

*OPA.*

*Confidential*

CHANGES IN THE COST OF LIVING

*12/22-42*

1. Most of the rise in the cost of living since the war began in September 1939 took place before enactment of the Price Control Bill in January 1942.

Percentage Rise in the Cost of Living

	<u>Since War Began in 1939</u>	<u>Since Passage of the Act</u>
<u>All Items</u>	<u>20.7</u>	<u>5.4</u>
Food	38.6	11.0
Clothing	25.5	5.8
Rent	3.5	-0.6
Housefurnishings	22.9	3.3
Fuel, Ice, and Electricity	8.9	1.7
Miscellaneous	11.3	2.1

2. The General Maximum Price Regulation halted the rising cost of living. Prior to the General Maximum Price Regulation, effective in May 1942, the cost of living had been rising at an average monthly rate of 1.1 percent. Since that time, the rise has been limited to 0.5 percent monthly. As shown in Table 1 and Chart 1, the increase since May 1942 has been only a fraction of the rise in the same period of 1941 when inflationary pressures were far less.

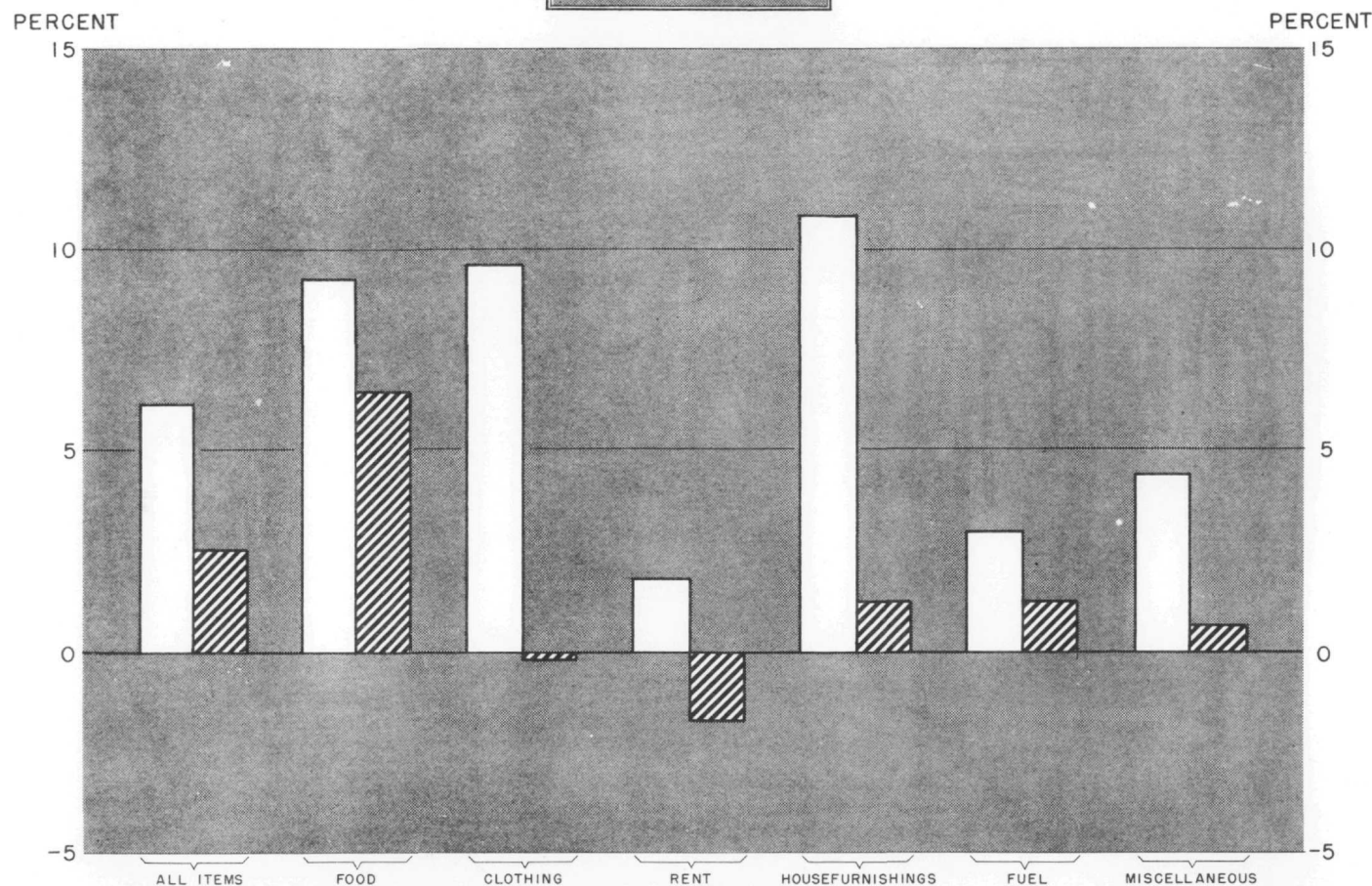
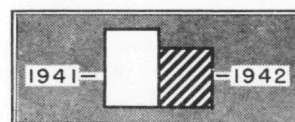
Table 1

Percentage Changes in BLS Cost-of-Living Indexes

	<u>May 1941 to October 1941</u>	<u>May 1942 to October 1942</u>
<u>All Items</u>	<u>6.2</u>	<u>2.6</u>
Food	9.3	6.5
Clothing	9.6	-0.2
Rent	1.8	-1.8
Housefurnishings	10.8	1.2
Fuel, Ice, and Electricity	2.9	1.2
Miscellaneous	4.3	0.7

# COST OF LIVING

PERCENTAGE PRICE CHANGES FROM MAY TO OCTOBER 1941 AND 1942



SOURCE: Office of Price Administration and Bureau of Labor Statistics.

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3. Controlled prices have been almost completely stabilized under the General Price Regulation.

Wholesale prices were down a fraction of 1 percent.  
 The cost of living was up a fraction of 1 percent.  
 Retail food prices were up a fraction of 1 percent.  
 Retail clothing prices were down a fraction of 1 percent.  
 Rents were down more than 4 percent.  
 Retail housefurnishing prices were up over 1 percent.

4. The small rise in the cost of living since May has been due essentially to uncontrolled food prices which rose 16 percent.  
 This was almost twice as great as the corresponding rise in 1941.  
 Controlled food prices, in sharp contrast, rose only one twenty-fifth as much as in the earlier period. (See Table 2 and Chart 2).

Table 2

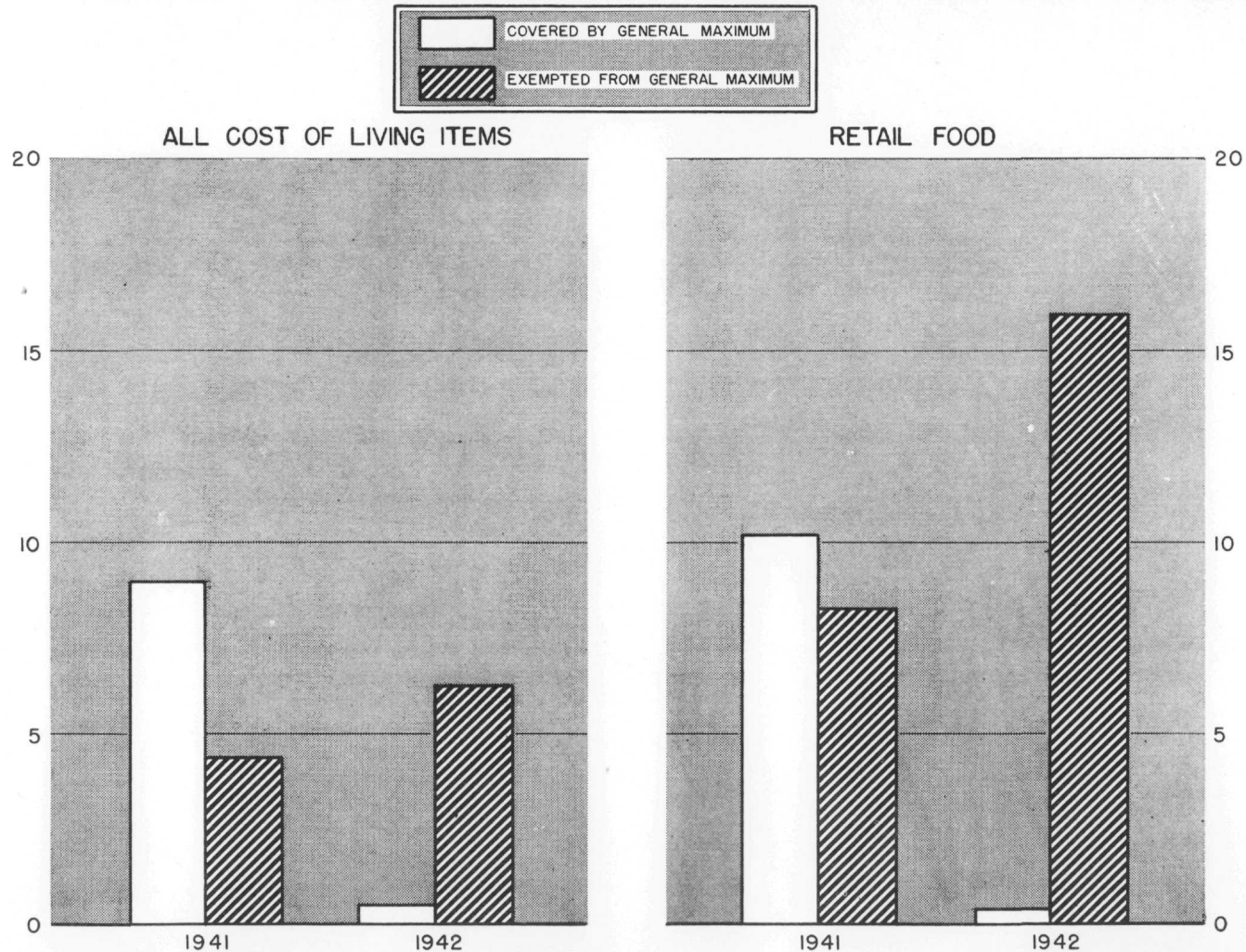
Percentage Change in Cost of Living  
May to October, 1941 and 1942

	<u>Covered by the General Max</u>		<u>Exempted from the General Max</u>	
	<u>1941</u>	<u>1942</u>	<u>1941</u>	<u>1942</u>
	<u>May to Oct.</u>	<u>May to Oct.</u>	<u>May to Oct.</u>	<u>May to Oct.</u>
All Items	9.0	0.5	4.4	6.2
Foods	10.2	0.4	8.3	15.9

5. The continued rise in food prices has been due to statutory limitations. Foods which could not be covered under the General Price Ceiling include such important items as wheat flour, corn meal, lamb, poultry, butter, cheese, evaporated milk, eggs, and many fruits and vegetables. While coffee, tea, and sugar -- all controlled -- declined slightly, lamb, eggs, and butter rose 12 percent, 43 percent, and 18 percent respectively. For additional items, see Table 3 and Chart 2-A.

# EFFECTIVENESS OF THE GENERAL MAXIMUM PRICE REGULATION

PERCENTAGE PRICE CHANGES FROM MAY TO OCTOBER 1941 AND 1942



SOURCE: Office of Price Administration and  
Bureau of Labor Statistics

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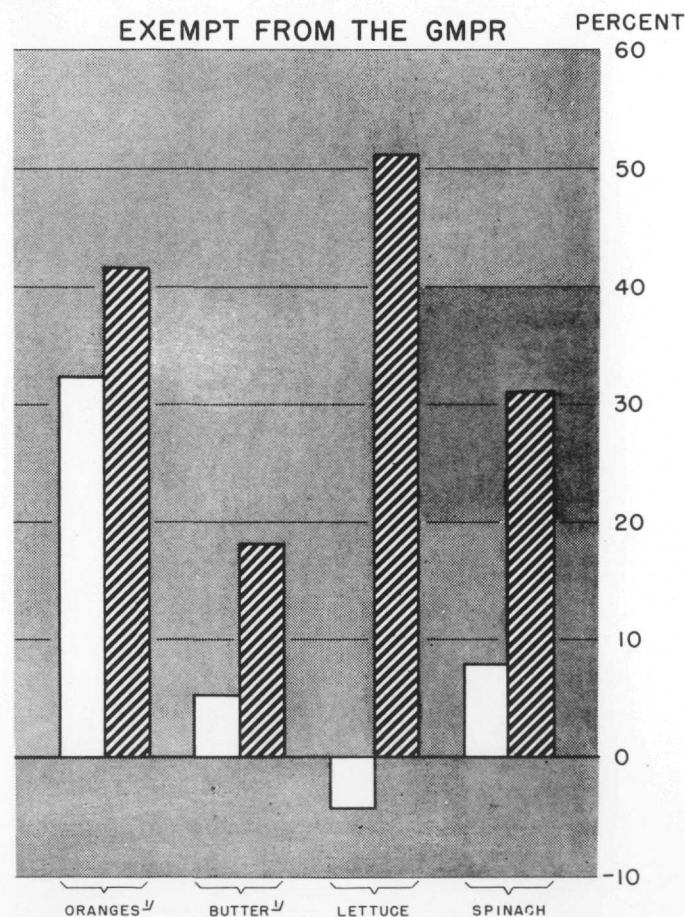
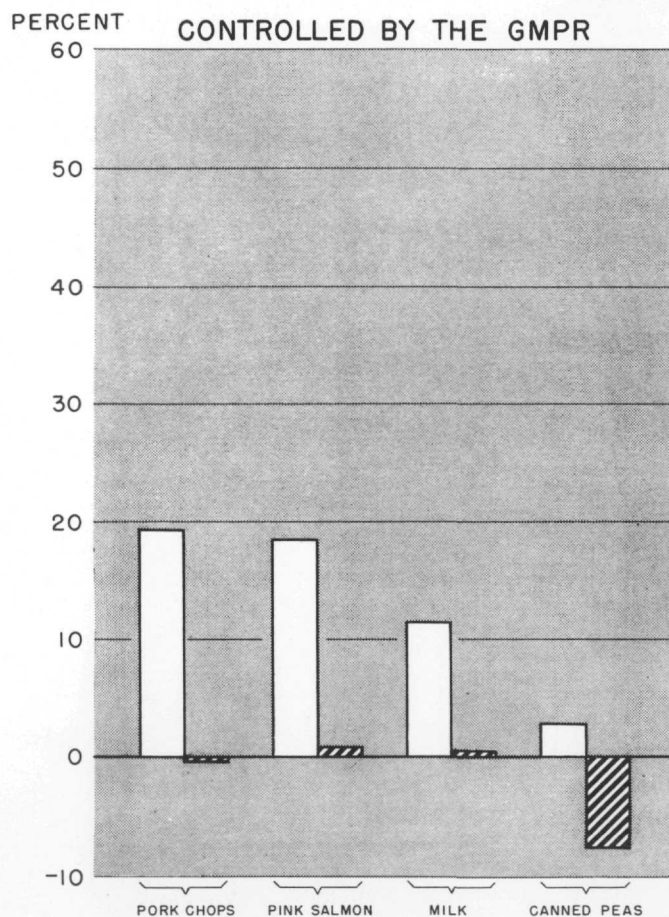
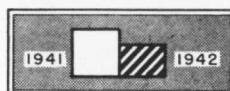


# CHART 2-A

## EFFECTIVENESS OF THE GENERAL MAXIMUM PRICE REGULATION

### SELECTED RETAIL ITEMS

PERCENTAGE CHANGES FROM MAY TO OCTOBER 1941 AND 1942



✓ Controlled after the October 2<sup>nd</sup> amendment to the Price Control Act.

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Table 3

Percentage Price Changes from May to October 1941 and 1942  
Selected Retail Items

	<u>1941</u>	<u>1942</u>
<u>Controlled by GMPR</u>		
Pork Chops	19.4	-0.2
Pink Salmon	18.5	0.9
Milk	11.5	0.7
Canned Peas	3.0	-7.6
<u>Exempt from GMPR</u>		
Oranges $\frac{1}{1}$	32.5	41.7
Butter $\frac{1}{1}$	5.3	18.2
Lettuce	-4.1	51.1
Spinach	7.9	31.1

1/ Controlled after passage of the Act of October 2 amending the Price Control Act.

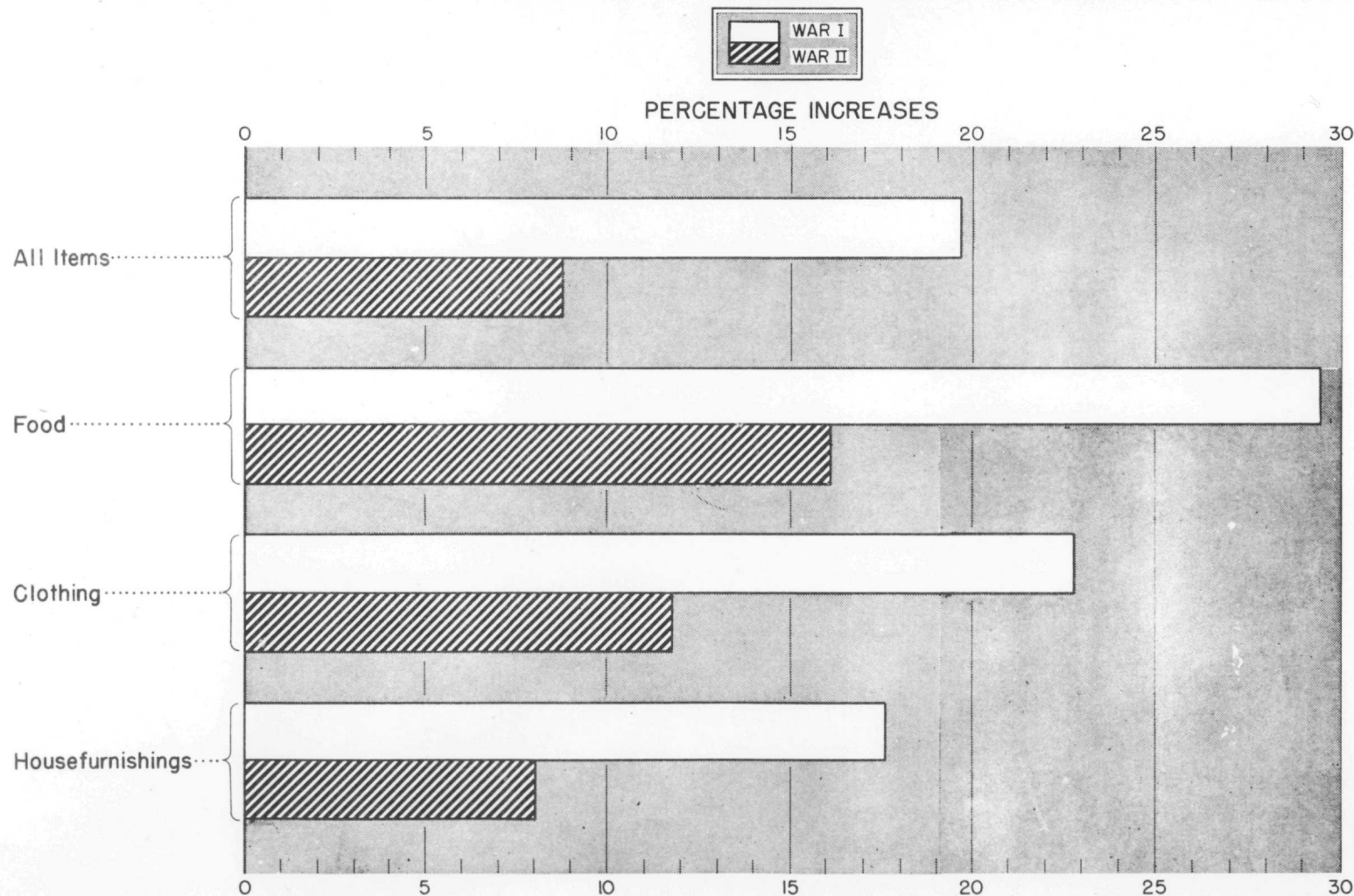
The Cost of Living in Two Wars

The effectiveness of price control in this war is evident from a comparison with the last war. (Charts 3 - 7) During the third year of World War I -- October 1916 to October 1917 -- the cost of living rose almost 20 percent. During the third year of this war -- October 1941 to October 1942 -- the rise was about 9 percent, or less than half as much. And most of this increase occurred before the General Max went into effect in May.

In such a two-war comparison, it should be recognized that price pressures are much greater today because this is the biggest war in the nation's history. War production never exceeded one-third of total production in World War I. War production today is already more than one-third of total production and the goal is much higher. As inflationary pressure increases with the size of the war program, prices might be expected to rise at an accelerating rate in accordance with the price pattern of the last war. Instead, the opposite trend has occurred. During the 12 months preceding the effective date of the General Max, the cost of living rose more than 1 percent a month. Since the General Max, the rise has been only one-half of 1 percent a month.

# INCREASES IN THE COST OF LIVING IN THE THIRD YEAR OF WAR

OCTOBER 1941 TO OCTOBER 1942 COMPARED WITH OCTOBER 1916 TO OCTOBER 1917

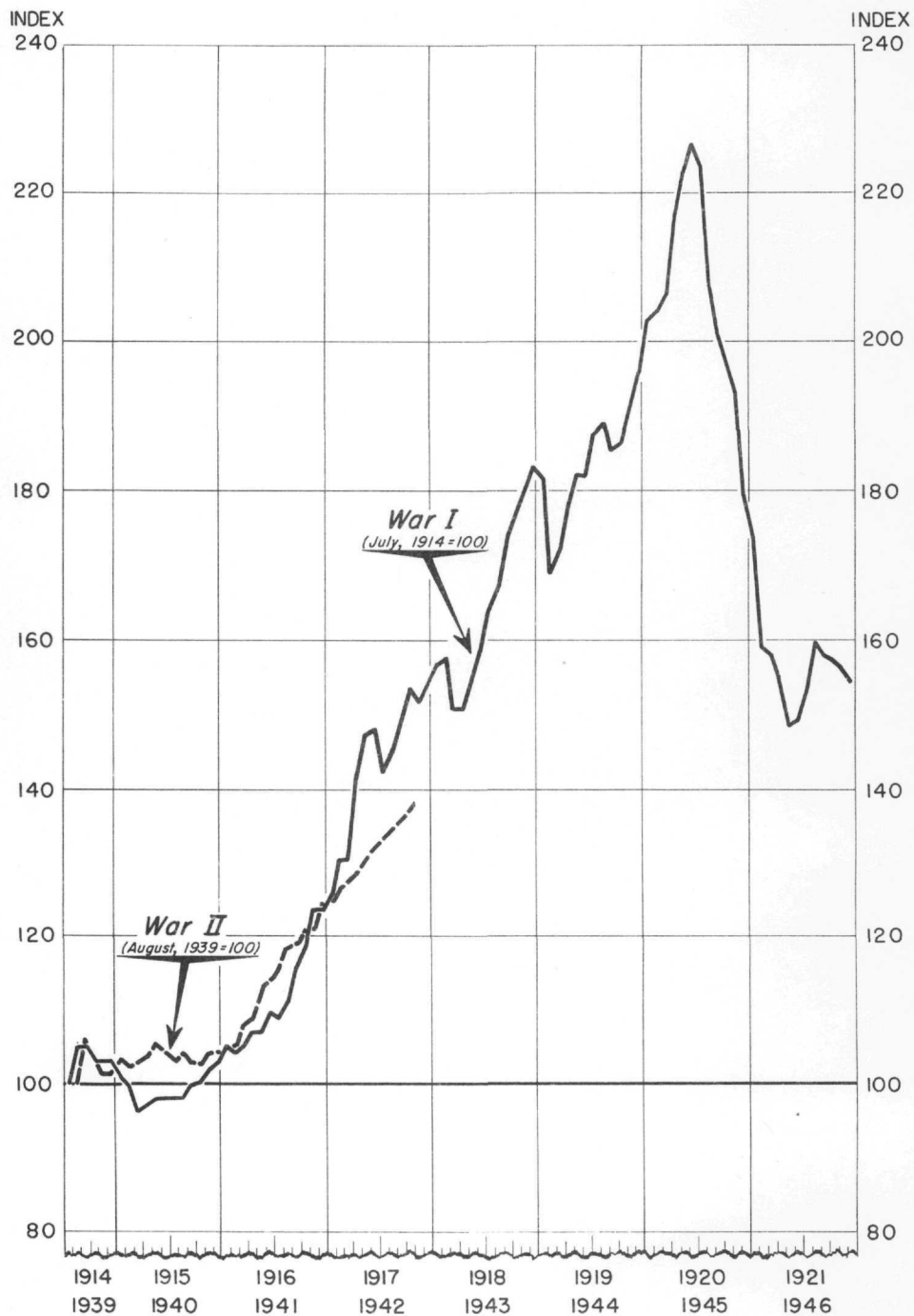


SOURCE: Office of Price Administration and Bureau of Labor Statistics.

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CHART 5.

# RETAIL FOOD PRICES IN TWO WARS



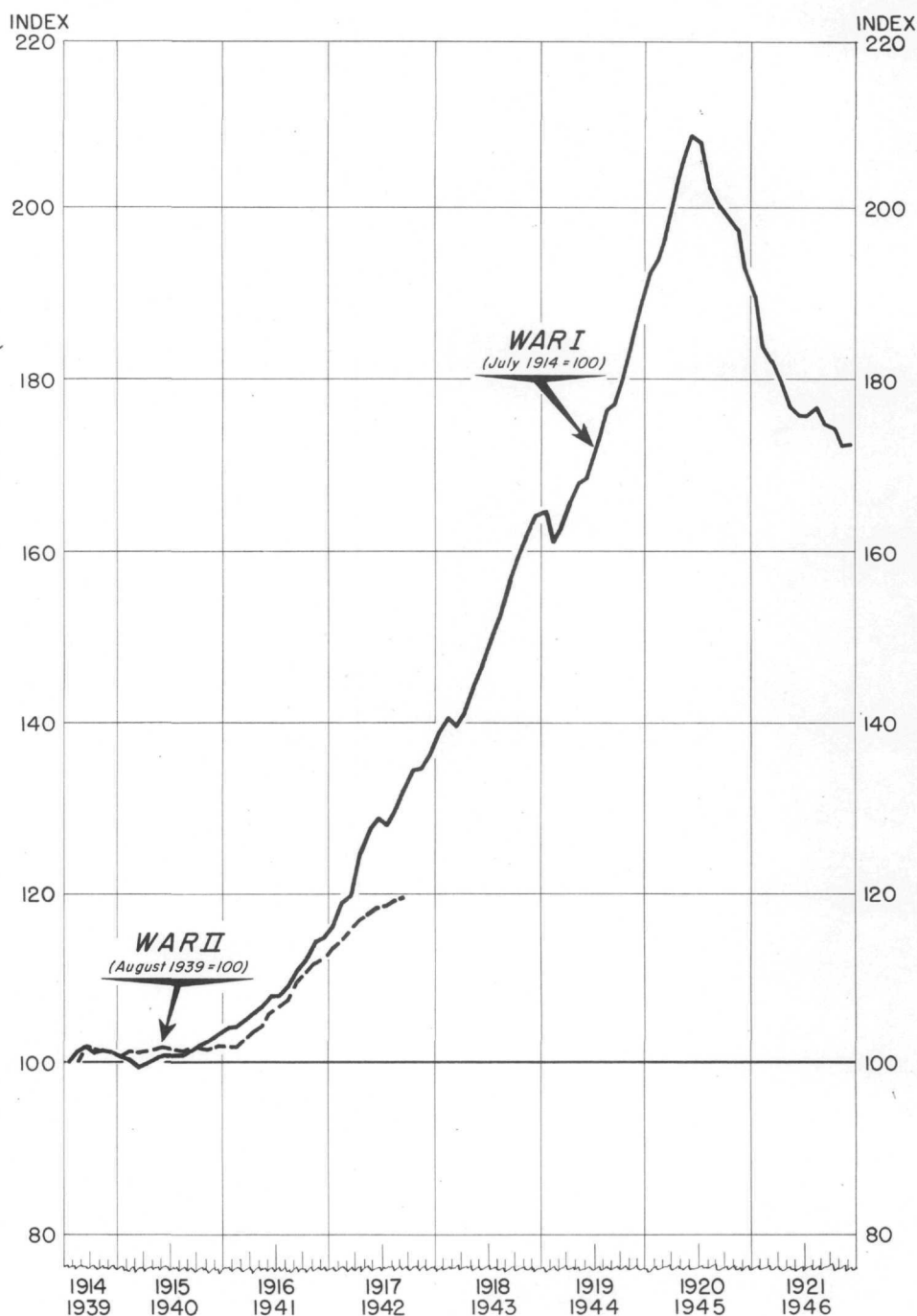
SOURCE: Office of Price Administration and  
Bureau of Labor Statistics

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CHART 4.

# COST OF LIVING IN TWO WARS

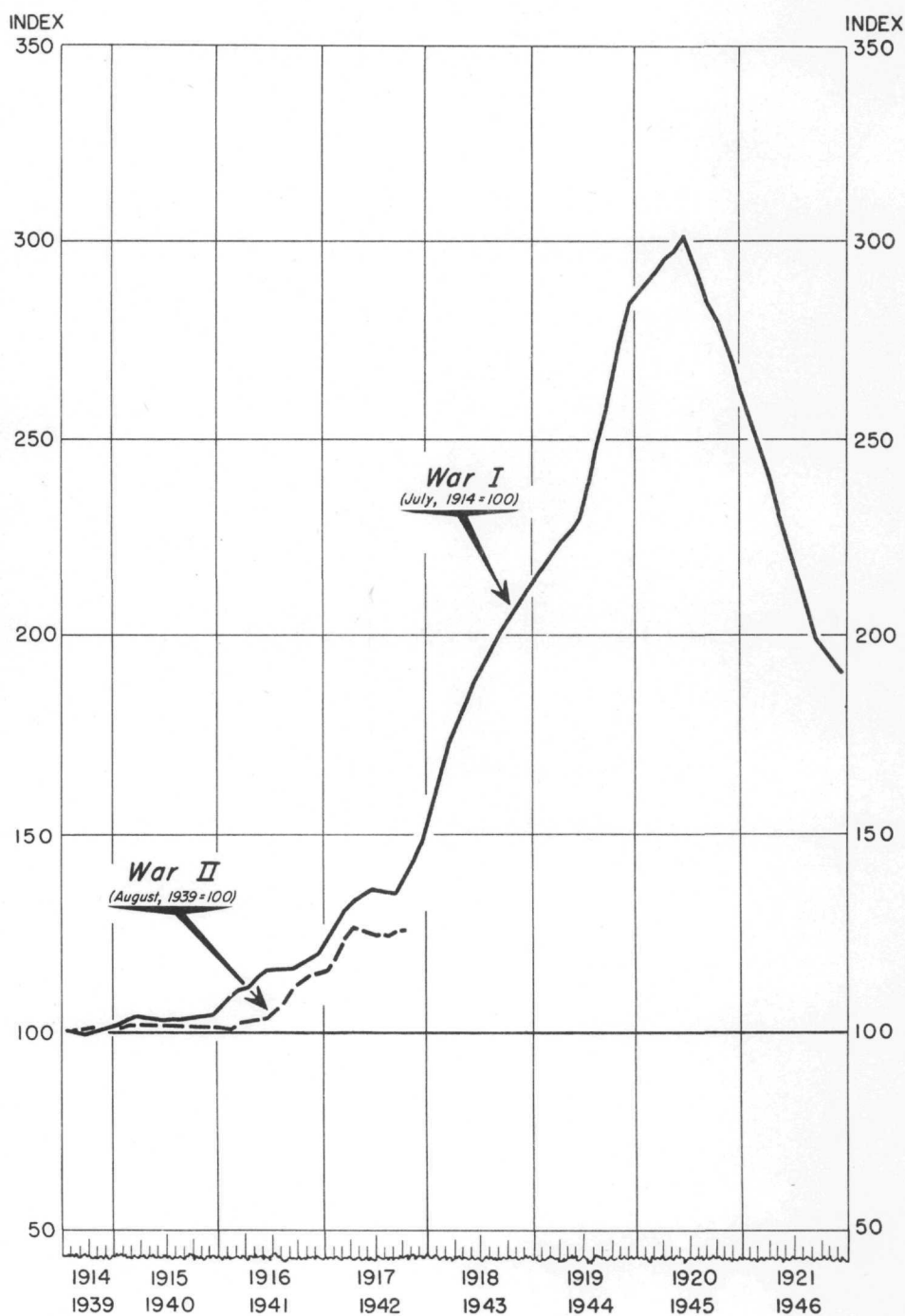


SOURCE: Office of Price Administration  
and Bureau of Labor Statistics.

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CHART 6.

# RETAIL CLOTHING PRICES IN TWO WARS

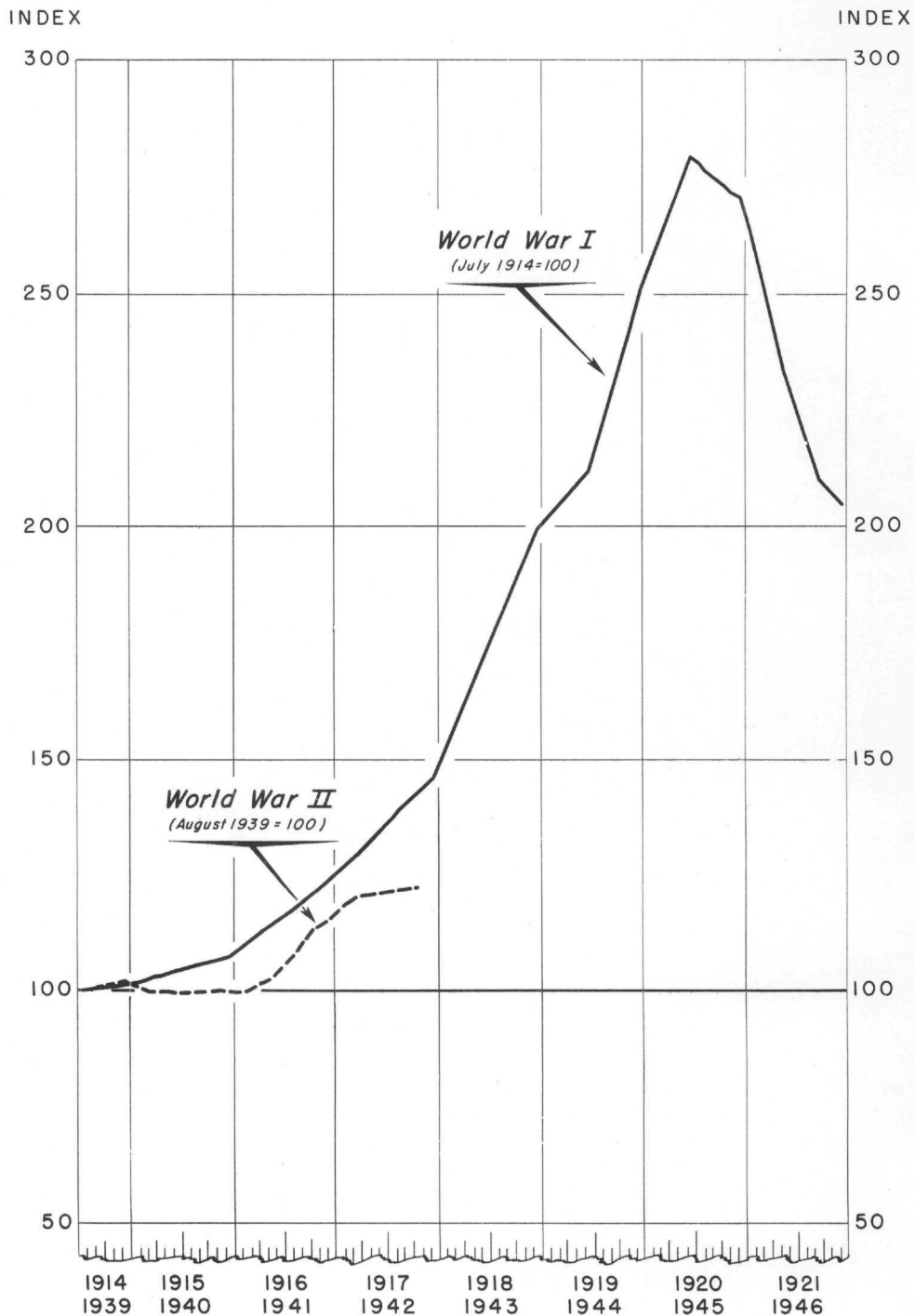


SOURCE: Office of Price Administration and  
Bureau of Labor Statistics

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CHART 7.

# RETAIL HOUSEFURNISHINGS PRICES IN TWO WARS



SOURCE: Office of Price Administration and  
Bureau of Labor Statistics

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The following table compares the total percentage increase in living costs during the World War I inflation with the percentage increase that had occurred in this war by October 1942:

	Percentage Increase	
	World War I	World War II
<u>Total Cost of Living</u>	<u>108</u>	<u>21</u>
Food	126	39
Clothing	200	26
Housefurnishings	179	23

### The Outlook

Some further increases in retail food prices must be expected during the next few months for two main reasons: (1) adjustments made because of the squeeze on retailers and because of increases in farm prices, and (2) violations of OPA regulations.

In those cases where retail prices had not been marked up as fast as the rise in replacement costs, March ceilings involved an unjustifiable squeeze on distributors' margins, and it has been necessary to make slight upward adjustments for this reason. Because of increases in uncontrolled farm prices, it has been necessary to raise processors' and distributors' ceiling prices on certain important foods such as lard, canned fish, canned vegetables, sugar, coffee, and breakfast cereals. Furthermore, the Department of Agriculture is supporting the prices of certain farm products in order to maintain and encourage production. The result has been to increase the pressure on ceiling prices and to make necessary some upward adjustments. Retail prices have not yet fully reflected these various adjustments.

Some further price increases will arise from violations of OPA regulations. Most of these violations will be innocent but some will be willful. Simplification of the regulations will eliminate many innocent violations, but some willful violations will continue and they must be dealt with.

The outlook is encouraging. The General Max has stabilized that part of the cost of living which was subject to control in May. Since the Act of October 2, most of the food items which were running away between May and October have been placed under ceilings. The most immediate problem is that of simplifying the retail regulations and the OPA is hard at work on this. Thereafter, stabilization of living costs resolves itself into a job of enforcement. This job must be done because stabilization of living costs is essential to attainment of a maximum war effort.

Office of Price Administration  
Division of Research  
December 21, 1942