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THE RISE OF PRICES AND THE PROBLEM OF MAINTAINING AN ORDERLY REVIVAL

The Problem

The recovery movement is now assured and requires no further positive stimulation by government. The problem now is to maintain the orderly character of the movement that prevailed throughout 1934-36. This problem threatens to be as difficult of solution as any we have faced. The danger spots are still localized and it would be most undesirable for the monetary authorities to adopt drastic measures, which, if successful, would result in keeping 9,000,000 unemployed. What is needed is a further increase in production and employment, while at the same time preventing inflationary developments from gathering headway in particular industries. This objective can be achieved only by the proper use and coordination of all the major activities of the Government affecting business conditions. Unless this is done there is grave danger that the recovery movement will get out of hand, excessive rises in prices encouraging inventory speculation will occur, excessive growth in profits and a boom in the stock market will arise, and the cost of living will mount rapidly. If such conditions are permitted to develop another drastic slump will be inevitable within three or four years, if not before.

Source of the Danger

Why the situation is more dangerous than that confronting us in any past revival is attributable to the enormous backlog of demand for the production of durable goods accumulated in the past seven years. At the present time capital facilities in many important lines and skilled labor in others will be deficient to handle the production of durable goods necessary to meet normal growth requirements plus accumulated deficiencies. Steel and machine tool industries are already working at capacity and this is true of some other lines. It is estimated that the amount of housing that will be necessary each year in the next five years would require an annual amount of building three times in excess of the building in 1936. In many fields, on the other hand, the available supply of labor and plant facilities is sufficient to handle a greatly increased volume of production. The grave danger is that strategically situated industries and skilled trades will capitalize on the scarcity factor to secure excessive wage and price advantages. There is already abundant evidence that this is happening. This means redistribution of real income at the expense of agriculture, unorganized workers and fixed income groups.

Recent Price Advances

From 1934 to October 1936 industrial prices exhibited a high degree of stability. From last October to the present date, however, a broad upward movement has occurred, being particularly marked in certain important fields such as iron and steel, non-ferrous metals and building materials. These movements are illustrated in the accompanying charts. Further substantial advances in non-ferrous metals have occurred within the past few days. Current advances in the prices of raw and semi-manufactured goods may be expected to reflect themselves in later advances in finished goods and the cost of living.

Factors Entering Into Price Advances

Broadly speaking, recent price advances are partly a reflection of increased raw material and labor costs and partly a reflection of unwarranted price mark-ups in highly organized industries.

(a) Raw material costs. There appears to be little reason to expect a further advance in the price of agricultural goods entering into industrial production, given more normal weather conditions. At the present price level agriculture will get satisfactory returns through an increased volume of production. There is a serious danger of further advances in the prices of those raw materials controlled by monopolistically-organized groups, both domestic and international.

(b) Labor costs. So long as an increase in hourly earnings or a shorter work week is offset by increased hourly output, labor costs per unit of output need not rise. When, however, wage rates rise more rapidly than productivity, unit costs advance. The recent broad movement in the direction of increased pay for shorter hours has outdistanced increases in labor productivity, with the result that costs have risen. A striking example of this point is the recent agreement in New York whereby plasterers are to receive $2.00 an hour for a six-hour day, with double pay for overtime. This amounts to $20.00 for an eight-hour day.

(c) Sellers' market. Monopolistically-organized industries are being able to capitalize on the insistent demand for their products by advancing prices out of all relation to the advance in costs. This is notably true in the case of copper and steel. Thus, in the fourth quarter of 1936 the United States Steel Corporation, after giving effect to a ten percent advance in wages for half the quarter, and without benefit of any price advance for products sold in this period, earned $21.7 million as contrasted with $13.7 million in the preceding quarter and $6.3 million in the fourth quarter of 1935. Despite this showing, prices were advanced some 6 percent effective January 1st. In connection with the recent labor agreement in steel they were advanced still further. According to Mr. Lubin's preliminary estimate, the recent wage advance in steel will add only 4 percent to the cost per unit whereas prices were advanced 12 percent. Annual gross income will increase some $386 million while the wage bill will increase only $125 million.

There appears to be no justification, from the point of view of costs, for a further rise, or indeed for the recent rise, in the price of non-ferrous metals. The leading copper companies were making satisfactory earnings on nine cent copper. The price has now gone to 16¼ cents.

The Necessity for Governmental Action

In view of the absolute necessity of maintaining the orderly character of the upward movement, of keeping down the cost of living and of ensuring a well-balanced distribution of income between all workers, agriculture, and property owners, it is imperative that government play a positive role in preventing excessive price advances, accompanied by speculative inventory buying, and excessive increases in profits, which would make for inflation in the stock market. If profits soar, stock prices will also soar regardless of increased margin requirements. This in turn would depress bonds and raise interest rates for farmers and home builders and impair the savings of depositors and policy holders.

What Can Be Done

There is no single instrument available to cope with the situation. What is required is that the Administration should let it be known that it does not propose to allow the prospects for stability to be jeopardized by excessive and unjustifiable price advances, excessive profits and unreasonable labor demands, and that it will use all the powers of government now available to it and will request additional powers, if needed, to control this unhealthy development.

(a) Labor costs. It should be recognized that the recent shortening of the standard work week accompanied by increased hourly wage rates in important sectors of industry has resulted in increased labor costs per unit of output and has contributed to the rise in prices, thus penalizing agricultural and other workers. The establishment of a standard work week by act of Congress substantially shorter than the present work week would unquestionably tend to raise labor costs and prices. If overtime were not permitted shortages of labor in various skilled lines would be intensified. If overtime were permitted labor costs would be further raised. It is suggested, therefore, that shorter hour legislation be studied with a view to its effect on prices and shortages. Rigidity in application should be avoided. Consideration might be given to a maximum work week of forty-eight hours with an average over a year of forty hours. Special care should be taken to avoid rigidity in the case of highly seasonal industries.

The Government can exert its influence in the direction of avoiding labor shortages and excessive labor costs in other ways. Throughout much of industry individual concerns are undertaking the training of unskilled workers. It is in building, however, where the most serious shortages threaten. If we are to secure the volume of building we must have to avoid an acute shortage in housing with the resulting excessively high rents, it is imperative that the number of skilled carpenters, electricians, masons, plumbers, etc., be increased. The Government could help -

a. by instituting technical training on a broad scale in the CCC camps,

b. by tapering off all public work requiring skilled labor and materials that can be postponed,

c. by exerting pressure on other public bodies to do the same, and

d. by attempting to induce the skilled building trades unions to relax apprenticeship and membership requirements.

(b) Price Advances resulting from a sellers' market. While the Government's power to fix prices is narrowly restricted it has various means at its disposal to restrain excessive price advances. Thus some business men will be deterred from advancing prices by the threat of tariff reductions. In connection with reducing tariff rates in trade treaties, which are generalized through the most favored nation clause, the President has wide discretionary power in effecting tariff reductions. Other price advances could be deterred by the threat of the unfavorable publicity attendant upon Department of Justice, Federal Trade Commission and Congressional investigations. The possibility of limiting the export of iron and steel and copper products for armament purposes might be explored. If the action and threats here mentioned should prove inadequate, consideration should be given to new legislation designed to cope more effectively with monopoly price policies.

These various suggestions are designed to cope with individual situations at particular times. It is believed that by and large there is sufficient capacity and sufficient slack in the labor market to permit a greatly increased production of goods with little advance in prices. The danger now is that excessive price advances in certain basic lines such as copper and steel may generate a rise all along the line. Should a general upward price movement get under way consideration should be given to a rise in the foreign exchange value of the dollar, tariff reductions, and increased income taxes on the $5,000-$50,000 brackets. As a final resort, a restrictive monetary policy could be imposed.

Immediate Steps.

It would be very helpful if, through the medium of a press conference or a speech, notice could be served on industrialists that the Administration did not approve of the extent of recent price advances and proposed to study the development with a view to seeing what might be done to prevent unjustifiable price advances. Having done this the next step might be the establishment of a fact-finding and policy-making committee, which would investigate price advances in important fields and would make appropriate recommendations.