Federal Reserve
Bank of
San Francisco

June 22, 1973

Business & Financial Letter

A Late Spring Freeze

On June 13, against the backdrop of a consistent and rapid rise in prices, President Nixon announced another stage of controls in the Economic Stabilization Program that began almost 22 months ago to the day. In this latest action, all prices were frozen—effective immediately—at levels no higher than those prevailing in the first eight days of June. The only exception to the price freeze are rents and unprocessed agricultural products at the farm level. Wages, interest and dividends are not included in the current freeze but remain under Phase III restraints, as enunciated last January.

Freeze II will last for a maximum of 60 days, during which time the structure of Phase IV controls will be devised. (Freeze I, the 90-day freeze of August-November 1971, was also designated Phase I; in contrast, Freeze II has not been assigned a phase number.) The President described the forthcoming Phase IV as being designed to "contain forces which have sent prices upward rapidly in the last few months," but no one yet knows exactly what the new program will look like.

The major aim of Phase IV will be to tighten existing standards and to require more mandatory-compliance procedures than existed under Phase III. In particular, the Cost of Living Council has been charged with the task of developing measures to stabilize the price of food at the retail counter and the price of gasoline at the pump.

Why prices . . .

By any of the usual measures, prices have been rising since the turn of the year at the fastest rate since early 1951, in the darkest days of the Korean War period. Food prices have presented the most visible problems, since they are something that consumers are confronted with on a daily basis. At the retail level, food prices account for about 22 percent of the items in the Consumer Price Index.

During the January-April (Phase III) period, food prices rose at an average annual rate of 25.4 percent, compared with a 5.1-percent rate of increase for all other items in the consumer's market basket. At the wholesale level, the increase was even more dramatic over this period. Prices of farm products and processed foods and feeds rose at a 37.3-percent annual rate, while industrial prices, although increasing at a worrisome 14.8-percent rate, lagged well behind the rise in food prices.

. . . and not wages?

In 1973, major labor contracts affecting 4¼ million workers expire and come up for renewal. The contracts which have been negotiated in the year to date are suprisingly moderate in the face of rising prices. In the first quarter of the year, the average annual wage adjustment amounted to 5.3 percent,

(continued on page 2)

as compared with a 7-percent gain for all of 1972. Contract settlements arrived at in April and May were similarly compatible with the 5½-percent guideline of Phase III.

These settlements, however, have increasingly emphasized such considerations as earlier retirement and improved working conditions, which can be costly but do not show up in current wage adjustments. They have also tended to shorten the duration of new contracts, making renegotiation possible whenever controls might be terminated.

Viewed within the limited perspective of Phase III, normal collective-bargaining procedures have succeeded, in the main, in producing labor-contract settlements that have not significantly affected the price level. Here, then, is the justification for the asymmetrical treatment of prices and wages under the current freeze and probably under Phase IV as well.

The carrot . . .
The key to lower food prices, as the President noted, is in greater supplies of agricultural products. Prices of food and farm products in the short-run are largely dominated by supply conditions. Consequently, prices of unprocessed agricultural products have never been frozen at the farm level. Instead, in an attempt to encourage increased output, forty million acres have been made available for crop production in the past year.

The supply of farm products available to the domestic market in 1973 has been subject to two unusual sets of conditions. Weather conditions in many parts of the country have been the worst within the memory of living man, while at the same time, crop failures abroad have led to an unprecedented foreign demand for American farm products. The combination of these sets of circumstances has put upward pressure upon the prices of domestic farm products, and thus has acutely affected the budgets of American consumers.

In order to improve the allocation of farm products as between domestic and foreign markets, the President has requested authority from Congress to impose a new system of export controls on food. The principal purpose of these controls would be to hold the price of animal feedstuffs and other grains in the American market to levels that will make it possible to produce meat, eggs and milk at prices the average citizen can afford. With regard to export commitments, he announced that we will honor those that are now on the books, but that we intend to seek the cooperation of other countries in resolving the worldwide problem of rising food prices. The President promised that "we will not let foreign sales price meat and eggs off the American table".

. . . and the stick

In another action, the President ordered the Internal Revenue Service to begin a "thorough-going audit" of the books of those companies which have raised prices more than 1½-percent above the ceilings that existed on January 10, the last day of Phase II controls. If these increases are not justified by rising costs, prices will be rolled back.

The President recommended to the Congress that legislation be enacted that would afford him greater latitude in the adjustment of tariffs in order to increase supplies of meat, plywood and zinc. He specifically requested the removal of the tariff on meat. Also requested was the authority to dispose of excess commodities in government stockpiles. Finally, he pleaded for quick approval and construction of the Alaska pipeline as a major solution to our energy problem.

Something old . . .

Most of the restraints that will make up the body of Phase IV controls may simply be carried over from Phase II by way of Phase III. Until otherwise indicated, it must be assumed that the limits (Phase II) or guidelines (Phase III) of 1½ percent for annual price increases and 5½ percent for wage settlements will remain operative. As matters now stand, the freeze will be limited to prices, at least as long as normal collective-bargaining processes result in contract agreements that are in harmony with the wage guidelines. Agreements that cannot be justified in terms of the guidelines will continue to be subject to review and possible reduction by the Cost of Living Council.

The price freeze is, hopefully, a period in which the various actions taken to increase those items in short supply will bear fruit, as well as a period of preparation of new standards and procedures. If Phase IV is to be a transition from administrative control of resource allocation to determination by free-market forces, it will require the continued moderation of wage settlements evident in recent months, along with the improvement of demand-supply relationships in other markets.

Herbert Runyon

Federal Reserve
Bank of
San Francisco
Alaska • Arizona • California • Hawaii
Idaho • Nevada • Oregon • Utah • Washington

BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 6/6/73	Change from 5/30/73	Change from year ago Dollar	Change from year ago Percent
Loans adjusted and investments*	72,887	+ 54	+ 9,935	+ 15.78
Loans adjusted—total*	55,699	+ 7	+ 10,418	+ 23.01
Commercial and industrial	20,206	+ 208	+ 3,626	+ 21.87
Real estate	16,164	+ 55	+ 2,685	+ 19.92
Consumer instalment	8,260	+ 24	+ 1,378	+ 20.02
U.S. Treasury securities	5,612	− 64	− 854	− 13.21
Other securities	11,576	+ 111	+ 371	+ 3.31
Deposits (less cash items)—total*	70,886	+ 693	+ 8,740	+ 14.06
Demand deposits adjusted	21,140	+ 764	+ 1,767	+ 9.12
U.S. Government deposits	445	− 195	− 193	− 30.25
Time deposits—total*	47,905	+ 11	+ 6,857	+ 16.70
Savings	18,051	+ 31	− 28	− 0.15
Other time I.P.C.	20,061	+ 191	+ 4,917	+ 32.47
State and political subdivisions	7,200	− 235	+ 1,195	+ 19.90
(Large negotiable CD's)	9,437	+ 49	+ 4,243	+ 81.69

Weekly Averages of Daily Figures	Week ended 6/6/73	Week ended 5/30/73	Comparable year-ago period
Member Bank Reserve Position			
Excess reserves	114	16	67
Borrowings	193	439	5
Net free (+) / Net borrowed (−)	− 79	− 423	+ 62
Federal Funds—Seven Large Banks			
Interbank Federal funds transactions			
Net purchases (+) / Net sales (−)	+ 487	+ 755	− 731
Transactions: U.S. securities dealers			
Net loans (+) / Net borrowings (−)	+ 116	+ 294	+ 62

* Includes items not shown separately.

Opinions expressed in this newsletter do not necessarily reflect the views of the Federal Reserve Bank of San Francisco.

Information on this and other publications can be obtained by calling or writing the Administrative Services Department. Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, California 94120. Phone (415) 397-1137.