

3/17/44

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Attached is a summary of price control developments and three tables as follows:

(1) Data for gross national product, national income, income payments, consumers' savings and disposition of consumers' savings for recent years and estimates for 1944.

(2) Liquid holdings of individuals and business at various dates.

(3) Costs and financing of the war for three fiscal years ending June 30, 1944.

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R.A.M. *Myran*

K.B.W. *William*

## Summary of Price Control Developments

Price stabilization program began May 28, 1940 when Price Stabilization Division was established as part of the Advisory Commission to the Council of National Defense.

Rising pressure led to replacement of the Division with the Office of Price Administration and Civilian Supply in April 1941. By December 1941, nearly 40 per cent of wholesale prices were under control but no important retail prices were controlled.

The Emergency Price Control Act of January 30, 1942 gave OPA undisputed authority to control prices and rents, and provided specific means to punish violators; but it limited OPA's power to control farm prices and prices of products processed from them.

Rationing was started in the period January 27, 1942 to April 20, 1942 when tires, automobiles, and typewriters were rationed.

On March 2, 1942, OPA designated 20 "defense-rental" areas in 13 States. In these areas residential rents were to be stabilized or reduced to levels prevailing on recent dates.

April 26, 1942 OPA issued General Maximum Price Regulation, ending the period of selective controls. Prior to GMPR selective controls had covered about 55 per cent of wholesale prices. GMPR brought an additional 28 per cent of wholesale prices under control and placed ceilings over 62 per cent of the cost of living. With stated exceptions, prices of all commodities were frozen at the highest level charged by each seller during March 1942. Most important commodities exempted were farm prices, which according to the original Price Control Act, could not be controlled until they reached levels substantially above parity.

In April 1942, OPA named 302 additional areas subject to rent control. In May, rents reached their highest point of the war. By January 1943, rent control had been inaugurated in 355 areas with a population of about 75 million.

October 2, 1942, an act amending the Price Control Act was passed authorizing the President to issue a general order stabilizing prices, wages, and salaries affecting the cost of living. It permits establishing maximum prices for agricultural commodities at: (1) parity; (2) highest level attained between January 1 and September 15, 1942; and (3) level which reflects increased labor or other costs since January 1, 1941; whichever is higher.

The amendment also provided floors under certain basic farm prices for two years after the war.

The President established the Office of Economic Stabilization to coordinate the price and wage control programs in October 1942.

As a result of the amendment to the Act, OPA brought under wholesale and retail control additional food products, raising the proportion of retail foods under control to 90 per cent.

Rationing was also extended during the period to several more commodities.

April 8, 1943, the President issued his "Hold-the-Line" order. This directed OPA and WFA to place ceiling prices on all commodities affecting the cost of living, to authorize no further increases in ceiling prices except to the minimum extent required by law, and to use all their lawful powers to reduce prices which were excessively high or inequitable.

In May 1943, a community price program was started establishing specific dollar and cents prices for four classes of retail outlets on virtually all grocery items. This program simplifies the operation of price controls for both buyers and sellers and permits OPA to check compliance efficiently.

Specific dollar and cents ceilings have also been established for a considerable number of items at all levels.

Subsidies in operation are estimated to cost about \$1.5 billion a year.

Elimination of food subsidies would increase the index of food costs 7 per cent and the total cost of living about 3 per cent irrespective of any spiralling effects on wages and other factors.

Congress is less likely to refuse to pass the Act than it is to cripple it by innocent-appearing amendments. [For example, Congress is concerned about OPA court procedure. At present the district and circuit courts have authority only to decide whether a person charged with a violation is guilty or not. Tests of constitutionality of the Act or of the reasonableness of regulations go to a special Emergency Court of Appeals appointed by the Chief Justice of the Supreme Court. If necessary, from this court cases go directly to Supreme Court.

This procedure speeds up litigation and places interpretation of OPA law in the hands of an experienced group of judges who provide a consistent interpretation of cases.

If the emergency court is abolished, the district courts might be cluttered up with petty cases, judicial processes slowed down, and so much disparity develop among decisions in various parts of the country that the whole price control program might become a hodge-podge of local rules, confusing to sellers as well as to buyers.

Congressional representatives have also indicated interest in the requirement of the Act that prices be "generally fair and equitable". The intent is to eliminate "generally". Such a change looks unimportant but it could result in OPA being forced to set prices which are fair and equitable for each seller. This would mean the price would have to cover costs of the highest cost seller in every industry and to increase the price with every rise in costs or decline in efficiency. Hardly anything could be more inflationary than to follow a policy of this kind.

Other issues which may be raised are: prohibition against consideration of profits in determining prices; inclusion of farm wages in calculation of parity and farm price ceilings; and elimination of subsidies.

K.B.W.  
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March 17, 1944

TABLE I

A. Gross National Product, Income Payments and Personal Savings 1/

(In billions of dollars)

	<u>1940</u>	<u>1942</u>	<u>1943</u>	<u>1944</u>
<u>Gross National Product</u>	97.0	151.7	186.8	200
- Business taxes	12.4	24.0	27.6	30
- Depreciation, depletion and other business reserves	<u>6.6</u>	<u>7.9</u>	<u>11.8</u>	<u>10</u>
<u>National Income</u>	77.8	119.8	147.4	160
+ Transfer payments	2.6	2.6	3.1	3.5
- Corporate savings	1.8	3.6	4.8	5.2
- Social insurance contributions	<u>2.1</u>	<u>3.3</u>	<u>3.9</u>	<u>4.1</u>
<u>Income Payments to Individuals</u>	76.5	115.5	141.9	154
- Personal taxes	<u>3.3</u>	<u>6.6</u>	<u>17.8</u>	<u>21</u>
<u>Disposable Income</u>	73.2	108.8	124.1	133
- Consumer expenditures	<u>65.7</u>	<u>81.9</u>	<u>90.5</u>	<u>93</u>
<u>Personal Savings</u>	7.5	26.9	33.6	40.0

B. Disposition of Personal Savings 2/

(In billions of dollars)

	<u>1940</u>	<u>1942</u>	<u>1943</u>	<u>1944</u>
Personal Savings (Dep't. of Commerce)	7.5	26.9	33.6	40.0
Liquid Savings, adjusted (S.E.C.)	<u>6.7</u>	<u>28.6</u>	<u>35.0</u>	<u>(40.0)</u>
1. <u>Applied Savings</u>				
Securities	-.1	10.1	13.6	(19.0)
Savings and loan associations	.2	.3	.6	(.7)
Insurance and pension reserves	1.7	2.4	3.1	(3.5)
Liquidation of debt	---	2.8	.8	(.5)
Purchases of nonfarm dwellings	<u>1.7</u>	<u>1.5</u>	<u>1.1</u>	<u>(1.1)</u>
Total	3.7	17.1	19.2	24.8
2. <u>Increase in currency and bank deposits held by individuals</u>	3.0	11.5	15.8	(15.2)

- 1/ Figures for 1940 and 1942 from Department of Commerce Releases. Figures for 1943, Department of Commerce Estimates, strictly confidential. The bracketed figures for 1944 are rounded estimates by the Division.
- 2/ For 1940, 1942, and 1943, slightly adjusted S.E.C. estimates of liquid savings are used. The bracketed figures for 1944 are reasonable guesses as to what the level of applied savings and hence the residual amount of increases in balances might be.

R.A.M.

TABLE II

Liquid Holdings of Individuals and Businesses <sup>1/</sup>

(In billions of dollars)

	Dec. 31, <u>1930</u>	June 30, <u>1941</u>	June 30, <u>1943</u>	June 30, <u>1944</u>	June 30, <u>1945</u>
Businesses (except insurance) - total	<u>16</u>	<u>31</u>	<u>56</u> <sup>2/</sup>	<u>(81)</u>	<u>(100)</u>
Demand deposits and currency	13	22	32		
Time deposits	1	2	4		
U.S. Government securities	2	7	20		
Individuals - total	<u>43</u>	<u>48</u>	<u>83</u>	<u>(113)</u>	<u>(141)</u>
Demand deposits and currency	10	17	28		
Time Deposits	26	24	25		
U.S. Government securities	7	7	30		

<sup>1/</sup> All figures are estimated. Businesses include both incorporated and unincorporated concerns. Estimates for 1944 and 1945 assume \$55 billion borrowed each fiscal year from individuals, non-insurance businesses and banks. The resulting growth in liquid assets is allocated to businesses and to individuals, roughly half and half, on the basis of the past year's experience.

<sup>2/</sup> On June 30, 1943, unincorporated businesses probably held around \$12 billion of deposits and currency. It is extremely difficult to even guess at time deposits and government securities held by unincorporated businesses--perhaps \$3 billion of time deposits and \$4-5 billion of government securities.

R.A.M.

TABLE III

COST AND FINANCING OF WAR  
(Three fiscal years ended June 30, 1944)

	<u>Amount</u> (In millions of dollars)	<u>Per cent of total funds raised</u>
War expenditures	186,600	88.1%
Other budget expenditures	19,400	--
Change in cash balance, trust accounts, etc.	+ 5,800	--
Total funds raised	211,800	
Receipts from taxes <u>1/</u>	77,600	36.6
Borrowings:		
From commercial and Federal Reserve Banks	56,600	26.7
Others	77,600	36.7
Total receipts and borrowings	211,800	

Figures for current fiscal year are partly estimated.

1/ Total receipts less social security employment taxes, which are appropriated directly to Federal old-age and survivors insurance trust fund.

R.A.M.