlier this week.[1]

Dr. KREPS. Yes. I have summarized testimony as given rather than what may have happened afterward.

Probably the most interesting or significant fact shown in the hearings was that shown by Dr. Thorp in this chart comparing prices with production.[2] His chart shows clearly that prices soon reach a level where they do not stimulate production. During the World War, for example, the economy never reached the levels of production attained in 1916. In short, all that the price boom of 1917–20 accomplished was a multiplication of the burdens and the cost of the war, on the backs of the post-war generations; for the war debt incurred in 50-cent dollars had to be paid back through years of taxes in hundred-cent dollars. Had there been effective and cooperative action by Government and business to maintain price balance at the beginning of the World War, the total cost of the war might have been halved. Our governmental debt might now be some 15 or 20 billion dollars lower.

Now, it is obvious that only with price balance is full production possible, and in modern industrial wars, full production is the prime military necessity. No more effective measure of economic and military preparedness exists than that of maintaining price balance through enforcement of antitrust laws and the exercise of cooperative governmental and business statesmanship.

Mr. AVILDSEN. Thank you very much, Dr. Kreps.

Have you any announcements to make as to the next meeting of the committee? The insurance hearing will continue this week, is that correct?

Dr. KREPS. The insurance hearing will recess today until Thursday, December 14. There will be a hearing on investment banking, which opens on the 12th, I believe.

Mr. AVILDSEN. Are there any other questions If not, the committee will stand adjourned until 10:30 Tuesday morning.

(Whereupon, at 12 o'clock noon, the committee adjourned until 10:30 a. m., Tuesday, December 12, 1939.

[1] See "Exhibit No. 1471," supra, p. 11054.
[2] See "Exhibit No. 1505," supra, p. 11093.

APPENDIX

Exhibit No. 1450

(Chart based on following statistical data appears in text on p. 11023)

U. S. Department of Labor

BUREAU OF LABOR STATISTICS

Washington

[Index numbers] of wholesale prices, 1801 to 1939

[1926=100.0]

The following index numbers from 1890 to 1936 are the regular weighted series of the Bureau of Labor Statistics, computed by the same method throughout and published currently. The number of price series included has been changed from time to time, and at present totals 784. The figures for years prior to 1890 are arithmetic averages of unweighted index numbers of individual commodities, and are here converted to the 1926 base in conformity with the Bureau's practice.

1801	111.8	1836	83.5	1871	82.8	1906	61.8
1802	91.8	1837	82.8	1872	84.5	1907	65.2
1803	93.9	1838	79.4	1873	83.7	1908	62.9
1804	101.5	1839	83.5	1874	81.0	1909	67.6
1805	104.2	1840	71.1	1875	77.7	1910	70.4
1806	102.2	1841	70.5	1876	72.0	1911	64.9
1807	96.0	1842	65.7	1877	67.5	1912	69.1
1808	93.9	1843	61.8	1878	61.7	1913	69.8
1809	98.7	1844	62.1	1879	58.8	1914	68.1
1810	107.7	1845	62.6	1880	65.1	1915	69.5
1811	104.9	1846	64.8	1881	64.4	1916	85.5
1812	106.3	1847	64.9	1882	66.1	1917	117.5
1813	123.6	1848	61.8	1883	64.6	1918	131.3
1814	154.6	1849	60.1	1884	60.5	1919	138.6
1815	121.5	1850	62.3	1885	56.6	1920	154.4
1816	103.5	1851	64.5	1886	56.0	1921	97.6
1817	104.2	1852	62.5	1887	56.4	1922	96.7
1818	102.2	1853	66.4	1888	57.4	1923	100.6
1819	89.7	1854	68.8	1889	57.4	1924	98.1
1820	76.6	1855	68.9	1890	56.2	1925	103.5
1821	73.2	1856	68.9	1891	55.8	1926	100.0
1822	75.2	1857	68.5	1892	52.2	1927	95.4
1823	71.8	1858	62.0	1893	53.4	1928	96.7
1824	71.1	1859	61.0	1894	47.9	1929	95.3
1825	71.8	1860	60.9	1895	48.8	1930	86.4
1826	71.1	1861	61.3	1896	46.5	1931	73.0
1827	71.8	1862	71.7	1897	46.6	1932	64.8
1828	68.3	1863	90.5	1898	48.5	1933	65.9
1929	67.6	1864	116.0	1899	52.2	1934	74.9
1830	65.6	1865	132.0	1900	56.1	1935	80.0
1831	70.4	1866	116.3	1901	55.3	1936	80.8
1832	71.1	1867	104.9	1902	58.9	1937	86.3
1833	70.4	1868	97.7	1903	59.6	1938	78.6
1834	65.6	1869	93.5	1904	59.7	1939 [1]	76.7
1835	74.6	1870	86.7	1905	60.1		

[1] 10 months.

Exhibit No. 1451

Statistical data for this chart which appears in text on p. 11024, are included in the data for "Exhibits Nos. 1452, 1453, 1454 and 1455" under the columns entitled "All Commodities", see infra, pp. 11334-37.

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Exhibit No. 1452

(Chart based on following statistical data appears in text on p. 11025)

Prices of Farm Products and Food in the War Period

[1913—100]

Year & Month	All Commodities	Farm Products [1]	Foods [2]	Year & Month	All Commodities	Farm Products [1]	Foods [2]
1913—Jan.	100.7	97.3	98.9	1918—Jan.	179.1	205.2	179.0
Feb.	100.0	97.1	98.0	Feb.	175.8	205.9	178.8
Mar.	100.1	97.5	98.3	March	181.1	206.3	174.3
Apr.	99.9	97.2	98.1	April	183.8	202.8	176.6
May	98.7	96.6	96.9	May	183.5	196.1	176.5
June	98.9	97.6	98.0	June	184.8	196.1	176.8
July	99.6	100.1	100.9	July	189.1	205.0	184.3
Aug.	99.9	101.1	102.0	Aug.	192.4	214.0	186.4
Sept.	101.1	104.2	103.0	Sept.	197.0	219.6	193.5
Oct.	100.9	104.3	102.3	Oct.	195.3	211.7	197.5
Nov.	100.4	104.9	103.4	Nov.	195.3	210.2	200.3
Dec.	99.0	102.7	101.9	Dec.	195.3	211.3	203.0
1914—Jan.	98.3	102.1	100.0	1919—Jan.	192.6	215.4	200.0
Feb.	97.9	101.4	98.3	Feb.	186.0	207.7	188.9
March	97.4	100.8	96.6	March	188.1	213.1	197.0
April	96.8	100.0	94.5	April	190.5	221.5	200.2
May	96.6	99.9	95.0	May	193.8	226.6	205.0
June	96.6	100.1	96.9	June	194.3	219.4	198.3
July	96.4	99.9	98.0	July	202.1	230.1	203.3
August	99.7	101.4	107.2	August	206.7	228.5	206.1
Sept.	100.6	99.6	109.3	Sept.	202.1	214.3	200.5
Oct.	97.4	95.5	106.1	Oct.	202.9	213.7	200.6
Nov.	96.7	97.6	105.1	Nov.	207.0	223.1	203.7
Dec.	96.4	96.5	103.9	Dec.	215.6	231.5	215.4
1915—Jan.	97.6	100.1	103.7	1920—Jan.	225.9	238.0	226.0
Feb.	98.3	101.8	103.9	Feb.	225.1	228.4	215.3
March	97.7	99.7	102.2	March	227.2	230.1	212.0
April	98.4	100.7	101.9	April	237.1	235.9	225.2
May	98.9	101.1	101.4	May	239.5	237.5	229.4
June	97.9	98.3	99.7	June	238.5	234.1	232.1
July	99.3	100.3	100.8	July	237.5	224.3	228.7
August	98.3	99.3	98.9	Aug.	231.2	209.7	215.6
Sept.	97.9	96.8	97.7	Sept.	222.3	201.3	210.0
Oct.	100.6	100.4	101.6	Oct.	206.6	178.7	198.9
Nov.	102.7	100.0	105.1	Nov.	191.1	166.0	193.0
Dec.	106.0	102.2	106.7	Dec.	172.9	146.3	170.9
1916—Jan.	110.3	107.6	105.8	1921—Jan.	163.3	142.1	161.8
Feb.	112.5	107.7	106.4	Feb.	150.3	129.7	147.4
March	115.2	107.6	109.0	March	146.7	125.7	145.8
April	117.0	109.0	110.7	April	141.7	115.8	140.0
May	118.2	109.8	111.7	May	137.8	116.2	134.0
June	118.8	109.4	113.7	June	133.8	112.7	130.7
July	119.5	112.4	116.0	July	133.8	121.0	136.3
Aug.	121.9	120.4	119.6	Aug.	134.0	124.3	143.0
Sept.	124.5	125.2	123.1	Sept.	133.8	125.5	141.1
Oct.	130.5	131.3	130.2	Oct.	134.8	125.5	139.6
Nov.	139.5	140.3	136.1	Nov.	135.0	122.5	139.3
Dec.	142.1	138.5	132.9	Dec.	133.1	122.9	135.2
1917—Jan.	146.3	145.3	134.7	1922—Jan.	130.9	123.1	129.8
Feb.	149.7	150.6	138.9	Feb.	133.1	133.0	130.4
March	154.3	158.5	143.5	Mar.	133.0	130.6	131.2
April	163.5	175.0	159.0	Apr.	133.5	129.5	131.3
May	172.9	186.6	169.2	May	137.7	131.9	132.1
June	174.8	187.4	166.0	June	138.0	129.8	134.3
July	176.2	188.7	164.0	July	142.4	133.7	137.7
Aug.	178.8	191.7	170.4	Aug.	141.3	127.6	136.0
Sept.	176.9	190.1	172.9	Sept.	142.3	129.2	138.0
Oct.	175.1	195.1	179.0	Oct.	142.7	131.7	142.7
Nov.	175.9	199.6	179.0	Nov.	144.0	136.8	147.7
Dec.	176.1	197.2	178.2	Dec.	144.3	138.7	148.0

[1] The Farm Products groups includes the following subgroups:
- a) Grains.
- b) Live stock and poultry.
- c) Other farm products.
- d) All farm products.

[2] The Foods group includes the following subgroups:
- a) Butter, cheese, and milk.
- b) Meats.
- c) Other foods.
- d) All foods.

Source: Bureau of Labor Statistics.
11-3-4-39.

EXHIBIT NO. 1453

(Chart based on following statistical data appears in text on p. 11026)

Prices of Textiles and Hides and Leather in the War Period

[1913=100]

Year & Month	All Commodities	Hides & Leather Products[1]	Textiles Products[2]
1913—Jan	100.7	100.0	100.5
Feb	100.0	100.0	100.9
Mar	100.1	99.6	101.0
Apr	99.9	99.7	100.7
May	98.7	98.4	99.8
June	98.9	98.4	99.5
July	99.6	97.9	99.5
Aug	99.9	99.1	99.1
Sept	101.1	100.0	99.8
Oct	100.9	101.5	100.2
Nov	100.4	102.2	99.8
Dec	99.0	102.5	98.8
1914—Jan	98.3	101.8	97.6
Feb	97.9	102.1	97.4
March	97.4	102.5	97.2
April	96.8	103.1	97.4
May	96.6	103.2	97.4
June	96.6	104.4	97.2
July	96.4	102.3	96.5
August	99.7	103.8	96.5
Sept	100.6	105.0	95.3
Oct	97.4	105.7	92.7
Nov	96.7	106.8	89.9
Dec	96.4	109.1	88.8
1915—Jan	97.6	110.3	88.1
Feb	98.3	110.9	89.0
March	97.7	111.0	90.8
April	98.4	107.8	92.5
May	98.9	108.1	92.8
June	97.9	109.1	92.8
July	99.3	109.7	93.2
August	98.3	111.6	94.1
Sept	97.9	111.2	95.5
Oct	100.6	112.3	98.6
Nov	102.7	113.7	101.7
Dec	106.0	114.5	104.7
1916—Jan	110.3	115.3	109.2
Feb	112.5	118.2	113.4
March	115.2	122.0	115.9
April	117.0	123.2	116.1
May	118.2	130.4	116.8
June	118.8	134.8	117.1
July	119.5	134.7	121.1
Aug	121.9	135.2	125.1
Sept	124.5	136.9	126.4
Oct	130.5	145.8	132.5
Nov	139.5	165.9	137.5
Dec	142.1	182.8	144.0
1917—Jan	146.3	189.7	146.8
Feb	149.7	189.3	146.8
March	154.3	187.7	147.8
April	163.5	187.8	153.8
May	172.9	185.9	159.7
June	174.8	180.8	168.4
July	176.2	180.2	179.2
Aug	178.8	176.9	185.9
Sept	176.9	173.4	186.6
Oct	175.1	173.3	190.1
Nov	175.9	177.8	197.6
Dec	176.1	179.4	204.7
1918—Jan	179.1	176.2	212.4
Feb	175.8	172.8	216.9
March	181.1	169.5	224.8
April	183.8	174.9	237.2
May	183.5	182.8	240.7
June	184.8	186.6	247.3
July	189.1	189.3	249.4
Aug	192.4	190.9	249.2
Sept	197.0	194.4	253.2
Oct	195.3	194.1	252.2
Nov	195.3	193.2	248.9
Dec	195.3	193.4	242.1
1919—Jan	192.6	198.4	222.0
Feb	186.0	200.1	207.7
March	188.1	202.2	199.3
April	190.5	208.1	198.4
May	193.8	223.9	209.1
June	194.3	252.7	227.7
July	202.1	282.5	244.5
August	206.7	307.3	251.7
Sept	202.1	304.7	253.4
Oct	202.9	299.3	259.9
Nov	207.0	296.3	273.3
Dec	215.6	292.2	287.1
1920—Jan	225.9	295.0	326.4
Feb	225.1	298.7	338.4
March	227.2	289.9	336.0
April	237.1	289.3	339.6
May	239.5	283.7	328.6
June	238.5	258.0	315.2
July	237.5	250.1	294.9
Aug	231.2	236.0	280.6
Sept	222.3	225.7	252.7
Oct	206.6	214.1	230.7
Nov	191.1	194.4	212.0
Dec	172.9	184.4	198.3
1921—Jan	163.3	175.5	177.5
Feb	150.3	172.5	168.2
March	146.7	166.8	162.3
April	141.7	157.6	160.4
May	137.8	157.4	159.5
June	133.8	157.1	159.9
July	133.8	156.5	159.2
Aug	134.0	157.3	157.2
Sept	133.8	158.0	165.6
Oct	134.8	155.2	170.0
Nov	135.0	154.6	170.0
Dec	133.1	155.9	170.2
1922—Jan	130.9	153.5	170.5
Feb	133.1	153.6	168.8
Mar	133.0	151.5	166.3
Apr	133.5	146.5	165.8
May	137.7	145.5	170.2
June	138.0	148.6	174.2
July	142.4	151.7	175.7
Aug	141.3	154.3	175.0
Sept	142.3	157.0	177.0
Oct	142.7	159.6	181.5
Nov	144.0	162.0	186.4
Dec	144.3	160.2	188.3

[1] The Hides and Leather Products group includes the following subgroups:
- a) Hides and skins.
- b) Leather.
- c) Boots and shoes.
- d) Other leather products.
- e) All hides and leather products.

[2] The Textile Products group includes the following subgroups:
- a) Cotton goods.
- b) Silk and rayon.
- c) Woolen and worsted goods.
- d) Other textile products.
- e) All textile products.

Source: Bureau of Labor Statistics.

Exhibit No. 1454

(Chart based on following statistical data appears in text on p. 11028)

Prices of Chemicals and Drugs and Building Materials in the War Period

[1913=100]

Year & Month	All Commodities	Building Materials [1]	Chemicals & Drugs [2]	Year & Month	All Commodities	Building Materials	Chemicals & Drugs
1913—Jan.	100.7	100.9	100.2	1918—Jan.	179.1	162.1	233.4
Feb.	100.0	101.6	100.4	Feb.	175.8	163.0	235.9
Mar.	100.1	102.3	100.1	March	181.1	166.0	237.0
Apr.	99.9	102.6	100.4	April	183.8	170.7	237.4
May	98.7	102.3	100.1	May	183.5	172.0	233.0
June	98.9	101.4	99.9	June	184.8	174.4	227.2
July	99.6	99.3	99.8	July	189.1	179.0	222.9
Aug.	99.9	99.1	99.4	Aug.	192.4	180.6	224.9
Sept.	101.1	99.3	100.0	Sept.	197.0	181.3	223.7
Oct.	100.9	98.1	100.0	Oct.	195.3	179.5	223.8
Nov.	100.4	97.2	99.8	Nov.	195.3	179.5	221.9
Dec.	99.0	96.5	99.3	Dec.	195.3	178.8	209.2
1914—Jan.	98.3	94.0	99.0	1919—Jan.	192.6	178.7	205.7
Feb.	97.9	94.7	98.3	Feb.	186.0	176.7	196.5
March	97.4	95.1	98.1	March	188.1	174.8	190.3
April	96.8	94.4	97.8	April	190.5	172.3	189.5
May	96.6	93.7	97.6	May	193.8	176.5	190.0
June	96.6	93.5	97.3	June	194.3	191.7	190.6
July	96.4	93.3	97.1	July	202.1	209.3	195.3
August	99.7	94.2	97.9	August	206.7	227.0	196.3
Sept.	100.6	93.5	108.7	Sept.	202.1	229.6	194.8
Oct.	97.4	91.0	108.9	Oct.	202.9	229.8	196.3
Nov.	96.7	89.6	108.6	Nov.	207.0	232.6	199.5
Dec.	96.4	89.1	108.0	Dec.	215.6	248.3	205.0
1915—Jan.	97.6	89.2	109.4	1920—Jan.	225.9	273.4	203.0
Feb.	98.3	90.5	115.6	Feb.	225.1	291.4	204.7
March	97.7	90.5	116.7	March	227.2	295.6	210.1
April	98.4	91.2	128.1	April	237.1	296.8	213.6
May	98.9	92.9	122.1	May	239.5	289.9	216.6
June	97.9	93.5	126.8	June	238.5	273.0	216.1
July	99.3	94.0	140.8	July	237.5	267.2	214.1
August	98.3	93.7	145.6	Aug.	231.2	264.6	211.5
Sept.	97.9	94.0	153.0	Sept.	222.3	255.4	208.5
Oct.	100.6	97.9	158.7	Oct.	206.6	241.1	202.1
Nov.	102.7	100.9	173.6	Nov.	191.1	218.9	189.0
Dec.	106.0	103.9	185.8	Dec.	172.9	208.6	174.4
1916—Jan.	110.3	108.8	206.5	1921—Jan.	163.3	197.9	163.0
Feb.	112.5	112.3	219.5	Feb.	150.3	185.9	154.9
March	115.2	116.9	219.2	March	146.7	179.5	149.5
April	117.0	118.9	218.1	April	141.7	174.1	143.9
May	118.2	119.2	215.3	May	137.8	172.3	143.0
June	118.8	118.9	208.0	June	133.8	170.5	141.8
July	119.5	118.7	194.9	July	133.8	166.3	138.5
Aug.	121.9	119.0	182.2	Aug.	134.0	162.1	137.3
Sept.	124.5	120.1	178.7	Sept.	133.8	161.6	139.4
Oct.	130.5	122.9	184.4	Oct.	134.8	163.3	138.5
Nov.	139.5	125.0	187.0	Nov.	135.0	166.0	136.3
Dec.	142.1	130.3	189.8	Dec.	133.1	161.9	134.3
1917—Jan.	146.3	135.4	188.9	1922—Jan.	130.9	161.6	125.7
Feb.	149.7	138.3	187.8	Feb.	133.1	160.7	124.6
March	154.3	141.8	192.9	Mar.	133.0	159.6	126.4
April	163.5	153.4	195.1	Apr.	133.5	160.3	126.6
May	172.9	158.6	200.0	May	137.7	163.8	125.2
June	174.8	167.2	200.5	June	138.0	169.3	124.4
July	176.2	166.5	205.0	July	142.4	171.3	122.9
Aug.	178.8	166.0	209.9	Aug.	141.3	173.7	123.1
Sept.	176.9	166.8	218.8	Sept.	142.3	180.8	124.1
Oct.	175.1	156.4	225.1	Oct.	142.7	184.5	124.6
Nov.	175.9	156.3	220.0	Nov.	144.0	185.7	126.3
Dec.	176.1	158.9	223.9	Dec.	144.3	185.7	126.7

[1] The Building Materials group includes the following subgroups:
- a) Lumber.
- b) Brick.
- c) Portland cement.
- d) Structural steel.
- e) Paint materials.
- f) Other building materials.
- g) All building materials.

[2] The Chemicals and Drugs group includes the following subgroups:
- a) Chemicals.
- b) Drugs and pharmaceuticals.
- c) Fertilizer materials.
- d) Mixed fertilizers.
- e) All chemicals and drugs.

Source: Bureau of Labor Statistics.

Exhibit No. 1455

(Chart based on following statistical data appears in text on p. 11030)

Prices of Metals & Metal Products and Bituminous Coal in the War Period

[1913=100]

Year & Month	All Commodities	Metals & Metal Products[1]	Bit. Coal[2]	Year & Month	All Commodities	Metals & Metal Products[1]	Bit. Coal[2]
1913—Jan	100.7	106.9	115.2	1918—Jan	179.1	145.2	202.9
Feb	100.0	105.4	100.5	Feb	175.8	145.8	206.6
Mar	100.1	104.5	95.5	March	181.1	144.8	210.0
Apr	99.9	104.3	96.3	April	183.8	144.9	218.4
May	98.7	103.7	93.2	May	183.5	146.0	221.5
June	98.9	102.1	91.9	June	184.8	146.6	213.4
July	99.6	100.4	95.0	July	189.1	149.4	215.7
Aug	99.9	95.9	99.0	Aug	192.4	154.5	215.7
Sept	101.1	96.4	100.5	Sept	197.0	156.8	215.0
Oct	100.9	96.0	104.2	Oct	195.3	158.1	215.0
Nov	100.4	94.1	108.7	Nov	195.3	158.0	215.0
Dec	99.0	90.6	99.5	Dec	195.3	155.5	215.0
1914—Jan	98.3	90.4	97.4	1919—Jan	192.6	149.2	215.0
Feb	97.9	90.9	91.6	Feb	186.0	145.7	204.5
March	97.4	90.5	92.7	March	188.1	141.9	196.6
April	96.8	90.0	91.3	April	190.5	136.5	194.2
May	96.6	88.3	93.2	May	193.8	136.0	187.7
June	96.6	87.8	90.3	June	194.3	137.1	186.9
July	96.4	87.1	91.3	July	202.1	140.4	193.7
August	99.7	87.8	90.3	August	206.7	148.3	216.5
Sept	100.6	88.5	88.2	Sept	202.1	147.7	231.8
Oct	97.4	86.7	91.1	Oct	202.9	148.3	249.9
Nov	96.7	85.5	87.7	Nov	207.0	149.8	218.1
Dec	96.4	86.2	91.3	Dec	215.6	150.9	218.4
1915—Jan	97.6	86.0	91.3	1920—Jan	225.9	154.7	215.0
Feb	98.3	88.4	89.0	Feb	225.1	162.8	215.7
March	97.7	90.1	86.1	March	227.2	168.3	215.7
April	98.4	91.3	86.4	April	237.1	171.8	311.3
May	98.9	95.4	85.8	May	239.5	171.3	367.2
June	97.9	97.9	84.3	June	238.5	169.5	496.3
July	99.3	100.2	83.7	July	237.5	170.2	634.9
August	98.3	94.8	83.7	Aug	231.2	173.2	707.6
Sept	97.9	95.5	86.4	Sept	222.3	172.5	656.7
Oct	100.6	96.3	89.2	Oct	206.6	161.6	603.9
Nov	102.7	98.9	94.0	Nov	191.1	154.6	455.1
Dec	106.0	105.2	106.8	Dec	172.9	147.2	328.3
1916—Jan	110.3	112.6	119.9	1921—Jan	163.3	143.9	253.0
Feb	112.5	117.8	112.1	Feb	150.3	141.4	218.1
March	115.2	124.9	101.3	March	146.7	138.1	208.9
April	117.0	129.8	98.4	April	141.7	137.3	206.6
May	118.2	132.0	95.8	May	137.8	137.4	200.7
June	118.8	130.0	99.7	June	133.8	135.0	196.6
July	119.5	126.9	97.6	July	133.8	130.5	190.6
Aug	121.9	125.3	101.3	Aug	134.0	121.1	196.9
Sept	124.5	127.2	122.8	Sept	133.8	118.3	196.1
Oct	130.5	129.5	181.4	Oct	134.8	118.3	194.8
Nov	139.5	133.9	307.3	Nov	135.0	117.0	195.8
Dec	142.1	148.9	309.2	Dec	133.1	116.7	181.1
1917—Jan	146.3	147.9	321.3	1922—Jan	130.9	113.5	184.3
Feb	149.7	152.2	332.5	Feb	133.1	111.9	180.3
March	154.3	159.1	299.7	Mar	133.0	111.3	173.8
April	163.5	166.2	248.0	Apr	133.5	112.6	183.5
May	172.9	170.8	326.5	May	137.7	113.9	254.9
June	174.8	183.5	325.7	June	138.0	114.4	209.7
July	176.2	196.5	253.3	July	142.4	114.9	382.7
Aug	178.8	191.7	255.4	Aug	141.3	110.6	502.1
Sept	176.9	182.4	166.1	Sept	142.3	114.0	457.2
Oct	175.1	153.6	166.1	Oct	142.7	114.5	366.9
Nov	175.9	143.5	202.9	Nov	144.0	114.0	336.7
Dec	176.1	143.3	202.9	Dec	144.3	113.5	331.8

[1] The Metals and Metal Products group includes the following subgroups:
- a) Iron and steel.
- b) Nonferrous metals.
- c) Agricultural implements.
- d) Automobiles.
- e) Other metal products.
- f) All metals and metal products.

[2] The Bituminous Coal group has no subgroup.

Source: Bureau of Labor Statistics.

Exhibit No. 1456

(Chart based on following statistical data appears in text facing p. 11032)

Changes in Commodity Prices in the War Period

[1913=100.0]

Item	1917	1920	1922
1. Caustic potash	2,423.4	557.9	165.7
2. Indigo paste—coal tar dye	833.1	504.2	314.5
3. Ferromanganese	561.1	331.4	122.8
4. Soda ash	523.5	565.1	336.5
5. Phenol	400.0	105.6	160.4
6. Steel, plates	376.5	221.7	116.9
7. Beans, dried	345.6	186.2	190.9
8. Potatoes, white (four series)	311.3	452.8	168.2
9. Steel billets	275.8	218.0	131.8
10. Leather, glazed kid	274.7	428.6	281.1
11. Wheat flour (short winter patents, Kansas City)	273.1	312.4	170.7
12. Bituminous coal (composite at mine f. o. b.)	258.3	434.1	296.9
13. Benzoic acid	2,275.0	325.0	257.0
14. Acetophenetidin	2,232.0	288.0	215.0
15. Woolen goods—overcoating	187.2	256.3	150.2
16. Copper ingot	186.8	114.2	85.4
17. Leather, sole	185.2	190.7	115.7
18. Hogs	182.8	174.0	115.0
19. Sugar	180.6	296.8	139.2
20. Cotton, raw	177.7	259.7	160.5
21. Sulphuric acid	169.0	112.0	76.0
All commodities	168.3	221.2	138.5
22. Burlap	166.6	147.3	96.7
23. White pine 1 x 8, #2 buff	133.2	277.4	216.8
24. Common brick (U. S. average)	131.8	279.1	201.8
25. Tea	123.4	135.7	121.8
26. White oak boards	106.8	349.7	181.8
27. Tobacco, smoking	102.1	175.8	175.8
28. Rubber, Plantation, ribbed	88.1	43.7	21.1
29. Coffee #7	83.2	107.5	92.0
30. Phosphate rock	78.1	267.8	90.0
31. Menthol	47.2	131.7	97.9

Source: Bureau of Labor Statistics and the Oil, Paint and Drug Reporter.

WGK:AD.
TNEC.
12-2-39.

Exhibit No. 1457

(Chart based on following statistical data appears in text on p. 11036)

Cost of Living, 1914–1921

[1914=100]

	All Items [1]	Food	Clothing	Rent
1914—March	99.0	96.6	100.3	101.3
June	98.6	96.6	99.9	100.5
September	101.5	104.4	99.6	99.6
December [2]	100.9	102.4	100.2	98.7
1915—March	99.4	95.6	103.2	99.5
June	99.9	97.6	102.8	99.7
September	100.8	98.5	103.0	100.0
December [2]	102.9	102.4	103.9	100.2
1916—March	104.9	104.4	110.2	101.3
June	107.5	109.3	115.7	101.2
September	110.2	115.1	115.8	101.1
December [2]	114.6	122.9	119.1	101.0
1917—March	119.4	129.8	131.3	98.8
June	128.2	148.3	136.0	98.8
September	130.4	149.3	135.2	98.8
December [2]	135.9	153.2	148.0	98.8
1918—March	142.7	150.3	172.2	105.3
June	149.1	158.2	188.8	99.9
September	157.1	173.9	201.2	97.8
December [2]	164.0	182.7	211.8	103.9

See footnotes at end of table.

Cost of Living, 1914–1921—Continued

	All Items	Food	Clothing	Rent
1919—March	162.2	171.9	221.7	108.5
June [2]	168.2	181.4	229.4	108.2
September	173.9	185.6	243.8	105.8
December [2]	188.1	195.5	284.2	117.4
1920—March	197.1	206.0	311.8	119.0
June [2]	207.7	226.0	300.3	127.5
September	202.1	200.7	299.1	136.3
December [2]	192.2	178.8	269.1	140.6
1921—March	180.9	157.9	243.3	142.6
June	174.6	149.1	222.6	148.8
September [2]	174.2	157.8	199.8	149.9
December [2]	171.9	154.0	191.1	152.4

[1] Estimated; including fuel and light, house furnishings and miscellaneous items, in addition to group shown.
[2] Actual published indexes.

Source: Bureau of Labor Statistics.

Exhibit No. 1458

(Chart based on following statistical data appears in text on p. 11038)

Average Hourly Earnings 1914–1921

[1914=100]

Year	Group of 8 Manufacturing Industries [1]	Bituminous Coal Mining	Building Trades	Government Employees	Year	Group of 8 Manufacturing Industries [1]	Bituminous Coal Mining	Building Trades	Government Employees
1914	100.0	100.0	100.0	100.0	1918	175.6	185.4	120.6	121.1
1915	99.5	104.3	100.4	100.9	1919	210.3	216.4	137.6	133.3
1916	117.4	117.3	103.5	106.2	1920	263.4	242.7	185.5	144.4
1917	140.4	149.8	110.1	113.6	1921	219.2	261.9	189.8	139.7

[1] Includes cotton textiles, boots and shoes, clothing, hosiery and knit goods, woolens, lumber sawmills, worsted and steel, and slaughtering and meat packing.

Source: Paul Douglas "Real Wages in the U. S. 1890–1926."

EMM/NCB.
11-29-39.
TNEC.

Exhibit No. 1459

(Chart based on following statistical data appears in text on p. 11040)

Real Wages—Federal Employees in the District of Columbia, 1914–21

[1914=100]

Year	Cash Weekly Wages	Real Weekly Wages	Year	Cash Weekly Wages	Real Weekly Wages	Year	Cash Weekly Wages	Real Weekly Wages
1914	100.0	100.0	1917	113.6	88.4	1920	144.6	72.2
1915	101.0	100.2	1918	121.1	79.0	1921	139.7	79.6
1916	106.2	97.2	1919	133.3	77.0			

Source: Paul Douglas, "Real Wages in the United States, 1890–1926," adjusted to real wages with Bureau of Labor Statistics Cost of Living index.

WGK:AD.
TNEC.
11-28-39.

Exhibit No. 1460

(Chart based on following statistical data appears in text on p. 11041)

Real Wages—Teachers, 1914–21

[1914=100]

Year	Cash Weekly Wages	Real Weekly Wages	Year	Cash Weekly Wages	Real Weekly Wages	Year	Cash Weekly Wages	Real Weekly Wages
1914	100.0	100.0	1917	114.1	88.8	1920	162.5	81.1
1915	102.0	101.2	1918	120.8	78.9	1921	186.5	106.3
1916	106.5	97.4	1919	141.4	81.7			

Source: Paul Douglas, "Real Wages in the U. S., 1890–1926," adjusted to real wages with Bureau of Labor Statistics Cost of Living Index.

WGK:AD.
TNEC.
11-28-39.

Exhibit No. 1461

(Chart based on following statistical data appears in text on p. 11042)

Real Wages—Building Trades, 1914–21

[1914=100]

Year	Cash Weekly Wages	Real Weekly Wages	Year	Cash Weekly Wages	Real Weekly Wages	Year	Cash Weekly Wages	Real Weekly Wages
1914	100.0	100.0	1917	109.4	85.1	1920	181.8	90.8
1915	100.6	99.8	1918	119.0	77.7	1921	186.0	106.0
1916	103.1	94.3	1919	135.4	78.2			

Source: Paul Douglas, "Real Wages in the U. S., 1890–1926," adjusted to real wages with Bureau of Labor Statistics Cost of Living Index.

WGK:AD.
TNEC.
11-28-39

Exhibit No. 1462

(Chart based on following statistical data appears in text on p. 11043)

Real Wages—Railways, 1914–21

[1914=100]

Year	Cash Weekly Wages	Real Weekly Wages	Year	Cash Weekly Wages	Real Weekly Wages	Year	Cash Weekly Wages	Real Weekly Wages
1914	100.0	100.0	1917	122.7	95.5	1920	222.3	111.0
1915	102.7	101.9	1918	171.9	112.2	1921	202.7	115.6
1916	108.2	99.0	1919	180.1	104.0			

Source: Paul Douglas, "Real Wages in the U. S., 1890–1926" adjusted to real wages with Bureau of Labor Statistics Cost of Living Index.

WGK:AD.
TNEC.
11-28-39.

EXHIBIT No. 1463

(Chart based on following statistical data appears in text on p. 11044)

Real Wages—Bituminous Coal Mines, 1914–21

[1914=100]

Year	Cash Weekly Wages	Real Weekly Wages	Year	Cash Weekly Wages	Real Weekly Wages	Year	Cash Weekly Wages	Real Weekly Wages
1914	100.0	100.0	1917	144.6	112.5	1920	226.6	113.1
1915	104.3	103.5	1918	174.8	114.1	1921	244.6	139.5
1916	117.3	107.3	1919	202.5	117.0			

Source: Paul Douglas, "Real Wages in the U. S., 1890–1926," adjusted to real wages with Bureau of Labor Statistics Cost of Living Index.

WGK:AD.
TNEC.
11–28–39.

EXHIBIT No. 1464

(Chart based on following statistical data appears in text on p. 11044)

Real Wages—Group of 8 Manufacturing Industries, 1914–21

[1914=100]

Year	Cash Weekly Wages	Real Weekly Wages	Year	Cash Weekly Wages	Real Weekly Wages	Year	Cash Weekly Wages	Real Weekly Wages
1914	100.0	100.0	1917	139.4	108.5	1920	241.6	120.6
1915	99.4	98.6	1918	170.5	111.3	1921	198.1	112.9
1916	117.1	107.1	1919	198.7	114.8			

Source: Paul Douglas: "Real Wages in the U. S., 1890–1926," adjusted to real wages with Bureau of Labor Statistics Cost of Living Index. The eight industries included are cotton textiles, boots and shoes, clothing, hosiery and knit goods, woolens, lumber sawmills, iron and steel, and slaughtering and meat packing.

WGK:AD.
TNEC.
11–28–39.

EXHIBIT No. 1465

(Chart based on following statistical data appears in text on p. 11046)

Real Annual Earnings—All Manufacturing, 1914–1921

[1914=100]

Year	Cash Annual Wages	Real Annual Wages	Year	Cash Annual Wages	Real Annual Wages	Year	Cash Annual Wages	Real Annual Wages
1914	100.0	100.0	1917	133.4	103.8	1920	234.1	116.9
1915	97.9	97.1	1918	169.0	110.3	1921	203.4	116.0
1916	112.2	102.7	1919	199.7	115.4			

Source: Paul Douglas, "Real Wages in the U. S., 1890–1926," adjusted to real annual earnings with Bureau of Labor Statistics Cost of Living Index.

EMM/NCB.
11–29–39.
TNEC.

Exhibit No. 1466

(Chart based on following statistical data appears in text on p. 11048)

Real Annual Earnings—Selected Manufacturing Industries, 1914–21

[1914=100]

Year	Food		Textile		Iron and steel		Agricultural implements	
	Real	Actual [1]	Real	Actual [1]	Real	Actual [1]	Real	Actual [1]
1914	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1915	99.0	99.8	100.7	101.5	95.4	96.2	96.3	97.1
1916	101.7	111.2	106.6	116.5	105.5	115.3	99.9	109.2
1917	99.0	127.2	108.2	139.1	110.7	142.3	94.4	121.3
1918	105.4	161.4	115.8	177.4	121.5	186.2	99.3	152.2
1919	110.7	191.6	118.5	205.1	120.8	209.1	99.2	171.7
1920	109.9	220.1	125.2	250.7	121.1	242.6	101.5	203.4
1921	120.0	210.4	120.4	211.2	106.7	187.2	104.8	183.8

[1] Note scale of chart.

EM:EV.
TNEC.

Exhibit No. 1467

(Chart based on following statistical data appears in text facing p. 11049)

Pre-War Commodity Prices, 1913–14 and 1938–39

[Aug. 1913-July 1914=100]

Item	Sept. 1938–August 1939	Item	Sept. 1938–August 1939
1. Soda Ash	182.6	16. Potatoes, white (4 series)	108.8
2. Leather, glazed kid	215.6	17. Sugar	106.8
3. Benzoic acid	205.0	18. Wheat flour (short winter patents, Kansas City)	103.1
4. Ferromanganese	190.5	19. Tobacco, smoking	90.8
5. Common brick (U. S. average)	187.4	20. Hogs	89.6
6. Phenol	178.9	21. Indigo paste—Coal tar dye	83.3
7. Woolen goods—overcoating	177.2	22. Sulphuric acid	83.0
8. Steel plates	166.7	23. Burlap	81.6
9. Caustic Potash	162.7	24. Menthol	76.8
10. Steel billets	159.1	25. Beans, dried	76.6
11. White pine 1 x 8 #2 buff	151.4	26. Copper ingot	70.3
12. Bituminous coal (composite at mine f. o. b.)	146.4	27. Cotton, Raw	68.7
13. White oak boards	126.4	28. Leather, sole	65.8
14. Acetophenetidin	124.0	29. Phosphate rock	62.8
15. Tea	112.0	30. Coffee #7	56.0
All Commodities	111.5	31. Rubber, Plantation ribbed	25.7

Source: Bureau of Labor Statistics.
TNEC.
12-1-39.
WGK:SSF.

Exhibit No. 1468

(Chart based on following statistical data appears in text facing p. 11051)

Wholesale Prices of Selected Commodities, January 1915

[July 1914=100.0]

Item	Index number January, 1915	Item	Index number January, 1915
1. Phenol	666.3	16. Sulphuric acid	100.0
2. Indigo paste—coal tar dye	361.1	17. Leather—sole	[1] 100.0
3. Benzoic acid	326.0	18. White pine 1 x 8 #2 Buff	100.0
4. Caustic potash	183.9	19. Phosphate rock	100.0
5. Ferromanganese	182.9	20. Common brick (U. S. average)	98.9
6. Wheat flour (short winter patents, Kansas City)	171.9	21. Steel plates	97.3
7. Acetophenetidin	156.0	22. Copper ingot	96.9
8. Rubber, plantation ribbed	153.4	23. Tea	96.0
9. Beans, dried	125.7	24. White oak boards	95.3
10. Sugar	116.2	25. Leather, glazed kid	92.6
11. Tobacco—smoking	102.1	26. Burlap	86.5
All commodities	101.2	27. Coffee #7	82.2
12. Steel billets	101.2	28. Menthol	81.8
13. Woolen goods—overcoating	100.1	29. Hogs	80.6
14. Soda ash	100.0	30. Cotton, Raw	58.9
15. Bituminous coal (composite at mine f. o. b.)	100.0	31. Potatoes, white (4 series)	53.8

[1] No quotation for January 1915—Relatives before and after constant.

Source: Bureau of Labor Statistics.

TNEC.
12-1-39.
WGK:SSF.

Exhibit No. 1469

(Chart based on following statistical data appears in text facing p. 11051)

Prices in War Time—August 1939 to December 2, 1939

[August 1939=100]

Commodities	Index Numbers Dec. 2 1939	Commodities	Index Numbers Dec. 2, 1939
1. Burlap	200.0	17. Caustic potash	100.0
2. Winter Patents Wheat, Kansas City	130.4	18. Indigo	100.0
3. Ferromanganese	125.0	19. Light soda ash	100.0
4. Plantation ribbed rubber	123.4	20. U. S. P. Phenol	100.0
5. Electrolytic copper ingot	120.6	21. Steel tank plates	100.0
6. Beans	120.5	22. Steel billets	100.0
7. Oak sole leather	116.4	23. Sulfuric acid	100.0
8. White potatoes	116.0	24. White pine	100.0
9. Overcoating woolen goods	114.3	25. Smoking tobacco	100.0
10. Glazed kid leather	110.7	26. Brick, common building, New York	100.0
11. Menthol	108.3	27. Phosphate rock	100.0
12. Plain white oak	107.1	28. Tea	100.0
13. Granulated sugar	107.0	29. Benzoic acid	100.0
14. Raw cotton, New York	106.4	30. Acetopheneticin	100.0
15. Bituminous coal, mine run, Norfolk	106.0	31. Light hogs	87.8
16. Rio #7 coffee	103.9	All commodity	105.2

Source: Bureau of Labor Statistics and Oil, Paint, and Drug Reporter.
T. N. E. C.
JBR.
December 1, 1939.

Exhibit No. 1470

(Chart based on following statistical data appears in text on p. 11052)

Daily Prices of Basic Commodities, 1939—Domestic Agricultural Products and Industrial Raw Materials

[August 1939 average=100]

	Twenty-Eight Basic Commodities	Six [1] Domestic Agricultural Products	Sixteen [2] Industrial Raw Materials	All Commodity Index	
August 3	100.99	100.13	100.21		
10	99.53	98.65	100.43		
17	99.33	99.25	99.64		
24	100.72	101.92	100.45		
28 (daily)	100.11	101.15	99.25	Average 100.	
29 (daily)	100.63	101.67	99.93		
30 (daily)	100.34	101.43	99.57		
31 (daily)	100.56	101.93	99.64		
September 1 (daily)	103.99	105.19	101.80		
2 (daily)	104.30	106.26	102.00	Sept. 2	100.4
5 (daily)	112.78	110.83	108.37		
6 (daily)	117.21	117.28	112.10		
7 (daily)	118.89	122.60	114.66		
8 (daily)	119.20	119.90	115.99		
9 (daily)	118.80	118.41	115.73	Sept. 9	104.5
14	121.84	123.92	120.46	16	105.7
21	124.02	122.13	124.36	23	106.0
28	122.79	118.75	125.37	30	106.0
October 5	120.52	116.05	124.31	Oct. 7	105.3
12	120.84	115.74	125.22	14	105.2
19	121.75	115.98	126.67	21	105.9
26	120.12	114.11	125.90	28	105.6
November 2	119.11	114.02	125.85	Nov. 4	105.7
9	118.44	113.17	124.98	11	105.7
16	117.93	112.08	123.75	18	105.5
23	118.02	113.53	124.48	25	105.3
29	118.00	113.53	124.91		
December 1	118.62	115.72	124.86		

[1] Domestic Agricultural Products—Corn, wheat, steers, hogs, cotton, wool.
[2] Industrial Raw Materials—Cotton, wool, silk, point cloth, burlap, steel scrap, copper, lead, tin, zinc, hides, rubber, shellac, rosin, flaxseed.

Source: Bureau of Labor Statistics.
November 20, 1939.
EMM/NCB.
TNEC.

Exhibit No. 1471

(Chart based on following statistical data appears in text on p. 11054)

Daily Prices of Basic Commodities, 1939—Metals

[August 1939 average=100]

	Scrap Steel	Copper	Tin	Lead	Zinc
August 3	100.07	100.10	99.75	100.20	97.65
10	100.07	100.10	99.85	100.20	100.58
17	100.07	100.10	99.06	100.20	100.58
24	100.07	100.10	101.49	100.20	100.58
28	100.07	100.10	98.69	100.20	100.58
29	100.07	100.10	100.47	100.20	100.58
30	99.17	100.10	99.96	100.20	100.58
31	99.17	100.10	100.47	100.20	100.58
Sept. 1	99.17	102.54	100.47	100.20	100.58
2	99.17	102.54	100.47	100.20	100.58
5	99.17	102.54	100.47	104.17	120.15
6	99.17	114.75	123.02	109.13	125.05
7	106.38	114.75	123.02	109.13	125.05
8	109.98	114.75	123.02	109.13	125.05
9	109.98	114.75	123.02	109.13	125.05
14	113.59	114.75	123.02	109.13	129.94
21	128.01	114.75	123.02	109.13	129.94
28	138.83	114.75	123.02	109.13	134.83
Oct. 5	146.04	119.63	112.77	109.13	134.83
12	138.83	119.63	112.77	109.13	134.83
19	135.23	119.63	112.77	109.13	134.83
26	131.62	119.63	114.31	109.13	134.83
Nov. 2	131.62	119.63	110.72	109.13	134.83
9	129.82	119.63	102.52	109.13	134.83
16	124.41	119.63	104.57	109.13	134.83
23	124.41	119.63	108.67	109.13	134.83
29	122.60	119.63	109.70	109.13	134.83
Dec. 1	122.60	119.63	107.13	109.13	134.83

Source: Bureau of Labor Statistics.

Exhibit No. 1472

(Chart based on following statistical data appears in text on p. 11056)

Daily Prices of Basic Commodities, 1939—Textiles

[August 1939 average=100]

	Raw Cotton	Wool	Raw Silk	Print Cloth	Burlap
August 3	104.46	95.98	100.49	100.63	99.27
10	101.78	101.07	99.74	100.63	98.36
17	99.22	101.92	101.98	100.63	99.27
24	98.33	101.92	100.49	99.36	101.09
28	94.77	101.92	96.74	99.36	103.83
29	97.11	101.92	97.49	99.36	104.74
30	94.99	101.92	98.24	98.09	104.74
31	95.21	101.92	98.24	98.09	104.74
Sept. 1	95.21	101.92	98.24	98.09	109.29
2	[1] 94.54	101.92	98.24	98.09	109.29
5	[1] 98.55	101.92	98.24	105.93	112.93
6	[1] 100.45	101.92	106.85	108.68	116.58
7	[1] 105.12	127.40	105.35	111.23	121.13
8	[1] 103.34	127.40	108.35	113.98	130.24
9	[1] [2] 99.44	127.40	108.35	113.98	130.24
14	[3] 100.45	[3] 146.09	111.71	113.98	142.08
21	[3] 97.22	[3] 146.09	113.21	[4] 116.52	148.45
28	[3] 98.44	[3] 152.88	115.08	[4] 117.79	151.18
Oct. 5	[3] 97.33	[3] 152.88	112.46	[4] 115.25	159.38
12	[3] 97.55	[3] 154.58	116.20	[4] 116.52	168.49
19	[3] 99.00	[3] 154.58	[5] 129.30	[4] 116.52	177.60
26	[3] 99.56	[3] 148.64	[5] 128.93	[4] 116.52	182.15
Nov. 2	[3] 97.44	[3] 148.64	[5] 129.68	[4] 115.25	209.47
9	101.34	145.24	129.68	112.50	204.92
16	104.12	145.24	127.06	111.23	202.19
23	104.34	145.24	125.56	111.23	200.37
29	106.79	144.39	126.68	111.23	200.37
Dec. 1	108.46	144.39	128.55	108.68	200.37

[1] (Penciled notation:) Flurry.
[2] (Penciled notation:) Sept. 9.
[3] (Penciled notation:) Sept. 14 with flurry.
[4] (Penciled notation:) Sept. 21.
[5] (Penciled notation:) Oct. 19.

Source: Bureau of Labor Statistics.

Exhibit No. 1473

(Chart based on following statistical data appears in text on p. 11059)

Daily Prices of Basic Commodities, 1939—Domestic Agricultural Products

[August 1939 average=100]

	Wheat	Corn	Hogs	Steers	Lard
August 3	98.92	97.40	102.70	101.65	102.16
10	97.90	99.91	95.72	95.76	96.34
17	98.92	99.91	96.50	98.71	98.84
24	106.41	105.52	100.38	99.30	102.99
28	102.25	101.60	105.03	101.65	102.99
29	100.95	99.35	107.35	103.72	102.99
30	100.40	99.91	105.80	106.07	101.33
31	102.25	101.03	104.64	106.96	102.99
Sept. 1	111.87	110.31	105.80	106.96	111.29
2	115.01	114.80	105.80	106.96	115.45
5	122.33	114.80	117.43	111.97	136.05
6	129.91	114.80	139.52	122.28	145.35
7	132.50	114.80	138.36	120.51	145.35
8	129.73	114.80	128.67	117.86	145.35
9	125.00	114.80	128.67	117.86	145.35
14	132.32	133.88	120.92	115.21	137.04
21	129.82	127.15	121.69	116.39	140.36
28	124.92	115.36	113.16	114.32	123.75
Oct. 5	122.61	112.55	107.74	110.49	117.11
12	123.35	111.70	108.51	106.66	119.60
19	125.38	107.21	111.61	106.07	122.92
26	124.00	108.89	104.25	106.07	118.77
Nov. 2	127.70	108.89	105.80	103.13	112.12
9	127.68	109.45	99.99	102.24	113.79
16	126.31	110.01	94.17	100.18	115.45
23	127.05	114.51	90.30	107.55	106.31
29	129.64	117.04	86.04	106.37	107.14
Dec. 1	133.43	121.53	87.97	107.55	110.46

Source: Bureau of Labor Statistics.

Exhibit No. 1474

(Chart based on following statistical data appears in text on p. 11060)

Daily Prices of Basic Commodities, 1939—Imports

[August 1939 average=100]

	Rubber	Coffee	Sugar	Hides	Shellac
August 3	99.46	100.13	101.40	105.82	100.00
10	99.46	100.13	97.90	105.82	100.00
17	99.82	100.13	98.95	97.00	100.00
24	100.96	100.13	99.65	92.59	100.00
28	100.54	100.13	102.10	92.59	100.00
29	100.18	100.13	102.10	97.00	100.00
30	100.54	100.13	102.10	97.00	100.00
31	100.96	96.82	102.10	97.00	100.00
Sept. 1	116.63	96.82	113.29	97.00	110.25
2	116.63	97.75	113.29	97.00	110.25
5	149.52	97.75	131.12	127.87	110.25
6	137.56	97.75	134.62	127.87	110.25
7	119.62	97.75	134.62	123.46	123.07
8	128.59	101.06	134.62	123.46	123.07
9	134.57	101.06	132.87	123.46	123.07
14	134.57	101.06	131.12	132.27	143.58
21	134.57	104.37	125.87	136.68	174.35
28	125.60	104.37	128.32	141.09	174.35
Oct. 5	122.61	102.65	125.87	132.27	174.35
12	124.10	102.65	125.87	136.68	174.35
19	125.60	102.65	118.88	141.09	174.35
26	122.61	102.65	113.64	136.68	174.35
Nov. 2	122.61	99.34	103.15	127.87	174.35
9	124.10	99.34	104.90	123.46	174.35
16	121.11	99.34	106.64	123.46	174.35
23	124.10	97.75	104.90	123.46	174.35
29	121.59	95.23	103.15	125.66	174.35
Dec. 1	121.59	95.23	103.15	125.66	174.35

Source: Bureau of Labor Statistics.

Exhibit No. 1475

(Chart based on following statistical data appears in text on p. 11060)

Monthly Retail Food Price Index for U. S.

[1923–25 = 100]

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1937	84.6	84.5	85.4	85.6	86.5	86.3	85.9	85.5	85.8	84.9	83.6	82.6
1938	80.3	78.4	78.6	79.4	79.1	80.2	80.0	78.4	78.7	78.1	77.8	78.6
1939	77.5	76.8	76.4	76.6	76.5	76.3	76.5	75.1	79.0	[1] 80.0	[1] 77.0	-------

[1] Preliminary.

Source: Bureau of Labor Statistics.

NCB.
11-28-39.
TNEC.

Exhibit No. 1476

(Chart based on following statistical data appears in text on p. 11062)

Retail Prices of Four Foods, 1939 [1]

[August 15, 1939=100]

	Bacon	Canned Tomatoes	Navy Beans	Sugar
12 city average (St. Louis Omitted):				
August 15	100.0	100.0	100.0	100.0
Sept. 19	[2] 104.8	101.2	122.6	123.5
Sept. 26	[2] 105.3	103.7	126.0	123.8
Oct. 3	[2] 105.0	103.6	129.1	123.4
Oct. 10	[2] 104.1	104.0	127.3	122.4
Oct. 17	[2] 103.4	104.3	127.0	121.7
Oct. 24	[2] 101.6	104.1	125.5	119.2
Oct. 31	[2] 100.5	104.0	124.5	117.8
Nov. 8	101.4	102.4	120.6	115.0
13 city average:				
Nov. 14	100.3	101.5	119.4	113.7
Nov. 21	100.8	101.0	119.8	112.0
Nov. 28	99.3	101.0	120.0	109.5

[1] Preliminary. To be revised to agree with regular monthly reports when they are released.
[2] 11 city average—St. Louis and Buffalo omitted.

Source: Bureau of Labor Statistics.

NCB.
11-28-39.
TNEC.

Exhibit No. 1477

(Chart based on following statistical data appears in text on p. 11064)

Prices of Five Drugs, 1939

[August Average=100]

Date 1939	Codliver Oil USP	Belladonna Roots	Ergot	Gum Arabic	Orange Oil Messina
Aug. 7	97.6	100.0	100.0	100.0	100.0
14	97.6	100.0	100.0	100.0	100.0
21	102.4	100.0	100.0	100.0	100.0
28	102.4	100.0	100.0	100.0	100.0
Sept. 4	195.1	100.0	100.0	100.0	118.4
11	195.1	194.1	148.1	126.8	131.6
18	195.1	194.1	166.7	126.8	144.7
25	195.1	194.1	185.2	185.4	157.9
Oct. 2	195.1	235.3	203.7	185.4	157.9
9	195.1	264.7	203.7	234.1	157.9
16	195.1	264.7	203.7	234.1	171.1
23	185.4	264.7	203.7	234.1	171.1
30	185.4	235.3	203.7	234.1	171.1
Nov. 6	185.4	235.3	240.7	234.1	157.9
13	185.4	235.3	240.7	234.1	157.9
20	175.6	235.3	214.8	234.1	157.9
27	170.7	235.3	214.8	234.1	157.9

Source: Oil, Paint, and Drug Reporter.

12-1-39.
EMM/NCB.
TNEC.

Exhibit No. 1478

(Chart based on following statistical data appears in text on p. 11067)

Exports of Merchandise by Continental Destination, 1913–1919, 1936–39

Year [1]	United States Exports in Dollars (000,000 omitted)				
	Total	To Europe	To N. America	To S. America	To Asia, Oceania & Africa
1913	2,466	1,479	617	146	223
1914	2,365	1,486	529	125	225
1915	2,769	1,971	477	99	221
1916	5,483	3,813	925	220	525
1917	6,234	4,062	1,262	312	598
1918	6,149	3,859	1,325	303	662
1919	7,920	5,188	1,296	442	995
1936	2,456	1,043	617	204	592
1937	3,349	1,360	840	318	831
1938	3,094	1,326	740	300	727
1939 [2]	3,010	1,274	735	295	706

[1] Fiscal years 1913–15; calendar years thereafter.
[2] 1939 figure estimated on the basis of the first 9 months' exports.

Source: U. S. Department of Commerce.

EXHIBIT No. 1479

MERCHANDISE EXPORTS AND IMPORTS. (1901-1938

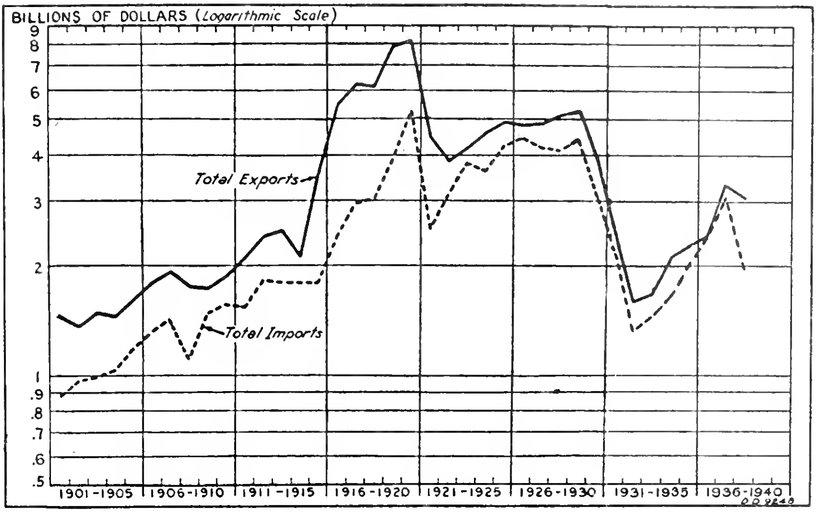


EXHIBIT No. 1480

TRADE OF THE UNITED STATES WITH CANADA

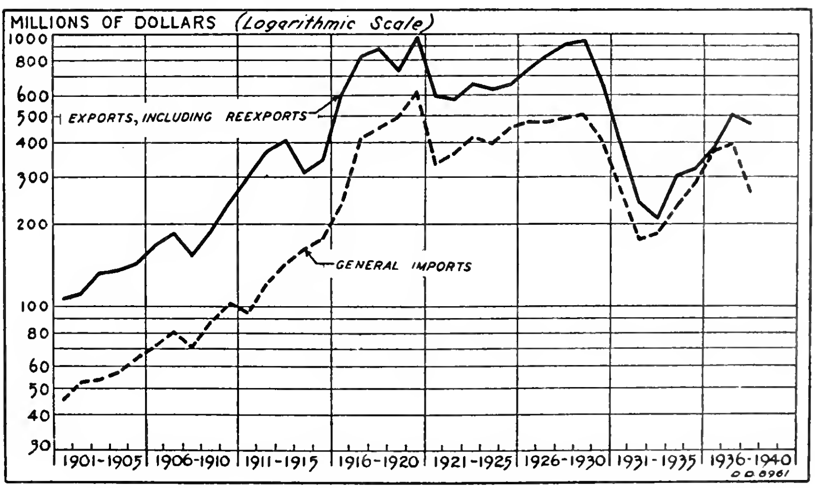


Exhibit No. 1481

TRADE OF THE UNITED STATES WITH FRANCE

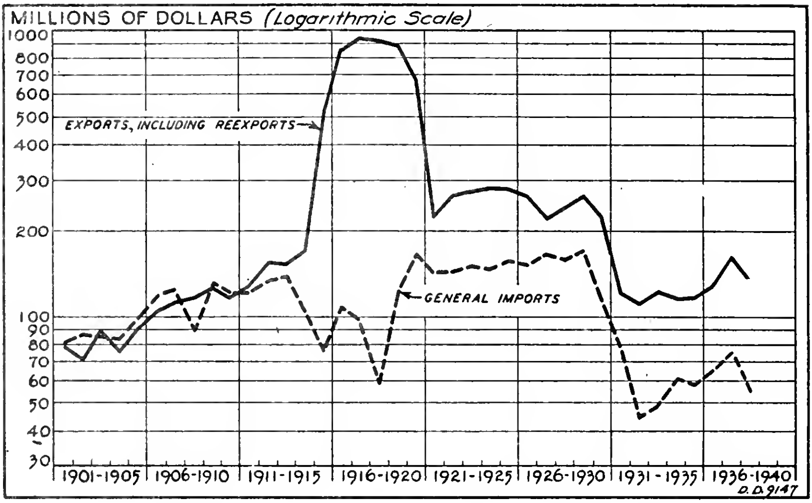
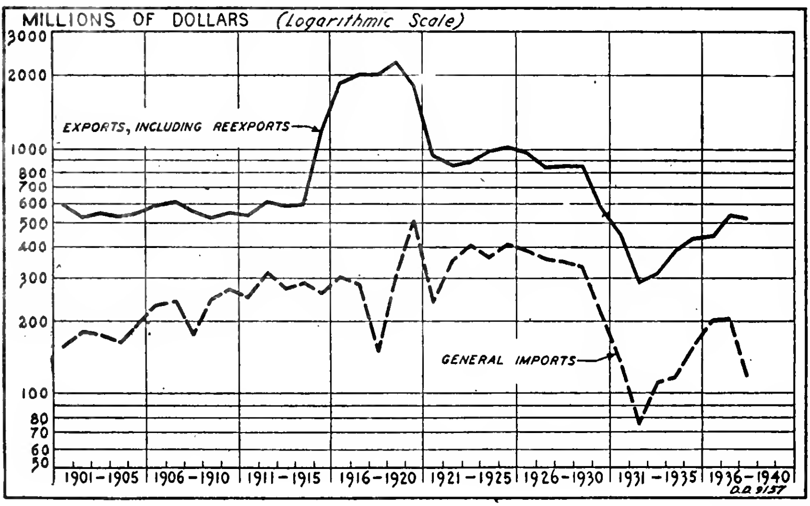


Exhibit No. 1482

TRADE OF THE UNITED STATES WITH UNITED KINGDOM



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TRADE OF THE UNITED STATES WITH NORWAY

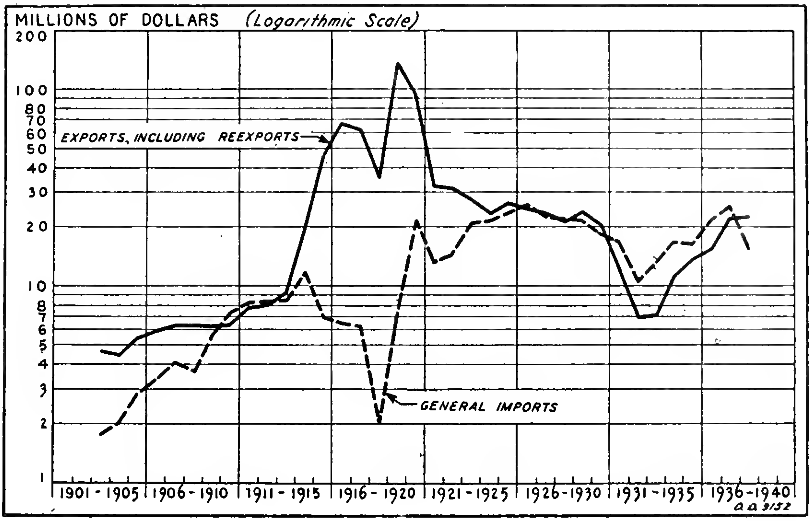


EXHIBIT NO. 1484

TRADE OF THE UNITED STATES WITH SWEDEN

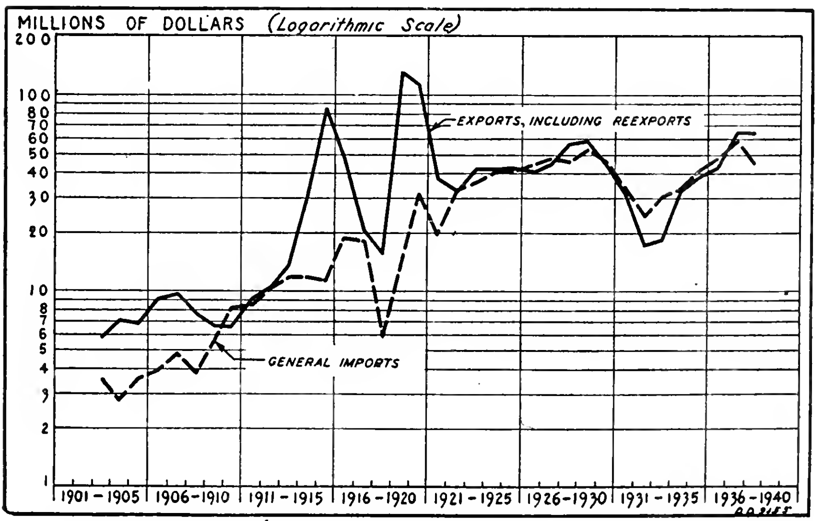


Exhibit No. 1485

TRADE OF THE UNITED STATES WITH ARGENTINA

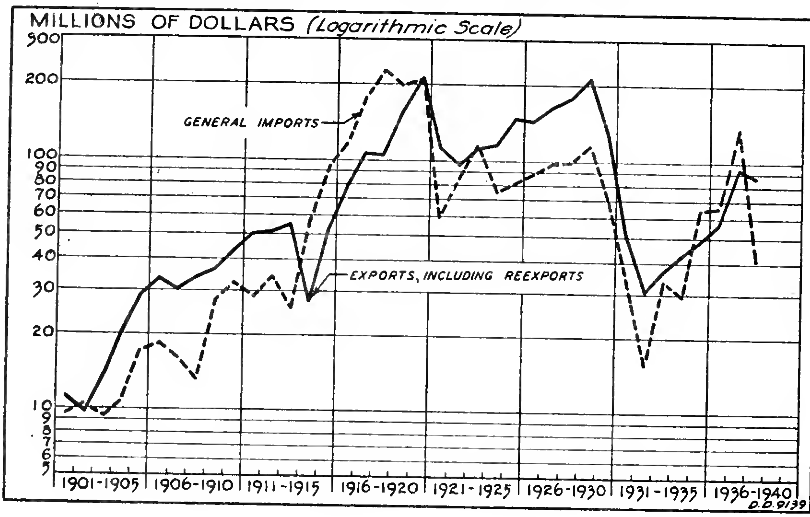


Exhibit No. 1486

TRADE OF THE UNITED STATES WITH BRAZIL

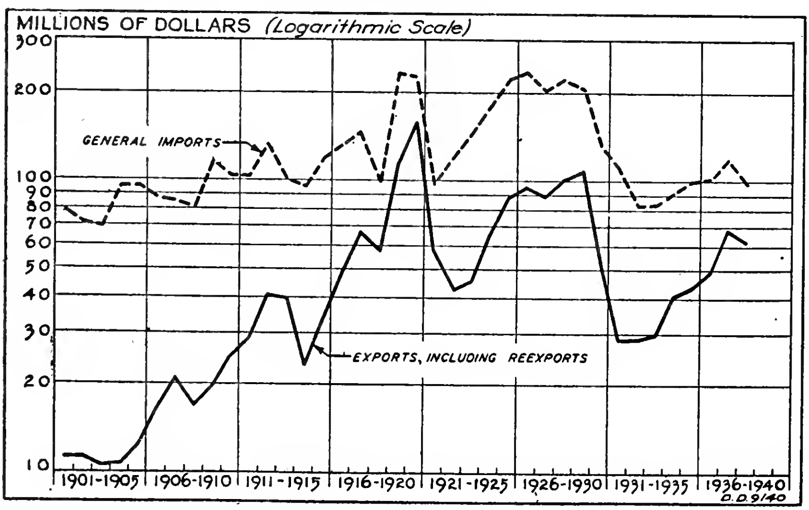


EXHIBIT No. 1487

TRADE OF THE UNITED STATES WITH GERMANY

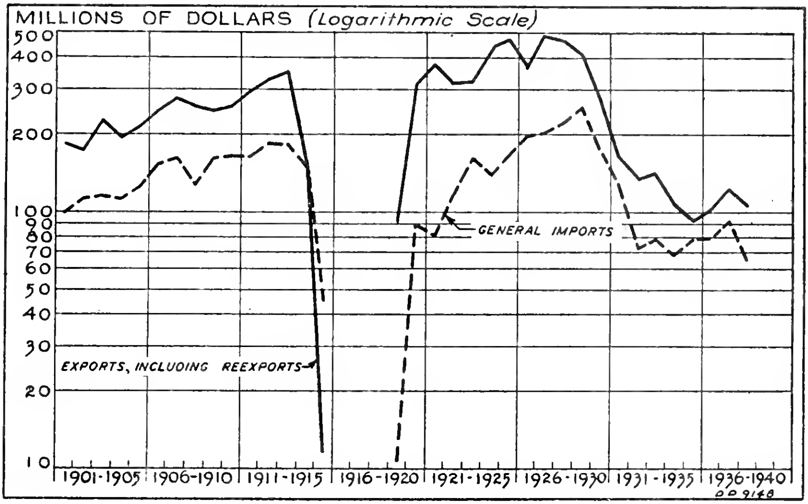


EXHIBIT No. 1488

TRADE OF THE UNITED STATES WITH JAPAN (INCLUDING CHOSEN AND TAIWAN)

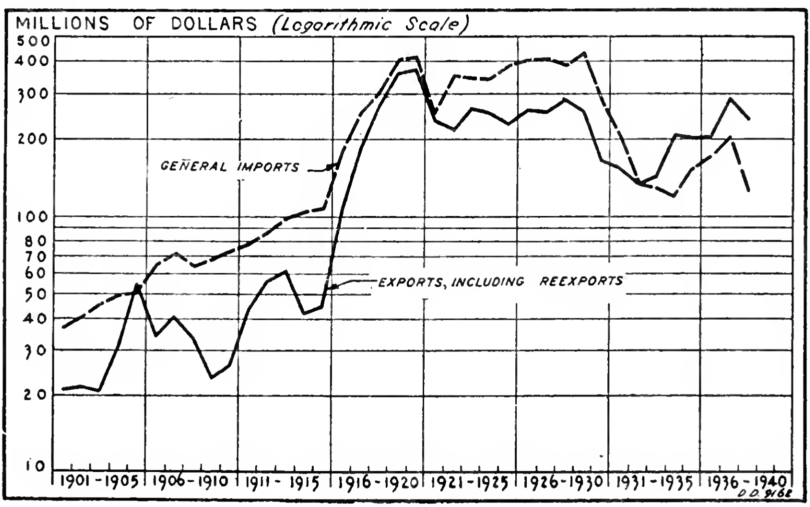


Exhibit No. 1489

(Chart based on following statistical data appears in text on p. 11069)

Indices of Value and Quantity of Merchandise Exports, 1915–1919

[1911-14=100]

Fiscal Year	Total Exports		Crude Materials		Finished Manufactures		Semi-Manufactures		Manufactured foodstuffs		Crude foodstuffs	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
1915	122	123	91	69	108	116	98	99	136	150	302	389
1916	157	191	73	72	212	288	130	183	174	197	232	292
1917	171	279	72	99	262	425	170	331	165	243	216	408
1918	125	261	58	121	172	315	140	334	183	380	122	287
1919	140	317	67	164	174	344	117	265	251	587	231	551

Source: W. A. Berridge, *Review of Economic Statistics*, 1919.

Exhibit No. 1490

(Chart based on following statistical data appears in text on p. 11071)

Gold and Dollar Reserves of the United Kingdom, France, and Canada, 1914 and 1939

[In millions of current dollars]

	United Kingdom	France	Canada	Total
1914				
Gold:				
Central Reserves	165	680	115	960
Estimated other holdings	600	965	(1)	1, 565
Total gold	765	1, 645	115	2, 525
Dollar resources	2, 600-3, 800	400-600	(1)	3, 000-4, 400
Total	3, 365-4, 565	2, 045-2, 245	115	5, 525-6, 925
1939				
Central gold reserves	2, 000	3, 000	215	5, 215
Dollar balances	595	315	355	1, 265
Securities readily negotiable	735	185	500	1, 420
Sub-total	3, 330	3, 500	1, 070	7, 900
Direct investments	900	80	560	1, 540
Grand Total	4, 230	3, 580	1, 630	9, 440

[1] No estimate available.

Source: Board of Governors, Federal Reserve System.

Annual Gold Production of British Empire and France, 1914 and 1938

1914	278, 000, 000
1938	750, 000, 000
Increase	472, 000, 000

Exhibit No. 1491

(Chart based on following statistical data appears in text on p. 11073)

Wholesale Prices in England, France, Germany and the United States, by Quarters, 1913-1918

[July, 1913-June, 1914=100]

Year and Quarter	United States	England	France	Germany	Year and Quarter	United States	England	France	Germany
1913—1	102	103	101	102	1916—1	118	152	180	[1] 150
2	100	102	101	102	2	123	160	191	151
3	101	102	100	101	3	125	159	187	158
4	102	100	99	101	4	139	178	199	152
1914—1	100	100	100	99	1917—1	152	196	224	158
2	97	98	101	99	2	177	211	258	164
3	100	104	101	101	3	187	211	274	191
4	98	108	107	114	4	182	219	295	202
1915—1	100	120	125	121	1918—1	187	224	321	200
2	100	127	136	134	2	190	229	334	205
3	102	128	142	144	3	197	234		224
4	107	136	158	148	4	202	235		238

[1] Subsequent figures not charted. German index after 1915 was taken from "Statistisches Jahrbuch", 1923. The figures are not strictly comparable with those of previous years. The figures for 1913-14 are taken from a War Industries Board study of 30 commodities, while the later figures represent a composite of Foodstuffs, Industrial Materials, Domestic Industrial Production, and Imported Articles. The base for the later years is the average for 1913 while the 1913-14 figures are based on the average for the period July 1913-June, 1914. In general, the "Statistisches Jahrbuch" index runs slightly higher.

Source: War Industries Board, Bulletin No. 2. Also see preceding note.

Exhibit No. 1492

(Chart based on following statistical data appears in text on p. 11075)

Money in Circulation[1] and Bank Deposits,[2] 1913-1918

[In millions of dollars]

Year	Money in Circulation	Bank Deposits	Year	Money in Circulation	Bank Deposits
1913	3,390	12,678	1916	4,159	17,840
1914	3,505	13,430	1917	4,914	21,273
1915	3,682	14,411	1918	5,428	24,600

[1] Includes all money outside the Treasury except reserves against Federal Reserve notes.
[2] Exclusive of deposits in savings and private banks.

Source: American Economic Review, 1919.

Exhibit No. 1493

Business Savings and Net New Money Invested by Individuals—Selected Types of Corporate Enterprise, 1913-1918

Industry	Business Savings and Net New Money ($1,000)					
	1913	1914	1915	1916	1917	1918
Railroads	355	−473	−351	379	645	−76
Factories	1,577	1,088	2,349	2,823	3,544	3,508
Mines	161	171	292	377	380	468
Street Railways	131	218	196	187	172	32
Electric Light & Power	52	163	172	216	304	200
Telephones	65	51	26	120	26	34
Total	2,341	1,218	2,684	4,102	5,071	4,166

Source: National Bureau of Economic Research.
"Income in the United States," vol. II, Table 20B, page 236.
"National Income and Its Purchasing Power," Table XLVI, page 214.

Exhibit No. 1494

(Chart based on following statistical data appears in text on p. 11078)

Indexes of Value of Inventories,[1] 1913–1922

[1913=100]

	Steel	Railroad Equipment	Building Materials	Rubber	Oil	Producer Goods
Number of Corporations	7	7	7	5	6	13
End of Year:						
1913	100.0	100.0	100.0	100.0	100.0	100.0
1914	95.9	75.5	94.0	105.4	100.0	90.5
1915	99.3	147.5	114.3	147.7	98.1	101.2
1916	127.6	215.6	141.7	199.6	141.4	147.8
1917	171.2	308.9	206.5	345.3	158.3	246.2
1918	205.6	417.9	220.8	332.5	186.1	282.6
1919	181.0	228.0	251.2	419.5	255.3	273.7
1920	203.8	287.9	278.0	579.4	332.4	358.0
1921	171.2	150 6	206.0	310.3	277.1	249.0
1922	164.9	266.1	223.8	263.9	284.5	257.0

	Food	Tobacco	Consumer Goods	Distribution	Total
Number of Corporations	7	5	7	5	69
End of Year:					
1913	100.0	100.0	100.0	100.0	100.0
1914	101.8	99.1	85.8	101.3	96.6
1915	106.0	97.9	90.1	134.7	106.3
1916	142.3	113.2	124.9	170.9	142.0
1917	223.5	156.9	182.8	222.1	205.6
1918	328 2	212.7	288.4	283.4	257.2
1919	342.9	269.8	366.3	278.9	273.0
1920	304.4	258.2	466.9	452.3	319.1
1921	172.8	243.8	334.9	250.9	227.0
1922	168.4	247.0	338.7	247.2	228.2

[1] As of December 31.

Source: Dun & Bradstreet.

Exhibit No. 1495

(Chart based on following statistical data appears in text on p. 11079)

Indexes of Value of Inventories [1] and Sales, 1913–1922

[1913=100]

	Steel		Railroad equipment		Distribution		Rubber		Electrical	
No. of corporations	3		4		5		4		2	
Year	Sales	Inventories	Sales	Inventories	Sales	Inventories	Sales	Inventories	Sales	Inventories
1913	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1914	69.8	95.0	49.0	64.2	104.7	101.3	105.1	105.9	82.7	79.6
1915	90.6	97.6	38.6	118.7	116.4	134.7	129.3	146.0	90.4	91.7
1916	155.5	111.4	141.8	202.4	144.8	170.9	171.8	184.8	148.9	160.2
1917	214.1	138.4	189.1	287.0	170.2	222.1	248.1	321.1	194.8	272.7
1918	220.8	166.8	220.2	337.4	186.8	283.2	314.6	303.2	251.1	283.3
1919	179.9	141.4	164.1	220.3	233.6	278.9	351.8	388.2	243.7	278.7
1920	223.5	161.3	156.7	269.9	251.6	452.3	396.7	551.9	284.2	374.9
1921	120.8	148.4	91.1	129.3	203.1	250.9	248.4	275.5	213.5	232.7
1922	138.3	136.5	75.4	181.3	227.7	247.2	260.5	228.0	216.6	288.3

[1] As of Dec. 31.

Source: Dun & Bradstreet.

Exhibit No. 1496

(Chart based on following statistical data appears in text on p. 11083)

Farm Crops—Production, Price, and Acreage Harvested, 1911–1919

[1911-1913=100]

Year	Production	Composite Price	Acreage Harvested	Year	Production	Composite Price	Acreage Harvested
1911	93.4	101.2	99.7	1916	101.4	123.6	102.9
1912	110.0	101.2	99.7	1917	105.1	197.8	106.2
1913	96.7	97.6	100.7	1918	104.1	211.7	109.4
1914	109.0	100.9	100.7	1919	108.9	221.0	110.5
1915	112.3	100.7	101.8				

Source: Price: Department of Agriculture.
Acreage Harvested: W. P. A. National Research Project.
Production: Department of Commerce, Industrial Economics Division.

The *Acreage Harvested* index was compiled by the W. P. A. National Research Project with the cooperation of the Bureau of Agricultural Economics. The *Production* index was compiled in the Industrial Economics Division, Department of Commerce, on the basis of the production of eight major crops, weighted according to their proportion of total value in 1911-13. The *Price* index, compiled by the Department of Agriculture, is a weighted average of 10 crop prices.

Exhibit No. 1497

(Chart based on following statistical data appears in text on p. 11084)

Cotton—Indexes of Acreage, Production, and Price, 1911–1919

[1911-13=100 [1]]

Year	Acreage Harvested	Production	Average Price	Year	Acreage Harvested	Production	Average Price
1911	102.0	108.1	99.7	1916	96.6	78.9	132.1
1912	95.1	94.4	91.9	1917	94.2	77.7	198.6
1913	102.9	97.5	108.5	1918	102.4	82.8	257.2
1914	104.1	111.0	79.6	1919	96.1	78.6	274.7
1915	87.5	77.0	84.9				

[1] Base values: Acreage, 34,226,000; production (bales), 14,517,000; price (cents per lb.) 11.4.

Source: National Research Project, W. P. A.; Agricultural Yearbook, 1920.

Exhibit No. 1498

(Chart based on following statistical data appears in text on p. 11085)

Corn—Indexes of Acreage, Production, and Price, 1911–1919

[1911-13=00 [1]]

Year	Acreage Harvested	Production	Average price	Year	Acreage Harvested	Production	Average price
1911	100.4	96.5	90.9	1916	99.5	94.5	121.4
1912	100.4	114.9	111.2	1917	109.8	113.4	212.5
1913	99.2	88.6	97.7	1918	101.2	95.2	242.3
1914	96.8	98.4	117.4	1919	97.2	104.4	249.2
1915	99.6	110.3	117.1				

[1] Base values: Acreage, 101,017,000; production, (bu.) 2,565,000,000; price (cents per bu.) 60.8.

Source: National Research Project, WPA, Agriculture Yearbook, 1920.

Exhibit No. 1499

(Chart based on following statistical data appears in text on p. 11086)

Wheat—Indexes of Acreage, Production, and Price, 1911–1919

[1911–13=100 [1]]

Year	Acreage Harvested	Production	Average Price	Year	Acreage Harvested	Production	Average Price
1911	99.6	88.3	103.2	1916	106.8	90.8	149.5
1912	96.6	104.3	103.8	1917	93.4	88.6	238.5
1913	103.8	107.3	93.1	1918	121.9	129.2	242.6
1914	111.0	128.2	105.0	1919	147.1	136.1	252.7
1915	120.4	144.2	124.9				

[1] Base values: Acreage, 50,130,000; production (bu.) 699,700,000; price (cents per bu.) 84.2.

Source: National Research Project, WPA; Agriculture Yearbook, 1920.

Exhibit No. 1500

(Chart based on following statistical data appears in text on p. 11087)

Farm Mortgage Debt, Gross Farm Income and Value per Acre

[Index Numbers—1910–1914=100 [1]]

	Mar. 1 each yr.	Jan. 1 each yr.			Mar. 1 each yr.	Jan. 1 each yr.			Mar. 1 each yr.	Jan. 1 each yr.	
	Value per Acre	Farm Mortgage Debt	Gross Farm Income		Value per Acre	Farm Mortgage Debt	Gross Farm Income		Value per Acre	Farm Mortgage Debt	Gross Farm Income
1910	....	81	98	1920	170	214	201	1930	115	244	143
1911	....	89	94	1921	157	259	132	1931	106	240	102
1912	97	100	100	1922	139	271	147	1932	89	234	77
1913	100	110	103	1923	135	274	163	1933	73	219	88
1914	103	119	104	1924	130	270	168	1934	76	200	106
1915	103	127	109	1925	127	251	177	1935	79	197	120
1916	108	133	132	1926	124	246	171	1936	82	194	134
1917	117	148	190	1927	119	245	172	1937	85	187	143
1918	129	166	223	1928	117	247	177	1938	85	183	128
1919	140	181	250	1929	116	247	177	1939	84	179	....

[1] Base values: Farm Mortgage, $3,943,000,000; Gross farm Income, $7,234,000,000.

Source: Bureau of Agricultural Economics.

Exhibit No. 1501

(Chart based on following statistical data appears in text on p. 11088)

Composite Monthly Price of Finished Steel, Monthly Steel Ingot Production, and Annual Steel Capacity, 1914–1919

Annual Steel Capacity

[1914=100]

Year	Gross tons	Index number	Year	Gross tons	Index number	Year	Gross tons	Index number
1914	39,689,265	100.0	1916	45,787,780	115.4	1918	52,541,445	132.4
1915	41,293,880	104.0	1917	49,613,888	125.0	1919	54,482,740	137.3

Source: *Iron Age:* American Iron and Steel Institute.

Index of Monthly Steel Ingot Production in the United States

[1914=100 [1]]

	1914	1915	1916	1917	1918	1919
January	100.3	87.4	175.3	196.8	138.9	192.0
February	98.9	93.4	174.6	162.6	143.3	167.1
March	120.3	117.1	190.7	203.2	196.0	164.5
April	120.2	119.4	176.5	199.4	199.4	138.4
May	107.2	123.6	192.0	213.6	207.1	119.2
June	101.5	134.4	182.6	190.2	194.4	137.1
July	100.3	140.0	170.6	181.3	196.2	155.0
August	102.2	151.8	183.1	192.6	194.4	169.6
September	99.6	161.0	182.1	183.3	201.5	142.9
October	94.6	170.7	193.1	206.8	211.2	107.6
November	77.3	171.4	188.3	195.3	192.9	132.1
December	77.6	174.9	168.2	168.6	188.6	146.4
Year	100.0	137.1	181.4	191.1	188.7	147.7

[1] Base value: 1,901,700 gross tons.

Source: *Iron Age:* American Iron and Steel Institute.

Index of Monthly Composite Price of Finished Steel [1]

[1914=100 [2]]

	1914	1915	1916	1917	1918	1919
January	101.2	96.4	143.7	236.0	247.5	235.1
February	103.0	97.3	153.6	244.1	247.5	235.1
March	102.7	98.5	170.6	260.7	247.5	228.9
April	100.8	100.2	182.1	286.6	247.5	211.4
May	100.6	99.9	191.8	318.1	247.5	210.7
June	97.6	100.7	187.5	349.0	247.5	210.7
July	97.6	102.6	184.1	372.0	247.5	210.7
August	100.8	105.4	187.0	366.0	247.5	210.7
September	102.5	108.7	192.8	352.1	247.5	209.5
October	100.8	113.9	199.2	242.0	247.6	212.8
November	97.4	123.4	210.7	240.2	247.5	215.1
December	95.3	135.4	228.6	240.0	241.4	216.9
Average	100.0	107.0	186.3	292.1	247.0	217.2

[1] Compiled from *The Iron Age* quotations on steel bars, beams, tank plates, plain wire, open hearth rails, black pipe, and black sheets.
[2] Base value: 1.433 cents per pound.

Source: *Iron Age:* American Iron and Steel Institute.

Exhibit No. 1502

(Chart based on following statistical data appears in text on p. 11089)

Index of Wholesale Price of Pig Iron (Composite) [1]

[1913=100 [2]]

Year	Index No.	Year	Index No.	Year	Index No.
1913	100.0	1922	162.1	1931	106.7
1914	87.7	1923	176.1	1932	97.2
1915	91.8	1924	141.8	1933	105.7
1916	131.7	1925	138.3	1934	120.9
1917	259.3	1926	136.6	1935	124.0
1918	223.0	1927	125.5	1936	129.7
1919	194.0	1928	118.8	1937	153.0
1920	284.0	1929	124.2	1938	144.9
1921	156.0	1930	117.9	1939 (9 mos. av.)	138.0

[1] Capacity and production data will be found in Hearings, Part I, p. 207.
[2] Base value: $15.42 per long ton.

From data compiled by the *American Metal Market.* Data represent averages of daily prices of 10 tons of pig iron, distributed as follows (for Jan. 4, 1937): 1 ton each of Bessemer, valley; No. 2 foundry, valley; No. 2 foundry at Philadelphia, at Buffalo, at Cleveland, and at Chicago; 2 tons each of basic, valley, and No. 2 southern foundry, Cincinnati.

Exhibit No. 1503

(Chart based on following statistical data appears in text on p. 11090)

Price of Portland Cement,[1] 1913–1918, 1923–1937

Year	Dollars Per Barrel	Year	Dollars Per Barrel	Year	Dollars Per Barrel
1913	.9999	1922	1.805	1930	1.607
1914	.9537	1923	1.881	1931	1.393
1915	.8910	1924	1.843	1932	1.356
1916	1.1132	1925	1.789	1933	1.512
1917	1.4401	1926	1.744	1934	1.637
1918	1.6671	1927	1.686	1935	1.663
1919	1.760	1928	1.672	1936	1.667
1920	2.042	1929	1.601	1937	1.667
1921	1.931				

[1] Capacity and production data will be found in Hearings, Part I, p. 206.

Source: Prices 1913-1918 from War Industries Board Bulletin No. 41: an average price for Western and Midwestern States.

Prices 1919 to 1937 (Bureau of Labor Statistics) represent unweighted average of weekly quotations from selected points in the United States.

Exhibit No. 1504

(Chart based on following statistical data appears in text on p. 11091)

Cotton Mill Activity and Price of Cotton Goods, 1914–1920

[1913-1914=100 [1]]

Cotton Year [2]	Spindles in Place (Capacity)	Raw Cotton Consumption (Production)	Price Cotton Goods	Cotton Year [2]	Spindles in Place (Capacity)	Raw Cotton Consumption (Production)	Price Cotton Goods
1913–14	100	100	100	1917–18	106.7	117.7	221.7
1914–15	100.3	100.4	88.3	1918–19	108.2	103.4	242.3
1915–16	101.8	114.7	102.9	1919–20	109.4	115.1	339.8
1916–17	104.5	121.7	145.4				

[1] Base values: Spindles in place, 32,744,000; raw cotton consumption, 5,577,090 running bales.

[2] The "Cotton Years" for 1913–14 and 1914–15 begin on September 1; thereafter, on August 1. The Bureau of Labor Statistics monthly price series for cotton goods was used to compute an annual index corresponding to the cotton year.

Source: United States Department of Commerce; United States Bureau of Labor Statistics.

Exhibit No. 1505

(Chart based on following statistical data appears in text on p. 11093)

Physical Volume of Production and Wholesale Prices, 1913–1922

[1913=100]

Year	Index of Physical Volume of Production	Index of Wholesale Prices	Year	Index of Physical Volume of Production	Index of Wholesale Prices	Year	Index of Physical Volume of Production	Index of Wholesale Prices
1913	100	100	1917	128	168	1921	106	140
1914	102	98	1918	127	188	1922	124	138
1915	116	100	1919	119	199			
1916	123	122	1920	127	221			

Source: United States Bureau of Labor Statistics; Economic Tendencies in the United States, F. C. Mills.

EXHIBIT No. 1506

(Chart based on following statistical data appears in text on p. 11095)

National Income, Total Exports, and Net Exports, 1913–1919

Year	Millions of Dollars			Year	Millions of Dollars		
	Estimated National Income	Total Exports	Excess of Exports over Imports		Estimated National Income	Total Exports	Excess of Exports over Imports
1913	35, 580	2, 484	691	1917	53, 860	6, 234	3, 281
1914	33, 936	2, 114	324	1918	60, 366	6, 149	3, 118
1915	36, 109	3, 555	1, 776	1919	66, 000	7, 920	4, 016
1916	45, 418	5, 483	3, 091				

Source: United States Department of Commerce; National Bureau of Economic Research.

EXHIBIT No. 1507

(Chart based on following statistical data appears in text on p. 11098)

Monthly Indexes of Industrial Production by Major Types, 1935–1939 (With Seasonal Adjustment)

[1923–1925=100]

COMBINED INDEX—INDUSTRIAL PRODUCTION

	1935	1936	1937	1938	1939
January	90	97	114	80	101
February	90	94	116	79	99
March	88	93	118	79	98
April	86	101	118	77	92
May	85	101	118	76	92
June	87	104	114	77	98
July	86	108	114	83	101
August	88	108	117	88	102
September	91	109	111	90	111
October	95	110	102	96	120
November	96	114	88	103	[1] 124
December	101	121	84	104	....

MINERALS

	1935	1936	1937	1938	1939
January	95	104	111	108	110
February	97	111	116	103	110
March	97	97	128	103	110
April	88	106	115	101	95
May	90	103	117	91	98
June	99	100	115	92	104
July	85	102	112	93	106
August	83	99	113	95	92
September	87	102	116	97	114
October	93	105	113	98	122
November	93	112	109	102	[1] 125
December	102	117	115	109	....

[1] Estimate.

Monthly Indexes of Industrial Production by Major Types, 1935–1939 (With Seasonal Adjustment)—Continued

DURABLE MANUFACTURES

	1936	1936	1937	1938	1939
January	74	84	112	56	88
February	74	79	113	54	83
March	72	82	113	54	80
April	71	94	117	53	76
May	65	98	120	51	71
June	68	102	112	50	82
July	71	107	122	58	88
August	76	105	126	64	93
September	80	106	114	69	103
October	83	109	101	84	122
November	89	112	74	95	[1] 130
December	94	116	60	92	--------

NON-DURABLE MANUFACTURES

	1936	1936	1937	1938	1939
January	103	106	117	93	110
February	101	103	119	94	109
March	99	102	120	93	110
April	100	104	119	91	106
May	101	104	116	93	108
June	99	107	115	95	110
July	100	112	108	102	110
August	101	113	110	108	114
September	102	114	107	107	117
October	106	112	100	105	117
November	104	117	94	110	[1] 119
December	108	126	95	114	--------

Source: Board of Governors of Federal Reserve System. November estimates made by U. S. Dept. of Commerce.

EXHIBIT No. 1508

Trade of 20 Latin-American Republics in Total and With Certain Countries, in Specified Years, 1929 to 1937

[Values in thousands of U. S. dollars]

EXPORTS

Country	1929		1933		1936		1937	
	Value	Percent of total	Value	Percent of total	Value	Percent of total	Value	Percent of total
Total	2,919,741	100.00	1,165,571	100.00	1,826,856	100.00	2,323,212	100.00
United States	993,300	34.02	343,630	29.48	605,883	33.16	719,350	30.96
United Kingdom	537,759	18.42	254,437	21.83	343,008	18.78	408,153	17.57
Germany	235,160	8.05	80,321	6.89	148,973	8.15	202,750	8.73
Japan	3,817	.13	3,488	.30	35,963	1.97	38,004	1.64
Italy	91,400	3.13	31,037	2.66	32,789	1.80	70,121	3.02
France	181,794	6.23	71,999	6.18	91,606	5.01	94,443	4.06
All other countries	876,511	30.02	380,659	32.66	568,634	31.13	790,391	34.02

IMPORTS

Country	1929		1933		1936		1937	
	Value	Percent of total	Value	Percent of total	Value	Percent of total	Value	Percent of total
Total	2,421,283	100.00	788,733	100.00	1,201,570	100.00	1,615,908	100.00
United States	931,013	38.45	211,556	26.82	385,551	32.09	551,028	34.10
United Kingdom	362,039	14.95	143,108	18.15	166,573	13.86	213,285	13.20
Germany	261,955	10.82	83,402	10.57	187,952	15.64	249,545	15.44
Japan	14,766	.61	14,075	1.78	35,791	2.98	46,139	2.86
Italy	113,410	4.69	44,545	5.65	23,983	2.00	37,680	2.33
France	124,480	5.14	39,580	5.02	39,548	3.29	47,822	2.96
All other countries	613,620	25.34	252,467	32.01	362,172	30.14	470,409	29.11

Source: Compiled from the trade statistics of the 20 Latin American republics.

EXHIBIT No. 1509

Approximate Distribution of Trade of 20 Latin-American Countries to Various Markets in 1937

[In millions of dollars]

	Exports		Imports	
	Value	Percent of total	Value	Percent of total
Total	2,323	100	1,616	100
Germany	203	8.7	250	15.4
United Kingdom	408	17.6	213	13.2
France	94	4	48	3
Italy	70	3	38	2.3
Other European countries	349	15	226	14
Japan	38	1.6	46	2.9
Other countries in Asia, Africa, and Oceania	16	.7	48	3
United States	719	31	551	34.1
Canada	39	1.7	18	
Netherlands, West Indies	200	8.6		
Other countries in the Western Hemisphere	140	6	[1] 182	10.8
Not reported by country	[2] 47	2		

[1] Includes imports from the Netherlands West Indies which are relatively small.
[2] Consists principally of exports of saltpeter and iodine from Chile which are not reported separately but for which the United States is much the largest customer. Egypt, Germany, and France are also important, and the Netherlands, United Kingdom and a number of other countries take significant amounts.

Exhibit No. 1510

(Chart based on following statistical data appears in text on p. 11109)

Indexes of the Physical Volume of Production, Consumption and Inventories of Consumer Goods (Adjusted for Seasonal Variations)

[1935 Consumption=100]

Year	Consumption	Production	Inventories (Percent of Consumption)
1935	100.0	100.8	
January	97.2	99.9	40.7
February	98.3	98.5	40.8
March	99.8	97.2	40.6
April	97.9	98.7	40.6
May	97.1	97.5	40.7
June	99.7	96.3	40.3
July	100.4	95.3	39.9
August	100.4	100.9	40.0
September	101.9	101.9	40.0
October	102.2	106.6	40.3
November	102.6	105.3	40.6
December	102.5	110.6	41.2
1936	110.3	114.1	
January	104.0	109.5	41.7
February	103.7	106.4	41.9
March	106.0	106.9	42.0
April	109.5	112.4	42.2
May	110.1	111.6	42.3
June	111.2	114.6	42.7
July	112.8	118.9	43.1
August	109.9	112.7	43.4
September	112.6	114.7	43.6
October	113.2	113.1	43.6
November	114.9	119.7	43.9
December	115.3	128.7	45.0
1937	111.1	117.9	
January	113.9	122.0	45.7
February	114.9	124.2	46.5
March	115.5	127.2	47.5
April	114.7	125.5	48.4
May	114.3	122.9	49.0
June	112.5	123.4	49.9
July	111.7	119.9	50.7
August	112.7	123.0	51.5
September	111.2	119.3	52.2
October	108.3	110.5	52.4
November	102.3	99.8	52.2
December	100.9	96.9	51.8
1938	102.5	100.4	
January	103.5	94.5	51.1
February	103.0	94.5	50.4
March	102.1	94.0	49.7
April	99.4	91.3	49.1
May	98.3	91.6	48.5
June	97.8	93.0	48.0
July	98.2	97.5	48.0
August	100.6	104.5	48.4
September	102.0	106.1	48.7
October	104.1	107.2	48.9
November	108.8	115.8	49.5
December	111.3	115.3	49.8
1939			
January	111.7	118.0	50.4
February	112.4	111.7	50.3
March	112.7	112.8	50.3
April	112.1	108.0	49.9
May	113.7	108.3	49.5
June	112.4	110.6	49.4
July	110.3	109.9	49.4
August	[1] 113.7	[1] 110.2	[1] 49.2
September			
October			
November			
December			

[1] Preliminary.

Source: United States Department of Commerce, Division of Industrial Economics.

EXHIBIT No. 1513

LIST OF 812 PASSENGER CARS WHICH HAVE BEEN MADE IN THE UNITED STATES

Bold Face Type: 21 Makes of Cars Still Being Produced

Light Face Type: 791 Names of Cars No Longer Being Produced

'09 ABBOTT DETROIT
'20 ACE
'04 ACME
'04 ADAMS FARWELL
'22 ADRIA
'06 AEROCAR
'01 AJAX
'25 AJAX
'01 AKRON
'07 ALBANY
'09 ALCO
ALDEN SAMPSON
'14 ALLEN
'00 ALLEN KINGSTON
ALMA
'11 ALPENA
'16 ALTER
'21 AMBASSADOR
'02 AMERICAN ELEC.
'03 " GAS
'03 " STEAM
'01 "
'17 "
'30 " AUSTIN
" FIAT
'06 " MORS
'08 " SIMPLEX
" UNDERSLUNG
'10 AMPLEX
'09 ANCHOR
'16 ANDERSON
'00 ANGUS
'10 ANHUT
'01 APPERSON
ARBENZ
'05 ARDSLEY
'12 ARGO ELEC.
ATLANTIC
'07 ATLAS
'11 ATLAS-KNIGHT
'03 AUBURN
'06 AURORA
'04 AUSTIN
'99 AUTOCAR
'01 AUTO DYNAMIC
'01 AUTOMOTOR
'03 AUTO VEHICLE
'06 BABCOCK ELEC.
'01 BACHELLES
BADGER
'07 BAILEY ELEC.
'99 BAKER
'01 BALDNER
'00 BALDWIN
'37 BANTAM
'22 BARLEY
'12 BARNES
'03 BARTHOLOMEW
'04 BATES
BAUER
'07 BAY STATE
BEAVER
'20 BEGGS
'07 BELDEN
'15 BELL
'08 BENDIX
'17 BENHAM
'17 BEN HUR
'08 BENNER
'02 BERG
'09 BERGDOLL

'05 BERKSHIRE
BERLIET
'04 BEVERLY
'15 BIDDLE
BIMEL
'02 BINNEY BURNHAM
'21 BIRCH
'03 BLACK
'07 BLACK CROW
'04 BLACK DIAMOND
'03 BLACKHAWK
'29 BLACKHAWK
'06 BLISS
'05 BLOMSTROM
'03 BLOOD
'00 BOLTE
BORLAND
'13 BORLAND
GRANNIS
'08 BOSTON HIGH
WHEEL
'15 BOUR DAVIS
'22 BOWMAN
'20 BRADLEY
'02 BRAMWELL
'03 BRAZIER
'02 BRECHT
'05 BREEZE & LAWRENCE
'04 BREW & HATCHER
'16 BREWSTER-KNIGHT
BRIGGS-DETROITER
'14 BRIGHTON
'14 BRISCOE
'03 BRISTOL
BROC ELECTRIC
BRODESSER
'20 BROOK
BROWN
'08 BROWNIEKAR
'07 BRUSH
'03 BUCKMOBILE
'07 BUCMOBILE
'01 BUCKEYE
'01 BUFFALO ELEC.
'01 BUFFALO
'02 BUFFUM
'04 BUICK
'12 BURG
'08 BYRIDER
'02 CADILLAC
CALIFORNIA
'03 CAMERON
'14 CAMERON
'17 CAMPBELL
'01 CANADA
'02 CAPITOL
'11 CARHARTT
'12 CARNATION
'07 CARTERCAR
CARTHAGE
'10 CASE
'07 CATO
CAVAC
'02 CENTAUR
'01 CENTURY GAS
'01 CENTURY ELEC.
'01 CENTURY STEAM
'08 C. F.
'05 CHADWICK

'08 CHALMERS
'09 CHAMPION
'12 CHANDLER
'01 CHAPMAN ELEC.
'03 CHELSEA
'12 CHEVROLET
'24 CHRYSLER
'03 CHURCH
'13 CHURCH FIELD
'03 CINCINNATI ST M
CINCO
CINO
'01 CLARK
'08 CLARK CARTER
'02 CLARKMOBILE
'02-'19 CLEVELAND
'20 CLIMBER
'03 CLOUGHLEY
'08 COATES GOSHEN
'22 COATES STEAM
'11 COEY
'07 COLBURN
'11 COLBY
'09 COLE
'01 COLLINS ELEC.
'21 COLONIAL
'08 COLT
'98 COLUMBIA ELEC
'00 COLUMBIA GAS
'16 COLUMBIA
'16 COLUMBIA-KNIGHT
'02 COLUMBUS
'17 COMET
'17 COMMONWEALTH
'04 COMPOUND
'01 CONRAD
'32 CONTINENTAL
'02 CORBIN
'11 CORBITT
'29 CORD
'22 CORINTHIAN
'08 CORREJA
'07 COSMOPOLITAN
'01 COTTA
'04 COURIER
'09 COURIER
'22 COURIER
'01 COVERT
'08 C P
'06 CRAIG TOLEDO
'12 CRANE
'05 CRAWFORD
CRESCENT
'02 CREST
'01 CRESTMOBILE
'11 CRICKET
'39 CROSLEY
CROW
'01 CROWDUS ELEC
'11 CROW ELKHART
'07 CROWN HIGH-WHEEL
CROXTON
'09 CROXTON KEETON
'05 CULVER
'01 CUNNINGHAM STEAM

'11 CUNNINGHAM
'09 CUTTING
'07 C. V. I.
'23 D A C.
'29 DAGMAR
'11 DALTON
'15 DANIELS
'01 DARLING
'03 DARROW
'02 DAVENPORT
'10 DAVIS
'09 DECAUVILLE
'02 DECKER
'05 DEERE
'07 DE LUXE
'10 DEMOT
'01 DESBERON
'06 DE SHAW
'19 DE SOTO
'28 DE SOTO
'09 DE TAMBLE
'00 DETROIT
'12 DETROIT CHATHAM
'09 DETROIT DEARBORN
'07 DETROIT ELECTRIC
'12 DETROITER
'31 DE VAUX
DIAMOND T
'25 DIANA
DIEXEL
'14 DILE
'17 DISBROW
'11 DISPATCH
'16 DIXIE FLYER
'18 DOBLE STEAM
'14 DODGE
'09 DODO
'04 DOLSON
'06 DORRIS
'15 DORT
'19 DOUGLAS
'07 DRAGON
'21 DRIGGS
'16 DRUMMOND
'07 DUER
'20 DUESENBERG
'20 DUPONT
'12 DUQUESNE
'21 DURANT
'27 DURANT
'07 DUROCAR
'95 DURYEA
'02 DYKE
'05 EAGLE
'17 EAGLE ROTARY
'08 EARL
'21 EARL
'02 ECLIPSE
'06 ECONOMY
'12 EDWARDS KNIGHT
'09 ELCAR
'03 ELDRIDGE
'16 ELGIN
'01 ELMORE
'08 E. M. F.
'98 EMPIRE
'14 EMPIRE
'09 ENGER

'26 ERSKINE
'01 ESSEX
'17 ESSEX
'09 EVERITT
'08 EVERYBODYS
EWING
'17 FAGEOL
'09 F. A. L.
FALCAR
'22 FALCON
'26 FALCON KNIGHT
'01 FANNING
'15 FARMAC
'08 FARMOBILE
'06 FEDERAL
'17 FERGUS
'20 FERRIS
'07 FIRESTONE-COLUMBUS
'02 FISCHER
'10 FLANDERS
FLANDERS ELEC.
'02 FLINT
'23 FLINT
'03 FORD
'01 FOSTER
'06 FOSTORIA
'11 FOUR WHEEL DRIVE
'21 FOX
'02 FRANKLIN
'04 FRAYER
'02 FREDONIA
'23 FREMONT
'02 FRIEDMAN
'20 FRIEND
'07 FRITCHIE ELEC.
'14 F. R. P.
'08 FULLER
'08 FULTON
GAETHE
'02 GAETHMOBILE
'04 GALE
'19 GARDNER
'07 GARFORD
'00 GASMOBILE
'11 GAYLORD
'07 GEARLESS
'03 GENERAL
'01 GENEVA
'19 GERONIMO
'17 GHENT
'04 GIBBS ELECTRIC
G. J. G
GLEASON
'03 GLIDE
GRABOWSKY
'05 GRAHAM
'03 GRAHAM FOX
[redacted]
GRAMM
GRAMM LOGAN
'12 GRANT
'22 GRAY
'03 GREAT (PIERCE-ARROW)
'11 GREAT EAGLE
'11 GREAT SMITH
'27 GRAHAM

'11 GREAT SOUTHERN
'00 GREAT WESTERN
'03 GREELEY
'03 GRIDE
'07 GRISWOLD
'99 GROUT
'00 GURLEY
'15 HACKETT
'16 HAL
'07 HALLADAY
'05 HAMMER
'21 HANDLEY KNIGHT
'20 HANSON
'16 HARROUN
'15 HARVARD
'07 HATFIELD
'11 HAVERS
'07 HAY-BERG
'13 HAYWARD
'01 HAYNES
'95 HAYNES APPERSON
HAZARD
'20 H C S
'08 HEINE VELOX
'12 HENDERSON
'11 HENRY
'14 HERFF BROOKS
'09 HERRESHOFF
'26 HERTZ
'06 HEWITT
'01 HOFFMAN STEAM
'03 HOFFMAN GAS
'01 HOLLEY
'16 HOLLIER
'10 HOLMES
'05 HOLSMAN
'00 HOLYOKE
'16 HOMER-LAUGHLIN
'09 HAUPT
'03 HOWARD
'01 HUDSON STEAM
'09 HUDSON
HUDSON FRANKLIN
'22 HUFFMAN
'08 HUPMOBILE
'11 HUP YEATS ELEC.
'00 IMPERIAL
'07 IMPERIAL
'01 INTERNATIONAL
'08 INTER STATE
'03 IROQUOIS
'99 JACKSON
'03 JAXON
'00 JEFFERY
'08 JENKINS
'06 JEWELL
'22 JEWETT
'05 JOHNSON
'16 JONES
'02 JONES CORBIN
'11 JONZ
'16 JORDAN
'08 KEETON
'22 KELSEY
'09 KENMORE
'03 KENSINGTON

'16 KENT
'20 KENWORTHY
'11 KERMATH
KERMET
'14 KERNS
'01 KEYSTONE
'01 KIDDER
'10 KING
'06 KISSEL
'25 KLEIBER
'09 KLINE
'00 KNOX
'03 KONIGSLOW
'21 KURTZ
'09 K-R-I-T-
'02 KUNZ
'20 LAFAYETTE
'04 LAMBERT
'99 LANE STEAM
'05 LA PETITE
'27 LA SALLE
'16 LAUREL
'02 LAW
'99 LEACH
'20 LEACH BILTWELL
'11 LEADER
'11 LENOX
'01 LEWIS
'13 LEWIS
'09 LEXINGTON
'16 LIBERTY
'08 LINCOLN
'21 LINCOLN
'07 LION
'12 LITTLE
'20 LITTLEMAC
'02 LOCOMOBILE
'04 LOGAN
'21 LONE STAR
'23 LONG
'02 LONG DISTANCE
LONGEST
'00 LOOMIS
'08 LORRAINE
'20 LORRAINE
'02 LOZIER
'06 LUVERNE
'04 LYMAN
'09 LYON
'14 LYONS ATLAS
'14 LYONS KNIGHT
'03 MACKLE-THOMPSON
'17 MACON
'15 MADISON
'04 MAHONING
'16 MAIBOHM
'09 MARATHON
'05 MARION
'16 MARION-HANDLEY
'00 MARLBORO
'03 MARMON
'09 MARR
'05 MARSH
'10 MARSHALL
'19 MARTIN WASP
'12 MARQUETTE

'29 MARQUETTE
'06 MARVEL
'08 MARYLAND
'09 MASON
'03 MATHESON
'00 MATHIS
'04 MAXWELL
'04 MAXWELL-BRISCOE
MAYTAG
'09 McCUE
'10 McFARLAN
'09 McINTYRE
'15 MECCA
'07 MEDIA
'04 MERCEDES
'04 MERCURY
'09 MERCER
'31 MERCER
'20 MERIT
'06 METEOR
'21 METEOR
'22 METROPOLITAN
'09 METZ
'03 MICHIGAN
'08 MIDLAND
'08 MIER
'19 MIGHTY-MICHIGAN
'15 MILLBURN
MILLER
'00 MILWAUKEE
'03 MITCHELL
'99 MOBILE
'03 MODEL
MOGUL
'03 MOHAWK
'05 MOLINE
'11 MOLINE
'12 MOLINE KNIGHT
'08 MONARCH
'01 MONCRIEF
'15 MONITOR
'15 MONROE
'06 MOON
'06 MOORE
'07 MORA
MORGAN
'04 MORSE
'11 MOTORETTE
'14 MOUNT PLEASANT
'02 MOYEA
'12 B.E.F. MOYER
'06 MUNCIE
'16 MURRAY
'11 NANCE
'17 NASH
'03 NATIONAL
'17 NELSON
'03 NEUSTADT PERRY
'16 NEW ERA
'01 NEW HOME
'02 NIAGARA
'19 NOMA
'02 NORTHERN
'21 NORTHWAY
NORTHWESTERN
'01 NORTON
'12 NORWALK

'12 NYBERG
'07 OAKLAND
'97-'98 OAKMAN
'16 OGREN
'00 OHIO ELEC.
'09 OHIO GAS
'97 OKEY
'97 OLDSMOBILE
'97 OLYMPIAN
'12 OMAHA
'90 ORIENT
'04 ORMOND
'09 OTTO
'03 OVERLAND
'08 OVERLAND
'04 OWEN
'05 OWEN MAGNETIC
'08 OWEN THOMAS
'06 OXFORD
'99 PACKARD
'06 PAGE
'09 PAIGE
'06 PALMER
'08 PALMER SINGER
'19 PAN
'08 PAN AMERICAN
'17 PAN AMERICAN
PANHARD
'06 PARAGON
'21 PARENTH
'11 PARRY
PARTIN
'13 PARTIN PALMER
'08 PATERSON
'11 PATHFINDER
'07 PAYNE MODERN
'00 PEERLESS
'11 PENN
'17 PENNSY
'07 PENNSYLVANIA
PENN THIRTY
'01 PEOPLES
'08 PERFECTION
'12 PERFEX
PERU
'09 PETREL
'02 PHELPS
PHIANNA
'11 PICKARD
'19 PIEDMONT
'02 PIERCE ARROW
'16 PILGRIM
'15 PILLIOD
'11 PILOT
'98 PITTSBURG
'06 PLANCHE
'28 PLYMOUTH
'02 POMEROY
'16 PONDER
'08 PONTIAC
'25 PONTIAC
'97 POPE HARTFORD
'02 POPE-ROBINSON
'01 POPE TOLEDO
'04 POPE TRIBUNE

'19 PORTER
POSS
'07 POSTAL
'11 PRATT
'03 PREMIER
'22 PREMOCAR
'02 PRESCOTT
'05 PRINCESS
'07 PULLMAN
'04 PUNGS FINCH
'05 QUEEN
'20 RALEIGH
'00 RAMBLER
RANDOLPH
'20 R & V KNIGHT
'21 RANGER
'05 RAINIER
'03 RAPID
'05 RAUCH & LANG
'11 RAYFIELD
'11 R. C. H.
'13 READ
'01 READING
'03 REBER
'08 REEVES
'08 REGAL
'03 REGAS
RELIABLE DAYTON
'04 RELIANCE
'01 REMINGTON
RENAULT
'04 REO
'11 REPUBLIC
'18 REVERE
'22 RICHELIEU
'00 RICHMOND
'22 RICKENBACKER
'16 RIDDLE
'08 RIDER LEWIS
'99 RIKER
'11 ROADER
'16 ROAMER
'01 ROBINSON
'20 ROCK FALLS
'31 ROCKNE
'11 ROGERS
'01 ROGERS & HANFORD
'23 ROLLIN
'21 ROLLS-ROYCE
'29 ROOSEVELT
'15 ROSS
'04 ROTARY
'04 ROYAL TOURIST
'22 RUBAY
'03 RUSSELL
'29 RUXTON
'99 ST. LOUIS
'09 SALTER
'04 SAMPSON
'02 SANDUSKY
'03 SANTOS DUMONT
'11 SAXON
'17 SAYERS
'04 SCHACHT
'11 SCRIPPS BOOTH
'01 SEARCHMONT
'09 SEBRING
'08 SELDEN
'09 SELLERS
'06 SENATOR

'17 SENECA
'21 SEVERIN
'10 S. G. V.
'17 SHADWICK
'03 SHAIN
'09 SHARP-ARROW
'21 SHAW
'06 SHAWMUT
'03 SHELBY
'21 SHERIDAN
'07 SHOEMAKER
'06 SILVER KNIGHT
'18 SIMPLEX-CRANE
'09 SIMPLICITY
'16 SINGER
'07 SINGLE-CENTER
'20 SKELTON
'00 SKENE
'06 SMITH
'01 SMITH & MABLEY
'19 SPACKE
'00 SPAULDING
'16 SPAULDING
'04 SPEEDWAY
'08 SPEEDWELL
'21 SPENCER
'22 SPERLING
'14 SPHYNX
'09 SPOERER
'04 SPRINGER
'07 SPRINGFIELD
'11 STAFFORD
'02 STANDARD
'17 STANDARD EIGHT
'96 STANLEY STEAMER
'20 STANWOOD
'22 STAR
'10 STATES
'08 STAVER
'02 STEAMOBILE
'98 STEARNS STEAM
'00 STEARNS GAS
'11 STEARNS-KNIGHT
'16 STEPHENS
'09 STERLING
'23 STERLING KNIGHT
'02 STEVENS DURYEA
'16 STEWART
'00 STILSON
'05 STODDARD-DAYTON
'11 STODDARD-KNIGHT
'02 STORCK
'03 STUDEBAKER ELEC.
'09 STUDEBAKER E M F.
'04 STUDEBAKER
'04 STURTEVANT
'12 STUTZ
'11 STUYVESANT
SUBURBAN
'06 SUCCESS
'08 SULTAN
'16 SUN
'06 SUNSET
'04 SYNNESTEVDT
'22 TARKINGTON
'01 TAUNTON
'18 TEMPLAR
'21 TEXAN
'02 THOMAS

THOMAS DETROIT
'00 THOMSON
'03 TINCHER
'03 TOLEDO
'12 TOURAINE
'03 TOURIST
TRAVELER
'13 TRIBUNE
'11 TRIUMPH
'14 TRUMBULL
'17 TULSA
'14 TWOMBLY
'02 TWYFORD
'02 UNION
'02 UPTON
'08 U. S.
'05 VAUGHAN
'09 VELIE
'08 VICTOR
'08 VIKING
'29 VIKING
'11 VIRGINIAN
'14 VIXEN
'21 VOGUE
'19 VULCAN
WAGENHALL
WAHL
'01 WALLS
'00 WALTHAM
'22 WALTHAM
'03 WALTHER
'05 WALWORTH
'03 WARD LEONARD
'11 WARREN
'09 WARREN DETROIT
'01 WARWICK
'09 WASHINGTON
'20 WASP
'04 WAVERLY ELEC.
'04 WAYNE
'03 WELCH
WELCH DETROIT
WELCH PONTIAC
'10 WESCOTT
'16 WHIPPET
'02 WHITE STEAM
'09 WHITE
'11 WHITING
'02 WHITNEY
'02 WICK
'09 WILCOX
'02 WILDMAN
'22 WILLS STE. CLAIRE
'13 WILLYS-KNIGHT
'18 WILLYS SIX
'30 WILLYS
'29 WINDSOR WHITE PRINCE
'21 WINTHER
'97 WINTON
'07 WOLF
'04 WOLVERINE
'27 WOLVERINE
'01 WOODS
'18 WOODS
WOODS MOBILETTE
'03 YALE
'05 YORK
'03 ZENTMOBILE
'09 ZIMMERMAN

Exhibit No. 1511

(Chart based on following statistical data appears in text on p. 11111)

United States Total Inventory Values and Trends, 1935–1939

	1935		1936		1937		1938		1939	
	Dun and Brad-street	Interpo-lated Monthly Figures	Dun and Brad-street	Interpo-lated Monthly Figures	Dun and Brad-street	Interpo-lated Monthly Figures	Dun and Brad-street	Interpo-lated Monthly Figures	Dun and Brad-street	Interpo-lated Monthly Figures
J		14, 937		15, 290		16, 780		18, 755		18, 490
F		14, 944		15, 372		17, 068		18, 495		18, 470
M		14, 865		15, 399		17, 424		18, 246		18, 460
A		14, 889		15, 488		17, 752		17, 996		18, 340
M		14, 903		15, 535		18, 015		17, 790		18, 183
J		14, 800		15, 641		18, 347		17, 643		18, 135
J		14, 643		15, 826		18, 597		17, 622	18, 152	
A		14, 656		15, 911		18, 912		17, 742		[1] 18, 067
S		14, 656		15, 976		19, 161		17, 868		
O		14, 790		15, 973		19, 230		17, 961		
N		14, 872		16, 120		19, 151		18, 173		
D	15, 123		16, 412		19, 027		18, 287			

[1] Preliminary.

Source: U. S. Department of Commerce; Dun and Bradstreet.

Exhibit No. 1512

Approximated amount of funds expended annually in each class

Class No.	Brief Description	Estimated Sum Expended Annually
01	Laboratory Animals, etc	$30, 000. 00
02	Arms and Ammunition	12, 000. 00
03	Brooms, Brushes, Mops, etc	115, 000. 00
04	Bolts, Nuts, Washers and Rivets	28, 000 00
05	Cleaning Compounds, etc	200, 000. 00
06	Contractual Services—Rentals	1, 000, 000. 00
07	Drugs, Medicines and Sundries	1, 500, 000. 00
08	Educational Articles (other than textbooks)	4, 000. 00
09	Electrical Equipment	363, 000. 00
10	Foods, Forage and Feeds	5, 000, 000. 00
11	Fuels; Coal and Lubricants	5, 500, 000. 00
12	Furniture; Fixtures and Floor Covering (includes office machines)	700, 000 00
13	Glass	37, 000. 00
14	Hardware	262, 000. 00
15	Heating and Plumbing Supplies and Equipment	260, 000 00
16	Instruments; Parts and Accessories	58, 000. 00
17	Kitchen and Dining Equipment	50, 000. 00
18	Leather and Leather Goods	53, 000. 00
19	Machinery; Machine Tools; Parts and Accessories	405, 000. 00
20	Materials of Construction	3, 575, 000. 00
21	Metals (Ferrous)	324, 000. 00
22	Metals (Non-ferrous)	115, 000. 00
23	Metal Products	345, 000. 00
24	Nautical and Aeronautical Equipment	28, 000. 00
25	Nails and Spikes	4, 000. 00
26	Paint: Paint Materials: Varnishes, etc	265, 000 00
27	Paper and Paper Products	200, 000. 00
28	Photographic Equipment and Supplies	250, 000. 00
29	Plants; Seeds; Trees; and Horticultural Materials	325, 000. 00
30	Printing and Forms; Books, etc	1, 500, 000. 00
31	Pipes, Tubes, Valves and Fittings	670, 000. 00
32	Railway Equipment	2, 000. 00
33	Recreation, Playground and Athletic Equipment	45, 000. 00
34	Rope and Cordage	52, 000. 00
35	Rubber and Rubber Goods	215, 000 00
36	Stationery	350, 000. 00
37	Surgical, Hospital and Laboratory Equipment	750, 000. 00
38	Textiles	580, 000. 00
39	Tools, Implements, Parts and Accessories	350, 000. 00
40	Vehicles, Parts and Accessories	2, 500, 000. 00
41	Wood Products and Lumber	1, 000, 000. 00

EXHIBIT No. 1514 appears in text on p. 11183

EXHIBIT No. 1515 appears in text on p. 11185

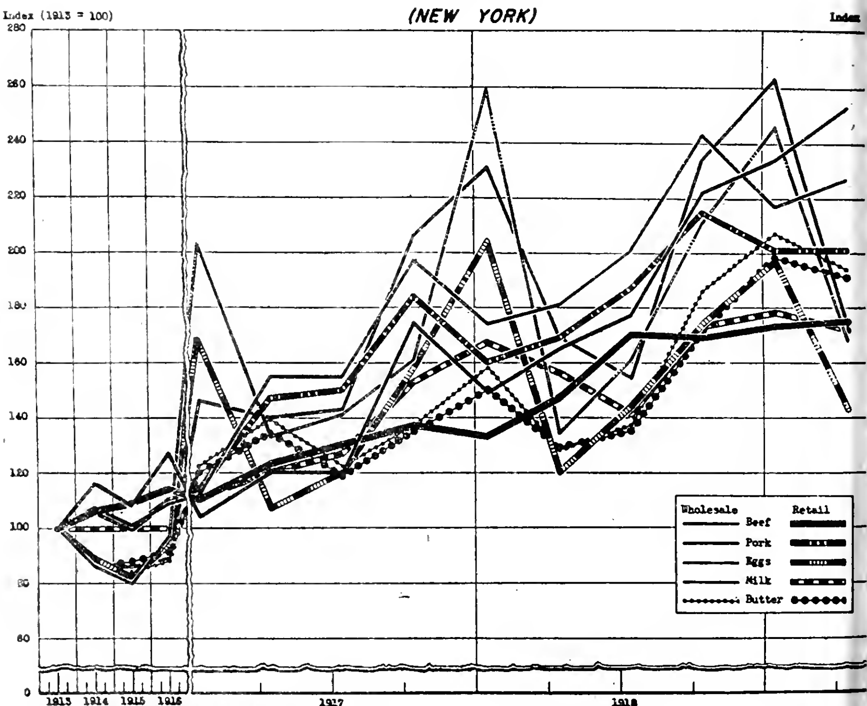
EXHIBIT No. 1516 appears in text on p. 11187

EXHIBIT No. 1517 appears in text on p. 11188

EXHIBIT No. 1518 appears in text on p. 11191

EXHIBIT No. 1519

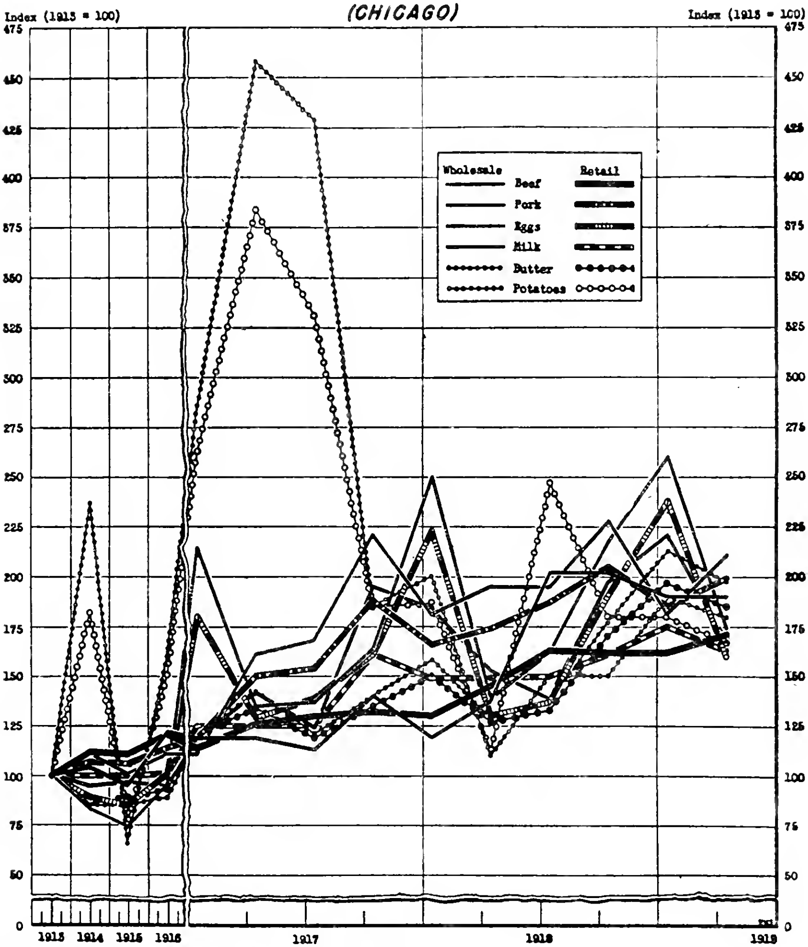
COMPARATIVE WHOLESALE AND RETAIL PRICE FLUCTUATIONS
1913 – 1919
(NEW YORK)



SOURCE: "HISTORY OF PRICES DURING THE WAR", GARRETT, 1920
SUPT. OF DOCUMENTS, WASHINGTON, D. C.

EXHIBIT NO. 1520

COMPARATIVE WHOLESALE AND RETAIL PRICE FLUCTUATIONS
1913 — 1919
(CHICAGO)

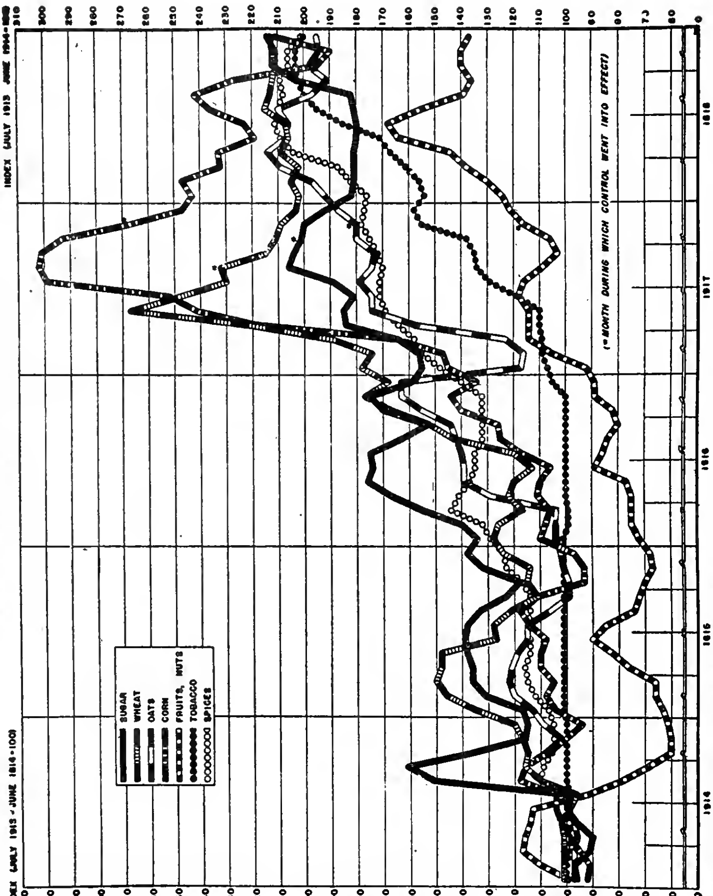


SOURCE: "HISTORY OF PRICES DURING THE WAR", GARRETT, 1920
SUPT. OF DOCUMENTS, WASHINGTON, D. C.

EXHIBIT No. 1521

WHOLESALE PRICE FLUCTUATIONS DURING THE WORLD WAR

(PRICES CONTROLLED IN ALL CASES EXCEPT TOBACCO AND SPICES)

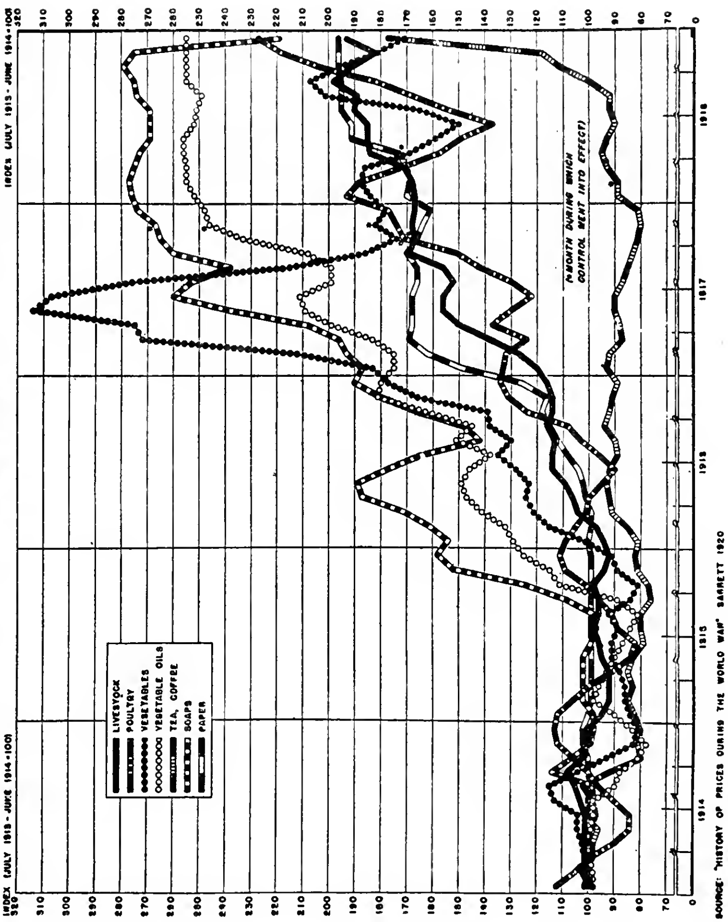


SOURCE: "HISTORY OF PRICES DURING THE WAR", GARRETT 1920
SUPT. OF DOCUMENTS, WASHINGTON, D.C.

EXHIBIT No. 1522

WHOLESALE PRICE FLUCTUATIONS DURING THE WORLD WAR

(PRICES CONTROLLED IN ALL CASES)



SOURCE: "HISTORY OF PRICES DURING THE WORLD WAR" BARRETT 1920 SUPT. OF DOCUMENTS, WASHINGTON, D.C.

EXHIBIT No. 1523

Bulletin Series 600-6

AMERICAN RETAIL FEDERATION,
Washington, D. C., November 3, 1939.

STATE PRICE CONTROL LAWS

CONTENTS

SUMMARY

Previous bulletins in this series have described war time regulations imposed on British retailers. Although some attention nas been given to the possibility of similar government action in this country as a result of European conditions, most of the consideration has been given to the powers which the federal government already has, or would need, to control a price inflation. Little attention has been paid to the powers of this sort which the state governments already have.

This bulletin summarizes existing state laws which were designed, or which could be used, to control prices.

STATE PRICE CONTROL LAWS

Some charges of hoarding and unjustified price increases were made shortly after war broke out in Europe. The federal government received a large number of complaints from consumers about high prices. These complaints were sent chiefly to the Department of Justice and to the Consumers' Counsel of the Department of Agriculture. The Department of Justice is reported to have rewritten the price control law which was enacted in 1917—the Lever Act, which the Supreme Court found to be unconstitutional—in anticipation of any situation which would require federal price control. Othre federal departments have also made plans and established tentative plans in case their services should be needed to curb too rapid price increases.

So far most of the attention has been focused on possible federal action, on what the federal government could do and what new powers it might need to regulate prices; little attention has been paid to existing state laws. This bulletin summarizes state laws which are designed, or which might be used, to control and regulate prices. It includes a general discussion of the different types of these laws, and a tabular summary by States.

The different types of laws

The existing state laws can be divided into four general types. These are anti-trust laws; laws against hoarding; laws against the destruction of food; and laws granting price control powers to the state or municipalities. Many states have more than one of these laws on their statute books. Thirty-eight of the states have anti-trust laws. There are eight state laws prohibiting hoarding and seven prohibiting the destruction of food. Authority to control prices is granted to state agencies or municipalities by twenty-one laws. Only two states are without at least one of these four different types. These types will be disucssed separately.

1. *State anti-trust laws.*—State anti-trust laws are patterned after the federal Sherman Anti-Trust Law. Although they differ in language and in scope, in general they prohibit combinations and conspiracies in restraint of trade, or to control prices. They also prohibit monopolies. While these laws would not always be applied to regulate prices, they can be used in much the same manner as the federal law.

2. *Laws against hoarding.*—These laws all prohibit hoarding but vary as to the commodities included in the scope of the law and the purpose for which the hoarding was done. Mississippi, for example, prohibits the cornering of the supply of any commodity even unintentionally. Maine prohibits hoarding any necessity of life and defines that term broadly, while Maryland prohibits storing food for the purpose of cornering the supply or increasing the price.

3. *Laws against the destruction of food.*—These statutes make it unlawful to destroy food in restraint of trade or to increase prices. Some of these laws also forbid allowing food to spoil with the same intent.

4. *Laws which give control of prices to state agencies or municipalities.*—These laws are more varied in nature and scope than any of the other types. Some of these direct a state executive agency to protect the consumer's interest, but offer no specific method by which this is to be accomplished. Others are more specific, such as the Minnesota law, which provides for investigations of prices and profits and allows the state to publish retail prices which are considered to be fair. Powers granted to municipalities also vary widely. Some cities are given authority to prevent acts which interfere with free marketing. Other cities may, during an emergency, take over the distribution of food and necessities of life. Massachusetts and Pennsylvania have laws of this latter type.

Tabular summary

The tabular summary which follows contains some laws which were obviously not designed to regulate retailing. However, since the broad language of these laws makes it possible for them to be extended to include retailing, they have been included in the summary. The Oklahoma law, which regulates public utilities, is an excellent example of this type of law.

State	Anti-Trust	Other provisions for price control
Alabama	Yes	
Arizona	Yes	
Arkansas	Yes	
California	Yes	It is unlawful, in restraint of trade, to destroy food fit for human consumption.
Colorado	No	It is unlawful to destroy or allow any food or feed to spoil with intent to raise prices. The provision is to be liberally construed. The Governor is vested with all regulatory and police powers affecting necessities of life to the same extent as the President or other executive officers of the United States. The Director of Markets is given full power and authority to protect the consumer's interest in any agricultural product.
Connecticut	Yes	The Commissioner of Agriculture may obtain and furnish quotations on farm products upon request. He may require special reports on supply, demand, value, price, and period of holding of agricultural products. During an emergency, proclaimed by the Governor, hoarding or profiteering in fuel is unlawful.
Delaware	No	The Bureau of Markets shall act to protect the consumer's interest in any food products against excessive prices and shall take any action it deems necessary in case of an emergency creating a food scarcity.
Florida	Yes	
Georgia	Yes	The Director of Markets shall investigate agreements to fix prices and may institute action under the anti-trust laws to prevent these agreements.
Idaho	Yes	The Department of Agriculture, after complaint, shall investigate agricultural producers' losses caused by profiteering. The Department of Agriculture shall also investigate, with intent to prevent waste and fraud, the practices and methods of all persons engaged in buying, selling, or handling on commission agricultural products. City councils are authorized to prevent and punish offenses interfering with free marketing.
Illinois	Yes	City councils are authorized to prevent and punish offenses interfering with free marketing. It is unlawful to interfere with or damage water, food, or provisions for troops of the state or of the United States. It is unlawful for any person to destroy or permit to spoil food or feed with intent to cause scarcity and increase prices.
Indiana	Yes	City councils are authorized to prevent and punish offenses interfering with free marketing.
Iowa	Yes	It is unlawful to destroy, or permit to spoil, any food products with intent to increase prices.
Kansas	Yes	
Kentucky	Yes	
Louisiana	Yes	
Maine	Yes	The Commissioner of Agriculture is authorized to investigate methods and costs of marketing farm products and purchasing farm supplies, and to secure improvements in the methods used. It is unlawful for any businessman to destroy or permit the destruction or spoilage of necessities of life or to hoard these necessities in order to increase prices. Necessities include food; feed; wearing apparel; shoes; building materials; gas and electricity for light, heat, and power; ice; fuel; fertilizer; tools; utensils; machinery; and equipment required for the manufacture of any of the above. The Attorney General, upon his own initiative or upon petition of 50 or more citizens, shall investigate all violations of either this law or the anti-trust laws and prosecute those who have violated these laws, and shall present all available information bearing upon violations to the proper U. S. prosecuting officer.

State	Anti-Trust	Other provisions for price control
Maryland	No	It shall be unlawful to store food for the purpose of cornering the market or increasing the price of food.
Massachusetts	Yes	The Constitution of Massachusetts provides that during an emergency, the distribution of food and other necessities may be taken over by the state, cities, or towns to the extent determined by the legislature. Under the provision, a law has been enacted creating within the Department of Labor and Industries a Division on the Necessaries of Life which investigates and adjusts all complaints regarding excessive prices. Its findings are made public. Under this law, also, the Governor is authorized, after proclaiming an emergency, to create a council to regulate the action authorized by the constitutional provision and taken by the state, its cities, and its towns.
Michigan	Yes	The Director of Markets shall investigate delays in the transportation of food supplies, and violations of the laws in restraint of trade. Reports of such violations shall be made to the Attorney General. The Director is also authorized to take such steps as he feels advisable when foodstuffs are liable to spoil for lack of a ready market. The latter provision is not applicable to fruits and vegetables already marketed.
Minnesota	Yes	A combination to interfere with, or restrict markets for food products, is a criminal conspiracy. The Commissioner of Agriculture is authorized to investigate the prices of kerosene, gasoline, electricity and other things used for light, heat, and power, and all common necessities of life including foodstuffs, clothing, feed, shoes, building material, tools and implements, automobiles and their repairs, coal and other fuel, oil, farm machinery, automobile parts, and other commodities ordinarily regarded as being essential to living; and he may from time to time publish reports, apportioning in detail the costs of such investigated articles so as to disclose the costs of production and distribution and the profits to each manufacturer, producer, and dealer or retailer; and he may at the same time publish prices deemed to be fair retail prices in any given locality. He shall also report any violations of any of the laws of the state discovered in the course of his investigation to the proper prosecuting officers of the State of Minnesota or of the United States.
Mississippi	Yes	It shall be unlawful for any person or persons to corner or attempt to corner the supply of any commodity. Cornering the supply of an article is unlawful even when done unintentionally if the act is detrimental to the public welfare.
Missouri	Yes	
Montana	Yes	It is unlawful for any person or persons in restraint of trade to withhold from sale any foodstuffs for a period of time which makes it necessary to destroy them. It is a misdemeanor wilfully to make any false statement or spread any false rumor with intent to affect the market price of any kind of property. The Department of Agriculture, and Labor and Industries, shall investigate, to avoid waste or fraud, practices and methods of persons who receive, solicit, buy, sell, or handle on commission, dairy products or farm products; and shall cooperate with producers and consumers in devising economical and efficient systems of distribution, and in reducing waste and expense incidental to marketing.
Nebraska	Yes	It is unlawful for any person dealing in perishable foods to hold these foods for the purpose of controlling prices until they have become unfit for consumption, or wilfully to neglect or destroy or throw away any food or to purchase crops and neglect to market them with the intent of controlling prices.
Nevada	No	It is a misdemeanor to add to the selling price of any article upon which there is a sales tax, either national or state, more than the actual amount of such sales tax in the smallest unit under which any article is offered for sale.
New Hampshire	Yes	There is a constitutional provision that the legislature is granted the power to prevent the operations within the state of all persons and associations who endeavor to raise the price of any article.
New Jersey	No	The Department of Agriculture, through its Bureau of Markets, or otherwise, may assist in the organization and maintenance of public markets for wholesale and retail selling, and supply information to these markets and require from them reports on activities. It may investigate the cost of distributing farm products, either wholesale or retail, and publish any of its findings that may be of public interest. It may investigate delays, embargoes, charges, rates, and practices in the handling, transportation, storage, buying, and selling of farm supplies and farm products, which appear to retard the free and efficient movement of such supplies and products to the ultimate consumer. It may take such lawful measures as it deems advisable to prevent waste or uneconomical use of farm products. Municipalities are authorized to create the office of Marketing Commissioner who shall gather data, and make investigations, and obtain information on the prevailing prices of foodstuffs, and shall daily publish in the municipality a fair price list giving in detail, what in his opinion, prices of foodstuffs should be in the community from day to day.
New Mexico	Yes	
New York	Yes	The Department of Agriculture through its commissioner shall have power to:— 1. Investigate restraint of trade or unlawful combinations to fix prices. 2. Investigate the conduct and methods for the purchase and sale of food on exchanges and boards of trade within the state. 3. Investigate and take action to prevent illegal acts or practices in the sale or distribution of food, fertilizers, feed, materials, apparatus, and machinery used or needed in the production, marketing, and distribution of food. It shall be unlawful for any commission merchant to discard, dump, or destroy, without reasonable cause, any farm products received by him.

State	Anti-Trust	Other provisions for price control
North Carolina	Yes	
North Dakota	Yes	
Ohio	Yes	It is the duty of the Bureau of Markets:— 1. To act to conserve or protect the consumer's interest in every practical way against excessive prices. 2. To take such means and steps relative to shipment, transportation, and storage of any foodstuffs as it deems desirable in case of an emergency creating a scarcity of food within the state. 3. To encourage the establishment of retail municipal markets and to assist direct dealing between producers and consumers. It is unlawful to either corner the market for grain or other commodities, or to spread false rumors, to influence the prices of commodities on the market.
Oklahoma	Yes	Any business which has a virtual monopoly, or which the public must use in such a manner that it is of public consequence, or which affects the community at large as to the supply, demand, or price of an article, is a public business. A public business is subject to state control over all its practices, prices, rates, and charges, and it is the duty of any public business to retail its services and offer its commodities on reasonable terms without discrimination and in amounts adequate to the needs of the public.
Oregon	No	It is unlawful for any person or persons to make any statement or perform any act, the reasonable effect of which would be to create a false impression of actual market conditions and prices of products.
Pennsylvania	No	The Department of Agriculture is authorized and shall:— 1. Investigate delays, embargoes, practices, charges, and rates in the transportation and storage of farm products which appear to be detrimental to free, economic, and official marketing. 2. Take all lawful steps it deems advisable to prevent waste of perishable products. Cities of the second class (smaller than Philadelphia, approximately the size of Pittsburgh) are authorized to purchase and sell without profit through their Departments of Supplies all necessities of life including food and coal. This action is authorized after the mayor has certified in writing to the city council and the city council has enacted a resolution to the effect that an emergency exists. Upon the termination of the emergency by a similar resolution, the Department of Supplies will liquidate the supplies on hand and make restitution to the city for the amounts appropriated.
Rhode Island	No	
South Carolina	Yes	
South Dakota	Yes	
Tennessee	Yes	
Texas	Yes	
Utah	Yes	It is a misdemeanor wilfully to make or publish any false statement, spread any false rumor or employ any other false or fraudulent means with intent to affect the market price of any kind of property.
Vermont	No	
Virginia	Yes	
Washington	Yes	
West Virginia	No	It is unlawful for any person or persons buying or selling foodstuffs, fuel, or articles pertaining to necessities of life to store these articles for the purpose of cornering the market or affecting the market price.
Wisconsin	Yes	The Department of Agriculture may obtain and furnish:— 1. Information relating to prices, profits, and costs in the production and distribution of products. 2. Information regarding the sources of supply of products. 3. List of persons engaged in the production and distribution of products. The Department of Agriculture with the consent of the Governor, after public hearing, may issue general and special orders to prevent, relieve, or terminate a scarcity of food products or fuel in the state.
Wyoming	Yes	

Exhibit No. 1524

Building Costs Are Reduced by U. S. Anti-Trust Inquiry

By Bruce Catton, Washington Correspondent

Washington, Nov. 00—The anti-trust investigation of the building industry has barely scratched the surface so far, but it is already bringing about substantial cash savings to the consuming public.

This is made evident by a brief examination of results achieved in just one of the cities where the investigation is being conducted—Pittsburgh.

What has happened in Pittsburgh so far seems to bear out the theory of the man behind the investigation, Assistant Attorney General Thurman Arnold, that the success of this campaign will depend not on the number of indictments obtained but on the effect which a mere knowledge that an investigation is being made will have on organizations and individuals in the trade.

KNOWLEDGE OF INQUIRY BRINGS CHANGE

One of the most illuminating aspects of the Pittsburgh situation is the effect the investigation there has had on electrical contracting.

Last May the Pittsburgh city engineer drew up an estimate of the cost of the electrical work in a new municipal hospital being built with PWA funds. His figure was $105,000; the city advertised for bids, opened them, and found that the lowest figure bid was $154,000. Specifications were revised and the city re-advertised. Lowest bid was $148,000, which was rejected.

The third set of bids brought a low offer of $152,000.

About that time the Department of Justice's investigating "team" of eight men reached Pittsburgh and went to work. This team advised rejection of these latest bids, and got busy with its investigation, which was widely publicized. On Nov. 3 a federal jury indicted 12 electrical contractors, a trade association and 45 individuals charging a conspiracy to defraud through collusive bidding. A few days later the city got a new set of bids for this hospital electrical work—with a low, this time, of $117,000.

IDENTICAL BIDDING PRACTICE STOPPED

That is only part of the picture.

The Pittsburgh Housing Authority is about to construct a new project known as Terrace Village. It advertised for bids for the excavating work. The bids came in after the papers had been full of the anti-trust investigation—and the lowest one was $200,000 under the engineer's estimate.

Not long ago the city opened bids for the purchase of sand and gravel. For the first time in years, the sand and gravel bids it got were not identical—and the quoted prices dropped from the hitherto prevailing level of $2.25 a ton to $1.65 to $1.80. This means a saving of $17,000 on sand and gravel for the first quarter of 1940.

That saving more than equals the expense of the Pittsburgh investigation to date.

SMALL FORCE DOES JOB

Eight Department of Justice men were sent to Pittsburgh from Washington. Their salaries for the period of the investigation total $4,833. Their travel and living expenses to date come to $1,700 more.

They have spent $720 on the hire of three stenographers, miscellaneous expenses have amounted to $500.00, and court reporting cost $3,000.00. In all, then, the investigation in Pittsburgh has cost $10,753—which is less than two-thirds of the sum that Pittsburgh will save on its first-quarter sand and gravel purchases alone.

To say that the country-wide investigation has barely scratched the surface is not to exaggerate. Indictments have been returned so far in five cities—Pittsburgh, Cleveland, St. Louis, Washington, and New York.

In none of these cases is the investigation nearly completed. In many other cities it has hardly begun. In Chicago, for instance, only the preliminary lines have been drawn for what the Department of Justice confidently believes will be one of the most sensational and far-reaching parts of the entire program.

Exhibit No. 1525

Thurman Arnold
Assistant Attorney General

Department of Justice,
Washington, December 7, 1939.

MEMORANDUM FOR THE TEMPORARY NATIONAL ECONOMIC COMMITTEE

Many of the states have so-called unfair trade practices acts which in general prohibit the sale of goods below cost. In the states of Arkansas, California, Colorado, Kentucky, Michigan, Montana, Utah, Washington, and Wyoming, these acts provide that cost calculations by such private groups as trade associations shall constitute prima facie evidence of cost in any case instituted against an alleged violator. It is the practice under such statutes for trade associations of distributors such as wholesalers and retailers to establish cost survey agencies to determine the so-called cost of selling certain types of goods. These agencies do not inform the distributors whom they represent as to what the cost of their operations are. Rather, they handle this matter by disseminating so-called minimum legal retail or wholesale prices which purport to be based upon cost analyses.

Since the prices which retailers and wholesalers pay for their commodities may vary, and since their cost of doing business would naturally vary, it is apparent that the effect of such cost analyses is the maintenance of rigid, uniform, and non-competitive prices.

These cost surveying bureaus police the price fixing agreements which they sponsor by threatening distributors who fail to follow the recommended prices with criminal action under the state law. Under such circumstances, it is not surprising that these price fixing agreements are maintained with success.

I have attached hereto photostatic copies of excerpts from bulletins put out by one such cost surveying agency in a large American city. Since this material is presented for the record merely by way of illustration rather than as part of a comprehensive investigation, it seemed advisable to delete from it language which would identify its source.

(Signed) THURMAN ARNOLD,
(Typed) Thurman Arnold,
Assistant Attorney General.

(In ink:) 11–22–39

——— ———: Please be advised that the following prices are the minimum legal prices under the Unfair Trade Practices Act:

Spam	25¢	4/99¢	
Corn Beef	18¢ can		
Advertised Brands Small Milk	4¢	3/11¢	4/14¢
Unadvertised " " "	4¢	3/10¢	
Gum & Candy Bars	3/10¢		

Please cooperate by observing these as the minimum prices, either advertised or regular shelf price, that the above items can be sold for. Any of the above items sold at a lower price will be considered by the ——— ——— as a violation of the Unfair Trade Practice Act. These prices are effective immediately upon receipt of this bulletin. So check your shelf prices at once.

(In ink:) 11–16–39

——— ———: Many of our members are telephoning in on complaints, thinking that someone is violating the price. Boys, this simply takes time to answer these telephone calls. Again we are giving you Mr. ——— ——— telephone number, that is the ——— ——— telephone number, ——— ———. Post this up in your store somewhere. If you have any complaints or anything that looks wrong, telephone that office because that is what you are paying for, that is for help from them if you think someone is violating the 8% markup. Don't bother them with frivolous things because they are having thousands of calls coming through. But on the other hand if you have something that is bona fide, don't hesitate to call them.

NEW SOAP AND SHORTENING PRICES

——— ———: We have just been notified by the administration office of the Unfair Trade Practice Act that effective immediately the legal prices on the following items are effective:

Crisco	1#	19¢	2# 37¢	3# 53¢	6#	$1.06
Snowdrift	1#	19¢	2# 37¢	3# 53¢	6#	1.04
Spry	1#	19¢	2# 37¢	3# 53¢	6#	1.06
Oxydol and Rinso		sml	9¢	2/17¢	3/25¢	4/33¢
		Lge. Reg	21¢	2/41¢		
		giant	58¢			
Dash					2½#	23¢
					5#	46¢
Blue Supersuds						21¢
White King				Med	21¢	2/41¢
P & G Crystal White	4¢	2/7¢	3/10¢	4/13¢	5/16¢	10/32¢
P & G Crystal White		80s.(lge.)4¢			3/11¢	4/15¢
Ivory		Med	2/11¢	3/16¢	4/21¢	5/26¢
		Lge	9¢	3/26¢		

Your cooperation in helping to maintain these prices will be appreciated.

Brand	Size	Legal minimum	Suggested retail price
Apple Sun Cured	Box	$0.74	$0.80
Arcadia	25c	.23¼	.25
Arcadia	50c	.44	.50
Arcadia	8 oz	1.09	1.25
Arcadia	16 oz	2.13	2.40
Barking Dog	25c	.22	.25
Barking Dog	50c	.44	.50
Barking Dog	8 oz	1.01	1.15
Barking Dog	16 oz	2.00	2.25
Beechnut Scrap	10c	.09	.10
Big Ben	15c	.12	.15
Big Ben	16 oz	.88	.90
Blue Boar	25c	.22	.25
Blue Boar	8 oz	1.10	1.25
Blue Boar	16 oz	1.96	2.25
Boot Jack	1 doz	.13½	.15
Bond Street	15c	.14⁴⁄₁₀	.15
Bond Street	8 oz	.61	.65
Bond Street	16 oz	1.17	1.25
Briggs	15c	.14⁴⁄₁₀	.15
Briggs	8 oz	.59	.65
Briggs	16 oz. Tin	1.12	1.25
Broadleaf	10c	.09	.10
Brown's Mule	12/5c	.04⁸⁄₁₀	.05
Buckingham	10c	.09⁹⁄₁₀	.10
Buckingham	15c	.14⁴⁄₁₀	.15
Buckingham	16 oz	1.12	1.25
Buffalo	5c	.04½	.05
Bugler	5c	.04½	.05
Bugler	10c	.09	.10
Bugler	8 oz	.49	.60
Bugler	25c	.23½	.25
Bull Durham	5c	.04½	.05
Capstan 1½ oz	30c	.27	.30
Capstan 3¼ oz	60c	.52	.60
Carlton Club Tin	15c	.13½	.15
Carlton Club Tin	14 oz	1.12	1.25
Climax Pl	6/10c	.09½	.10
Climax Doz	10c	.09	.10
Climax Pl	6/15c	.14	.15
Climax Thin	4/50c	.09	.10
Clipper	6/10c	.09½	.10
Clipper	12/10c	.09³⁄₁₀	.10
Corn Cake	50c	.47	.50
Country Gentleman	10c	.09	.10
Country Gentleman	7 oz	.23½	.25
Crosby Square	15c	.14¹⁄₁₂	.15
Cup	10c	.06	.10
Cyclone	10c	.06¹⁄₁₀	.10
Day's Work Pl	10c	.09½	.10
Dial	8c	.07½	.08
Dial	14 oz	.64	.70
Dill's Best	15c	.14⁴⁄₁₀	.15
Dill's Best	8 oz	.54⁹⁄₁₀	.55
Dill's Best	16 oz	1.05	1.05
Dixie Queen	10c	.09³⁄₁₀	.10
Dixie Queen	15c	.14⁴⁄₁₀	.15
Dixie Queen	14 oz. (1 lb.)	.93	1.00
Drummond's Nat. Leaf	8/15c	.09	.10
Drum. Nat. Leaf	15/10c	.09	.10
Duke's Mixture	5c	.04½	.05
Edgeworth RR & SL	15c	.14½	.15
Edgeworth RR & SL	35c	.32¾	.35
Edgeworth RR & SL	8 oz	.65⅓	.67
Edgeworth Tin	16 oz	1.22	1.25
Edgeworth Vac	2 oz	.17½	.20
Edgeworth Vac	4 oz	.34½	.40
Fifth Ave. Mix	15c	.13½	.15
Five Brothers	10c	.09³⁄₁₀	.10
Fly Caster	25c	.23⁹⁄₁₀	.25
Fly Caster	50c	.37¾	.50
Fly Caster	8 oz	.75⁹⁄₁₀	.80
Fly Caster	16 oz	1.52	1.60
Friends	10c	.09	.10
Geo. Washington	10c	.09	.10
Geo. Washington	15c	.13½	.15
Geo. Washington	8 oz	.35⁹⁄₁₀	.38
Geo. Washington	16 oz	.67⁸⁄₁₀	.70
Golden Grain	5c	.04½	.05
Golden Grain	10c	.09	.10
Golden State	15c	.14⁴⁄₁₀	.15
Golden State	8 oz	.63	.70
Golden State	16 oz	1.22	1.35

Brand	Size	Legal minimum	Suggested retail price
Granger	10c	$0.09 2/3	$0.10
Granger	8 oz	.46	.50
Granger	16 oz	.83 3/4	.90
Granger Twist	10/10c Dr	.08 9/10	.10
Gravely Superior	10c	.09	.10
Half and Half	15c	.11 9/10	.13
Half and Half	8 oz	.45 3/4	.48
Half and Half	16 oz	.87 3/10	.90
Harmony	15c	.13 1/2	.15
Harmony	25c	.22 4/10	.25
Harmony	80c	.67 1/4	.80
Hampton Homespun	10c	.09	.10
Heines Blend	20c	.18 8/10	.20
Heines Blend	3½ oz	.37 3/10	.40
Heines Blend	8 oz	.75 9/10	.80
Heines Blend	16 oz	1.52	1.60
High Plane	10c	.09 1/10	.10
High Plane Hum	14 oz	.77	.85
Himyar	10c	.09	.10
Himyar	20c	.17 9/10	.20
Honest Weight	10c	.09 3/10	.10
Honey Dip Twist	Drum	.08 9/10	.10
Honey Cut	12/5c	.04 3/10	.05
Horseshoe	12/10c	.09 3/10	.10
Humbug	8/20c	.18	.20
Hurley Burley	5c	.04 1/2	.05
Hurley Burley	10c	.09	.10
Hurley Burley	14 oz	.61 2/3	.65
Imperial C C	30c	.26 1/10	.30
Imperial C C	8 oz	.86 3/4	1.00
Imperial C C	16 oz	1.65	1.90
Imperial Mix	1 oz	.22 4/10	.25
Imperial Mix	2 oz	.44 4/10	.50
Imperial Mix	4 oz	.83 3/4	.90
Imperial Mix	8 oz	1.68	1.95
J. T. Tobacco PL	12/10c	.09	.10
Keg	10c	.09	.10
King Pin	10c	.08 9/10	.10
Kite	5c	.04 1/2	.05
Latakia	30c	.25 2/10	.30
Latakia	45c	.39 7/12	.45
La Turka	10c	.09	.10
London Sherbert	16c	.15 2/10	.16
London Dock	2 oz	.33 1/2	.40
Lucky Strike SL or PL	15c	.14 4/10	.15
Lucky Strike	70c	.65 3/4	.70
Lucky Strike	1.35	1.25	1.35
Luxury	10c	.09	.10
Luxury	8 oz	.44 3/4	.50
Luxury	16 oz	.83 3/4	.90
Mail Pouch	10c	.09	.10
Masterpiece (15/10c)	3 Pl	.09	.10
Masterpiece Tob	25c	.20 9/10	.25
Masterpiece Tob	50c	.42	.50
Mickey Twist	10c	.08 9/10	.10
Middleton Mix	15c	.14 4/10	.15
Middleton Mix	35c	.31 3/10	.35
Middleton Mix	8 oz	.61	.65
Middleton Mix	16 oz	1.17	1.25
Miners & Puddlers	10c	.09 3/10	.10
Miners & Puddlers Pail	14 oz	.74 7/10	.85
Model	10c	.09	.10
Model	16 oz	.83 3/4	.90
Natural Leaf (Rey)	12/10c	.09	.10
Natural Leaf (A. T.)	16 oz	1.89	2.25
Navy Blue	10c	.09 3/10	.10
Old Brier	15c	.13 1/2	.15
Old Brier	8 oz	.59 1/3	.65
Old Brier	16 oz	1.17 2/3	1.25
Old English C C	15c	.14 4/10	.15
Old English C C	8 oz	.74 3/10	.80
Old English C C	16 oz	1.48	1.60
Old Loyalty	5c	.04 1/2	.05
Old North State	5c	.04 1/2	.05
Old North State	10c	.09	.10
O-Nic-O 1¾ oz	35c	.30 3/10	.35
Osterlohs Mix	15c	.14 4/10	.15
Osterlohs Mix	12 oz	.72 8/10	.80
Our Advertiser	5c	.04 1/2	.05
Our Advertiser	10c	.09	.10
Our Advertiser	12 oz	.41 2/3	.50
Peerless	10c	.09 3/10	.10
Peerless Paper	70c	.65 1/2	.67

Brand	Size	Legal minimum	Suggested retail price
Peerless Pails	75c	$0.70 8/10	$0.75
Pedro	10c	.09 3/10	.10
Pedro	15c	.14 4/10	.15
Pedro	14 oz	.92 2/3	1.00
Penns Thick	7/15c	.14	.15
Perique	16 oz	1.87	2.25
Perique	25c	.21 9/10	.25
Peyton Gravely	10c	.09	.10
Peyton Gravely	15c	.13 1/2	.15
Piper Heidsieck	10c	.09	.10
Piper H. 8 Pl Wood	40c Plg	.29 9/10	.40
Pot Pourri 1 oz	15c	.14 1/10	.15
Pot Pourri 8 oz	1.10	.98 4/10	1.10
Pot Pourri 16 oz	2.10	1.87	2.10
Pipe Major (Fair Trade)	15c	.15	.15
Pipe Major (Fair Trade)	8 oz	.65	.65
Pipe Major (Fair Trade)	16 oz	1.25	1.25
Prince Albert	15c	.11 9/10	.13
Prince Albert	8 oz	.45 3/4	.48
Prince Albert	16 oz	.87 3/10	.90
Prince Albert Jar	16 oz	1.11	1.15
Pure Grape	10c	.09	.10
Puritan	15c	.14 4/10	.15
Puritan	8 oz	.67 1/4	.75
Puritan	16 oz	1.30 2/3	1.40
Qboid	15c	.14 1/2	.15
Queen Quality	10c	.09 3/10	.10
Red Men	10c	.09	.10
Red Men	15c	.13 1/2	.15
Revelation	15c	.14 1/10	.15
Revelation	25c	.22 4/10	.25
Revelation	8 oz	.81 2/10	.90
Revelation	16 oz	1.55	1.75
Right Cut	10c	.09 4/10	.10
Roll Rite	10c	.09	.10
Roll Rite	3 oz	.16 1/3	.20
Ripple	5c	.04 1/2	.05
Rum & Maple	25c	.20 2/3	.25
Rum & Maple	5 oz	.58 1/2	.70
Rum & Maple	8 oz	.94 1/2	1.10
Rum & Maple	16 oz	1.83	2.10
Schnapps	10c	.05 9/10	.10
Seal of No. Carolina	10c	.09 3/10	.10
Seal of No. Carolina	16 oz	1.29 2/3	1.40
Serene	15c	.14 4/10	.15
Serene	8 oz	.67 1/2	.75
Serene	16 oz	1.30 2/3	1.40
Sir Walter Raleigh	15c	.14 4/10	.15
Sir Walter Raleigh	8 oz	.45 3/4	.48
Sir Walter Raleigh	16 oz	.87 3/10	.90
Spark Plug	5c	.04 8/10	.05
Spearhead	Plug	.06 3/10	.10
Standard	10c	.09 3/10	.10
Star	Plug	.09 3/10	.10
Stud	5c	.04 1/2	.05
Sure Shot	10c	.09	.10
Sweet Burley	10c	.09	.10
Sweet Burley	16 oz	.79 4/10	.90
Tareyton Mix	25c	.21 1/2	.25
Tareyton Mix	50c	.43	.50
Tareyton Mix	8 oz	1.00 8/10	1.20
Tareyton Mix	16 oz	1.98	2.35
Target	10c	.09	.10
Target	8 oz	.57 1/10	.65
Target	Kit	.32 3/4	.35
Target	5c	.04 1/2	.05
Tiger	10c	.09	.10
Tinsley Nat. Leaf	6/15c	.13 4/10	.15
Torch Light	10c	.09	.10
True Smoke	10c	.09	.10
True Smoke	15c	.13 1/2	.15
Turkish	16 oz	2.24	2.50
Tuxedo	10c	.09 8/10	.10
Tuxedo	7 oz	.40 1/3	.45
Tuxedo	14 oz	.80 1/2	.90
Tweed	10c	.09	.10
Union Leader	10c	.09 3/10	.10
Union Leader	15c	.13 8/10	.15
Union Leader	7 oz	.36 4/10	.40
Union Leader Hum	14 oz	.71	.75
U. S. Navy	Plug	.07 2/10	.10
Union Standard Pl	6/10c	.09 3/10	.10
Union Standard	12/10c	.09 1/2	.10

Brand	Size	Legal minimum	Suggested retail price
Velvet	15c	\$0.11$\frac{9}{10}$	\$0.13
Velvet	8 oz	.45$\frac{3}{4}$	.48
Velvet	16 oz	.87$\frac{3}{10}$	.90
Virginia Long Cut	15c	.14$\frac{4}{10}$	.15
W. B. Cut	10c	.09$\frac{6}{10}$	.10
Wakefield	25c	.22	.25
Wa' efield	3 oz	.42	.50
Wa..efield	8 oz	1.03	1.25
Wakefield	16 oz	2.10	2.50
Walnut Blend	30c	.25$\frac{5}{10}$	.30
Walnut Blend	1.15	1.02	1.15
Walnut Blend	2.25	1.94	2.25
Wellington	15c	.13$\frac{1}{2}$	.15
Wellington	25c	.22	.25
Wellington	50c	.39$\frac{2}{10}$	.50
Wellington	8 oz	.63	.90
Wellington	16 oz	1.22	1.35
Westwood Pl—8 Wood	49c	.36$\frac{2}{3}$	.50
Copenhagen	RI	.09$\frac{1}{2}$	.10
Garretts	10c	.09$\frac{1}{2}$	.10
Garretts 35c	5 oz	.36$\frac{4}{10}$	.40
Norkoping	RL	.09$\frac{1}{3}$	.10
Norseman	RL	.09$\frac{1}{3}$	.10
Scotch King	Doz	.09$\frac{4}{10}$	.10
Scotch King	5 oz	.33	.40
Skoal	RL	.09$\frac{1}{3}$	.10
Work Mate	RL	.09$\frac{1}{3}$	.10
Cigarette Papers	5c	.04$\frac{1}{2}$	.05
Pipe Cleaners	5c	.03$\frac{3}{10}$	.05
Between the Acts	15c	.13$\frac{1}{3}$	.15
Royal Bengals (18c)	2/35c	.15$\frac{4}{10}$	.18

NOTICE—Some Cigarette Price Changes

Marlboro (20's)...20c Pall Mall (Kings)...17c Johnnie Walker (20's)...20c

TEAR OFF HERE

An extended survey has just been completed on tobacco products, which in some instances will change the minimum mark-up on tobacco products which was sent to you earlier in the year.

From this survey we have determined what the minimum cost of doing business of any one in the tobacco industry is in this county. By adding that minimum cost to the invoice price of the tobaccos, we have arrived at the absolute legal minimum at which tobacco products may be sold. In other words, under the law this minimum is the floor, or base, which you must not go below.

We have listed also a suggested retail price which it is hoped the retail trade will follow generally. It should be borne in mind that this suggested price is just merely a suggestion and in no way compulsory. For instance, if a tobacco has been listed as 13c under the suggested price and you have been getting 15c over a long period of time, there is no reason why you should not continue to do so.

Every licensed tobacco dealer will be supplied with this list, the effective date of which is November 1st, 1939.

SUPPLEMENTAL DATA

The following data entered in the record on December 18, 1939, are included at this point in connection with the testimony of Dr. Albert Haring, supra, p. 11298.

Exhibit No. 1683

SCHOOL OF BUSINESS
ALBERT HARING
Professor of Marketing

INDIANA UNIVERSITY,
Bloomington, December 12, 1939.

The following balance sheet of the Great A&P Company was taken from Moody's 1939 Industrials, page 1961. The balance sheet was for February 28, 1938. It is:

ASSETS	
Land and Buildings	$4,384,750
Equipment and Fixtures	16,537,798
Good-will	
Cash	44,962,832
U. S. Government Securities	40,498,615
Other Securities	4,877
Accounts Receivable	4,939,139
Merchandise	70,021,073
Deferred Charges	3,271,851
Total	$184,620,935
LIABILITIES	
First Preferred Stock	$26,036,200
Common Stock [1]	36,306,100
Subsidiary Preferred Stock	10,000
Notes and Acceptances	72,594
Accounts Payable	24,603,138
Federal Tax Reserve	1,837,277
Insurance Reserve	613,846
Other Reserves	----------
Surplus	95,141,780
Total	$184,620,935
CURRENT ASSETS	$160,426,536
CURRENT LIABILITIES	26,513,009
NET CURRENT ASSETS	$133,913,527

The income statement was:

February 28, 1939		
Sales	$881,703,076	
Total Earnings	14,878,682	
Depreciation	3,925,568	
Net Earnings	10,953,114	
Margin of Profit		1.24%
Federal Income Tax	1,834,000	
Net Income	9,119,114	
Dividends	13,296,816	
Surplus Adjustments (debits)	78,664	
Surplus for Year [debit]	$4,256,367	

[1] 2,085,812 shares in 1938.

An examination of the data for the A & P indicates that a net profit of 1.24% was realized upon the basis of sales. The turnover upon the inventory of $70,-021,073 on a cost basis and with goods sold at retail prices amounting to $881,703,076, was between 10 and 11 when the sales figures were reduced to cost prices. This is undoubtedly a fine showing.

The capital turnover, if deferred charges which have been prepaid are considered as a capital investment, was slightly under five (4.8). Sales of approximately 882 million were supported by an investment of approximately 185 million. The weakness of this ratio is shown clearly when it is noticed that the inventory of merchandise totals 70 million while the total value of land, buildings, equipment, and fixtures had a total value of only $21,000,000. When real estate, buildings, and trucks are owned by a retail operator, the value of these will ordinarily far exceed the value of the inventory. In this case, however, the value of inventory is almost 3½ times the value of land, buildings, and equipment.

If the A & P had chosen to own land, stores, trucks, and equipment, its investment would have been far larger. In my own opinion, the A & P is fairly characteristic of modern chain store operation. And, due to these circumstances, it is fairly commonly assumed that the only way to compare the earnings of two chain systems is to compare the profit per dollar of sales.

If further information on this or any similar subject is desired by the Committee, I will be pleased to furnish it.

Sincerely,

(Signed) ALBERT HARING.
(Typed) Albert Haring.

AH:RB

NOTE.—Crossed-out matter in linetype; New matter, enclosed in brackets.

INDEX