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PRICE CONTROL AND BUSINESS

FIELD STUDIES AMONG PRODUCERS AND DISTRIBUTORS OF CONSUMER GOODS IN THE CHICAGO AREA, 1942-44

By

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The plan for the investigation originated with Professor Theodore O. Yntema, who organized the Committee on Price Control and Rationing and was its first Director. Mr. Leonid Hurwicz, the first Associate Director of the Committee, conducted its first surveys, the results of which have been used in this report.

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[1] The members of the Committee were: Messrs. Oscar Lange, Jacob Marschak, Edward Mason (until the spring of 1944), Jacob Viner, Clair Wilcox (beginning with the spring of 1944), and Theodore O. Yntema. Messrs. Joel Dean and Roswell H. Whitman were also members of the Committee during the initial phase of its work.

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One characteristic feature of the study is the application of psychological methods to economic research and the attempt made toward a psychological analysis of economic behavior. The author is greatly indebted to the Cowles Commission for Research in Economics for having given him the opportunity to pursue his interest in "economic psychology."[2]

George Katona

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[2] The need for coordination of the two disciplines, economics and psychology, was set forth by the author in his book, *War without Inflation, the Psychological Approach to Problems of War Economy,* New York, 1942.

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PART ONE

INTRODUCTION

CHAPTER I

The Task

This monograph contains the results of field studies conducted by the Committee on Price Control and Rationing. The Committee was organized in 1942 with the task of studying the impact of price control on the civilian sector of American business by means of interviews with businessmen in the Chicago area.

The investigation was primarily concerned with the pricing procedures of businessmen under price control, that is, with business actions either favorable or unfavorable to price stability. It also covered changes in the relative business position of different types of firms as they occurred under the impact of price regulations and other wartime conditions. In both regards two major questions arose. First, *what* significant changes occurred, and secondly, *why* did they occur? In seeking the answer to the first question we studied the changes from April, 1942 to April, 1944 in prices and qualities, in buying and selling practices, and in the assortment of goods produced and distributed by the manufacturers, wholesalers, and retailers of important consumer goods. Pricing procedures and merchandising policies were found to have varied in different commodity lines, at different times, and even for individual firms handling the same commodity at the same time. These differences provided the cue for the identification of the major factors that either promoted or impeded the success of price control and thus enabled us to supply tentative answers to the second question.

The presentation of the results of the field studies is organized as follows: Part Two is devoted to the description of pricing procedures and Part Three to the systematic analysis of their causes. In Part Four the changes in the relative position of different types of firms are described and explained. This body of findings is preceded by an introduction (Part One) on the task, the method, the sample, and the historical background; and followed by a tentative summary of conclusions (Part Five).

Our approach to the investigation of the impact of price control had three distinguishing features. First, our subject matter was the actions of American businessmen as affected by price regulations and other wartime conditions. Underlying our studies was the assumption, amply confirmed by our findings, that government action alone could not prevent inflationary price increases. Whether or not, and to what extent and in what form, price increases took place depended upon the behavior of businessmen and consumers. True, they acted under the influence of government regulations, but these were only some of the many stimuli affecting them, and only occasionally did the regulations alone determine the actions taken. Other studies of price control[1] have been concerned with the anti-inflationary policies of the Congress and the OPA; we shall consider the intentions and practices of those bodies only indirectly, from the viewpoint of their effects on business.

Secondly, the method of our investigation was to conduct detailed interviews with a small sample of businessmen. This method distinguishes our study not only from inquiries that have been made into the theory of price control but also from the work of statistical agencies that collect data on prices, production, sales, profits, etc. We devoted several hours to the discussion of a few issues confronting individual businessmen in the expectation that by that procedure we should be able to shed light on the direction in which various forces operate, gain insight into the actual working of price control, and clarify the reasons for its success or failure.

Thirdly, the study was made by an independent and impartial organization. We were not interested in providing support either for OPA policies and practices or for reforms advocated by business groups. Being independent of the government, we were able to obtain information that businessmen might have been reluctant to reveal to government agencies.

Since we used only one of several possible approaches to the study of price control, our picture of its operations is necessarily incomplete. Our method did not permit the collection of extensive and reliable quantitative data on sales, costs, and profits, which can be obtained only from larger samples than could be covered in detailed studies of individual firms. Moreover, certain types of exact business data are not generally revealed in personal interviews. Wherever possible we have drawn upon information collected by other agencies to fill such gaps in our material. Our study was limited by the fact that we made no interviews with consumers. These would require a technique different from business interviews. To some extent we were able to evaluate the impact of the regulations on consumers and of consumer behavior on prices by means of information obtained from retailers. Finally, our material contains no information about the reasons that induced

[1] For references to other studies, see Chapter IV.

the OPA to select those policies the effects of which we studied. This deficiency will be overcome only when the files of the OPA are opened to research and the personal recollections of the men directing America's fight against inflation are published.[2]

Price control was, of course, only one of the methods applied by the government in the fight against inflationary price increases. Other policies, such as taxation, war bond drives, wage control, restrictions on consumer credit, and rationing, also contributed to limiting the price increases, as did the unavailability of various commodities, patriotism, and public attitudes against conspicuous spending. While our studies were concerned primarily with the effects of price control, we at no time mean to imply that it was the sole factor producing the phenomena observed.

Our work was far from comprehensive even within the limits set by our chosen approach. Our sample comprised only manufacturers and distributors of a few important consumer goods—primarily food, apparel, and housefurnishings— located in the Chicago area. And we covered only the two years following the institution of price control on the retail level by the General Maximum Price Regulation in April, 1942.[3] This was the period of full-fledged war economy, following the mobilization of resources and preceding any preparation for reconversion.

All interviews were conducted in the Chicago metropolitan district, except for a few with manufacturers in nearby towns. Whether and to what extent information obtained in Chicago is typical of the country as a whole is an open question. Yet it should be remembered that Chicago manufacturers and wholesalers serve the entire nation and that Chicago retailers buy from suppliers throughout the country. Moreover, although the Chicago area is a center of war industries and during the period under review profited substantially from war conditions, population statistics show that it was not a "boom" area. Finally, according to the Bureau of Labor Statistics, the movement of retail prices in Chicago did not diverge greatly from the national average.

The geographical limitations of the study did, however, make it impossible to study certain fields (e.g., spinning and weaving are not represented in

[2] Since the considerations that determined the actions of Congress and the OPA lay outside the scope of this study, we shall omit all discussion of one aspect of the interrelation between price control and business, namely, the reactions of organized business to price control. We shall, for example, make no mention of the steps taken by trade associations, trade publications, business advisory committees, etc., to influence legislative and administrative bodies.

[3] The surveys of the various business fields were conducted during the last quarter of 1942 and the year 1943. In the first few months of 1944 we made reinterviews and check-ups in order to clarify specific issues and fill certain gaps.

Chicago) and permitted the use of only a small sample in certain other fields (e.g., shoe manufacturing is represented but not important). The business spheres best represented in Chicago are meat packers and processors, wholesale grocers, and, of course, retailers of all types. The retail trade was studied to a greater extent than any other branch of business, not only because of its outstanding position in Chicago but chiefly because retailers are best able to compare the price movements of many different articles and the pricing and selling policies of many manufacturers operating in different lines.

The fields in which interviews were made were briefly: apparel and housefurnishings—210 manufacturers, wholesalers, and retailers; food—176 packers, processors, wholesalers, and retailers of meat and groceries, and restaurants; and smaller fields—142 laundries and sellers of drugs and cosmetics, liquor, flowers, and precious gems (the last two commodities were not subject to price control). The total sample comprised 332 firms dealing with the ultimate consumer (retailers, restaurants, laundries) and 196 manufacturers and wholesalers. Some of the firms were interviewed several times, and 61 firms permitted a study of their business records. Altogether 676 interviews were made with 528 firms.[4]

The enumeration of the fields studied makes it clear that we covered only a part of the activities of the OPA. Price control of military supplies and producer goods was excluded from the investigation because wartime secrecy largely enveloped their production and distribution. Our studies are also incomplete with respect to consumer goods and services. The output of many important durable consumer goods (e.g., automobiles, refrigerators, radios, stoves) was discontinued or greatly restricted before our surveys were started; and for our purposes it was not considered promising to study the effects of price control on the relatively small quantities of such goods that remained available. Therefore furniture and a few lines of housefurnishings were the only durable consumer goods surveyed (apparel lines, extensively studied by us, are not usually considered durables). Among the great number of diverse services we necessarily had to restrict our choice and included only laundries and cleaners, and restaurants. Finally, the study of rent control was entirely omitted.

Both the distinguishing features and the limitations of the study may be summarized as follows:

a) The subject-matter: business actions under price control, and only incidentally the practices of the OPA.

b) The method: detailed interviews with a small sample of businessmen, better suited for discovering the types and motives of business adjustments than for compiling quantitative data on prices, sales, costs, and profits.

[4] Cf. Chapter III for details of the sample.

c) The sample: manufacturers and distributors of a few important consumer goods in the Chicago area, and not all businessmen affected by price control.

d) The period covered: April, 1942 to April, 1944, and not the entire period of price control.

To gather material for an appraisal of price control and to aid the fight against inflation[5] were not the sole purposes of this study. A relatively undeveloped method of research, rarely used in the field of economics, was chosen not only because of the expectation that it would yield insight into trends that could not otherwise be discerned but also for the purpose of studying the potentialities of the method itself. The interviewing of businessmen as a legitimate tool of economic research, its advantages and its shortcomings, and the types of interviews best suited to the purpose—these are matters that transcend the interest in price control. The material presented in this monograph will illustrate the role of the interviewing method, both its possibilities and its limitations, in enlarging our knowledge of economic relationships. One distinctive feature of the findings obtained by this method concerns the interrelation between objective changes in the business environment and the attitudes and expectations of the businessmen. This will be discussed in greater detail than is usual in studies of business behavior.

[5] Several mimeographed reports containing findings and recommendations were circulated among individual experts and government agencies in the course of the study. These reports may have given some assistance to organizations concerned with wartime inflation.

CHAPTER II

THE METHOD

A field study may be conducted in many ways. At one extreme is the mailed questionnaire or the personal interview with a set of inflexible questions that restrict the respondent to answering "yes," or "no," or "I don't know" ("poll questions") or to indicating his preference for one among several given alternatives ("multiple-choice questions"). At the other is the informal discussion of the respondent's individual problems, without the use of any questionnaire. During the past few years, both in market research and in attitude studies, an intermediate technique of detailed interviews using "open questions"[1] has been developed. Open questions are so formulated that the respondent must express his opinion, not in terms fixed by the questionnaire but in his own words.[2] This last type of interview was used with certain modifications for our surveys of businessmen: the interviewers were given much leeway in reformulating and adapting the questions to the response of the interviewees, and the latter were given freedom to discuss their experiences and opinions in great detail.

In this chapter we shall describe our method of interviewing (sec. 1), discuss the reasons for having selected that method by comparing it with others (sec. 2), and study certain basic problems of business interviews (sec. 3).

1. The Method Used in This Study

Before the start of every "survey" (e.g., the survey of men's-wear retailers, furniture manufacturers, meat packers) memoranda were prepared about the structure of the field, its wartime trends as indicated by available statistical

[1] Also called "open-ended" or "free-answer" questions.

[2] The following example illustrates the difference between the three types of questions:

Poll question: "Are you in favor of the introduction of a national sales tax?"

Multiple-choice question: "Which of the following comes closest to your opinion: a) We should have a national sales tax large enough so that existing taxes could be decreased. b) We should have a national sales tax just large enough so that existing taxes would not have to be increased. c) We should have no national sales tax."

Open question: "What do you think of a national sales tax?"

data, and the price regulations applied to it. These memoranda served for the preparation of the questionnaire (a different one for each survey) and the selection of the sample (see Chap. III). Both memoranda and questionnaire were studied by the interviewers, so that they might talk with the businessmen as well-informed observers rather than mere interrogators. Preliminary forms of the questionnaire were tried out in a few interviews before the final form was adopted, and new interviewers were trained in its use by having them accompany more experienced ones before starting out on their own.[3] Staff meetings were held during the surveys to the end of having the interviewers relate their experiences and difficulties, and of devising ways of improving the interviewing procedure.

The surveys began with the mailing of letters to the selected firms, in which the purposes of the study were explained and the fact was stressed that the committee was independent of government agencies and that it would not reveal any information relating to individual business concerns. Appointments were subsequently made over the telephone. Interviewers took the questionnaire with them, but did not give it to the businessmen nor use it as a rigid scheme for asking questions. Its purpose was to serve as a memory aid to the interviewer and as a frame for the tabulation of the answers.

The questionnaires were divided into several sections, each of which concerned a broad problem confronting the businessman.[4] Some of the topics covered in different sections were "Relations to Suppliers," "Relations to Competitors," "Customers' Habits," "Changes in Buying and Selling Prices," "Changes in Assortment," "Expectations."[5] The introductory question of each section was formulated in very general terms so as to induce the respondent to talk spontaneously about whatever he considered significant with respect to the problem. In studying "Relations to Suppliers," for example, the opening question was: "Would you say that your relation to your suppliers had changed in any way in the course of the past year?"

The questionnaires also contained many specific questions relating to each problem. The answers to some of these were derived from the businessman's spontaneous discussion and were recorded by the interviewer in the spaces

[3] The interviewers were graduate students of the University of Chicago and a few full-time research workers. In view of the labor shortage it was fortunate that several graduate students preferred this work to other, better-paid jobs because of its close connection with their studies and because the time spent in interviewing could be adjusted to university schedules. The interviewers participated in the preparation of the memoranda and the questionnaires and in the evaluation of their results.

[4] The general form of the questionnaires and the manner of their use were envisaged at the very outset of our study, but it took some time and experimentation before the stage described in this section was reached.

[5] Parts of several questionnaires are reproduced in Appendix I.

provided in the questionnaires. To elicit answers to what remained unanswered, the interviewer interjected such questions as "How," "When," or "Why," tried to direct the conversation (e.g., by interrupting with, "We are very much interested in this aspect of the problem you just mentioned"), sought detailed descriptions of specific business experiences to illustrate generalizations, or, as a last resort, asked the specific questions. Most of these questions were open-ended (e.g., "What were the effects of that regulation?"), and a few were in the form of poll questions (e.g., "Would you favor replacing the GMPR with some other type of regulation?"). The interviewer noted in each case which questions were answered spontaneously and which had to be asked directly.

The general approach toward "delicate questions," such as violations of regulations or practices circumventing their effectiveness, consisted in raising the problem from the point of view of suppliers and competitors. After having obtained the respondent's general opinion about the behavior of other businessmen, the interviewers attempted to find out the details of their actual practices and then could often turn the discussion to the actions of the respondent himself. Delicate questions as well as inquiries about specific business data were postponed until after rapport had been successfully established with the respondent.

As has been indicated, one major characteristic of the method used in this study was the relatively wide freedom granted the interviewer. To begin with, he was free to change the order of the sections and the order of the questions within each section. In discussing a problem the respondent would often bring up a new topic. The interviewer would then proceed to ask all the other questions related to that topic.

Again, the interviewer was free to omit certain questions. Since we were interested in a great many problems, the interviewer had to judge whether he would be allowed time to ask all the questions about each problem, and, if not, he had to drop certain ones as the interview proceeded. The questionnaires aided him in this task by indicating which questions could and which could not be omitted.

Finally, the interviewer was free to reformulate questions if the businessman did not seem to understand their full implications or if asking them in the predetermined form would, in the interviewer's opinion, have had an unfavorable effect on the cooperation of the respondent. In some instances the questionnaire itself contained several formulations of the same question, any or all of which the interviewer was free to use at his discretion. Several questions were repeated in different sections in different forms (e. g., the question about changes in margins was raised in discussing OPA regulations and again much later in discussing the trend of profits). The interviewer could choose when to ask the question but, if possible, asked it in both places, as a check on the information received.

Occasionally the businessman asked questions. The interviewer then answered without taking sides in any controversy. This helped to establish the desired rapport. In some cases a "discussion" between respondent and interviewer appeared a suitable method of eliciting more detailed information. Usually, however, the function of the interviewer was to be an intelligent listener and not a speaker.

Interviewers were instructed to make very complete notes without putting down the answers verbatim, except in cases of especially significant information or characteristic utterances. While in some instances it was possible and even desirable to say, "May I interrupt you for a moment to make complete notes of this very interesting observation," in others it was found advantageous to put aside all papers and pencil and seem to be listening "off the record," as for example, when respondents would preface their remarks with, "I'll tell you confidentially how this is done." Sometimes relevant information was obtained after the formal interview was finished and the respondent accompanied the interviewer to the door. Immediately after leaving the businessman, often in the nearest drug store, the interviewers would write down the information about which they had made no notes and amplify from memory the notes already taken. At the same time, they filled out the first page of the questionnaire which asked for a detailed description of the firm and the respondent (his attitude toward price control, his familiarity with the regulations, his attitude toward our study, reasons for failure to obtain full information about certain problems, etc.). The length of the questionnaires varied from survey to survey. Some consisted of 150 questions in 14 sections, others of only 60 questions in 5 sections. Still greater were the variations in the length of the interviews—from 45 minutes to 6 hours (the longest ones required more than one visit to complete). The average time of all interviews was 1 hour and 41 minutes. In the main fields of the investigation—food, apparel, and housefurnishings—the average time was 1 hour and 50 minutes; both questionnaires and interviews were much shorter in the smaller fields where we inquired only about a few problems (average time 1 hour and 11 minutes). On those frequent occasions when the respondent's patience or time appeared to have been exhausted, or when the interview had to be interrupted for some reason, the interviewer asked for another appointment at a later date or, in large firms, requested permission to see lesser executives as experts on certain problems.

All telephone calls for appointments and practically all initial appointments were made with the head of the firm. Very often this person would call in one or several of his associates to participate in the interview or would make arrangements for the interviewer to speak to them. Interviewing the comptroller, a division manager, or a buyer of a large firm with whom the appointment was arranged by the president of the firm proved to be most fruitful, especially if that interview could be made a day or two later. Then the interviewer had time to arrange his notes, and he and the research staff could prepare new questions on the basis of the information already received.

At the beginning of our investigations inquiries about business data (prices, sales, margins, profits) were made only in terms of approximate percentage changes. It was found, however, that some respondents were willing to go into great detail in discussing the problems in which we were interested, to be interviewed more than once, and even to permit us to study their actual business records. This experience led us to conduct a second type of interview, which we shall call *case studies,* with a limited number of firms who gave us their full cooperation. In these case studies businessmen furnished exact and reliable quantitative data and analyzed those data together with our interviewers. The intensive study of business data during personal interviews was found to have great advantages over having respondents fill in questionnaires. For example, in discussing the significance of certain increases or decreases in sales, expenses, profits, etc., we often found that they were the result of opening or closing outlets, of marking down inventories to establish reserves, or even of changes in the system of bookkeeping. Sometimes such findings would completely change the first impression conveyed by the figures.[6]

2. *Comparison of Different Methods of Interviewing*

The method of interviewing just described has decided drawbacks. They derive primarily from the fact that it is particularly difficult to handle. It makes greater claims than most other methods upon the respondents, the interviewers, and the staff evaluating the interviews.

a) The respondents. The length of the interviews made it impossible to collect information from any but cooperative businessmen. Even when respondents were willing to devote sufficient time to our study, the method could be applied successfully only if they did not lose patience with the detailed and specific manner in which each problem was studied.

b) The interviewers. The very freedom they were allowed increased the burden placed upon them. They had to note the answers received, keep track of questions left unanswered, and guide the discussion or devise new approaches so as to elicit answers to those questions. The interviewers' freedom also increased the danger that their bias might influence the findings. Therefore both the selection and training of interviewers had to be more careful and time-consuming than in most other methods of interviewing.[7]

c) The evaluation of the interviews. The reports turned in by the interviewers were very lengthy—in some cases over twenty typewritten pages; and the answers to certain questions were often found in two or more different places. Yet this constituted the least of the difficulties. Much more troublesome was the fact that no two interviews in the same survey were exactly comparable. Since certain questions were omitted by the interviewers and others left unanswered by the respondents, the size of the sample concerning specific problems differed, and was smaller than the total sample. Moreover, the type of answer given to the same question differed from interview to interview. For example, an inquiry into the trend of sales resulted in such diverse responses as: permission to copy monthly statements broken down by departments; comparative percentage changes quoted by the businessmen; and, in the least satisfactory instances, vague general-

[6] The "case study" stage of interviewing was not reached until the summer of 1943. For number of reinterviews and case studies, see Chapter III.

[7] As an added precaution to prevent personal biases from coloring the results, different members of the staff were assigned to interview different firms in the same field, and, wherever possible, reinterviews with the same firm were made by different interviewers.

izations, such as, "Sales are somewhat higher this year than last year." Often the same businessman would answer some questions very exactly and others very vaguely. Different businessmen laid stress on different problems, so that interviews varied greatly in the amount of detail provided in each section.

If we add to these divergences the fact that answers given in the respondents' own words cannot be coded as easily as "yes" or "no" or "multiple-choice" responses, it can readily be understood that the tabulation of the findings required great effort and much time. Yet many recent studies have shown that it is possible to establish meaningful categories for free responses, and three- or five-point scales for the intensity of opinions and attitudes (e.g., strongly approve, approve, doubtful, disapprove, strongly disapprove). Since some of these categories are on a continuous scale, this procedure implies a certain amount of subjective choice in the classification of borderline responses. And the categories, not only of types of opinion but in this study primarily of types of action and alleged causes of action, are usually not exclusive. Thus one respondent may have reported the adoption of more than one type of action or given more than one explanation for his action. Consequently, the frequencies of an answer often exceed the size of the sample. To clarify the meaning of certain categories established and to indicate the variations in the material, our tables must frequently be supplemented by verbatim quotations from interviews. In cases where a classification of responses was not indicated or not possible, the results are presented solely through quotations or descriptions of individual actions and explanations.

It must be pointed out that the three difficulties just described are but difficulties of degree as compared to other methods of interviewing. Even public opinion polls, which use the least flexible interviewing techniques, require a certain amount of cooperation by the respondents; even they present difficult tasks to the interviewers[8] and can be affected by the interviewers' bias. And in all methods the coding and tabulation of responses require great ingenuity and are to some extent subjective.

Our decision to restrict the use of direct questions and, in general, to seek free responses to flexible questions within the framework of a questionnaire was determined by the nature of our respondents and the topic and objective of our study. Our respondents, although different as to the size and character of their firms, were all businessmen, whereas the respondents of polling agencies belong to such widely different groups as farmers

[8] Public opinion poll interviewers are usually required not only to interview but also to select respondents according to sex, age, economic status, etc., and are frequently frustrated by refusals to be interviewed. Our interviewers were in an advantageous position in this respect, since their appointments were arranged in advance.

and workers, educated and uneducated persons. We were therefore less concerned than the polling agencies with differences in the behavior or opinion of one population group as compared to another. Furthermore, we inquired about the daily actions of the respondents rather than about problems to which they might never have given any thought (e.g., about attitudes toward an international police force). Finally, we were less interested in determining the frequencies of contradictory opinions or actions (e.g., how many manufacturers or retailers were for or against price control or how many were or were not complying with price regulations) than in understanding the opinions or actions themselves and the reasons why the respondents adopted or practiced them.

To achieve such an understanding we had to guard ourselves, to a much greater extent than is possible with poll and multiple-choice questions, against four basic pitfalls:

a) Suggestive influence. The problem of how to formulate questions so that they will not be suggestive has been given much study by psychologists and polling agencies and has been largely solved. Yet asking any question at all may exert some suggestive influence, especially if the question refers to something the respondent should have done (e.g., whether or not he had studied the price regulations or whether he had complied with them), or to the accepted practice or opinion of the respondent's group (e.g., whether he had abstained from hoarding or whether he was in favor of a regulation that had been proposed by his trade association). Therefore we endeavored to obtain as much information as possible through spontaneous discussions by the respondents and to derive the formulation of new questions from the respondents' own words.

b) Ad hoc answers. Some critics of public opinion polls have maintained that the responses obtained are often perfunctory, the respondents' opinions having been formed at the time of the questioning. This would be a serious fault even if poll findings were always reported in the form of stating that so and so many respondents *said* they believed this or that to be true, because views that are held only superficially have negligible influence on actions and either change or can be changed much more easily than convictions reached after deliberation. In inquiring into the reasons for the actions and opinions of the respondents, we were able, in most instances, to guard against such answers by not suggesting any of the possibilities and by not asking directly which reasons the respondents considered more or less important. We preferred to rely on the degree of emphasis spontaneously placed on one or the other argument. This procedure involved the risk of the respondents' forgetting to mention something they really believed, but this was considered the lesser of the two dangers.

c) Conventional or general answers. Some respondents tended to repeat what they had read in newspapers, trade bulletins, etc., or to answer in terms of their political attitudes or opinions rather than to describe their own experiences. It was found in our study that long-standing political affiliations and daily reading matter did not necessarily influence the businessman's actual business practices (cf. XVII, 3). Therefore, in studying the motives behind the businessmen's decisions, we sought to probe beyond opinions derived from publications and political affiliations. Such depth studies can be made only in very detailed interviews, if at all.

d) Answers of questionable meaning. From the psychological principle that the meaning of a word is determined by the sentence and the meaning of a sentence or thought by its context,[9] it follows that the same question may mean different things to different respondents, and the same brief and specific answer given by different respondents may have different meanings. Polling agencies are aware of the danger arising from the ambiguity of certain terms. Advocates of open questions point to two further dangers of multiple-choice questions: first, the respondents may believe that all important possibilities are enumerated (even if the list ends with "other reasons"), and, second, they may take the answers formulated in the questionnaire to mean what they have in mind without any qualifications.[10] To avoid being misunderstood our interviewers were instructed to formulate the open questions, wherever possible, in the words used by the respondents themselves. In evaluating the answers we studied the context in which they were given and their relation to the entire interview.

Thus far we have compared our method of interviewing with less flexible methods and not with informal discussions using no questionnaires at all. Madge and Harrisson have advocated that questioning be replaced by the observation of behavior (including verbal behavior), because people often do not know what they think or will not tell strangers what they think or what they do.[11] In many sociological, psychological, and psychiatric investigations of the behavior and traits of individuals and groups, questions were used, not to elicit such information as was considered in advance to be desirable, but primarily to become better acquainted with the subjects. In our studies of business behavior we could not adopt such informal tech-

[9] Understanding does not consist of mere familiarity with the given material, but is a matter of organizing it within its proper framework. Cf. G. Katona, *Organizing and Memorizing*, New York, 1940, and "The Role of the Frame of Reference in War and Post-War Economy," *American Journal of Sociology*, Vol. 49, January, 1944, p. 343.

[10] Multiple-choice questions have been called "cafeteria" questions because one's choice is greatly restricted.

[11] Charles Madge and Tom Harrisson, *Mass Observation*, London, 1937, and *Britain by Mass Observation*, London, 1939.

niques and had to use questionnaires because our purposes required that individual interviews be as comparable as possible, and because we were not mere "observers" but were guided by definite hypotheses for which we sought supporting or contradictory evidence. Yet our method did frequently approach the informal type of interviewing. In our case studies, for example, many questions were asked that were not prepared in advance but that arose while the interviewer studied business records together with the respondent. And in regular interviews we allowed respondents as much freedom as possible in deciding what aspects of the problems they wanted to talk about, so that we might become acquainted with their problems and their ways of thinking.

Note: On the development of interviewing methods

The best-known fields of interviewing are (a) public opinion polls, as conducted by the American Institute of Public Opinion (the Gallup Poll), *Fortune* magazine (Elmo Roper), the National Opinion Research Center at the University of Denver, and the Office of Public Opinion Research of Princeton University; and (b) market research, developed by several commercial agencies and divisions of large firms with the primary aim of ascertaining consumer reactions.[12] In both fields the questions are primarily of the poll and multiple-choice type, occasionally supplemented by a few open questions. Detailed interviews that would draw heavily on the time and patience of the respondents are rarely used.

Students of social psychology have developed what has been called "attitudinal" in contrast to "factual" research.[13] During the past few years much research of this kind has been done by government agencies. Surveys made by the Department of Agriculture and the Office of War Information are closely related to our study both in subject matter and in methods.[14] Of their work, however, very little has been published be-

[12] The literature in both fields is extensive. The following books published recently, however, cover most of the interviewing problems involved: Hadley Cantril, *Gauging Public Opinion,* Princeton, 1944, deals primarily with methods of polling; George Gallup, *A Guide to Public Opinion Polls,* Princeton, 1944, with the most controversial problems of his method; J. S. Bruner, *Mandate from the People,* New York, 1944, with the results of various polls; and A. B. Blankenship, *Consumer and Opinion Research,* New York, 1943, with methods of market research. The volumes of the *Public Opinion Quarterly* contain a complete record of public opinion poll questions and answers, including a few referring to price control and rationing.

[13] Cf. Gardner Murphy and Rensis Likert, *Public Opinion and the Individual,* New York, 1938.

[14] The methods used by the Division of Program Surveys of the Bureau of Agricultural Economics under Rensis Likert are briefly described in H. E. Skott, "Attitude Research in the Department of Agriculture," *Public Opinion Quarterly,* Vol. 7, 1943, pp. 280 ff.; the work conducted by the Surveys Division of the Office of War Information, largely through the National Opinion Research Center, is referred to in A. Barth, "The Office of War Information, Bureau of Intelligence," *ibid.,* pp. 66 ff. The OWI has made consumer surveys for the OPA; and the Bureau of the Census, for the Office of Civilian Requirements. The Office of Radio Research of Columbia University under P. F. Lazarsfeld has also greatly contributed to the development of detailed interviews.

cause of the secrecy connected even with remote aspects of the war effort. It will be possible to view our findings from a new perspective when their information on consumer reactions to and consumer opinions about price control and rationing is made public. As to methods, the author of this monograph is greatly indebted to these two agencies, for without some knowledge of their methods he could not have devised the procedures here described. Both of these agencies experimented with detailed interviews and applied the method of free answers on a large scale. The expression "attitude research" as contrasted with "factual research" does not do justice to their work, because attitudes are also facts, and their inquiries into attitudes often revealed significant information about actions.

In a recent article, P. F. Lazarsfeld[15] describes six main functions of the open-ended interviewing technique. These are (1) "clarifying the meaning of a respondent's answer," (2) "singling out the decisive aspects of an opinion," (3) finding out "what has influenced an opinion" (or action), (4) "determining complex attitude patterns," (5) arriving at "motivational interpretations," and (6) "clarifying statistical relationships." Lazarsfeld maintains that with regard to four of the six functions there are alternatives to open questions. The first two may be fulfilled by improved polling methods, and the fourth and fifth by complex psychological methods. But only detailed free response interviews can succeed in finding out what has influenced an opinion or action, and in clarifying statistical relationships (functions 3 and 6). Lazarsfeld also finds that the two major drawbacks of detailed interviews are that they are difficult to compare and require reliance on small samples. Our findings as to the advantages and disadvantages of open questions are in close agreement with his analysis.

3. *Basic Problems of Business Interviewing*

The success of our study was dependent upon the cooperation of the respondents. In view of the frequent assertions that businessmen were tired of answering questionnaires for government agencies, doubts arose as to whether we should be favorably received. Actual experience quickly dissipated these doubts. Probably it was the prestige of the University of Chicago among Chicago businessmen that made most of them willing to arrange appointments for interviews. But it was the method used that enabled the interviewers to make great demands on the time and patience of the respondents. Businessmen became interested in our survey and decided to contribute to it when they were told that we wanted them not to fill out questionnaires but to give us the benefit of their experience. From the presidents of large concerns with world-wide reputation to the owners of small stores, respondents wanted to make known their experiences, relate their views and recommendations, and air their complaints and grievances. The genuine interest in the problem covered and the desire to supply full evidence in support of their ideas led some businessmen to invite our interviewers to return for

[15] P. F. Lazarsfeld, "The Controversy over Detailed Interviews—an Offer for Negotiation," *Public Opinion Quarterly*, Vol. 8, 1944, pp. 38 ff.

lengthy reinterviews, or to arrange appointments with business friends whose experiences might be helpful in our study.[16]

On which type of problem did we obtain the most and on which the least satisfactory information? We started with grave doubt of our ability to obtain confidential business data or information on "delicate" matters. Actually it turned out that, although answers were often given in vague terms, outright refusals to answer on the ground of business secrecy were rare. Some merchants, indeed, when asked about business trends, would call in an associate to check the correctness of their answers and even insist upon showing graphs or ledgers containing exact data. Such delicate matters as the violation of regulations were approached, as mentioned before, from the angle of suppliers' and competitors' practices. Yet we did obtain information that implicated the respondents themselves, primarily because of their eagerness to "justify" their illegal actions (cf. VI, 3).

It proved much easier to obtain information about problems that engaged the interest of the merchants at the time of the interview than about their past problems. Most businessmen evidenced only slight historical interest, since the most recent developments monopolized their attention. Thus, for example, it proved difficult in the winter of 1942-43 to ascertain the immediate effect of the GMPR issued in April, 1942. Statements about past trends often turned out to be inaccurate. We were told in several cases, for instance, that current markups were much lower than those of the previous year, whereas a later check of records revealed that the markups were higher, although they had been declining in the period immediately preceding the interview.

If a problem had arisen shortly before the interview we obtained much information about it, but often not of the kind we sought. For example, when merchants were interviewed a few days after the issuance of a regulation they could report only on their opinion of it and not on their experience with it, and frequently their evaluations changed as they gathered more actual experience. Furthermore, the respondents' preoccupation with the new regulation often made it difficult for us to find out how the preceding one had worked. Since regulations as well as many other underlying conditions of business activity—the rate of supply of and demand for certain goods, expectations as to the course and length of the war, etc.—constantly

[16] Of course, we had our share of failures, too (see Chap. III for their number). We do not know why some requests for appointments were refused. Lack of time was the reason most frequently given by respondents who granted interviews but terminated them so quickly that they were of little or no use. Some few interviews appeared to have been cut short because the respondent was aware of his lack of information about the price regulations, because his business was financially unsuccessful, or perhaps because he had violated the regulations and mistrusted our study.

changed in 1942 and 1943, the timing of the various surveys constituted a difficult problem. Often it could not be solved satisfactorily, because in view of our limited resources a carefully prepared survey could not be postponed and a new one started at short notice when the moment seemed favorable.

Among the problems of interest to the respondents at the time of the interview the least satisfactory information was received on issues that were then being publicly and hotly debated. When, for example, toward the end of 1943 the OPA was negotiating with business representatives about abandoning the GMPR for the retail trade, we were frequently told in discussing that problem: "You can read all about it in newspapers and trade journals." Businessmen in general were reluctant to contradict the opinion publicized as that of their trade association or of the majority of firms or of the leading firms in their line. They were less anxious to take sides in publicly debated issues than to bring to the surface important yet neglected issues.[17] Many respondents were more interested in discussing questions of "why" than questions of "what," often because of their belief that government agencies and the public in general knew too little about why businessmen acted as they did.

One check upon the reliability of the answers received was provided by comparing the reports made by several businessmen in the same field. Another more important check consisted in the substantiation of an opinion by concrete illustrations (e.g., detailed descriptions of specific experiences or excerpts from correspondence, for instance, from letters complaining about the quality of merchandise received). Furthermore, we were able to verify information received about retailers' business practices by interviewing some of their suppliers and vice versa. As to data on business trends, our case studies furnished exact figures from approximately 10 per cent of the firms interviewed. Information received in vaguer terms (e.g., "Our margin has been declining for the past year" or "Sales have increased about 15 per cent") was appraised in the light of the records supplied in case studies, and its reliability and usefulness thereby greatly enhanced.

Such quantitative data as the frequency of opinions (e.g., meat dealers' opinions about the extent of price control violations) or estimates of the

[17] H. Cantril states that the major advantage of free-answer interviews over polls is to record opinion not well catalogued, whereas there is little advantage in them when an issue has become fairly clear (*op. cit.*, p. 10). Similarly G. Gallup states that open questions are particularly useful "in the early stages of the discussion of a public problem, before opinion has become crystallized or channeled" (*op. cit.*, p. 34). Our comparative failure with publicly debated issues and success with neglected problems seems to confirm this opinion. On the other hand, the fact that we found open questions particularly rewarding with respect to such "clear" issues as actual business experiences seems to contradict it.

extent of quality deterioration, changes in retail markdowns, increases in flower prices, etc., are not meant as exact measurements of the trends concerned but merely as indications of their probable magnitude. While such data must be used with great caution, they were compiled and presented because practically no statistical information is available about the important issues involved. In summarizing our experience with detailed interviews of a small sample of businessmen (Chap. XXIII), we shall show that the most important function of such studies is to probe into the motives underlying economic decisions and behavior. Yet an understanding of the factors responsible for different types of business actions may shed light on the extent and frequency of their adoption. Not only are business facts and attitudes, questions of what and of why, inseparable, but the study of the latter represents one way, sometimes the best way, to find out about the former.

CHAPTER III

The Sample

In selecting the firms to be interviewed, a separate sample had to be prepared for each survey, that is, one for women's-wear retailers, one for produce wholesalers, one for laundries, etc. The size of each sample was limited by our resources, by the fact that detailed interviewing consumes a great deal of time, and by the necessity of completing each survey as quickly as possible so that the time element should not affect the comparability of the results. Yet within each field there were wide differences among firms as to their size, price range, and location, which necessitated stratified sampling.

Before embarking on a survey, we consulted two or three experts, such as officials of trade associations or large suppliers or buyers in the respective field, and with their help tried to divide the firms, as listed in trade directories, into several groups. We inquired as to which were the "leading" firms, which were "unrepresentative," and which of the remaining ones were "small."

The first task was simple, since most experts agreed about which firms were the trade leaders in Chicago; in some lines there were only two or three; in others, for instance among department stores, many more. All such firms were included in our samples.

A firm was called unrepresentative if it had converted to war production (entirely or largely), or produced or distributed certain special articles not typical for the entire business line, or had only recently entered the field, or, in a few instances, if it was said to be untrustworthy. Such firms were excluded from our samples.

The remaining firms were broken down into "medium-sized" and "small," although these categories were not defined exactly, since a given sales volume may be small for one line but large for another. We relied in this respect on the subjective judgment of our experts which we checked with the respondents themselves. From both medium-sized and small firms a certain number was selected at random. In the case of retailers the random selection was made separately for centrally located and for outlying stores.

The total number of firms to be interviewed was not determined in advance. We started out by preparing a fairly extensive list of firms in each field and decided in the course of the survey whether to interview all or only some of them. Those surveys were terminated relatively soon in which all interviews yielded rather uniform information or in which the information obtained was not relevant to the major problems of price control. In other surveys, which did supply answers to relevant questions or did show interesting discrepancies in the findings, the entire list was used. In a few instances in which the findings disclosed problems not previously envisaged, the list was even changed in the course of the survey (e.g., the meat survey was enlarged to include more nonprocessing slaughterers and nonslaughtering processors when it was found that their problems differed from those of other branches of that industry).

About 9 per cent of the firms originally selected refused to be interviewed, and about 5 per cent of the interviews made were discarded—and are not included in our sample—either because the respondents failed to give any relevant information or because they broke off the interviews before certain important questions could be raised. These firms were replaced by others and their omission hardly affects the representativeness of the sample, except that it may possibly increase the proportion of those firms that declared that they complied fully with the regulations (since noncompliance may have been one reason for refusing to make appointments or for abruptly terminating interviews).

The findings in this monograph are based on interviews with 528 firms (Table 1). They are divided into three major groups; apparel and housefurnishings, food, and "smaller fields," including drugs, liquor, laundries, cleaners, flowers, jewelry, and paper. The Appendix to this chapter presents a detailed account of the sample, subdivided both according to the kind of business of the respondents and according to the surveys of commodity lines. In several interviews two or more questionnaires, each referring to a different group of commodities, were used; department stores especially were interviewed about several different articles of apparel and housefurnishings, and grocers about both groceries and meat.

Case studies were conducted with 61 firms, each of which was interviewed at least twice, some three or four times, in the course of 1943 and 1944. A total of 158 interviews was made with these firms, each interview being more extensive than the regular ones. Some of the firms with which case studies could not be made were also interviewed twice, so that the total number of interviews was 676.

As the result of the principles of sampling applied, large firms were represented to a greater extent than would be warranted by their proportiona number among all firms in each field. This was intentional, because pric control is considered in this study primarily from the viewpoint of its effects Full compliance with the price regulations by one large retail firm wit

TABLE 1

The Sample*

Kind of Business	Total Number of Firms	Number of Case Studies†	Total Number of Interviews‡
Apparel and housefurnishings			
Retailers	122	22	176
Wholesalers	21	2	25
Manufacturers	67	10	86
Total	210	34	287
Food			
Retailers	60	8	79
Wholesalers and processors	81	14	114
Restaurants	35	2	41
Total	176	24	234
Smaller surveys	142	3	155
Total sample	528	61	676

* See Appendix II for further details.
† Included in total number of firms.
‡ Includes reinterviews and case study interviews.

annual sales of $1 million may be considered as important as evasions by 33 small firms with annual sales of $30,000 each. However, in order to gather information about the special problems of small firms and to compare the impact of the regulations on large and small ones, more small firms were interviewed than would have been justified by their sales alone. The smallest firms (for example, retail stores with a single or no employee) could be interviewed only in exceptional instances because of lack of time or interest on the part of their owners.[1]

The preponderance of large firms in our sample is even greater if the number of interviews rather than the number of firms is considered. Although a few small and medium-sized ones did give us their whole-hearted cooperation,[2] large ones could generally best afford to devote the time and effort needed for case studies. About one-half of our 61 case studies were conducted with "trade leaders" in the respective fields. Therefore, with re-

[1] Cf. Appendix II about the fields in which small firms were best represented.

[2] The owner of one small grocery store, for example, invited our interviewer to return when the auditor made his monthly visit, so that auditor and interviewer might together go over the monthly data on sales and margins of different products.

spect to such quantitative data as the trend of sales, profits, margins, markdowns, etc., and the differences in the price movements of different commodities, the share of relatively large firms as our source of information is greater than could be desired. Fortunately, this is not true with respect to information about the pricing practices and reasons for their adoption; even the smallest firms with no time to consult records (or sometimes even with no records to consult) could explain what they had done and why.

CHAPTER IV

Historical Background

The historical perspective for the study of the impact of price control on business can be supplied by a brief outline of the major economic developments between 1939 and 1944. For five years beginning with the outbreak of the war in Europe, the American national product rose continuously. Its unprecedented increase was due mainly to war expenditures, which rose from less than \$3 billion in 1940 to \$81 billion in 1943 (calendar years). At the same time the total goods and services available for civilian consumption likewise increased in dollar value and many of them, according to all indications, also in quantity.[1]

Primarily because of a substantial increase in the number of persons gainfully employed, in the number of hours they worked, and in the rate of their compensation, the total income payments received by individuals advanced from \$76 billion in 1940 to \$142 billion in 1943. As shown in Figure 1 personal taxes did not cut consumers' disposable incomes to any great extent until 1943, but consumers chose to save a considerable and steadily increasing portion of their incomes during each of the war years. During those same years they increased only slightly their expenditures for services and durable goods, many of which became unavailable, while they increased considerably those for nondurables, especially food and apparel.[2]

That the excess of consumer incomes over available civilian supplies might cause considerable price increases was recognized at an early stage of our rearmament effort, and in April, 1941 the "Office of Price Administration and Civilian Supply" was established (later transformed into the OPA). Yet until the end of 1941 the prices of only a few commodities, primarily

[1] Because of the substantial changes in the composition and quality of the goods available for consumption, the usual method of calculating physical volume by deflating dollar expenditures according to the rise shown in the corresponding price index cannot be considered reliable. However, in the light of these calculations and occasional data on the number of units produced and sold, it is probable that the physical volume of civilian consumption rose from 1939 to 1941, and after 1941 declined very little, if at all.

[2] Sales of food stores and of eating and drinking places rose from \$14.8 billion in 1940 to \$25.0 billion in 1943; sales of apparel and general merchandise, from \$10.2 billion in 1940 to \$16.2 billion in 1943.

durable goods, were controlled at the wholesale level[3] and none at the retail level. In January, 1942 after lengthy deliberations the Emergency Price Control Act was passed by Congress, and on April 28, 1942 the General Maximum Price Regulation (GMPR) was issued. By this regulation the prices of goods sold by manufacturers, wholesalers, and retailers were frozen at their highest levels of the month of March, 1942, with certain exceptions

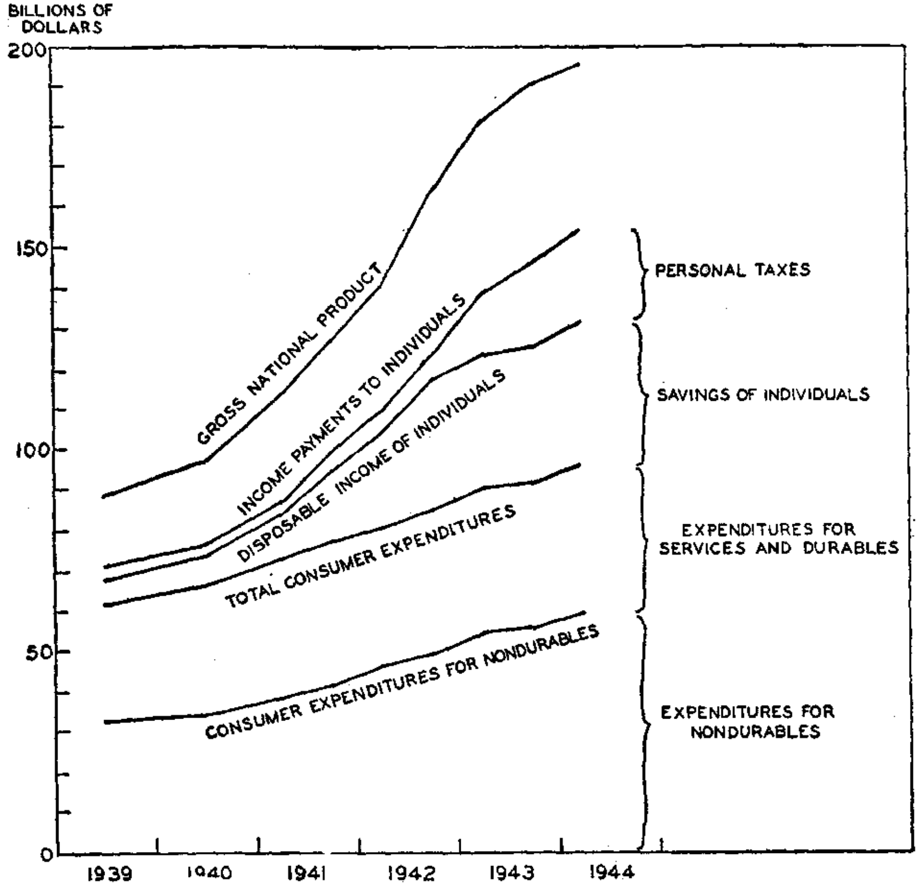

FIGURE 1. WARTIME INCREASES IN PRODUCTION, INCOME, AND EXPENDITURES

Source: *Survey of Current Business.* 1939, 1940—Annual figures; 1941-44—Semi-annual figures, seasonally adjusted annual rates.

The difference between gross national product and total consumer expenditures is accounted for by government expenditures and private gross capital formation (insignificant after 1941).

[3] Roughly one-third of the estimated value of the commodities included in the BLS wholesale index (*Monthly Labor Review,* Vol. 58, February, 1944, p. 244).

among which the wholesale and retail prices of many food products were the most important. (The GMPR did not apply to agricultural products at the farm level.) Rent control began in the summer of 1942. In October, 1942 Congress passed the Stabilization Act which sought to bring farm prices and wages under more effective control. Finally, in April, 1943, the President issued the Hold-the-Line Order directing that price and wage levels be universally stabilized and rigidly held. From October, 1942 to July, 1943 many price regulations were amplified and revised—the original "freeze" being supplanted for certain articles first by margin formulas and later by dollar-and-cent maximum prices—and price control was extended to practically all food products at the wholesale and retail levels. Of farm prices only 20 per cent were controlled at the end of 1942, 75 per cent at the end of 1943.[4]

The price regulations issued by the OPA may be classified as follows: base-date ceilings (or price freeze) prohibiting individual sellers from raising their prices above those quoted in a certain base period; formula ceilings fixing the maximum margins that sellers are permitted to add to their costs or buying prices; dollar-and-cent ceilings fixing the same absolute limit for many different sellers of the same commodity.[5]

Rationing began in 1942 for certain durable goods, gasoline, and sugar, and was extended in the first quarter of 1943 to many further important consumer goods (meat, canned goods, shoes, etc.). Subsidies were first used to assist price control in June, 1943; in October, 1943 they were paid at an annual rate of $1,143 million. Of this total over $400 million were spent on commodities purchased by the government and a similar amount served to lower meat prices. In the second half of 1943 and the first half of 1944 the OPA was less concerned with issuing new price regulations or revising old ones than with streamlining and decentralizing its organization, improving its relations with business groups, and, primarily, enforcing its regulations (by intensifying campaigns against violators and establishing more than 5,000 Local Board Price Panels to check on compliance). The Price Control Act was extended on June 30, 1944 for one year without altering substantially the powers of the OPA but necessitating certain changes in its regulations and procedures.[6]

[4] These percentages are calculated by the BLS according to the weight of the various farm products in its index. Live-cattle prices are considered as controlled at the end of 1943 although the control was effected by subsidies rather than by ceiling prices (*ibid.*, p. 251).

[5] The merits and drawbacks of each type of ceiling will be discussed in Chapter XII.

[6] The following literature may serve to supplement our brief history of OPA:

Quarterly Reports of the OPA to Congress, U. S. Government Printing Office. Washington, 1942 and 1943.

W. W. Rostow, "Price Control and Rationing," *American Economic Review,* Vol. 32, 1942, pp. 486 ff.

Both wholesale and retail commodity prices rose most sharply in the year 1941, somewhat less in 1942, and much less in 1943, according to the indexes of the BLS. The movements of the BLS cost-of-living index and its components are presented in Figure 2. In the twelve months after the intro-

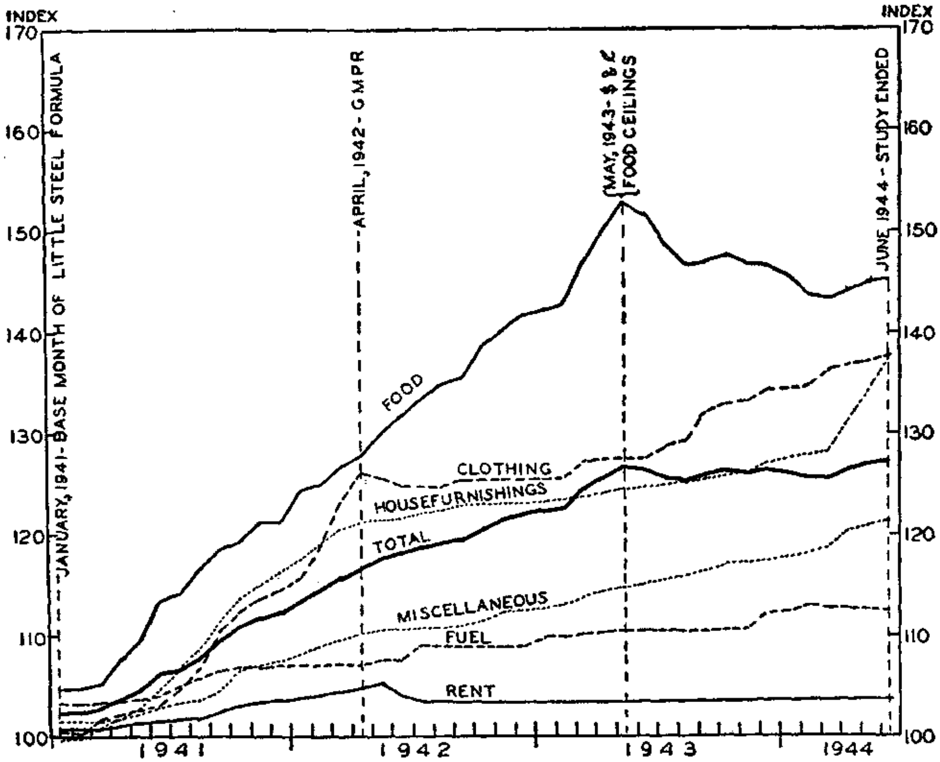

FIGURE 2. PRICES PAID BY ULTIMATE CONSUMERS
(BLS Cost-of-Living Index; August, 1939 = 100)

Don D. Humphrey, "Price Control in Outline," *American Economic Review,* Vol. 32, 1942, pp. 744 ff.

George Katona, *War Without Inflation, The Psychological Approach to Problems of War Economy,* New York, 1942.

J. K. Galbraith, "Price Control, Some Lessons From the First Phase," *American Economic Review,* Vol. 33, 1943, Supplement, pp. 263, ff.

Don D. Humphrey, "The Effectiveness of Price Control," *Survey of Current Business,* Vol. 23, February, 1943, pp. 10-15, 24.

Michael Darrock, "What Happened to Price Control," *Harper's Magazine,* Vol. 187, July, 1943, pp. 115-128.

A. Porter Haskell, "Price Control: Results and Methods," *Survey of Current Business,* Vol. 23, December, 1943, pp. 13-17.

Julius Hirsch, *Price Control in the War Economy,* New York, 1943.

Extension of Emergency Price Control Act, Hearings before the Committee on Banking and Currency, House of Representatives, U. S. Government Printing Office, Washington, 1944, 2 Vols.

duction of the GMPR (May, 1942 to May, 1943) the index of clothing and housefurnishings prices remained substantially stable while that of food prices advanced sharply; in the following year the former rose while the latter declined. Since clothing and housefurnishings have weights of only 12.1 per cent and 3.1 per cent, respectively, and foods a weight of 41.8 per cent, the movement of the total index followed the latter.

The food index is composed of several components, the price movements of which differed greatly. In the first year after the GMPR the average prices of cereals, beverages, and sugar and sweets remained substantially stable, while those of meats, eggs, and fresh fruits and vegetables advanced considerably, fruits and vegetables almost 50 per cent (Table 2). A clear-cut relation is indicated between the rate of price increases and the existence of price control. The average retail prices of foods subject to the GMPR rose only 4 per cent, while those still uncontrolled in May, 1943 rose 73 per cent during the twelve months following the GMPR.

During 1943 and 1944 the BLS cost-of-living index was subject to severe criticism on the ground that it did not reflect the entire price increase that took place during the war years. The BLS itself called attention to changes

TABLE 2

FOOD PRICES

BLS Retail Prices, 56 Large Cities, August, 1939 = 100

Food Group	May, 1942	May, 1943	June, 1944
Cereals and bakery products	112.5	115.2	116.1
Meats	129.9	144.5	135.6
Dairy products	132.4	147.1	143.4
Eggs	127.2	156.7	142.3
Fruits and vegetables	139.2	206.5	188.3
Beverages	131.3	131.2	131.0
Fats and oils	144.9	149.5	145.7
Sugar and sweets	132.9	133.5	132.3
Total food index	130.1	152.9	145.1

in the composition and quality of the goods sold and accordingly revised its specifications of qualities and the weight attached to different items.[7] A Special Committee of the American Statistical Association concluded, after a careful and independent appraisal of the index, that it "records with a satis-

[7] Cf. the information on the cost of living in every issue of the *Monthly Labor Review* and the following articles in that periodical: "Wartime Changes in Consumer Goods," "Indirect Price Increases," November, 1942; "Living Costs since Beginning of Retail Price Control," "The BLS Cost-of-Living Index in Wartime," July, 1943; "Recent Changes in the Character of Civilian Textiles and Apparel," September, 1943; "Trend of Prices and Cost of Living in 1943," February, 1944.

factory degree of accuracy what has happened to unit prices paid for consumers' goods by city families of moderate income."[8] The most important reservation to that statement was the recognition that "consumers' goods and services, in the aggregate, have since 1939 suffered some loss of quality that is not reflected in reported prices." In January, 1944 the labor members of the Presidential Committee on the Cost of Living submitted a report asserting that the cost of living rose at least 43.5 per cent from January, 1941 to December, 1943, whereas the BLS index had risen only 23.4 per cent.[9] The BLS replied with an extensive document in which it maintained that there was "conclusive evidence that they [the labor members of the Presidential Committee] are absolutely wrong in asserting that the rise in the cost of living is nearly twice as great as the BLS shows it to be."[10]

The chairman of the Presidential Committee, William H. Davis of the National War Labor Board, thereupon asked a Technical Committee under the chairmanship of Wesley C. Mitchell to examine all pertinent data. The main conclusions of that committee were:[11] (a) the index is misnamed; it is "an index of average changes in retail prices" (p. 10) "of customary supplies kept as nearly constant as possible" (p. 18); (b) the opinion that the "index grossly understates the rise in cost of living is justified, if cost of living is taken to mean the amount of money a family spends for the commodities and services it buys" (p. 21), but the consideration of voluntary changes of consumer expenditures does not belong in the index; and (c) in measuring the price changes of goods customarily purchased the BLS has done a "competent job," the shortcomings of the index being much smaller than the labor members assumed. The Technical Committee estimated, expressly stating that many estimates were little more than crude guesses (p. II-38), that the total effect of quality deterioration and other omissions and shortcomings of the index amounted to three to five points; in other words, in their opinion retail prices rose 26.8 to 28.5 per cent from January, 1941 to December, 1943.

Simultaneously with the Mitchell Report, Messrs. Murray and Thomas of the CIO issued a revised and enlarged study of the data previously sup-

8 Special Committee of the American Statistical Association (Frederick C. Mills, chairman), "An Appraisal of U. S. Bureau of Labor Statistics Cost of Living Index," October, 1943, reprinted in *Journal of the American Statistical Association,* Vol. 38, December, 1943, pp. 387-405; with an Appendix, *ibid.,* Vol. 39, March, 1944, pp. 57-95.

9 George Meany and R. J. Thomas, Labor Members of Presidential Committee on Cost of Living, *Cost of Living,* Washington, January 25, 1944.

10 Bureau of Labor Statistics, *The Cost of Living Index,* mimeographed, February 25, 1944; quoted hereafter as the *BLS Reply.*

11 *Report of the Technical Committee appointed by the Chairman of the President's Committee on the Cost of Living,* mimeographed, June 15, 1944; quoted hereafter as the *Mitchell Report.*

plied by the labor members; they arrived at price increases somewhat exceeding those reported in the earlier labor report.[12] The data of the BLS and the estimates given in the three critical studies are presented in Table 3 with respect to the total index and those of its subdivisions—food, clothing, and housefurnishings—that are most controversial and that are discussed in this monograph.

TABLE 3

Estimated Percentage Increases in Retail Prices

	From January, 1941, to December, 1943			From Jan., 1941, to March, 1944
	BLS Index	Meany-Thomas	Mitchell Report	Murray-Thomas
Cost-of-living index	23.4%	43.5%	26.8-28.5%	45.3%
Food index	40.2	74.2	43.0-46.5	71.9
Clothing index	33.7	72.2	40.4-41.8	76.8
Housefurnishings index	27.8	62.0	39.5-43.5	63.5

12 Philip Murray and R. J. Thomas, *Living Costs in World War II, 1941-1944,* Congress of Industrial Organizations, Washington, D. C., June, 1944.

PART TWO

PRICING PROCEDURES UNDER PRICE CONTROL

This part of the study is concerned with the pricing procedures adopted by various manufacturers, wholesalers, and retailers of consumer goods from the spring of 1942 to the spring of 1944. The term pricing procedure or pricing action is used to include changing list prices or occasional prices, the quality of merchandise, or the proportion of various price lines produced or sold; it also includes maintaining unchanged prices. While the study of the businessmen's procedures did shed some light on the extent of price movements in different commodities, we made no direct attempt to measure price increases unless significant information was not available from other sources.

The pricing actions that affected list prices are classified according to the three main results they brought about: direct price increases, indirect price increases, and price stability. Direct price increases are defined as raising the list prices of identical or comparable commodities. Some such increases were legal; others occurred in violation of the regulations, when ceiling prices were either intentionally or inadvertently exceeded. Indirect price increases are defined as quoting the same price for poorer quality. It was sometimes difficult to distinguish between quality deterioration and direct price increases, and they sometimes occurred jointly, that is, a higher price was quoted for poorer quality.

Two further types of pricing procedure are discussed separately: First, reductions in the size or number of discounts and markdowns, which did not affect list prices and yet constituted substantial price increases for certain buyers. Secondly, shifts to the production or sale of higher-priced goods accompanied by a real improvement in quality (uptrading), which affected consumers differently from price increases.

In each chapter we deal with one of the major pricing procedures and describe the regulation under which it was prevalent and the commodity lines in which it was most commonly adopted at a given time.

CHAPTER V

Legal Direct Price Increases

1. In Controlled Commodities
(Apparel and housefurnishings)

In certain instances the OPA either raised previously established ceiling prices or issued regulations permitting the businessmen to increase some of their prices. These increases took place primarily, although not exclusively, during the first year of price control. They were, by their very nature, limited in extent, and their total effect was small.[1]

a) "Going up to ceilings." The GMPR established ceiling prices at the *highest* prices for goods delivered in March, 1942. In many cases, however, the goods had been sold at lower prices to some customers at some time during that month. The process of raising all prices to ceilings often took many months. Moreover, the prices of some commodities, among which men's clothing and paper are outstanding, declined in the summer and fall of 1942,[2] were below March prices for considerable periods, and went up to ceilings only during the winter of 1942-43.

Businessmen also termed as "going up to ceilings" the elimination of wholesale discounts and concessions previously granted—a very common practice in 1942. Actually this was permitted only if the discount had not been granted to all buyers of the same class in the base period, but it also occurred when it was not permitted (cf. VIII, 3).

b) "Relief" granted by OPA. The GMPR provided for an upward adjustment of ceilings in individual hardship cases, in some instances automatically, in others upon approval of specific applications for relief. The comments businessmen usually made about such price increases were that they were rare, that their total effect was insignificant, and that they were more frequent on the manufacturing than on the retail level. Respondents reported that the OPA was very slow in considering applications and that,

[1] This section is restricted to apparel and housefurnishings. Legal direct price increases in food products will be discussed later (VI, 2) because they frequently led to noncompliance with ceilings.

[2] Two-thirds of the merchants interviewed in these fields reported that they sold all their goods below ceilings for six months or longer after the introduction of the GMPR.

when it finally did so, it made extensive, time-consuming inquiries and apparently tried to take into account the profit rate of the entire firm in reaching a decision. Therefore, many merchants refrained from applying for relief even when they felt the regulations would have justified it.[3]

c) Changes in regulations. During the summer of 1942 the GMPR was supplanted by formula regulations for most seasonal goods and consumer durable goods. This change often resulted in higher ceilings, especially in women's wear and furniture. For example, when dress manufacturers replenished their stocks with higher-priced materials (textile prices increased considerably shortly before March, 1942), the use of the cost-plus formula (MPR 153)[4] brought about higher ceilings than had been fixed by the GMPR. A regulation combining the base-date and formula pricing principles issued for manufacturers of men's suits, topcoats, and overcoats in July, 1942 (MPR 177) raised the ceilings of the topcoats and overcoats in many cases as much as 10 per cent, although several manufacturers reported that market conditions did not permit their taking advantage of the permitted increases until the fall of 1943.

Of the many price regulations issued in 1943 few had the avowed purpose of raising prices. Outstanding among the exceptions, in fields consid-

TABLE 4

EXPLANATIONS FOR INCREASED BUYING PRICES IN FIRST 8 MONTHS AFTER INTRODUCTION OF GMPR

36 Retailers of Furniture, Men's and Women's Clothing, and Shoes; December, 1942 and January, 1943

TYPE OF EXPLANATION	NO. OF TIMES MENTIONED
Going up to ceiling prices	12
Reduction or elimination of wholesale discounts	13
Relief granted to suppliers or changed regulations*	14
Higher prices for "new" products†	10
	49‡

* Retailers seldom knew whether their suppliers had been granted relief or were pricing under new regulations and usually spoke of "higher wholesale ceilings."

† This indirect method of raising prices will be discussed in Chapter VII.

‡ Ten respondents gave more than one explanation.

[3] In the laundry industry the OPA itself asked businessmen to apply for relief. In the spring of 1943, price increases of approximately 5 per cent were granted to laundries who could prove that they were operating at a loss, mainly because of a substantial rise in wages.

[4] MPR stands for Maximum Price Regulation, RMPR for Revised Maximum Price Regulation.

ered in this study other than foods, were those issued for furniture manufacturers (where the increases had to be absorbed by the retailers) and for laundries.

Interviews with 68 retailers of apparel and housefurnishings in December, 1942 and January, 1943 shed some light on the relative importance of the three types of price increases just discussed, as applied to their buying prices. Twenty-two of them reported that from March until the time of the interview their buying prices had been substantially stable; the remaining 46 said that many had gone up, usually less than 10 per cent. Information as to how the increases had come about was obtained from 36 of the respondents. Of the 49 times that various explanations were mentioned, 39 referred to procedures discussed in this section (Table 4). It therefore appears that these procedures were primarily responsible for the price increases in the first period of price control.

2. *In Uncontrolled Commodities*
(Restaurant meals, jewelry, flowers)

To compare controlled with uncontrolled commodities we included in our study three items not covered by price regulations: Restaurant meals (before April, 1943), jewelry, and fresh flowers.

In the restaurant trade it proved simpler to study pricing procedures than price changes. We first attempted to compare menus for several years. This method proved unsatisfactory because the 1943 menus were usually shorter, contained fewer meat dishes and many new dishes, frequently had no complete luncheons or dinners or had ones with fewer courses, and finally, did not reveal possible changes in quality or in the size of portions. Therefore a few large restaurateurs were asked to indicate which items over 15 cents were identical on their April, 1942 and April, 1943 menus, and smaller ones were asked to name and give the April, 1942 price of one particular popular dish that was still on their menus in April, 1943. Estimates of price increases (Table 5) were obtained by comparing only those few items and are therefore not fully conclusive.

A different approach, furnishing a better clue to price movements in this field, was the study of the traditional pricing procedures of restaurateurs. Most large restaurants and some small ones reported that the price of their meals was determined by their food costs (Table 6). These restaurants calculate their total food costs and total receipts from time to time and attempt to keep the relation between the two constant. In our sample we found some—cafeterias and inexpensive restau-

TABLE 5

Percentage Increase in Restaurant Prices

April, 1942, to April, 1943

Restaurant		Number of Items	Range of Price Increases	Average Increase
Large:	A	18	0– 33%	15.2%
	B	16	9– 50	31.0
	C	14	0–100	24.0
Small: 10 restaurants		1 each	7– 30	18.8

rants—that operated with a ratio as high as 60 per cent (i.e., food costs amounted to 60 per cent of receipts), and others, with a ratio as low as 30 per cent. Twelve respondents said that in the two years before price control their ratios had remained constant; in other words, prices had been raised or the quality or quantity of meals reduced to the same extent as food costs had increased. Three restaurants reported a slight increase and five a slight decrease in the ratio of food costs to their prices. In one very large restaurant the ratio was 39.24 per cent in 1941, 39.42 per cent in 1942, and 38.91 per cent in the first half of 1943.

Adding the same percentage margin to rapidly advancing food costs (the BLS wholesale food index rose 47 per cent from January, 1941 to April 1, 1943) must have resulted in a considerable increase in dollar margins. Since, in addition, many restaurant costs other than wages remained substantially stable and business volume grew, the net result was greatly increased profits. On the other hand, the finding casts doubt on the

TABLE 6

Methods Used by Chicago Restaurants in Determining Prices

Type of Method	Number of Firms
Keeping constant ratio of receipts to food costs	20
Keeping constant dollar margin between receipts and total expenses	4
According to "competition"; "no system"; "intuitively"	8
No information	3
Total	35

statement of labor unions that restaurant prices during the war increased considerably more than retail food prices.[5]

Retail jewelers reported that their buying prices for precious stones, especially diamonds, had increased considerably in 1942 and 1943 and also that their margins between buying and selling prices had improved slightly, especially on "small" diamonds, for which there was the greatest increase in demand.[6]

The florists interviewed also reported considerable advances in their buying prices, but about one-half said that their percentage margins had declined, while the other half said they had remained stable. On the whole, the rate of relative price increases was reported to have been larger on the wholesale than on the retail level. Some retail florists said that they were unable to transmit the entire percentage increase in their buying prices to their customers, because their business volume would have declined had they done so.

Rough estimates by the merchants of the extent to which retail prices rose for fresh flowers, different sizes of diamonds, and watch repairs (also uncontrolled) are presented in Table 7.

On the whole it appears that merchants dealing in uncontrolled commodities continued to apply their conventional pricing methods in 1942

[5] Labor leaders, in discussing the shortcomings of the BLS index, concluded that restaurant prices rose 73.5 per cent from January, 1941 to December, 1943 (Meany-Thomas, p. 29), and that the cost of restaurant meals, including changes in qualities and portions, increased 92.2 per cent from January, 1941 to March, 1944 (Murray-Thomas, pp. 70 ff). The BLS replied to the first report that it "made several attempts, without success, to obtain comparable data on restaurant prices over a period of time. Restaurant meals are difficult to price. The Meany-Thomas report does not in fact use such prices in its calculations" (BLS Reply, p. 31). Since a restaurant price index could not be compiled, the BLS imputed the price changes found in retail food prices to restaurant prices. (Retail food costs rose 40 per cent from January, 1941 to December, 1943.) The BLS also quoted a finding of the National Restaurant Association which, after examining the menus of 25 restaurants in Washington, D. C., concluded that menu prices increased 14.2 per cent from April, 1942 to April, 1943. The Mitchell Report (pp. A-20 ff.) based its estimates of restaurant price changes on the ratio of food costs to receipts and, in the light of data obtained from hotels, assumed that the ratio had fallen 8 to 10 per cent between January, 1941 and December, 1943: therefore it concluded that the rise in restaurant prices was no greater, and perhaps slightly less, than the rise in the BLS retail food index.

[6] Only 2 of the 16 jewelers interviewed said that their percentage margins had declined in 1942 and 1943. These were jewelers catering to a wealthy clientele. Even when percentage margins remained unchanged, dollar margins increased as prices went up. Although small precious stones (variously defined by the OPA in 1942 and 1943) were legally subject to price control, 14 of the 16 jewelers interviewed declared that there were no ceilings on any diamonds and presumably acted accordingly.

and 1943 and changed their percentage margins or "ratios" only in exceptional instances and then only slightly. The same situation prevailed among certain controlled commodities, especially those that were loosely controlled.

TABLE 7

PERCENTAGE INCREASES IN RETAIL PRICES OF JEWELERS AND FLORISTS

Fall, 1941 to October, 1943*

COMMODITY OR SERVICE	ESTIMATES	
	Range	Average
Set diamonds:†		
Melee (19 estimates)	150–400%	245%
Under ½ carat (15 estimates)	50–200	102
Over ½ carat (17 estimates)	20–150	64
Watch repairs:		
12 estimates	15–100	44
Fresh flowers:‡		
37 estimates	0–400	58

* Compiled from interviews conducted in October, 1943. Interviewers asked first for current prices of specific sizes of diamonds or certain kinds of flowers and then for the prices of those same items two years earlier. Since actual records were consulted only in a few instances in reporting the latter, and since the merchants often appeared to think in terms of "normal" prices (perhaps before 1941), some of the estimates of price increases may have been too high.

No information was found in available literature concerning the rate of retail price increases in either fresh flowers or diamonds. An index for the retail prices of "jewelry and sterling silverware" shows an increase of 58.5 per cent from 1939 to 1942 (annual average) but has not been published for 1943. ("Price Deflators for Consumer Commodities and Capital Equipment, 1929-1942," *Survey of Current Business*, Vol. 23, May, 1943, p. 17.)

† The 51 estimates were made by 16 jewelers. A few respondents estimated the price increases of very small and very large diamonds separately.

‡ The 37 estimates of price increases in roses, gardenias, gladioli, etc., were made by 11 florists; 9 estimates ranged from 0 to 33%, 23 estimates from 35 to 80%, and 5 estimates from 100 to 400%.

CHAPTER VI.

Illegal Direct Price Increases

Selling above ceiling prices occurred both when sellers were and when they were not clearly aware of violating regulations. Postponing the discussion of deliberate violations (sec. 3), we shall describe first a few typical instances in which merchants acted in good faith in raising prices above ceilings.

In this discussion we shall include among direct price increases certain complex methods of violating the regulations. "Package deals" or "tie-in contracts"—selling a scarce (or controlled) commodity only on condition that the buyer purchase at the same time a more plentiful (or uncontrolled) commodity—usually amounted to direct price increases in the latter. "Upgrading"—marking lower grades of a standardized commodity (e.g., meat, eggs) as higher grades and selling the former at the prices fixed for the latter—was a direct price increase from the point of view of the seller, although from that of the ultimate consumer it was not distinguishable from quality deterioration.

1. *Price Increases Under Loose Ceilings*
(Furs, liquor, women's hats)

In our surveys of five controlled commodities—furs, liquor (before the summer of 1943), women's hats, women's handbags, and novelties—we found respondents who expressed the opinion:

a) that those goods were not subject to price control, or

b) that the OPA did not mean to control them and condoned open disregard of the regulations.

These goods remained subject to the GMPR[1] despite the fact that its application was difficult because the articles produced and sold in, say, 1943, were often not comparable with those of March, 1942. We shall speak of "loose ceilings" in cases where the GMPR was not quite suitable and the OPA nevertheless neither revised nor replaced it.

[1] The regulations were changed for furs and handbags in 1944, after the termination of our studies.

Evidence of the apparently honest belief that these commodities were not controlled (a) is supplied by the following quotations from interviews, which could be greatly multiplied:

"To make sure that I understood price control I consulted OPA officials, and they told me *that ceiling prices applied only to hats similar to those sold in the base period.* Very few hats are similar; therefore most hats are not under control." (Large retail millinery chain, January, 1943.)

"There is no ceiling on handbags, and they've gone up terrifically in price." (Large shoe chain selling handbags, March, 1944. Respondent was thoroughly familiar with all shoe regulations but greatly surprised when interviewer told him that handbags were also subject to GMPR.)

"We're not under price control. Our buying prices keep changing, and we change our selling prices according to supply and demand." (Small novelty store, March, 1943.)

More frequent were the instances where merchants knew their merchandise was subject to the GMPR but disregarded it because they considered the regulation meaningless as applied to such commodities and thought that the OPA did not really mean to control them (b):

"Ceilings have no meaning in millinery. We told the OPA that, since it's impossible to determine ceiling prices, we no longer post them. The OPA never answered." "Ceilings haven't been enforced for hats. They're not considered a cost-of-living commodity." "Hats can't be controlled. No two manufacturers make the same hat and even the same manufacturer doesn't make the same hat any two seasons." "Price control is impossible in millinery. It's a blind industry; costs don't determine prices; on some hats you make a big profit, on others you take a loss." (Retailers of women's hats, end of 1942 and beginning of 1943.)

"Actually the OPA has not yet established price ceilings in the fur industry. They just gave us a ceiling to go by, but we can't go by it." (Wholesaler of furs, December, 1943.) "I don't think the OPA intends to keep fur prices down. They're not prosecuting anyone for not complying." "You can't control furs. They're individually priced, and it's hard for anyone to say what the right price is." (Retailers of furs, January, 1944.)

"OPA doesn't care at all about liquor prices." (Retailer of liquor, January, 1943.) Practically all liquor dealers interviewed expressed similar opinions prior to the summer of 1943 (when new regulations were issued), explaining that "Liquor is a luxury" and "Dry sentiment makes prosecution of violations impossible."

That price increases were frequent and widespread under these conditions is hardly surprising. In furs and liquor it appears that most of the increases were direct, although in liquor it seems that indirect increases were also considerable; in order not to split our findings, the latter will be included here. In women's hats, women's handbags and novelties, it was more difficult than in any other commodity studied to distinguish between direct and indirect price increases. We shall discuss women's hats in this chapter, and handbags and novelties in Chapter VII, because respondents usually spoke of price increases in the first, and of quality deterioration in the last two commodities.

Furs. Furriers generally reported that the prevailing pricing procedure of manufacturers was to add traditional percentage markups to the steadily rising prices of raw skins. In most cases this was considered permissible, although some respondents spoke of flagrant violations by their suppliers. "If you say anything about ceilings to a furrier," said a manufacturer of women's coats, "his answer is: 'We are not selling ceilings, we are selling furs.'" The regulation requiring that no line of furs be sold at a price exceeding the highest price of the same line in March, 1942 sometimes prevented wholesalers and retailers from using their usual markups; in such cases, they complained of being squeezed. Yet the executive of a large department store, discussing his efforts to achieve full compliance with all regulations in each department of his store, said frankly that he could not explain how it came about that, in spite of a substantial increase in manufacturers' prices, the fur coat department had increased its profits.

Information concerning the prices of "comparable" furs was obtained from four wholesalers and seven retailers. Twenty-eight observations showed increases in wholesale prices ranging from 20 to 150 per cent from the fall of 1942 to the fall of 1943 (average increase, 70 per cent), and 14 observations showed increases in retail prices ranging from 10 to 100 per cent in the same period (average increase, 52 per cent).

Liquor. Information from wholesalers and retailers of liquor indicated that liquor prices increased considerably from November, 1942 (increase of excise taxes) to August, 1943 (introduction of new regulations). The price increases consisted of higher prices both for identical goods and for goods that were somewhat changed. Distillers, wineries, and wholesalers sometimes made changes only in the label, sometimes in the alcoholic

TABLE 8

PRICING PRACTICES IN LIQUOR BETWEEN NOVEMBER, 1942 AND AUGUST, 1943

23 Wholesalers and Retailers; Fall, 1943

DIRECT PRICE INCREASE	NO. OF FIRMS	INDIRECT PRICE INCREASES	NO. OF FIRMS
Admitted selling above ceilings	3	Reported that indirect price increases occurred:	
Furnished price lists indicating direct price increases	9	Frequently	16
Reported that other dealers sold above ceilings	4	Occasionally	4
No information	7	Never	1
		No information	2
	23		23

content or in the size of the bottle (in the latter cases direct and indirect price increases occurred jointly). Whereas indirect price increases were readily reported by the dealers, evidence about selling above ceilings was derived primarily from price quotations that they furnished (Table 8). The prevalence of sales above ceilings was further indicated by the report of most wholesalers and retailers that their percentage margins were higher in 1943 than in the second half of 1942; in several firms the increase in prices and margins must have been very large because the firms said: a) that their physical volume had declined in 1943 and, b) that their total profits had risen. In spite of the many price quotations gathered, the average price increase could not be estimated because of the great dispersion of the data; price increases of as little as 10 per cent and as much as 200 per cent were mentioned by different stores for different brands.

Women's hats. It was uniformly asserted by hat manufacturers and retailers that prices did not change significantly in 1942. Demand was said to have declined because many women stopped wearing hats, and merchants were more concerned with increasing sales than with raising prices. In 1943, however, the introduction of "undersized" hats was said to have renewed demand. Some merchants declared that the new style was created to combat hatlessness; others, that it served primarily to increase profits.

On the whole, the retailers interviewed said that although hats were not really comparable from one season to the next, they could only judge that they were paying somewhat higher prices in 1943 for hats of the same quality and desirability as the ones they had bought in 1942. One large retailer, however, declared that: "This year's 'half-hats' cost the same as last year's larger hats, but they require less labor and material." Retailers usually added their customary or, according to occasional reports, even higher percentage margins to their buying prices. The extent of direct increases in retail prices was estimated to have been small, much smaller than in furs and liquor. As to the effect of the reduction in the size of hats, it is questionable whether consumers suffered any loss at all, inasmuch as the smaller hats did not diminish consumer satisfaction.

2. *Price Increases Under Confusing Regulations*
(Groceries prior to May, 1943)

Sellers of certain commodities maintained that there were times when they did not know what the regulations were in their fields of business. Such confusion existed, for example, in 1942 among small retailers of seasonal apparel as to the regulations governing their selling prices, and in 1942 and 1943 among all kinds of retailers as to the regulations governing manufacturers' prices. The result of the latter was that few retailers were able to check upon their suppliers' prices.

The most important instance of confusion was that which prevailed among both wholesale and retail grocers during the year prior to May, 1943. Grocers described the situation in that period as follows:

a) some merchandise (e. g., fresh fruits and vegetables) uncontrolled;

b) some ceilings (e. g., of cereals, sugar, coffee) rigidly maintained at March, 1942, levels;

c) some ceilings (e. g., of canned goods) raised repeatedly;[2]

d) many different methods of computing ceilings in force at the same time for different products and sometimes even for the same product (base-date ceilings with different base dates, base-date ceilings plus permissible increases, percentage markups to be added to costs, markups to be used instead of the GMPR at the option of the merchants, and a few dollar-and-cent ceilings);

e) ceilings of identical goods different from store to store and from supplier to supplier.

In two surveys, a smaller one in January, 1943 and a larger one in June and July, 1943, wholesale and retail grocers were asked how price control

TABLE 9

GROCERS' OPINIONS ABOUT FOOD PRICE CONTROL PRIOR TO MAY, 1943

Type of Opinion	Number of Firms	
	Jan., 1943*	June-July, 1943†
A. Price control is satisfactory (no complaints)	3	6
B. OPA is not trying to stabilize food prices	5	16
C. Confusion prevails about regulations	10	24
	—	—
	18	46
Explanations given for C:‡		
Too many different pricing methods	4	16
Unending procession of upward revisions of ceilings	6	17
Conflicting and overlapping regulations	4	16
Difficulties in finding out what ceilings are	8	14
No basis at all for most ceilings	6	9

* Survey of 14 retailers and 4 wholesalers.
† Survey of 34 retailers and 12 wholesalers. Answers were given in the past tense.
‡ Most merchants gave several explanations.

[2] The OPA had to raise these ceilings when the uncontrolled farm products purchased by the canners went up in price.

had worked in their lines.[8] The answers indicated that before May, 1943 confusion prevailed among most respondents (Table 9). Some could not understand and considered it unfair that certain prices were frozen while others were permitted to rise sharply; others expressed their displeasure at the alternative methods of pricing and at the unending procession of revisions, which caused much extra work and made compliance difficult. (A booklet privately distributed to explain the different pricing methods to small grocers contained over 20 pages!)

TABLE 10

Retail Grocers' Opinions About Compliance with Price Control in Groceries Before May, 1943

Opinion Concerning Retailers' Compliance with Ceilings	Number of Firms	
	Jan., 1943	June-July, 1943*
Compliance is satisfactory	3	3
Trade in general does not (cannot) comply	5	15
Firms admit that they themselves do not comply:		
"We sometimes set our prices according to cost because we don't know what the ceilings are"	4	6
"We fix our prices according to what we feel is right"	1 } 6	7 } 16
"We have no time to bother with the regulations"	1	3
Sample	14	34
Opinion Concerning Wholesalers' Compliance with Ceilings	**Frequency of Observations†**	
Retailers say:		
"Our suppliers do not comply"	8	15
"We have no way of checking suppliers' prices"	5	14
Opinion Concerning "Circumventions"	**Frequency of Observations†**	
Retailers changed to more expensive new brands or new suppliers	9	13
Retailers bought goods under tie-in contracts	6	20

* Answers given in past tense.

† Respondents who did not mention certain factors did not deny their existence; they may simply have forgotten about them during the interview.

[8] The second survey was conducted shortly after the introduction of new food regulations. The question asked was, "How did the old regulations work?" The new regulations will be discussed in Chapter X because under them pricing procedures of a different kind became the rule.

With such considerations monopolizing the grocers' attention, compliance with price control was undermined (Table 10). Although the extent of noncompliance cannot be measured by small sample studies, it is significant that a large proportion of the retailers interviewed admitted either that they themselves or that the trade in general did not comply. Their most frequent explanation was that the regulations were confusing, only two of 34 saying that they exceeded the ceilings because they were too low. Several of them declared that the satisfactory volume would have made it possible to comply even with low ceilings, were it not for the general confusion prevailing throughout the industry.

Grocers also reported that during the year before May, 1943 they had sometimes raised their prices by making use of legitimate methods. If the ceilings were considered unsatisfactory on certain brands, those brands were discontinued and others, not carried during the base period of the GMPR, substituted at higher prices. Processors and wholesalers, too, often discontinued certain products because of unsatisfactory ceilings; retailers were then compelled to purchase similar goods from other suppliers at higher prices.

Another method of circumventing the regulations frequently reported by food merchants was by tie-in contract. Sellers refused to sell controlled goods, or scarce goods, at ceiling prices unless the buyers also took uncontrolled goods at high prices, or plentiful goods bearing large profits. Both wholesalers and retailers said that often they themselves took the initiative in buying unwanted merchandise or in offering to pay prices above ceilings in order to get scarce items or to establish friendly relations with suppliers. It appears that the buyer rarely suffered a loss on such transactions; he usually transmitted the price increase to his customer.

It is not surprising that few food prices were stable under such conditions. As to the extent to which they increased, the information obtained in interviews was in general agreement with the food series of the BLS cost-of-living index (cf. Table 2, Chap. IV), which, between May, 1942 and May, 1943, often included prices above ceilings.

3. *Deliberate Violations of Ceilings*
(Mainly meat and produce)

Direct price increases occurred not only in commodities that were uncontrolled, or subject to loose or confusing regulations, but also among commodities clearly controlled. The pricing procedures were fundamentally similar in all these cases. Traditional methods of pricing, such as adding the usual percentage margin to rising costs or buying prices, were freely applied to uncontrolled and with only slight hesitation to loosely controlled commodities. Some merchants also maintained their customary pricing procedures in deliberate violation of the law, but only with great scruples and only when they considered the resultant price increases "justified."

When this study was first planned it was believed that little information about direct price violations would be revealed in interviews. In fact, however, some such information was obtained because merchants discussed the practices of their suppliers or competitors, and, in the food trade, because before the summer of 1943 violations were not generally considered reprehensible or cause for prosecution. Most information about deliberate violations was obtained because merchants were eager to relate what they considered their "justification" for not complying.

The most important subjective justifications for selling above ceilings were (a) that the merchants believed they "would have lost money" by complying with the regulations, (b) that "nobody" complied in their respective field, and (c) that it did not "make sense" to comply with certain illogical regulations.

No doubt direct price increases in conscious violation of the law also occurred when the merchants claimed no such justifications, but about this our evidence is meager. Subjectively justified price violations were found primarily among sellers of meat and produce (fresh fruits and vegetables), and occasionally in a few other lines that will be mentioned at the end of this section. Our material in those lines is sufficient to characterize the conditions under which price increases were frequent, but not to estimate their extent.

Meat. To explain the pricing procedures adopted by sellers of meat, we must outline briefly the history of price control in this product. Pricing procedures varied in each of three distinct periods.

Meat was first controlled in the spring of 1942 by base-date ceilings at the wholesale and retail levels. Each slaughtering and processing house then had different ceilings on its sales. The OPA had expected that the control of wholesale meat prices would suffice to hold down uncontrolled livestock prices.[4] But because of the differences among packers in their ceiling prices and also in the extent of their government contracts and in their slaughtering costs, some slaughterers were in a position to bid up the prices of livestock. In 1942 and 1943 livestock prices frequently reached levels that made slaughtering unprofitable even for firms operating under the most favorable conditions—provided ceiling prices were not exceeded. "Every packer wants to maintain or increase his sales," "It is cheaper to operate at a loss than to go out of business," and "We must keep our

[4] Cf. testimony by representatives of the OPA before the Committee on Agriculture, House of Representatives, October 26, 1943, p. 7.

labor force at work," were the types of explanations given by packers for paying prices for livestock out of line with the wholesale ceilings on meat.

What happened in the meat industry when price ceilings did not cover costs? A few small meat processors and butchers said: "Don't believe it if anybody tells you that the meat industry has absorbed the increase in livestock prices" and "All the meat sold is sold above ceilings." Such comments were doubtless exaggerated, but there was much evidence from meat slaughterers and processors of indirect price increases (cf. VII, 4), of sales to remote areas being discontinued, and of production being shifted to branches with higher ceilings. Direct price increases also occurred, as indicated by the following quotations from interviews:

> "We told the OPA that our present product was not the same as the one we sold in March, 1942, and we took the ceiling of a competitor across the street. Theirs was 3 cents higher than ours." (Small nonprocessing slaughterer; three other firms made similar statements.)
>
> "We just said that once in the base period we sold at such and such prices." (Retail butcher.)
>
> "We have been in business for many years, but this is a 'new' firm established in the summer of 1942; we borrowed very satisfactory ceilings from our closest competitor." (Nonslaughtering processor; among the firms interviewed two made use of this method, eight others said it was common in the industry.)

A second period of meat price control began at the end of 1942 when uniform wholesale ceilings were introduced for all sellers of a given grade of meat in a given zone. The relation between uncontrolled livestock prices and controlled wholesale prices, however, remained unsatisfactory in many instances. Moreover, certain branches of the industry, such as nonslaughtering processors and wholesalers, complained not only that prices were too low but also that they were cut off from supplies because ceilings were not set properly for the different levels of the industry. The new regulations were more difficult to circumvent by roundabout methods, but selling above ceilings continued to be widespread (Table 11).

One form of "justification" offered for meat price violations in the first half of 1943 was expressed in such statements as: "If everybody violates the ceiling, there is no ceiling" and "If most merchants charge above ceilings, one cannot and need not stick to them." A second type of explanation is exemplified by the following statement which in one form or another was made by eleven respondents: "If the regulations are such that one cannot get merchandise and stay in business without paying and charging more than ceilings, then the regulations and not the merchants are to blame"; or simply, "The regulations make us cheat."

A third period of meat price control began in April and May, 1943, when dollar-and-cent ceilings were established for retail sales. During the

TABLE 11

INFORMATION ON SELLING MEAT ABOVE CEILING PRICES IN THE FIRST HALF OF 1943

Practice	Number of Firms	
	Small Slaughterers, Processors, Wholesalers	Independent Retail Butchers
"We adhere rigidly to ceilings, but know that others in the industry do not"	6	9
"We occasionally sell above ceilings"	10	12
No information	3	0
	19	21

Large packers are not included in the table, because—according to information received from them and confirmed by other members of the meat industry—they did not sell above ceilings. (They were, however, accused of having made tie-in sales.) Certain new policies introduced by large packers under the impact of the price regulations will be mentioned in Chap. XXII.

summer of 1943, educational campaigns were conducted against black markets, and the OPA instituted injunctions and criminal actions against violators. Up to that time we were frequently told that "the average person breaks the rules with no pangs of conscience." After that time admissions of selling above ceilings became rare, and there were some indications of improved compliance.[5] A nonprocessing slaughterer, for example, said: "When I sold to black markets I couldn't sleep at night; since I comply (summer of 1943) I can't sleep at night because I'm losing money."

During the last quarter of 1943 the meat situation underwent a further temporary change: shortages in meat, with the exception of choice quality beef, disappeared. In a small survey conducted in December, 1943 and January, 1944, we were told that compliance had improved and that the only form of violation practised at that time was selling lower grades of meat at prices fixed for higher grades.[6]

[5] A few of those rare instances in which the general indication was contradicted are revealed by the following quotations: "What the regulations say is that I should go out of business if I can't make any profits; they will be dead and buried before I close up" (slaughterer); "If a person comes in with the newspaper prices, he is apt not to get any meat" (retailer).

[6] The information on pricing practices related here as prevailing in the meat industry in 1942 and 1943 is incomplete on three counts. First, it may well be that with respect to overcharges in meat Chicago was not typical for the country as a whole since meat shortages were much greater on the East and West Coasts than in the

Produce. The prevailing conditions under which wholesalers and retailers of fresh fruits and vegetables operated in 1943, as well as their pricing practices, were in many respects analogous to those of the meat dealers. "Produce is only partly and insufficiently controlled," said the merchants, referring to the absence of growers' ceilings, to the lack of control for many kinds of fruits and vegetables, and to frequent changes in the regulations. They justified price violations primarily on the grounds that "nobody complied" and that certain regulations were nonsensical.[7]

According to most dealers fluctuations in supply exerted a stronger influence on prices than the regulations. At certain periods certain goods were plentiful and, being perishable, had to be sold below ceilings; at other periods supplies were short (especially after old stocks were exhausted and before new crops were harvested) and ceiling prices were disregarded (this happened at different times, for example, in onions, potatoes, cabbages, oranges, bananas, etc.). Statements of the following type were frequently made both by wholesalers and retailers of produce in the summer of 1943:

Middle West. Secondly, very little information was obtained about violations of the rationing regulations, that is, about prices charged for meat sold without coupons. Finally, the existence of black markets in the sense of illicit slaughtering and selling meat through illegitimate trade channels could not be studied by interviewing old-established merchants.

Some information about the extent of black markets in meat, both through illicit trade channels and through above-ceiling prices on the part of legitimate dealers, has been made public. A mimeographed pamphlet, "The Campaign Against Black Markets in Meats," prepared by the Department of Agriculture in cooperation with the OPA and the OWI (undated, but issued in the spring of 1943) states: "Unofficial figures place as much as 20 per cent of the meat supply going into black markets." A memorandum privately circulated by one of the largest meat dealers in the country presented calculations showing that 12 per cent of the total meat production was going into black markets (without taking into account animals killed on farms). OPA Administrator Chester Bowles said on Feb. 29, 1944, that "3 to 4 per cent of the nation's annual food bill of 27 billion dollars goes into black markets." According to a check-up made by the OPA among 337 Chicago butchers, and published in newspapers, 27 per cent of 7,000 inspected meat items were sold above ceilings in February, 1944; the average overcharge was 3.7 cents per pound, that is, about 10 per cent of the price. On the basis of this check-up one would have to conclude that payments in excess of ceilings amounted to roughly 3 per cent of the total meat bill.

[7] Price control of produce began relatively late and was extended gradually in 1943 to more and more products and more and more types of dealers. At first maximum permissible costs were fixed for the first wholesale purchasers, and percentage markups were established for successive dealers. Under this ruling the retail price increased, as the same merchandise was passed through the hands of several intermediate dealers. Later a maximum permissible difference was fixed between the prices of the first wholesale purchaser and retail prices, and refiguring of retail prices was permitted only once a week on the basis of the preceding week's costs.

"Ninety-five per cent of all produce firms violated the ceilings at some time or other."

"The trade in general has no respect for its reputation or for the regulations."

"If my competitors have onions (or other scare commodities) and sell them above ceiling, I can't afford not to carry them."

"Since fresh fruits and vegetables must be sold quickly, they are often sold below ceilings; so isn't it natural that under different conditions prices far above ceilings are charged?" (Other dealers voiced this same argument in different terms, saying that the ceilings were sufficient as "average markups" but not as "maximum markups.")

Retailers of produce frequently called certain provisions nonsensical and not deserving of compliance. They criticized in particular the prohibition of recalculating costs during the week in periods of rising wholesale prices and the setting of uniform ceilings on different qualities. Table 12 shows that under these conditions both selling above ceilings and package deals were frequent.

The situation improved greatly when certain OPA district offices set dollar-and-cent retail ceilings on the most important fresh fruits and vegetables (in the Chicago district at the beginning of October, 1943). Dealers then complained about changes in traditional business practices—especially the impossibility of counter-balancing occasional losses by occasional high profits—and asserted that the OPA margins did not take sufficient account of spoilage, shrinkage, the necessity of trimming certain vegetables, etc. They also complained about retail ceilings on fresh fruit being fixed by weight rather than by the crate, as it is usually bought, because large fruit weighs less per crate than small fruit. These points were brought up to justify occasional overcharges and package deals; yet the dealers generally agreed that the community ceilings had contributed to better compliance and arrested the upward trend of produce prices.

Furniture. A few manufacturers and retailers of furniture said that it did not "make sense" to comply with certain regulations and that there-

TABLE 12

LACK OF COMPLIANCE BY PRODUCE DEALERS

14 wholesalers and 25 retailers; summer, 1943

TYPE OF NONCOMPLIANCE	NUMBER OF FIRMS*	
	Wholesalers	Retailers
Package deals frequent	8	15
Occasionally sell above ceiling prices	13	10
Quality lowered	7	6

* Only the firms making such assertions are included in the table; most other firms neither affirmed nor denied the existence of such practices.

fore "everybody in the trade" violated them. One furniture retailer, for example, had a few parlor sets with steel springs at the GMPR retail price of $119 in 1943 when manufacturers offered him similar sets with wooden springs at the wholesale price of $125. The retailer thereupon marked up the price of his sets with steel springs to $150. He remarked to the interviewer that what he really should have done, if he were to consider the 1943 wholesale prices, would have been to ask $225 for the old sets. Similar statements were made about sofas, studio couches, and all-wool rugs. "The honest truth," said a dealer in upholstered furniture, "is that I raised prices to get the right relationship between stocks on hand and poorer substitutes coming in."

Other instances. A few wholesalers said that they would have lost money if they had lived up to the regulations. The conditions under which wholesalers operated in 1942 and 1943 will be discussed in Chapter XIX; it suffices to say here that some wholesalers had to pay the same prices as retailers to get merchandise and therefore raised their selling prices above ceilings. As one wholesaler of dresses said in the spring of 1943: "It was a question of violating the law or going out of business; I chose the former."

In various types of apparel retailers' buying prices increased either because they had to buy from more expensive sources than in March, 1942 or because the manufacturers were under formula ceilings. The resulting retail price increases were mostly indirect (VII, 2). Yet direct price increases in violation of the regulations did sometimes occur in such cases and are exemplified by the following statements made in February, 1943 by two small department stores:

> "As new shipments by wholesalers go up in price, our old stock is mixed with the new and we sell them all at the higher price. What else can we do?"
>
> "A new shipment of work gloves came in at a higher price than the last shipment. We have plenty of old stock. Now what am I supposed to do? I don't know what the regulations say. Of course, I put the two lots together and sell them at the higher price." [8]

Finally, deliberate violations of ceilings were frequently reported in such scarce goods as nylon hose, elastics, zippers, and Swiss watches. In such cases, respondents spoke of black markets in which they themselves did not participate.

[8] We leave it to the reader to decide whether these are instances of "confusion about regulations," or noncompliance with "senseless regulations." In no case do we consider how justified were the "justifications."

CHAPTER VII

INDIRECT PRICE INCREASES: QUALITY DETERIORATION

Indirect price increase was defined as quoting the same price for poorer quality. For the consumer, paying unchanged prices for merchandise of lesser durability and serviceability (because of poorer material or workmanship) has the same effect as paying higher prices for unchanged quality. In some cases, however, products sold at unchanged prices may be worth less than before because of less tangible changes that affect only the appearance of the merchandise or the convenience of the purchaser (e.g., simpler design, fewer pockets, fewer details). For some consumers, such as those whose income did not go up during the war, such changes may be preferable to higher prices. From the viewpoint of the fight against inflation even a reduction in durability may be preferable to an equivalent price increase, because quality deterioration, within limits, may fail to produce the cumulative effect of price increases,[1] and because the reverse process, quality improvement, may eventually encounter less resistance than price reductions.

While businessmen generally considered it illegal to raise prices directly for merchandise that was clearly controlled, they usually thought it permissible to lower the quality of their products as long as prices were kept stable. The use made of the latter practice was found to differ greatly from time to time, from commodity to commodity, and even from firm to firm dealing in the same commodity.

Quality deterioration was found to have been the prevailing form of price change in apparel and housefurnishings, while in food products direct price increases appear to have been much more extensive. We shall report first the estimates received from our respondents about the extent of retail price increases in different items of apparel and housefurnishings. Then, in sections 2, 3, and 4, we shall analyze business procedures that resulted in indirect price increases.

[1] This has been suggested by D. D. Humphrey, "Price Control in Outline," *American Economic Review,* Vol. 32, December, 1942, p. 758; see also W. W. Rostow, "Aspects of Price Control and Rationing," *ibid.,* September, 1942, p. 491.

1. *Extent of Quality Deterioration in Apparel and Housefurnishings*

To what extent was the quality of the various articles of clothing and housefurnishings lowered? This may be considered a technological question. Our equipment did not permit an attempt to answer it. In fact, a reliable technological analysis of the goods sold in 1942 and in 1944 would be very difficult in view of the large number of different items of merchandise and the lack of objective criteria of workmanship, design, and even of durability. The next best procedure was deemed to be to collect the judgments of persons familiar with the merchandise sold in both years.

The method that proved most fruitful for this purpose was to ask businessmen first to name those of their articles the qualities of which had changed between April, 1942 (GMPR) and the time of the interview, then to ascertain the current price of the articles and, finally, to inquire: "What would you say, how much less would you have paid (charged) for the *same* merchandise before the GMPR?" or "How much less is the merchandise worth than before the GMPR?"[2]

The original plan to separate the estimates of direct and indirect price increases could not be carried out. Although it was often stated that poorer quality accounted for all or most of the changes in the value of apparel and housefurnishings, the respondents' estimates referred to the total effect of both types of price increases.

Our inquiry was based on the goods carried at the time of the interviews—the summer and fall of 1943. We tried to find out how much the price of those goods had risen, directly or indirectly, since the GMPR, not including "losses" consumers might have suffered by the disappearance of goods carried in the spring of 1942.[3] This information was obtained largely from retailers (and to some extent also from wholesalers). Retailers formed the largest and most representative group in our sample; retailers and wholesalers are in the best position to judge and compare the quality of consumer goods produced by many different manufacturers; and only retailers can estimate the extent of quality deterioration as it affected the ultimate consumer.

Merchants were found to be fully aware of the problem of quality changes. Of course, their answers may have been either intentionally or unconsciously biased. Two sources of bias could be detected, and, fortunately, they worked in opposite directions. One was the inclination to put

2 In a few cases further prompting was needed, such as, "Would you say it was worth, say, 5 per cent, 25 per cent, or 75 per cent less?"

3 Cf. the discussion of uptrading in Chap. IX, 3.

TABLE 13

DIRECT AND INDIRECT PRICE INCREASES IN RETAILERS' SELLING PRICES

Autumn, 1943 Compared with Spring, 1942

Number of Estimates of Percentage Increases Made by 68 Retailers and 14 Wholesalers

Commodity Line	0%	3-7%	8-12%	13-17%	18-27%	28-37%	38-47%	48-57%	58-67%	Over 67%	Total
Luggage, handbags, umbrellas	--	--	--	--	--	q6	**8**	3q	1	1	19
Upholstered furniture, mattresses	--	--	--	--	--	q8	**5**	3q	1	1	18
Women's ready-to-wear	4	0	0	0	q20	**14**	7q	4	0	6	55
Wooden furniture	--	--	--	4	q**9**	6q	3	--	--	--	22
Leather gloves	--	--	--	--	q**7**	5q	0	1	--	--	13
Women's underwear	--	--	--	3	q**14**	5q	--	--	--	--	22
Men's furnishings	2	0	3	q10	**11**q	0	2	2	--	--	30
Shoes	7	0	q6	**5**	9q	2	2	--	--	--	31
Piece goods, sheets, towels	--	q6	**4**	3q	3	--	--	--	--	--	16
Men's topcoats and overcoats	0	2	q**6**	4q	--	--	--	--	--	--	12
Men's hats	q7	**3**	4q	1	--	--	--	--	--	--	15
China and glassware	q**10**	5q	1	1	--	--	--	--	--	--	17
Men's suits	q**29**q	5	1	--	--	--	--	--	--	--	35
Total											305

A letter q before and after the frequency figure denotes the class interval in which the first and thirds quartiles respectively fall; black-faced type denotes the class interval in which the median falls.

Although the table includes observations made in the course of the four months between July and November, 1943, no difference was found between the results of early and late interviews except in piece goods and men's hats, in which quality deterioration was said to have progressed between the summer and fall of 1943.

When the merchants estimated how much less the merchandise was worth, the answer was recalculated and expressed as a price increase.

In two relatively unhomogeneous lines a few observations deviated greatly from the others. In women's ready-to-wear 6 respondents estimated that the prices of cotton dresses and blouses had increased from 80 to 120 per cent and 4 that the prices of woolen suits and coats remained stable. (In addition there were 45 estimates referring to all these goods and also silk dresses ranging between 20 and 50 per cent. Fur and fur-trimmed garments were not included under ready-to-wear.) In men's furnishings most estimates fell between 10 and 25 per cent, but 4 respondents estimated the price increases of handkerchiefs and sport shirts at over 40 per cent.

one's own firm in a good light and therefore exaggerate the quality of the goods carried. The other was the inclination to find fault with present-day merchandise generally and refer to the "good old times" when all merchandise was of far superior quality.

It was particularly difficult to separate the effects of businessmen's voluntary decisions in response to the market situation under existing price regulations from the effects of the lack of certain materials or of quality regulations of the government. Our aim was to study those instances where businessmen deliberately chose to lower quality; such unavoidable changes as substitution of wooden springs for steel springs, elimination of cuffs on trousers, lower percentage of wool in blankets and sweaters, and wooden shafts instead of steel shafts in umbrellas, were of less interest to this study. The merchants, however, could not always distinguish between the two kinds of changes. In spite of this and of their different biases, many of them arrived at similar estimates as to the extent of quality deterioration. They frequently supported their judgments with such evidence as buyers' reports and correspondence with suppliers concerning complaints about quality.

The results of our inquiry (Table 13 and Figure 3) supplied answers to two questions:

(1) Which clothing and housefurnishing articles deteriorated to a greater and which to a lesser extent? Here the information was largely consistent. For example, practically no one reported price increases or quality deterioration in men's suits; everyone handling both men's and women's garments agreed that price and quality were more stable in the former than in the latter; and all furniture dealers said that wooden furniture had deteriorated less than upholstered furniture and mattresses.

(2) To what extent was the quality of the various articles lowered? The estimates received in answer to that question can be used only as an indication of the approximate order of magnitude of the price increases. Therefore, we do not present averages of the estimates, but only their frequency distribution. Table 13 also shows the size of the sample for each commodity line and the location of the median and the quartiles, which varies from line to line.

The two groups of commodities in which respondents estimated that quality had deteriorated the most were luggage, handbags, and umbrellas, and upholstered furniture and mattresses. Occasional reports seemed to indicate that the quality of novelties, costume jewelry, and accessories of apparel (e.g., belts, collars, scarfs) was lowered to a similar extent, but the number of observations about these articles was not sufficient to include them in the table. The conditions under which the prices of handbags and novelties were raised have already been explained ("price in-

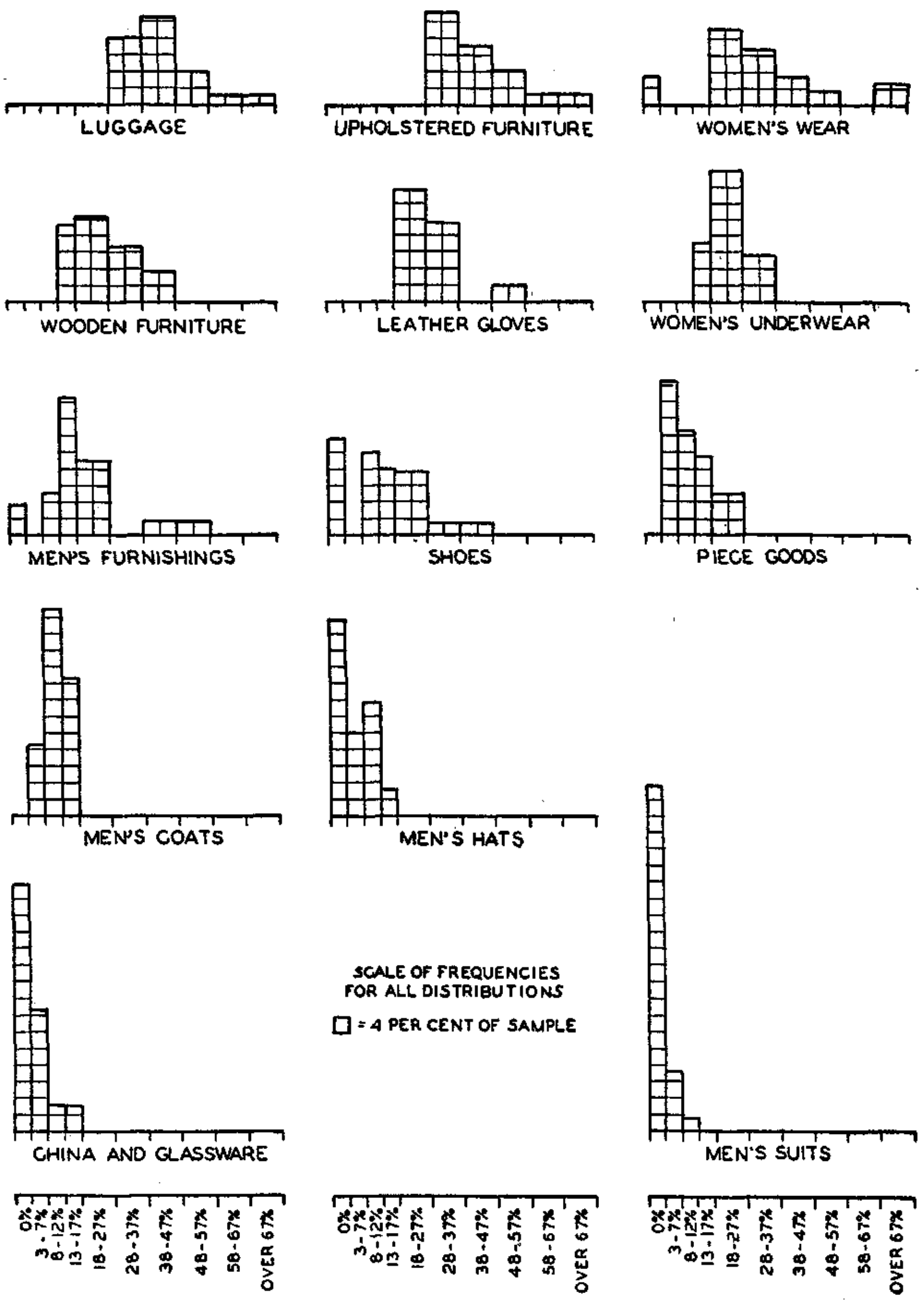

FIGURE 3.—DIRECT AND INDIRECT INCREASES IN RETAILERS' SELLING PRICES
(Frequency of estimates, see Table 13 for explanation of data.)

creases under loose ceilings," VI, 1). Some merchants dealing in umbrellas, costume jewelry, and apparel accessories said that similar conditions existed in those fields, that is, that the OPA did not really mean to control those goods. In women's ready-to-wear, where most estimates of quality deterioration ranged from 20 to 50 per cent, dresses and blouses were said to have suffered more than suits and coats, and inexpensive garments more than expensive ones.

In most lines of furniture and textile apparel it was said that the quality of both materials and workmanship had deteriorated. In shoes and leather gloves, however, the complaints were primarily about materials, especially sole leather. It was said that the government had reserved the best sole leather for military use and that tanners were selling low-grade leather at high-grade prices. One manufacturer of expensive shoes frankly admitted that he was using the same sole leather as manufacturers of cheaper shoes.

In men's topcoats and overcoats a substantial part of the total price increase was attributed to legal direct increases (cf. V, 1). The lowest estimates of price increases came from merchants dealing in men's suits, and china and glassware. Indeed, most respondents in those fields maintained that their prices and qualities had remained stable (cf. X, I).

From December, 1940 to May, 1942 (the 17 months before GMPR) the BLS apparel index rose 24.2 per cent, the housefurnishings index 21.7 per cent. From May, 1942 to October, 1943 (the 17 months after the GMPR) those same indexes rose 5.5 per cent and 3.7 per cent, respectively. Since the BLS index reflects quality deterioration only slightly the latter figures are not representative of the total price increase. We cannot attempt to recalculate the index on the basis of our findings. Yet our studies permit us to assert that total direct and indirect price increases in apparel and housefurnishings were smaller in the 17 months after than in the 17 months before the GMPR. This was true despite the greater pressure toward price increases that doubtless existed in the later period when the ratio of disposable incomes to the value of civilian supplies was higher than in the earlier period.[4]

[4] By taking into account the median of all estimated direct and indirect price increases in each article and the weight of the respective article among the clothing and housefurnishings goods listed in the cost-of-living index, we arrive at an increase of retail prices of not quite 20 per cent from May, 1942 to October, 1943. This finding cannot serve as a "correction" of the index because (a) the merchants estimated the quality deterioration of various items not included in the index (e. g., luggage, handbags, umbrellas, blouses, and the more expensive items in each line), and (b) they did not make separate estimates for various items included in the index (e. g., wool and cotton clothing, overalls, shoe repairs).

Note: BLS indexes

The Bureau of Labor Statistics does not regularly publish a breakdown of its clothing and housefurnishings indexes, but kindly provided us with them for June, 1942 and December, 1943 (the quarterly indexes of the BLS are more complete than its interquarter monthly indexes). The over-all measure for women's apparel rose 5 per cent; for men's apparel, 4 per cent from June, 1942 to December, 1943. In that same period the prices of individual articles of clothing and housefurnishings rose as follows (arranged to follow the order of Table 13 insofar as the items coincide): studio couches, 1 per cent; mattresses, 6 per cent; women's heavy plain coats, 18 per cent; wool dresses, 15 per cent; rayon crepe dresses, 6 per cent; wash frocks, 21 per cent; wooden furniture, 3 per cent; gloves, 1 per cent; cotton nightgowns, 17 per cent; panties, 5 per cent; shoes, 5 per cent; sheets, 2 per cent; towels, 13 per cent; men's topcoats, 6 per cent; men's overcoats, 8 per cent; china and glassware, 3 per cent; men's suits, 4 per cent.

The BLS price data differ from the information presented in Table 13 in two fundamental respects. The BLS takes into account the disappearance of low-cost merchandise, which reflects primarily involuntary uptrading (Chap. IX) rather than price changes of identical or comparable articles.[5] On the other hand, it neglects quality deterioration except to the extent that it may be involved in the disappearance of inexpensive goods. When a certain quality specified in the index can no longer be found in the retail stores, the BLS substitutes for it the price of the next better available quality and considers either one-half or the entire difference between the prices of the two qualities as a price increase (*Monthly Labor Review,* Vol. 57, July, 1943, p. 90). This "linking procedure" was used in particular after June, 1943 i.e. 57 (from the GMPR until that time the BLS clothing and housefurnishings indexes were substantially stable) and accounted for most of the recorded price increases after that date (for 90 per cent of the price increases in the last quarter of 1943).

In compiling its price indexes the BLS found, just as we did, that there were wide differences in price changes for the same product among different stores. It found, for example, that in some instances the prices of the same clothing article rose twice as sharply according to information received from one store as according to that from another store in the same city (*Monthly Labor Review,* Vol. 58, February, 1944, p. 241).

BLS data for a different period (June, 1939 to December, 1943) indicate that the price increases were larger in inexpensive than in expensive clothing items. The prices of the lowest qualities of six clothing items rose 50 per cent and those of the highest qualities 26 per cent in those four and a half years. These measurements include the disappearance of low-cost goods. (Mitchell Report, p. B-17.)

Note: Other estimates of the extent of quality deterioration

Oswald W. Knauth, President of the Associated Dry Goods Corporation and Director of the National Bureau of Economic Research, attached the following note to the paper *Prices in a War Economy* by F. C. Mills, published by the National Bureau of Economic Research in October, 1943:

[5] The Mitchell Report (pp. 19 and II-22) acknowledges this fact: "The BLS has included certain types of forced uptrading in its index, and in that way departed from its former objective of measuring only change in price. . . . To a certain extent it now attempts to take account also of changes in necessary expenditures not reflected by changes in prices alone."

"I think the average degree of deterioration of consumer goods since 1939 may be pretty accurately estimated at between 15 and 20 per cent. Scarcely any article today does not show some small degree of deterioration, while in some lines it is clearly around 30 per cent. This estimate is not made as a statistical measurement, but as a personal observation based on numerous judgments and inquiries" (p. 25).

George Meany and R. J. Thomas made the following estimates in January, 1944:

"This report finds that the quality of low priced clothing items has deteriorated by at least 20 percent during the war years" (p. 34).

"In women's clothing . . . quality deterioration has been even greater, ranging from 30 to 40 percent, with an average deterioration of at least 25 percent" (p. 34).

"Quality deterioration, which is not measured by the [BLS] Index, is responsible for an . . . unreflected increase of at least 15 percent in the cost of house-furnishings" (p. 55).

The BLS Reply states that nobody knows the amount of quality deterioration but that the Meany-Thomas report "exaggerates the effect" (p. 49).

The Mitchell Report (p. 17 and pp. B-11 ff.) in attempting to correct the BLS index, "isolated the items for which reduced quality tends to force the purchase of increased quantity" on the assumption that "if quality specifications of the BLS are unchanged . . . the quality priced in December 1943 was the same as the quality priced in January 1941." From this starting point the Report proceeds as follows: Since (a) the items for which the BLS lowered its durability specifications represent 41 per cent of the weight in the clothing index; (b) the lower specifications are used in only 68 per cent of the cities where price data are collected; (c) the average reduction in durability is assumed to be 20 per cent from January, 1941 to December, 1943 as estimated by Meany-Thomas; and (d) the BLS linking procedure accounts for a small part (assumed to be 19 per cent) of these changes; therefore, the quality deterioration in clothing not reflected in the BLS index is equivalent to a price rise of 4.7 per cent.[6] On the basis of similar assumptions and calculations the housefurnishings index is adjusted upward by 8.6 per cent. The main question regarding this procedure is whether the following statement can be considered justified: "Whenever the BLS succeeds in pricing under its original specifications, no further allowance for quality is necessary."

The Mitchell Report states further: "The Committee believes, though it cannot prove, that a major part of quality deterioration not allowed for in the BLS index is due to the war rather than to the efforts of businessmen to take unfair advantage of their customers" (p. 17). The phrase "due to the war" is presumably not intended to mean "due to price control" but rather, due to the effects of shortages of raw materials. In the present monograph we cannot estimate the extent of quality deterioration due to shortages but have cited evidence of extensive deterioration resorted to by businessmen in place of, or accompanying, direct price increases.

2. *The Similar-Commodities Clause*
(Mainly apparel and furniture)

Our interviews yielded information as to how the quality deterioration of the various commodities surveyed came about under existing regulations.

[6] $41 \times 0.68 \times 0.20 \times 0.81 = 4.5$; quality deterioration of 4.5 per cent is equivalent to a price rise of 4.7 per cent.

One method was through the use of the "similar-commodities clause" of the GMPR: Some manufacturers changed their products and some wholesalers and retailers carried "new" products solely to avoid open violations of the letter of the law. The new products were priced at the higher prices for which "similar commodities" had been sold either by the same merchant or by a competitor during the base period.[7]

Most furniture retailers interviewed at the beginning of 1943 stated that they were getting exclusively "new" goods: "Everybody changes the items slightly and so nobody violates the March ceilings"; "Everything that is new has a new price." Apparel retailers commented that style goods always changed constantly, but that under price control it became impossible to reorder the same garment. Even merchandise in which style was not of major importance was often changed slightly in order to raise prices. Some manufacturers of undergarments, for example, admitted that they had concentrated production on the lowest cost items and delivered them as "similar commodities" to retailers who had formerly bought better qualities in the same price line.

A picture of the method used in applying the similar-commodities clause is presented in the following information from a case study made in the summer of 1943:

> A manufacturer of men's shirts[8] declared that his price lines did not change after the GMPR, despite the increased cost of labor and materials. The average price of materials went up, mainly because some mills no longer produced as large a proportion of lower-priced fabrics as they used to. What did the shirt manufacturer do under such conditions? He had several price lines, each of which contained several types of shirts prior to the GMPR. The direct costs of different shirts sold at $18 per dozen, for example, were not always the same, and they were not always higher than those of the shirts in the next lower price line (say, $16 per dozen). Traditionally the price of a shirt depended on design, color, fashion, and advertising as much as on wages and the cost of materials. Thus the same price line contained shirts of cheaper broadcloth and better design as well as of more expensive broadcloth and cheaper design. In the course of the year following the GMPR, as usual, several types of shirts were discontinued and new designs introduced. The prices of the new types were fixed according to the similar-commodities clause of the GMPR. That is, new or changed varieties were put into the *highest* price line in which *any* shirts of the same thread count had been sold before the GMPR. (By calculating the differences in the price lines it was found that such price increases amounted to about 15 per cent for comparable qualities.) "Yet," said the head of the firm, "we did not take advantage of pricing *all* our lines according to the few 'dogs' in the line."

[7] Sections 2 and 3 of the GMPR permitted this pricing method for commodities not sold during the base period, but the regulation was, of course, not meant to encourage shifts to new commodities for the purpose of raising prices.

[8] The information obtained in this as in all other instances is presented in such a way as not to reveal the identity of the firm concerned.

This information implies that, from the retailers' viewpoint, the shirt prices did not remain unchanged unless they happened to buy the particular varieties that remained in the same price line. Those retailers who bought shirts priced according to the similar-commodities clause had to pay more in the summer of 1943 than in March, 1942 for what they deemed to be the same material with a design of the same value. We were told by retailers of many articles of clothing that, "The smart buyer who used to pick the best merchandise in the cheaper lines lost out."

Retailers of apparel described several instances when prices were raised by use of the similar-commodities clause but where the sellers of the poorer quality derived no additional profits from their action. The retailers' buying prices frequently increased because, in order to get merchandise, they had to turn to suppliers who were more expensive than those from whom they had bought during the base period; since their selling prices were frozen, they often purchased lower-quality goods and sold them at the same prices they had charged previously for the better quality.

One such instance was studied from both the manufacturer's and the retailer's viewpoint. A manufacturer of a certain brand of men's shorts who always produced only one price line declared that he had maintained both price and quality of his product (except that elastic was replaced by substitutes). He had introduced no "new commodities." His profits from civilian goods had declined sharply but much of his plant had been converted to the somewhat more profitable production of military goods. A large retailer reported that in 1943 he had obtained only 25 per cent of his 1941 purchases from that manufacturer and had been unable to buy shorts from any other manufacturer. Consequently, he had been compelled to buy from jobbers, whose prices were about 20 per cent higher. He bought lower-quality shorts from the jobbers. His selling prices remained unchanged, but the majority of his customers had reason to complain about deterioration in quality.

A similar report was made by a large wholesaler of women's wear: "Several old suppliers give us only 25 to 40 per cent of our orders; we are buying lower-quality goods so that we can sell them at our ceiling price."

3. *Cost-Plus-Percentage-Margin Regulations*
(Women's ready-to-wear)

Even before price control many manufacturers of women's wear in response to increased demand and higher costs lowered qualities instead of raising prices, because they had well-established price lines from which they did not want to deviate. At the beginning of 1943, the OPA put into effect a complex regulation for that industry providing for selling prices to be based on costs plus historical percentage margins (MPR 287).[9] This regula-

[9] The salient features of MPR 287 applied to manufacturing of women's outerwear were: 1) No price lines to be produced unless produced in March, 1942 (an amend-

tion was intended to forestall further quality deterioration. But every manufacturer of women's wear whom we interviewed agreed that, under given conditions of a seller's market, it had failed to do so.

The practice that they described as having been most common under the impact of the new regulation was the concentration of production on those lines that had carried the highest percentage margins in the base period and the elimination of lower-margin lines. The former were not always the most expensive, although in our sample never the cheapest lines. Before price control manufacturers generally had higher markups on expensive than on cheap garments because of the greater style risk involved in the former; even if the percentage markup was the same, in dollars and cents it amounted to more on the expensive than on the cheap garments. Frequently "new firms" were established or new goods produced (e.g., a sportswear manufacturer turned to the production of blouses) in order to "borrow" a higher traditional markup from a competitor. As a result of such practices most buyers were paying higher manufacturers' markups in 1943 than in March, 1942.

The quality of the garments produced in the retained price lines deteriorated so sharply that they were frequently no better than the ones that had been in the lower price lines at the beginning of 1942. This quality deterioration was brought about in a number of different ways, all of which the manufacturers considered to be in conformity with the letter of the law.

Some garment manufacturers said that producers of fabrics lowered the quality of their goods, and many more said that, because they used the cost-plus formula to determine their selling prices, they had no incentive to buy materials cheaply. A large dress manufacturer, for example, declared in the fall of 1943:

"There is no incentive now to buy for less. We don't try to use any ingenuity to cut costs and thereby prices. Two or three years ago we would go to an embroidery manufacturer and say to him, 'If you will cut the price of embroidery from $7 to $6,

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ment permitting the establishment of new "intermediate" price lines under certain conditions was largely ignored by manufacturers). This provision included the much disputed "highest price limitation" forbidding the production of higher-priced garments than were produced in March, 1942. 2) Minimum allowable direct labor and material costs fixed for each price line, direct labor costs to be calculated on the basis of the wage rates paid in July, 1942. 3) Ten per cent less than the average initial percentage margin used in the respective price lines in March, 1942 to be added to direct costs to cover other expenses and profits.

Price increases by manufacturers were transmitted to the ultimate consumer, since retailers (MPR 330) added to their buying prices the same percentage margins they had used during the latter part of 1941 for the same price line; they were, however, prohibited from selling any garment at a price higher than their highest price line for the same class of apparel in March, 1942.

we will be able to cut the price of our dress from $22 to $21 a dozen. Then we will be able to sell a lot more dresses and buy more embroidery from you.' Now, however, we don't care if we pay $8 for the embroidery."

Furthermore, manufacturers did not object to the "over-finishing" of poor fabrics, (e.g., producing printed instead of plain cloth or adding an extra stripe to raise the price) or to the "rejobbing" of materials, that is, passing them through the hands of several jobbers each of whom added his markup.

A practice called "upbuilding" garments contributed to reducing their intrinsic values. Of 14 manufacturers of dresses and coats 8 said that if the direct costs of a garment were not high enough to permit its inclusion in a certain price line, a more expensive lining, decoration, or trimming was added to it. By some it was frankly admitted that this was done with no thought of adding to the "value" of the garment but solely of adding to the price. Thus garments of poorer fabrics and workmanship were sold in higher price lines than in March, 1942.

Occasional references were made to an increase in the number of hours used in producing a garment and also to higher wage rates paid to piece workers which were included in the direct costs. There was no incentive to keep labor costs down.

Manufacturers generally reported that quality deterioration was not as pronounced in expensive as in inexpensive garments. In the former, manufacturers could cut out little details to save costs without affecting the intrinsic value of the garment. In the latter, however, costs were traditionally calculated closely ("There was no room to move around"), and therefore economies in material or workmanship were introduced.

Detailed information from two case studies may illustrate the manufacturers' practices:

Manufacturer of cheap rayon dresses. Produced 5 price lines in 1941:
$ 8.50 per dozen—discontinued end of 1941;
$13.50 per dozen—discontinued summer of 1942;
$15.75 per dozen—quantity reduced in 1943; "plan to drop it," said manufacturer in April, 1944;
$22.50 per dozen;
$31.50 per dozen.

Of the two price lines still produced in quantity, the manufacturer said that at the beginning of 1944 the $22.50 dresses had much better styling and accessories but no better fabrics and workmanship than the $13.50 had had before the GMPR; and the $31.50 line had deteriorated by approximately 30 per cent.

Large manufacturer of more expensive women's wear. Produced 12 price lines of rayon dresses in the fall of 1942. In the fall of 1943 the lowest 4 and the highest 2 lines were discontinued, 3 medium lines were produced in small quantities only, and one line, originally the fifth highest, accounted for 50 per cent of the output. These changes were due to differences in the pre-GMPR markups on the different lines. In coats and suits, 5 out of 12 price lines were retained, and the most expensive one accounted for roughly 50 per cent of the production. As a result of these changes, most buyers were paying higher markups than previously. With respect to the intrinsic value of the dresses, the manufacturer said that there was a shift to the next higher price line (amounting roughly to 10 per cent) from the spring of 1942 to the spring of 1943, and another similar shift during the following year.

4. *Other Instances of Quality Deterioration*

In some cases manufacturers lowered the quality of their goods without using either the cost-plus formula or the similar-commodities clause. This was done, for instance, by women's-wear manufacturers who produced only one price line and therefore could not shift their product from one line to another, by some manufacturers of shirts (who, for example, eliminated collar linings), of women's slips (who used inferior stitching or less embroidery), and of furniture (who lowered the quality of workmanship or used lower grades of lumber).

In food products, too, there was some mention of quality deterioration. Meat packers said that the quality of meat suffered on two counts: cattle were frequently slaughtered too soon so that choice quality beef cuts became scarce, and pork was not trimmed as well as before price control (a regulation issued at the end of 1942 set the standards for pork cuts lower than the highest traditional standards of some packers). Most processors and retailers expressed the opinion that meat slaughterers left even more fat on the meat than was permitted and cut the meat so as to increase the proportion of higher-priced cuts. Finally, some processors admitted reducing the quality of their sausages, and some retailers implied hidden price increases when they said that "Price is not everything, since a skillful butcher can do a lot . . ."

In dry and canned groceries wholesalers and retailers seldom mentioned quality deterioration. In fresh fruits and vegetables, however, the regulations applied in the summer of 1943 were often criticized for not setting different ceiling prices on high- and low-quality products. "Since all qualities can be sold at ceiling prices, except in times of heavy supply, neither producers nor dealers are interested in selling high-quality vegetables," we were told; therefore, more low-quality vegetables were on the market than before.

Quality deterioration was rather general in laundering, especially in ironing and finishing. Of 17 power laundries only 3 said in the fall of 1943 that the quality of their work had remained satisfactory. The opinion of the others was expressed by the comment, "The laundry business is not proud of the job it is doing today." The poorer quality of work was blamed primarily on the lack of efficient help, but also on the OPA, because it maintained GMPR prices at a time when wages increased sharply. Direct price increases were said to have been impossible in laundering because customers in general were well aware of the prices they had paid before.

A relatively infrequent and expressly forbidden procedure, reducing the size or quantity of a commodity, may be mentioned among indirect price increases, since the same price is quoted for less value. Its effect is the same as the main effect of quality deterioration, namely, the durability of the merchandise purchased is lowered.

Most stationery stores reported that the number of sheets in packages of paper was reduced; in one instance 60 instead of 80 sheets of writing paper were sold at the same price; in another, 18 instead of 24 sheets and envelopes were sold in a package costing only 5 per cent less. Druggists and grocers said that the quantities of certain cosmetics and packaged foods had been reduced.

A few restaurants mentioned that they were serving smaller portions. Especially cheaper restaurants and cafeterias preferred cutting portions to raising the well-known prices of their standard dishes.[10]

[10] Consumer satisfaction was also affected by the deterioration of service in retail stores and restaurants, which may therefore be regarded as a further form of quality deterioration.

CHAPTER VIII

Reduction in Number and Size of Markdowns

Even complete information about changes in regular selling prices and qualities would not suffice to measure the change in the consumers' actual money outlay for comparable goods. In normal times retailers frequently marked down their prices so that some consumers made some of their purchases below regular prices. Some retailers used to mark down their slow-moving merchandise, some had annual or seasonal clearance sales, some had special prices for promotions or loss leaders, and in some stores bargaining was the accepted practice so that few goods were sold at the prices marked on the price tags. Two questions arise in this connection: Did the quantity of goods sold below regular prices decrease during the period in which price control was in effect? Was the size of the price cuts (the percentage by which prices were marked down) reduced?

1. Frequency of Reductions by Retailers

A few retail stores reported that as early as 1941 they had reduced both the proportion of goods offered below regular prices and the extent of the price cuts. This was in accordance with their usual procedure, inasmuch as the extent of markdowns always varied with fluctuations in the business cycle. In 1942 changes in markdown policy became somewhat more widespread so that, at the beginning of 1943, 27 per cent of our sample of apparel retailers reported some changes, and 28 per cent substantial changes in their markdown practices (Table 14, first line). The most frequent explanations of these changes were the rapidly growing shortages and the fact that there was no longer any need to stimulate consumer demand by price reductions and loss leaders. Furthermore, style changes were said to have become less frequent, and retailers expected to be able to sell seasonal goods carried over from one season to the next at unchanged or even higher prices.

In view of these considerations it is surprising to find that 45 per cent of the retailers interviewed had not changed their markdown policy at the beginning of 1943. They gave the following reasons:

a) "It is poor practice to change established policy"; "It is an elementary principle of merchandising that goods must not be carried over from season

TABLE 14

CHANGES IN POLICY OF MARKING DOWN PRICES

Apparel Retailers; Comparison with 1941

Date	Number of Firms			
	No Change* in Policy	Little Change† in Policy	Substantial Change‡ in Policy	Total
First Survey: Dec. 15, 1942-Feb. 14, 1943	32	19	20	71§
Second Survey: Aug. 15-Sept. 15, 1943	2	4	14	20¶

* "No Change": All firms included in this column gave this answer unequivocally. Yet it is possible that merchants may have overlooked slight changes either in the number or in the size of markdowns since 1941.

† "Little Change": Statements that markdown principles remained unchanged but somewhat fewer items were marked down and markdowns were somewhat smaller than in 1941; or data showing that current markdowns, while smaller than in 1941, still amounted to more than 2 per cent of the total sales volume (this limit was chosen arbitrarily).

‡ "Substantial Change": All seasonal sales and all markdowns discontinued (except for odd lots, spoiled merchandise, or a few highly styled items).

§ Five firms that never marked down prices are not included.

¶ All 20 firms interviewed in the second survey had been interviewed in the first survey; their answers at that time were: No Change, 8; Little Change, 7; Substantial Change, 5.

to season." (Most frequent type of explanation, given by stores of all sizes carrying all kinds of merchandise.)

b) "Our business is built on big volume and quick turnover"; "Volume sales must be stimulated by markdowns." (Explanation given primarily by stores carrying cheaper merchandise.)

c) "Retail trade is still competitive"; "We still have to attract customers." (Explanation given by a few stores carrying expensive clothing.)

In the course of 1943 markdown policies were changed radically. In August and September of that year it was found that 14 out of 20 retailers of apparel had discontinued markdowns entirely except for odd lots, spoiled merchandise, or a few occasional items (cf. Table 14). In most department stores, however, markdowns were only reduced and not eliminated, and two chains carrying inexpensive dresses reported that the poor quality of some of their merchandise made it necessary for them to continue to take considerable markdowns.

The changes in markdown policies in 1943 were attributed to three developments: a) shoe rationing, beginning in February, 1943, put an end to the semi-annual sales of shoes; b) a great buying wave for apparel that set in after the announcement of shoe rationing convinced many retailers that there were no longer any unsalable goods; c) the Office of Civilian Requirements in the summer of 1943 took steps against the recurrence of overbuying and hoarding by consumers; it instructed retailers not to push sales and to discontinue all advertisements featuring shortages or comparing lower sale prices with higher regular prices.

Several apparel and furniture stores taking no markdowns at all in the summer of 1943 declared this to be a temporary situation. They believed that the quality of certain wartime products would make the resumption of markdowns necessary in the future. This expectation came true a few months later; at the end of 1943 and especially in January, 1944 many retailers resumed or increased their sales at markdown prices. They thought it advisable to push the sale of low-quality "victory goods" or substitutes because they anticipated that prewar qualities would soon again be produced.

The information received on changes in markdown practices varied somewhat in different types of stores and in different commodities. For example, in the summer of 1943, department stores took more markdowns on furniture, rugs, and china and glassware than stores specializing in those lines. Several shoe stores continued markdowns until the day of shoe rationing. A few months later the OPA permitted the sale of odd-lot shoes—up to 4 per cent of the merchant's stock—at markdown prices without coupons, and this was generally considered the maximum for markdowns. Half of the shoe stores interviewed made no use of this provision while some others said, "We cut prices and sold some odd lots without coupons because customers expected us to, but there was really no need for marking down shoes." In January, 1944, the OPA permitted the sale of up to 15 per cent of the retailers' total stock without coupons at a price of $3 or lower. Only stores selling low-priced shoes made use of this permission.

Among typical bargain stores, a few general-merchandise and a few furniture stores were interviewed. They explained that "normally" they marked their prices about 100 per cent over costs but would accept 25 per cent less than the tag prices. They also said that in their opinion the base-date ceiling applied to the tag prices. It is therefore probable that their actual selling prices rose considerably during price control.

Only fragmentary information could be gathered about markdown policies in food stores. In the fall of 1943 the 4 biggest chains said that they were still selling large quantities below ceilings, while 3 smaller chains had discontinued most markdowns. Most independent retailers other than large low-cost stores had substantially reduced both the number and size of their markdowns. Selling below ceilings occurred primarily in perishable goods at times of seasonally large supplies; toward the end of 1943 it increased even in certain nonperishables which became abundant (canned vegetables).

Among drug stores almost half the firms interviewed either never had any sales or promotions (e. g., sellers of pharmaceutical goods exclusively) or had discontinued them before price control. One-third of the sample eliminated cut-rate prices entirely or with few exceptions during 1942 or 1943, while a few stores continued to have a few loss leaders in the fall of 1943 because, as they said, "customers want them."

Laundries generally discontinued their day differentials, and cleaners eliminated their bargain combination prices in 1942. Special prices for liquor disappeared in 1943.

The practices of retailers selling uncontrolled commodities indicate that price control alone could not have been responsible for the reduction in markdowns. Loss leaders disappeared from the windows of florists and jewelers in 1943. Flowers used to be sold at reduced prices when they were "old"; since the turnover of florists accelerated greatly, there was less occasion for such price reductions. Certain jewelers frequently marked down their prices before the war. One of them declared that in bad times 50 per cent of his sales were made at reduced prices, in "normal times" about 25 per cent, in 1943, however, practically none.

2. *Extent of Reductions by Retailers*

It proved to be difficult to measure the extent of the changes in markdowns. While 1943 data were obtained from many stores, only a few large firms supplied comparable earlier figures on markdowns, which used to change from season to season and year to year. Some firms, however, supplied annual data on markups for several years, from which changes in markdowns could be calculated. They gave us, first, their "initial markup," that is, the difference between buying prices and the list prices at which the merchandise was intended to be sold (expressed in per cent of the latter); second, their "earned markup," that is, the difference between buying prices and the actual selling prices (expressed in per cent of the latter). The difference between the two markups indicated the extent of markdowns.

The data in Table 15 must be considered with caution in view of the small sample from which they were derived. Furthermore, it must be kept in mind that the average reduction in the markdowns—3.5 per cent less in the fall of 1943 than in 1941—can hardly be considered an indication of the additional amounts of money paid by any single consumer. Consumers who used to shop around and make their purchases at seasonal sales must have

TABLE 15

REDUCTION IN MARKDOWNS

Markdowns Expressed as a Percentage of Total Sales

5 Department Stores, 7 Apparel, and 4 Furniture Specialty Stores

	1941	Fall, 1943
Average	4.7%	1.2%
Range	1.5-8.0%	0-3.4%

Variety and 5- and 10-cent chains, where markdowns have always been infrequent, are not included in the table.

In several stores part of the inventories was marked down for tax purposes or in order to create reserves against future losses in 1943; those markdowns are not included in the table because they did not benefit the consumers.

According to the Controllers' Congress of the National Retail Dry Goods Association markdowns of department stores amounted to 5.1 per cent of sales in 1941 as against 6.5 to 7.3 per cent between 1935 and 1939, and 4.8 per cent in 1942.

been affected much more than the average would indicate, while certain others were doubtless not affected at all. According to some retailers, markdowns on expensive goods used to be larger (as a percentage of the initial price) than on cheaper goods; as far as that information is correct, careful buyers of expensive goods would have suffered most from the effects of fewer and smaller markdowns.

The question of reduction of markdowns has received scant attention in available literature. The first known reference to price increases resulting from the discontinuation of special sales appeared in an article published in September, 1943.[1] Meany-Thomas (pp. 23 and 39) estimated the downward bias in the BLS index resulting from the lack of consideration of discontinued week-end and special sales and markdowns at 2 per cent for clothing and 4 per cent for food for the period January, 1941 to December, 1943. The BLS said in its Reply that, while precise data could not be compiled, the estimate of a 4 per cent increase in the family food bill due to this factor was much too large since week-end reductions in grocery prices were generally discontinued in the late thirties.

The Mitchell Report estimated the total effect of the disappearance of sales at reduced prices, which is not reflected in the BLS index, at 1 per cent for clothing, 1 per cent for housefurnishings, and ½ of 1 per cent for food from January, 1941 to December, 1943. The estimates for clothing and housefurnishings are based on preliminary data concerning the 1943 *average* markdowns of department stores.

3. *Comparative Changes on the Wholesale and Retail Levels*

Retailers not only used to sell below list prices but also to buy at reduced prices by obtaining special discounts or making quantity or out-of-season purchases. Practically all respondents reported that most concessions, allowances, discounts, and manufacturers' special sales had disappeared prior to the GMPR, while most discounts on quantity purchases had been eliminated during the first year of price control. Some suppliers discontinued the delivery of such quantities as would have necessitated the granting of quantity discounts. This was said to have been done even when there was no shortage of supplies.[2]

Selling below regular prices appears to have ceased earlier and more completely on the manufacturing and wholesale levels than on the retail level. In 1943, when manufacturers were asked about their main problems,

[1] Lazare Teper, "Observations on the Cost of Living Index of the Bureau of Labor Statistics," *Journal of the American Statistical Association*, Vol. 38, September, 1943, p. 279. The results of our first survey on markdowns were circulated in mimeographed form in March, 1943.

[2] Variety chains reported increases of as much as 10 per cent in their buying prices as the result of such practices. They were very important in the liquor trade, where the prevailing practice of eliminating all wholesale discounts was legalized in August, 1943.

practically all said that selling constituted no problem at all.[3] They asserted that "competition" among manufacturers had disappeared, since full-capacity operations were assured regardless of whether they met competitors' prices. Retailers, on the other hand, said that competition on their level had remained substantial in 1943. A department store executive, for example, said "Customers still walk out of the store if they don't find what they want at prices they want to pay"; and the manager of an apparel store, "We are still interested in the prices of other retailers, and there are still cases of price reductions because of competition."

Such statements explain why retailers' markdowns were not discontinued entirely. The extent to which they were reduced was sufficient, however, to have had an important effect on profits and, according to the information received in the interviews, on compliance with price regulations. At the beginning of 1943 many retailers asserted that they would not be able much longer to absorb the increases in their buying prices; late in that year they attributed the fact that they had been able to do so primarily to the profits that had resulted from the reduction in the size and number of markdowns.

[3] Only 3 out of 47 manufacturers said that selling their products still constituted a problem; one of them manufactured dresses, two, cheap shoes (cf. Table 32, XVII, 2).

CHAPTER IX

Uptrading: Shift to Better-Grade Merchandise

1. Concepts and Methods of Estimation

Practically all commodities studied in this survey have various quality grades. All available information indicates that their average retail prices—the total dollar sales of a commodity divided by the number of units or items sold—increased during 1942 and 1943. Up to now only one component of that increase has been discussed: it may be called the "price appreciation," that is, direct and indirect increases in the prices of identical or comparable grades of a commodity. A second component, a shift to the sale or purchase of better grades, will be called "uptrading."[1]

Uptrading may have originated in demand or in supply factors or in both. As the most important demand factor, the increase in real income enjoyed by a large proportion of the population may have led many people to buy better-grade goods. On the supply side, manufacturers often found it possible and profitable to concentrate their production on better-grade goods. This was profitable because their dollar margins were higher on the more expensive better-grade products than on the less expensive lower-grade ones. Uptrading originating in demand may be called, from the consumers' point of view, voluntary; uptrading originating in suppliers' decisions, involuntary.

In most cases price appreciation and uptrading occurred jointly, and the available data on the quantities of consumer goods sold, their prices, and the proportion of different qualities within the total sales are inadequate to compute the extent of uptrading. Some light can, however, be shed on this problem by studying the estimated increase in the average price of various articles in conjunction with available information concerning the price appre-

[1] In general there will also be a small residual component representing a joint effect of price appreciation and uptrading. The article, "Price Increases and Uptrading: The Change in Advertised Prices of Apparel and Housefurnishings," by G. Katona and D. H. Leavens, *The Journal of Business,* Vol. 17, October, 1944, pp. 231-243, explains the equation "Increase in average price = price appreciation + uptrading + joint effect." It also provides additional data supplementing the discussion of this chapter.

ciation of the same article; the difference between the two must be accounted for by uptrading.

Since neither the number of items sold nor the total dollar receipts are known for dresses, suits, furniture, etc., their average price could not be determined directly.[2] Therefore, a roundabout method was used to estimate the changes in the average prices of apparel and housefurnishings. The advertised retail prices in Chicago newspapers of March, 1942 and March, 1944 were surveyed, and a measure of their central tendency was computed. Naturally, this measure cannot be taken as representative of the average sales price in the same period. Advertisements do not include all the prices of goods that the advertiser has in stock, and the number of times that a price is advertised cannot be taken as proportional to the quantity actually sold at that price. But, subject to certain qualifications made below, the change in the average advertised prices may be taken as a rough approximation of the change in the average sales prices from one period to another.

This assumption is made because in each of the periods advertised prices and their frequency distribution generally indicated

the price lines that retailers mainly wanted to sell, or

the price lines that retailers considered as best attracting consumers.

No factors are known (or could be discerned in interviews with retailers) that would have caused any substantial change in advertising policy from 1942 to 1944. Nor did the study reveal any great change in the type of retail stores using newspaper advertisements or in the frequency of advertising by individual stores.

Taking the change in advertised prices as a rough indication of the change in sales prices would be inaccurate if the advertisers had decided in 1944 to play up either high-priced or low-priced items to a much greater extent than would have corresponded to the changes in the proportion of their actual sales. It was found, however, that neither of these two tendencies prevailed to the exclusion of the other (possible exceptions in certain commodity lines are mentioned below).

The procedure used has several shortcomings. A rise in average prices due to uptrading which consisted in a shift of customers from low-price to

[2] Available information is more complete for shoes than for any other article and even that is not sufficient for our purposes. The OPA announced the number of shoes sold in 1943 but not in previous years (newspaper release of April 14, 1944); the *Survey of Current Business* contains monthly data on the number of shoes produced for many years, but these cannot be translated into data on the number of shoes sold because inventory changes are not known. The *Survey of Current Business* also reports the total dollar value of retail sales for independent shoe stores and shoe chains (including their sales of handbags, socks, etc.) but not for the shoe departments of department and apparel stores (cf. Appendix III).

high-price stores, or was due entirely to voluntary uptrading within a store, is inadequately reflected in advertised prices. If lower-grade goods were available in a store but consumers preferred buying higher-grade goods in the same store or in other stores, the store probably did not stop advertising the lower-grade merchandise. Neither does the study of advertisements fully reveal the disappearance of low-cost merchandise, because it was found that most inexpensive goods that were still available in 1942 but no longer in 1944 were not advertised in 1942.

In order to estimate the extent of uptrading, the rate of price appreciation must be deducted from the rate of change in advertised prices. The BLS indexes cannot be used as a measure of price appreciation because they give inadequate consideration to quality deterioration, which, in apparel and housefurnishings, was more important than direct price increases (VII, 1). We shall, therefore, compare the increase in average prices as calculated from the advertising study with the information obtained in our interviews about the rate of price increases (both direct and indirect, see Table 13). That comparison will serve at least partially to disentangle uptrading from quality deterioration, and, to a lesser extent, voluntary from involuntary uptrading. That the various factors cannot be fully disentangled is to be regretted, since they have widely different effects on consumers. If the consumer is compelled to buy lower quality at the same price (quality deterioration), he must, over a period of time, spend more money to satisfy the same needs. If he is compelled to buy better-grade goods at higher prices (involuntary uptrading), he is deprived of his freedom of choice and cannot arrange his budget in the way he deems best; but insofar as better-grade goods are more durable, his total money outlay within a given period need not rise. Finally, if uptrading is the result of increased real income or changes in taste (voluntary uptrading), no burden on the consumer is involved.

2. *Increase in Advertised Prices of Apparel and Housefurnishings*

The pre-Easter periods in 1942 and 1944 were selected for the comparison of advertised prices. In the weeks before Easter there are rarely any clearance sales, the occurrence of which might have distorted the comparison. The 1942 period was in the month of March, the base date for the GMPR.

Every individual price in 24 selected merchandise lines advertised in the two Chicago morning papers in the 15-day periods March 15-29, 1942 and March 19-April 2, 1944 was recorded (altogether more than 3,000 advertised prices for each of the two years). From the frequency distribution of the prices of each article the first quartile, median, and third quartile prices were computed for each year. The geometric mean of the percentage increase in these three measures was considered the over-all index of increase in advertised prices of a given commodity.[3]

Table 16 and Figure 4 give a picture of the changes found in advertised prices. The commodity lines are arranged in the order of magnitude of the over-all index. Of the 24 commodity lines, luggage shows the greatest increase; in 1944 the median of advertised luggage prices was 250 per cent of the 1942 median, and our over-all index is 222. The greatest decrease was in men's coats; here the median of advertised prices was 9 per cent lower in 1944 than in 1942, and the over-all index is 83. Men's suits were the only other commodity line in which advertised prices declined. The rate of increase differs greatly from article to article. The largest increases were in luxury or semi-luxury lines, and especially in the higher price brackets of those lines.[4]

Was the increase in advertised prices greater in the lower or in the upper price ranges of a commodity line? This question was studied by computing the difference in the increase of the first- and third-quartile relatives for each commodity line:

a) The advance in advertised prices was greatest in the upper price ranges (third-quartile relatives increased much more than first-quartile relatives) in wooden furniture, luggage, handbags, blouses, women's hats, and men's suits.

b) Advertised prices changed to a similar extent in upper and lower price ranges (no more than 10 per cent difference between first- and third-quartile relatives) in women's furs, dresses, suits, and shoes, in men's furnishings and coats, and in upholstered furniture.

[3] Details of the procedure and of the composition of the commodity lines are presented in the article cited above. D. H. Leavens, Cowles Commission for Research in Economics, was responsible for the advertising survey.

[4] The following details, given for two articles in which advertised prices increased greatly, may serve to illustrate the changes that took place between 1942 and 1944.

PRICES	NUMBER OF TIMES ADVERTISED			
	Women's Blouses		Women's Handbags	
	1942	1944	1942	1944
Under $5	57	75	53	23
Between $5 and $10	8	33	3	27
Over $10	1	26	15	23

TABLE 16

CHANGES IN ADVERTISED PRICES

March, 1942 to March, 1944

COMMODITY LINE	1944 RELATIVE, 1942 = 100, OF			OVER-ALL INDEX* 1942 = 100
	First Quartile	Median	Third Quartile	
Luggage	168	250	262	222
Women's handbags	182	174	263	203
Women's blouses	152	156	209	170
Furniture, wooden, per set	109	144	299	167
Women's furs	144	157	156	152
Women's coats, fur-trimmed	146	176	136	152
Furniture, upholstered	138	152	132	140
Men's furnishings	136	151	140	139
Men's hats	154	143	117	137
Furniture, wooden, per piece	96	129	171	128
Women's gloves	143	127	116	128
Women's suits	123	132	124	126
Women's coats	131	128	109	122
Women's dresses	119	117	127	121
Women's hats	104	108	124	112
Women's shoes	116	111	104	110
Women's hosiery	114	108	95	105
Men's shoes	115	110	79	100
Men's suits	85	99	97	93
Men's coats	82	91	76	83

Note: The prices of women's lingerie (over-all index 98), children's outerwear (134), draperies (192), and linen (192) were also recorded; these lines are, however, unhomogeneous in their composition.

* Geometric mean of first-quartile, median, and third-quartile relatives.

c) The advance in advertised prices was greatest in the lower price ranges (first-quartile relatives increased much more than third-quartile relatives) in women's hosiery, gloves, and coats, and in men's hats and shoes.

3. *Indications from Interviews*

a) Extent of average price increase. Practically all respondents reported that dollar sales increased more than the number of items sold in 1942 and 1943; that is, the average price per unit went up. Furthermore, many re-

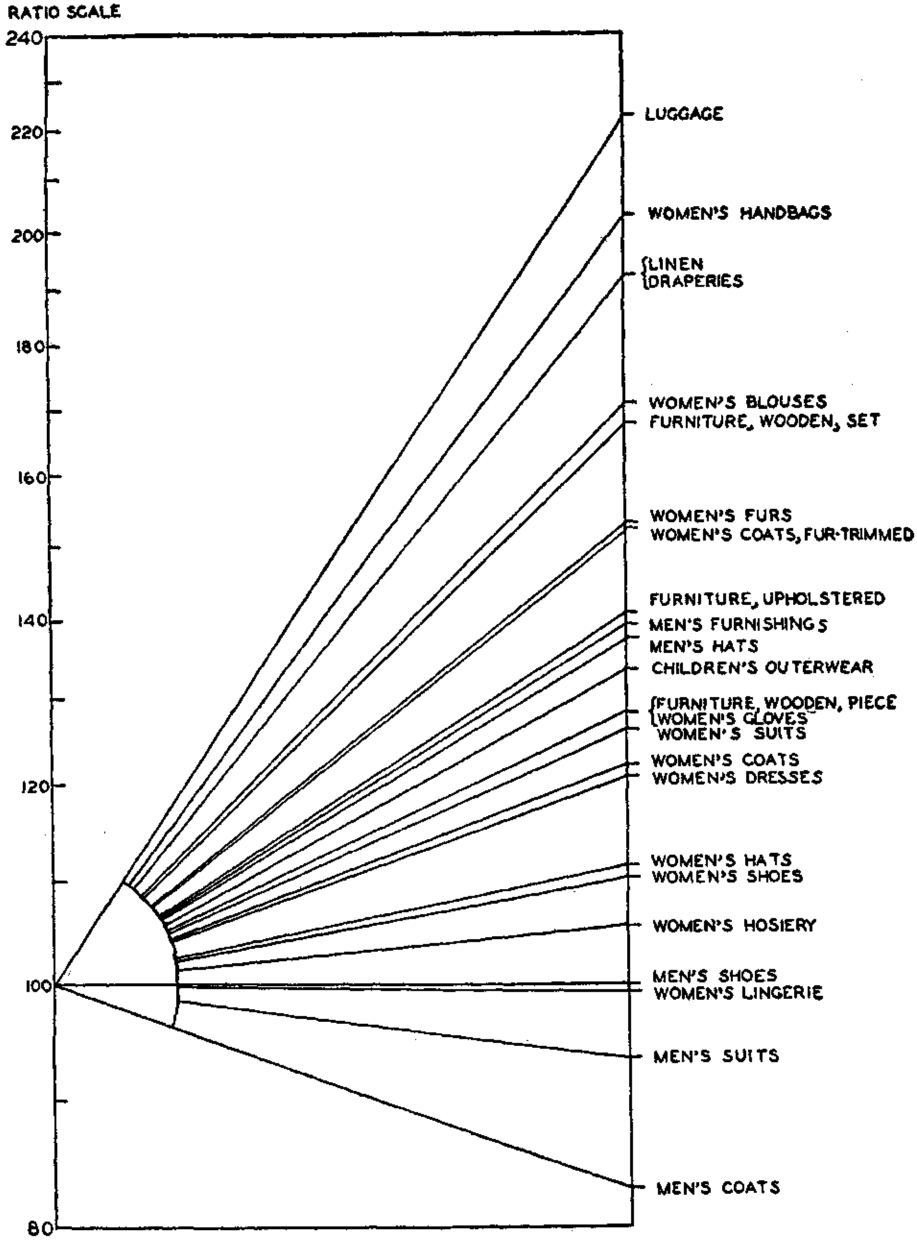

FIGURE 4. CHANGES IN ADVERTISED PRICES: MARCH, 1942 TO MARCH, 1944
(Over-all index of change: March, 1942=100)

ported that their best-selling items were in higher price brackets at the end of 1943 than early in 1942. Typical statements from retailers regarding individual lines were:

"In the spring of 1942 our best-selling dress, representing over 50 per cent of our sales, was $4.99; in the spring of 1944 our best seller was $7.99."

"In the fall of 1942, 35 per cent, and in the fall of 1943, 75 per cent, of the women's coats sold were priced over $15.99."

"Until the fall of 1942, $3.99 was the highest-priced handbag sold in this (shoe) store; in the fall of 1943, however, 50 per cent of the handbags sold were $7.50 or over."

"In the first quarter of 1942 our best-selling slip was $0.79 and the most expensive one $1; in the first quarter of 1944 the best seller was $1 and the most expensive $2.19."

A manufacturer of men's dress shirts gave the following information on changes in the composition of his output:

Retail Price of Shirt	Fall, 1942	Fall, 1943 and Spring, 1944
$2.00	8%	0%
2.25	30	17
2.50	30	23
2.95	9	28
3.50	6	4
3.95	3	28
5.00 and 10.00	12	0

A few retailers prepared a breakdown of their total sales by price groups. Some of these, which appear typical in the light of the entire available material, are presented in Table 17.

Managers of department stores, in comparing various departments, expressed the opinion that the shift to higher price lines was most pronounced in handbags, accessories, women's wear, and shoes.

In some few instances there was a shift to lower-quality goods causing a relative decline in average prices, either because the best-grade merchandise disappeared from the markets or because consumer demand for it declined. Certain types of expensive dresses, shirts, shoes, novelties, etc., were no longer made because of lack of imported fabrics, high-quality material, and highly-skilled labor; and evening gowns and formal clothes were no longer in demand because of wartime changes in customs.

b) Voluntary vs. involuntary uptrading. Voluntary uptrading may take the form of shopping in higher-price stores in preference to lower-price stores. Clear-cut evidence of consumers' shifts to higher-price stores was found only in the case of shoes, where this was the main form of uptrading after the introduction of shoe rationing in February, 1943.[5] In all other lines of apparel and housefurnishings we found indications both of shifts from

[5] Cf. Table 45. (XXI, 2) on the sales trend of stores selling only inexpensive and those selling only expensive shoes.

TABLE 17

SHIFTS TO HIGHER PRICE LINES

COMMODITY	TYPE OF STORE	PERCENTAGES SOLD IN DIFFERENT PRICE LINES					
		1941			1943		
		Least Expensive	Medium-Priced	Most Expensive	Least Expensive	Medium Priced	Most Expensive
Dresses	Department	40%	40%	20%	25%	52.5%	22.5%
Dresses	Women's wear chain	25	50	25	15	35	50
Women's coats and suits	Specialty	70	0	30	35	0	65
Men's suits	Specialty	60	25	15	35	20	45
Men's suits	Expensive specialty	18	75	7	16	59	25
Furniture	Department	20	70	10	0	70	30
Mattresses	Specialty	60	30	10	30	40	30
Handkerchiefs	Large wholesaler	15	65	20	0	55	45

Note: Each store determined itself which price lines it called cheap, medium, or expensive. The same classification was used in both periods. For example, the department store referred to in the first line of the table characterized dresses sold at \$7.95 or below as its cheapest price lines, those between \$7.95 and \$18.95 as medium, and those above \$18.95 as expensive; in women's coats and suits (third line), the dividing line was drawn at \$16.

inexpensive to expensive stores and of the absence of such shifts (cf. Chap. XXI). Clear-cut evidence of consumers', rather than sellers', preference for higher-quality merchandise within the same store was found only in the case of men's suits. In one department store, for example, the initial stock of men's suits priced under $25 was the same at the beginning of the 1943 spring season as a year earlier, but the sales of those suits had declined 30 per cent in favor of more expensive ones. For no commodity other than shoes and men's suits did we find unequivocal support for the contention made by most businessmen interviewed that uptrading originated exclusively in changes in demand.

In all other articles it is probable that both demand and supply factors contributed to uptrading. We found that in most cases voluntary and involuntary uptrading occurred jointly. Some consumers and retailers asked for better-grade merchandise, and the manufacturers, either foreseeing such trends or motivated by the higher profits obtainable on the more expensive goods, willingly obliged by changing their production schedules. As a result, many other consumers were compelled to trade up since they found an insufficient assortment of low-quality merchandise in the retail stores.

c) Disappearance of low-end lines. Information from single respondents on the disappearance of their lowest price lines cannot be generalized for the entire field because the lowest lines eliminated or still carried by any single manufacturer or retailer may or may not have been low-end merchandise. Therefore only a few examples from relatively inexpensive stores will be presented here: In the first quarter of 1942 and the third quarter of 1943 the lowest retail price of rayon dresses was $2.99 and $4.99, respectively, in several stores; cotton housedresses, $1.69 and $2.59; women's slips, $0.49 and $0.79; studio couches, $29.95 and $39.[6]

d) Uptrading in fields other than apparel and housefurnishings. Little information was obtained concerning uptrading in goods and services other than apparel and housefurnishings. The great majority of wholesale and retail grocers declared, when directly asked, that there was a trend toward better-grade goods in their business, especially in canned goods and coffee after they were rationed. The supply of fancy-grade canned goods was, however more restricted than that of medium grades and, therefore, the actual sales shift was smaller than it would have been if consumers' preference alone had determined the composition of the sales. In the first few months after coffee rationing was discontinued in the fall of 1943, the sale of low-

[6] Data on the disappearance of the lowest price lines can be found in *Business Week,* September 25, 1943, pp. 92 ff.; G. Meany and R. J. Thomas, pp. 38, 52, and 100 ff.; BLS Reply, Appendix IV; and monthly releases of the BLS on the cost of living.

priced brands increased somewhat but did not reach the same proportion as before rationing.[7]

In restaurants no evidence of a shift to better meals was discovered. Table 18 shows that from 1942 to 1943 the average check increased only moderately, certainly not to a greater extent than would have corresponded to the rate of price increases (cf. V, 2). The large gain in the dollar sales of restaurants was due primarily to an increase in the number of their customers. Our data are not sufficient to determine whether there was a shift of customers from lower-grade to better-grade restaurants.

TABLE 18

PERCENTAGE INCREASE IN RESTAURANT BUSINESS

First Half of 1943 Compared with First Half of 1942

29 Restaurants*

	AVERAGE INCREASE	RANGE OF INCREASE
Dollar Sales	30%†	8–110%
Customer count‡	23	6– 80
Average check	11	0– 24

* Outlying restaurants catering mainly to the automobile trade and reporting reduced volume are not included.

† Corresponding figure reported for Chicago restaurants by the Bureau of the Census: 31%.

‡ It is possible that restaurants exaggerated the increase in their customer count, since by doing the same in their reports to ration boards they could increase their allotments of rationed meat.

In laundries the reverse of uptrading took place, although we were told that customers frequently asked for better-grade service. Of 17 Chicago power laundries 11 eliminated their highest-priced services in 1942 and 1943 because of the shortage of skilled labor; 2 of them gave the further explanation that "wet wash," the lowest-priced service, was the most profitable one. When high-grade services were eliminated, the receipts of one laundry declined by 35 per cent, those of the others, by 10 to 20 per cent. The elimination of low-priced services is structurally impossible in laundries, since these constitute basic procedures for finishing.

Jewelers reported uptrading in watches and costume jewelry, but said that among precious jewels the sales of articles priced between $50 and $200 had increased the most, while the sales of more expensive jewels had remained unchanged or decreased.

In flowers, however—another uncontrolled commodity—uptrading was said to have been substantial. Florists generally agreed that greenhouses had

[7] See also *Business Week*, May 27, 1944, p. 88.

shifted their flower output to more expensive flowers, yielding relatively larger profits. This was done when volume was cut by labor shortages or by the partial conversion of greenhouse production to vegetables. The reduction in the supply of cheap cut flowers drove many flower peddlers out of business.

4. *Extent of Uptrading*

The scattered information obtained in interviews confirms the findings of the advertising survey inasmuch as both reveal a substantial increase in the average price of most commodities. With respect to shoes and men's suits and coats the two surveys differ. Retailers reported increases in the average selling prices of these commodities, which were not indicated in the advertisements. This divergence is not surprising, since uptrading in these commodities appears to have been primarily voluntary and would therefore hardly be reflected in advertising.

A comparison of the rate of increase in the average prices of various articles as derived from the advertising survey with the extent of quality deterioration as estimated in Chapter VII reveals important points of correspondence. Both the price appreciation and the increase in advertised prices were larger in women's wear than in men's wear, and largest in luggage, handbags, furs, blouses, and furniture.

On the other hand, in view of the information from interviews that the quality of women's dresses deteriorated substantially and that their average price increased greatly, it is surprising to find that advertised dress prices rose only moderately (over-all index 121, as against 170 in blouses). Why women's dresses rank so low in the list of increased advertised prices we do not know.[8]

In view of the finding that the quality of low-priced women's garments deteriorated more than that of high-priced garments (VII, 1 and 3), one might have expected a larger increase in the advertised price in the lower than in the upper price brackets of women's apparel. That this was not found may be explained primarily by the fact that advertisements failed to reveal the disappearance of the lowest-priced merchandise. In addition, there appears to have been a great deal of uptrading in the higher price brackets of women's garments.

[8] An advertising executive suggested the explanation that in the case of such essential items as dresses retailers might have tried to attract customers with lower prices, whereas in certain luxury items, higher prices might have been considered more effective. If it were true that such advertising policies prevailed in 1944 but not in 1942, the change in advertised prices would not be representative of the change in sales prices for the articles concerned (cf. IX, 1 above).

Is the increase in the average price of most apparel and housefurnishings articles to be attributed primarily to uptrading or to price appreciation? In other words, to the shift to better-grade goods or to the purchase of unchanged qualities at increased prices? For a few commodity lines the data are insufficient to answer that question. In women's dresses, for example, the advertising data seem to exclude uptrading since they show a smaller rise from 1942 to 1944 than the estimated rate of quality deterioration, but these data may not be representative. In several other commodity lines, however, the increase in the average price exceeded by far the rate of direct and indirect price increases. Thus in luggage and handbags advertised prices rose more than 100 per cent, while most estimates of price appreciation were between 30 and 50 per cent (cf. Table 13); in men's furnishings advertised prices rose 39 per cent, while the median of estimated price appreciation was 17 per cent; similar differences are found in all kinds of furniture and in men's hats. In all these articles uptrading must be assumed to have been substantial. In men's suits and coats, we found some indication of voluntary uptrading, none of involuntary uptrading or quality deterioration. In shoes the evidence shows no involuntary uptrading, but both quality deterioration and voluntary uptrading.

Note: Information from Other Sources on Uptrading

Meany-Thomas estimate the downward bias in the BLS clothing and housefurnishings indexes resulting from the failure to consider uptrading at 12 per cent (p. 39). Murray-Thomas (pp. 31 ff.), while accepting this estimate, assert that: a) Voluntary uptrading is a "myth" because there was no increase in real earnings between 1941 and 1944, b) "Trading-up does *not ordinarily* mean a shift toward the purchase of higher *quality* goods. Indeed it very rarely means such a shift. The shift is from a lower to a higher *price* line." In the second argument the term "uptrading" is not used in the same sense as we have used it; translated into our terms Murray-Thomas seem to assert that even involuntary uptrading was very rare, and that, as a rule, there was only "price appreciation."

The conclusions of the Mitchell Report are different from those of Murray-Thomas with respect to voluntary but similar with respect to involuntary uptrading. It maintains that "on the average, American wage earners and low salaried workers have improved their financial position notably since 1941" (p. 7). Since voluntary uptrading tends to accompany increased income,[9] the report states concerning clothing that "a large part of all trading up during 1941-43 was voluntary" (p. B-18), and concerning housefurnishings, that "a good deal of the uptrading occurring is voluntary" (p. C-9). Having estimated that both voluntary uptrading and quality deterioration were considerable,

[9] On the basis of the data collected by the BLS in its 1935-36 and 1941 studies of consumer expenditures, the Mitchell Report presents extensive calculations giving a "general idea of the way in which shifts from lower to higher incomes would affect average expenditures if prices remained unchanged" (p. C-9).

the Mitchell Report concludes that, "it seems highly probable that forced quality uptrading is very small, on the whole" (p. II-27).

Although our studies did provide evidence of some voluntary uptrading, we found that in most instances uptrading originated in both supply and demand factors (cf. IX, 3, b) and that the entire uptrading effect, which was at least partly involuntary, was considerable. Our findings concerning the total rate of uptrading are confirmed by the fact that the increase in the BLS clothing index is greatly exceeded by the rise in other index calculations which take uptrading more fully into account but which, like the BLS index, neglect quality deterioration.[10]

[10] Cf. the Bureau of Agricultural Economics Index of Prices Paid by Farmers (Mitchell Report, p. B-1 ff.) and the CIO Clothing Price Survey (Murray-Thomas, p. 77), which report the prices of the best-selling lines at different times; the "WPB Index" derived from newspaper advertising; and the "American Retail Federation Index" (the last two are not published but are mentioned briefly in the Mitchell Report, pp. B-5 ff.).

CHAPTER X

Keeping Prices Stable

Some commodity lines showed a remarkable stability of prices and qualities, either in the entire period surveyed or in parts of it. It is important to study the conditions under which businessmen avoided both direct price increases and quality deterioration. Price stability is here understood in terms of list prices and available qualities; we shall not consider price stability as having been impaired by the reduction or elimination of markdowns, uptrading, or obligatory or unavoidable changes in merchandise resulting from WPB orders or shortages of materials.

1. In Apparel and Housefurnishings

In the fall and winter of 1943 managers of department stores and of apparel stores carrying a great variety of merchandise were asked to name "the most important goods now bought and sold in which both price and quality are substantially the same as at the time of the GMPR." Of 25 firms interviewed 23 mentioned men's suits, and 13 said that men's suits was the only commodity line in which unchanged prices and qualities generally prevailed. In all other lines, according to these respondents, consumers had suffered some losses, although certain individual items or the products of certain manufacturers had remained stable. A few firms said that men's hats, piece goods, china and glassware, linoleum and rugs, and kitchenware had also remained substantially stable in price and quality. This information was generally corroborated by the manufactures producing these articles and by specialty stores selling them exclusively.[1]

Men's suits. Only very few manufacturers and retailers voiced any complaint about the quality of men's suits (cf. Table 19), and only one firm in our sample estimated the extent of quality deterioration at more than 5 per cent. Some slight complaints were made about workmanship, the substitution of domestic cloth for better imported cloth at unchanged prices, and primarily about the quality of separate trousers and jackets. The prices of fabrics and of suits rose substantially until the spring of 1942—both increases

[1] Cf. Table 13 for the range of estimates of direct and indirect price increases in these commodity lines.

TABLE 19

Prices and Qualities of Men's Suits

Summer, 1942, to Fall or Winter, 1943

Kind of Firm	Number of Firms Saying Prices Generally Stable and	
	Quality Unchanged	Quality Poorer
Manufacturers	10	2
Specialty stores	16	4
Department stores	13	2

were estimated by a few respondents at 25 to 40 per cent from 1939 to 1942[2]—but did not change after certain adjustments were made in July, 1942, when a special regulation (MPR 177) was introduced for the men's wear industry.

The following composite picture was obtained from case studies with three suit manufacturers in the fall of 1943: Price stability in this industry was general but not universal. Some mills kept fabric prices and qualities stable while some did not; the average price increase from the GMPR until the fall of 1943, effected by selling new types of cloths, may have been 5 per cent. Most suit manufacturers absorbed this slight price increase. Only a few, especially manufacturers of cheaper suits who found it difficult to switch to better-grade merchandise, introduced many new lines and used the similar-commodities clause to increase their prices by a few per cent. Compliance by retail stores was satisfactory, although "every businessman in the trade knows of a few stores that have kept the same prices but offer fewer 'good buys' than before."

Men's hats. According to one-half of the observations, prices and qualities of men's hats remained unchanged from the GMPR to the summer of 1943, and several men's furnishings stores referred to hats as their only article without price increases. Some merchants, however, said that quality deterioration began in the fall of 1943.

Piece goods, linen. According to several retailers quality deterioration was "hardly possible" in such staples as piece goods, sheets, and table linen. This type of assertion was, however, more frequent in spring than in the fall of 1943, when complaints about the quality of cotton goods and especially towels and sheets increased in number.

China and glassware. According to 10 out of 17 observations, prices and qualities of china and glassware remained unchanged, and only in two instances was it estimated that the quality of these articles had declined more than 5 per cent. "The OPA has stabilized the prices. Yes sir, they actually did that in china and glassware," said the manager of that department in a large store. Some retailers did voice complaints concerning the products of certain individual manufacturers.

Floor coverings. The relatively few wholesalers and retailers of linoleum interviewed asserted unanimously that prices and qualities had not changed. In domestic rugs the substitution of products containing cotton or rayon for all-wool rugs made comparison difficult. Yet those substitute goods already on the market at the time of the GMPR were said to have remained unchanged in price and quality for more than a year. "I

[2] Cf. Table 30, XVI, 2.

didn't believe last year that prices and qualities would hold, but they did," said a large dealer.

Hardware and kitchenware. Price and quality maintenance was reported by several department stores and specialty stores to have been satisfactory in hardware and kitchenware. Detailed questioning brought forth comments of "slight" price increases or "a little" quality deterioration. Although consumers were said to have been buying irreplaceable items regardless of price, it was asserted that many manufacturers and retailers complied fully with the regulations. (Some dealers mentioned, however, that they knew of black markets in metal ware.)

The commodities discussed thus far are those whose prices and qualities were said to have been essentially the same at the end of 1943 as in March, 1942. In the other articles of apparel and housefurnishings that advanced in price or deteriorated in quality from 1942 to 1944 the process of price appreciation was not continuous. There were *certain periods* when price stability was more general and more pronounced in all the commodities studied than in other periods. We shall study the causes for the different periods of price control in Chapter XVI but must refer here briefly to those periods in which business procedures resulting in price stability were frequent.

a) The first few months after the GMPR. Practically all sellers of apparel and housefurnishings reported that the GMPR put an end to the rapid trend of price advances prevailing during the six months preceding its issuance. They said that from April to October, 1942, their prices had remained generally stable or even receded below ceilings. In the last quarter of 1942 certain manufacturers made some use of formula ceilings to raise prices or of the similar-commodities clause to lower qualities; yet, in the opinion of most retailers, neither direct or indirect price increases were substantial until January, 1943. References to substantial quality deterioration became much more frequent in January and February, 1943, but even at that time over 25 per cent of our sample said that prices and qualities had remained stable (Table 20).

b) Second half of 1943. In interviews conducted between September and December, 1943, retailers of women's wear and furniture, who described a substantial rate of quality deterioration in their merchandise since the GMPR (cf. VII, 1), were asked whether the deterioration had been continuous or whether it had been more pronounced in certain periods than in others. Of 30 retailers who were in a position to compare the qualities of merchandise delivered at different periods, 21 said that it had been most pronounced in the first four or five months of 1943 and that in the summer and fall of 1943 qualities had remained substantially stable or deteriorated at a much smaller rate; 6, that quality had deteriorated at the same rate in all periods; and 3, that they were unable to answer the question. Quality lowering in the fall of 1943 was said to have

TABLE 20

DIRECT AND INDIRECT PRICE INCREASES DURING THE FIRST FEW MONTHS AFTER GMPR

Estimates by Retailers of Apparel and Housefurnishings

INTERVIEWS MADE IN	NUMBER OF FIRMS WITH			
	No Increases	Small Increases	Some Increases (extent undetermined)	Substantial Increases
Nov.-Dec., 1942 (58 firms)	18	24	8	8
Jan.-Feb., 1943 (53 firms)	14	12	4	23

The retailers were asked to discuss the over-all picture concerning the goods they carried.

"No increase" includes such statements as: "Prices and qualities are the same"; "Quality deterioration consisted exclusively of substitution of materials as ordered by WPB"; "With the exception of a few insignificant items we have noticed no change in prices or lowering of quality"; "The customer may now get 1 to 2 per cent less for his money than before the GMPR."

"Small increases" includes estimates of price increases and quality deterioration between 3 and 10 per cent; "substantial increases," estimates over 10 per cent. "Undetermined" represents those cases in which merchants said that quality had deteriorated but would not estimate how much.

There was no substantial difference in the information received from different types of stores. Men's apparel stores reported price stability somewhat more frequently than others, but the difference was small because they included men's furnishings as well as suits in their estimates.

The survey was ended February 15, 1943, and taken up again in July, 1943, when estimates of price changes were asked for specific articles (cf. Table 13).

been most pronounced in winter wear in which the merchandise received was compared with that of the previous year. It was said that beginning with the summer of 1943 some merchandise even improved in quality.

2. *In Food Products*

Reports of greater price stability during the second half of 1943 in apparel and housefurnishings found their parallel in observations about food prices. To be sure, the break in the rising curve of the food price index in May, 1943 (cf. Fig. 2, Ch. IV), was caused mainly by seasonal factors and by the "roll-back" of meat and butter prices through the payment of subsidies; yet new price regulations and better compliance also played a substantial role in stabilizing food prices.

Practically the entire wholesale and retail food trade was placed on a new basis when markup regulations and dollar-and-cent retail ceilings (cf. XII, 2) superseded earlier complex provisions (in May, 1943 for meat and nonperishable groceries, in the fall of 1943 for produce). According to most wholesale and retail grocers interviewed, the prices of canned and dry groceries remained substantially stable after May, 1943. There were a few items, especially canned fruit, the prices of which were raised by the OPA, and there were instances of lack of compliance, but compared to the situation prevailing in the preceding 12 months (cf. VI, 2), the improvement was said to have been very considerable. The information received from retail grocers in July, 1943 can be summarized by quoting the following statements: "Ninety per cent of the grocers comply 90 per cent, and even those who do not comply are now restrained in their evasions"; "For the first time in two years we now pay unchanged prices when reordering merchandise; consequently we are relieved from refiguring our own prices." Of 33 retailers interviewed at that time only four either admitted selling above ceilings or unknowingly indicated discrepancies between selling prices and ceilings.[3]

Ceiling prices for meat were reduced approximately 10 per cent in June, 1943. This reduction was brought about by the payment of subsidies to enable packers to reduce their prices to that extent.[4] In meat, however, in contrast to canned and dry groceries, price stability was not achieved in the summer of 1943 by the dollar-and-cent retail ceilings: compliance began to improve only toward the end of the year when meat supplies rose considerably and acute shortages disappeared (cf. VI, 3). Further temporary progress was made toward price stability in meat when control was extended to livestock. For hogs both floor and ceiling prices were established; in the first half of 1944, when hog slaughtering reached an all-time high, price fluctuations were kept within those limits (except that the prices of heavy hogs, which were not included in the government's price-support program, declined). Most wholesale and retail pork prices remained at ceiling even when hogs were bought at floor prices; only lard, certain cuts, and variety and canned meats (pork) were sold substantially below ceilings. Price control on live cattle was introduced in January, 1944, by imposing penalties in the form of reduced subsidy payments on those slaughterers who paid, on the average, more or less for cattle than the maximum and minimum prices set by a directive of the Office of

[3] Two of these were very small independent retailers, and two were large high-price grocers who traditionally offered a variety of services for which they did not find compensation in the new markups. One of these declared, "You can't expect us to sell at the prices they set. Many goods we give only to our regular customers because strangers may be spotters. But we stick 100 per cent to the rationing regulations."

Some grocers also said that in the first few weeks after the issuance of the new regulations they did not comply with those ceilings which were lower than the previous ones, because "the government has no right to reduce prices."

[4] Subsidies were used at the same time to roll back butter prices and to increase the producers' receipts without changing retail prices for several other agricultural and a few nonagricultural goods.

Economic Stabilization. Although in 1943 most packers interviewed by us had advocated price control of live cattle, in 1944 they were not fully satisfied with the new system. They complained that they had to purchase high-grade cattle, for which demand was largest, at prices above those set in the directive, so that beef slaughtering remained unremunerative. Nevertheless, there was less disturbance in the allocation of meat than during 1942 and 1943, and compliance with ceilings was said to have improved. This was attributed by the respondents more to the satisfactory rate of supplies than to the prevailing regulations.

In April, 1943, restaurants were requested by the OPA to maintain their prices of the week of April 4-10, 1943, as their maximum prices; this was made compulsory (in Chicago) in November, 1943. On the whole, the upward trend in restaurant prices appears to have been arrested in the summer of 1943, although compliance with the government's request was far from universal. The comparative price stability may have been due partly to the stabilization of food prices and partly to economies in restaurant operation. In a survey in September, 1943, 20 out of 30 restaurants said that their prices were exactly the same as in April; 8, that they were serving meals in the same "price ranges" as in April but could not obey literally since it was "reasonable" to increase certain prices when costs went up; and 2, that their prices were higher than in April. Since the survey was conducted at a time when restaurants were fighting against the introduction of compulsory price control, which they called "unnecessary," the information may have been biased.

3. *In Drugs and Cosmetics*

When retail drug stores, and a few wholesale druggists, were interviewed in the fall of 1943 concerning the price trends of toilet articles and drugs (such important departments as soda fountains, candy, tobacco, liquor, and magazines were not included in our survey of druggists) the first statement usually made was that their merchandise had changed neither in price nor in quality. After further questioning, many druggists mentioned price reductions, especially in vitamins and sulpha drugs. In some drug stores certain items were named in which prices had increased or quality deteriorated, but only a small proportion of the respondents said that direct or indirect price increases had been either frequent or considerable (Table 21).

Price maintenance in drugs was usually attributed to "fair-trade prices." The majority of nationally advertised items are sold under resale-price agreements between manufacturers and retailers whereby the manufacturer sets minimum retail prices for his products. "The GMPR did not change anything; the prices are set by the Fair Trade Act," we were frequently told. Most druggists said that their prices had been frozen by the GMPR at the level of fair-trade prices. There were a few exceptions, however.

TABLE 21

PRICE AND QUALITY MAINTENANCE IN COSMETICS AND PHARMACEUTICAL PRODUCTS

29 Drug Stores; from GMPR to Fall, 1943

PRICE	NO. OF FIRMS	QUALITY	NO. OF FIRMS
Selling prices substantially stable	20	Quality generally unchanged	9
Frequent increases in selling prices	3	Quality of some items lower	9
Trend mixed*	6	Quality of many items lower	4
		No information on quality	7
	29		29

* Prices of advertised brands stable, those of certain unknown brands and of sundry articles increased. Price reductions in a few articles are disregarded.

Two drug stores said that before the introduction of price control they had sold certain articles above fair-trade prices, and three that they had sold many articles below fair-trade prices; under the GMPR they maintained their base-period prices. It was asserted that in most stores prices remained stable even in scarce articles (e.g., razors, bobby-pins), although a few druggists said that certain stores sold such items at "black market prices."

Direct price increases were mentioned exclusively in connection with unbranded products, new products, or "sundries," while indirect price increases were said to have occurred even in branded articles. Several retailers sold a somewhat larger proportion of "off-brands" in 1943 than before because of shortages in nationally advertised items. According to certain druggists price maintenance was better in packaged drugs and toiletries than in their prescription department where the increase in the wholesale prices of certain basic drugs and chemicals was transmitted to the consumers. The increase in the wholesale prices of basic drugs[5] was not considered by the OPA as a sufficient reason to permit manufacturers to raise the prices of their packaged products because material costs usually represent only a small proportion of selling prices.

[5] From 1939 to 1942 the wholesale prices of "drug preparations and medical sundries" rose 71.1 per cent; the retail prices, however, only 5.3 per cent according to *Survey of Current Business*, Vol. 23, May, 1943, pp. 17 f. The two indexes do not contain identical products.

CHAPTER XI

Comparison of Pricing Procedures in Different Fields

The preceding six chapters discussed the major types of pricing actions adopted by the businessmen interviewed. To compare the procedures in the various commodity lines (meat, women's garments, etc.), and business levels (manufacturers, wholesalers, and retailers), and to facilitate the later discussion of their causes, the frequency of price maintenance and of direct and indirect price increases in each field will be presented here. We shall rank the commodity lines and business levels according to the percentage of merchants in each who adopted practices tending to bring about:

A. Price stability; according to information obtained in interviews the merchants' pricing actions contributed to "holding the line."

B. Indirect price increases; merchants described indirect increases in selling prices, or interviews indicated lack of compliance with the spirit of the price regulations.

C. Direct price increases; merchants admitted evading the regulations, or interviews indicated lack of compliance with the letter of the law, or both.

In cases of direct price increases (category C) it was often difficult to determine whether or not indirect price increases had also occurred. Therefore we do not separate direct price increases that occurred alone from those that occurred concurrently with indirect ones; both are included under C. Only actions that tended to bring about indirect but no direct price increases are included under B. Those pricing practices were classified that occurred in the period "shortly" before the interview (generally within the preceding three months).

For the purpose of this classification we considered only those pricing procedures that affected the list prices of given qualities (uptrading and changes in markdowns were therefore disregarded), with the exception of occasional legal price increases. Each interview was considered separately; a few firms that were reinterviewed during 1943 and 1944 are therefore included more than once. The sample represented in Table 22 is smaller than our total sample because only interviews giving a clear picture of the pricing procedures were tabulated.[1]

[1] The surveys of the three uncontrolled commodities studied (jewels, flowers, and restaurant meals before April, 1943) were not included in the tabulation, since compliance was no criterion in these fields.

Most of the information upon which the classifications were based was found in the merchants' answers to questions about price changes, quality changes and compliance; these answers were considered in conjunction with the entire content of the interviews.

The table represents only one aspect of the information presented in the preceding chapters inasmuch as it disregards several important points previously considered: the extent of the price increases; the size and importance of the respondent's firm; the firm's "side lines" (e.g., accessories such as handbags, umbrellas, etc.), and the periods in which the pricing actions occurred.[2]

The tabulations were broken down into two groups: In the first, we differentiated among manufacturers, wholesalers, and retailers, of food and nonfood products, respectively; in the second, among the major commodity lines, including all business levels in each line. Both groupings are presented in Table 22, the first also in Fig. 5.

Substantially the same number of firms of the total sample fell into each of the three categories. In the food trades, however, more than half the respondents increased their prices directly[3] and only a small percentage indirectly. In the nonfood trades, on the other hand, indirect price increases were most frequent; manufacturers of nonfoods indicated relatively few direct price increases.

The relative degree of compliance with price control among businessmen in foods and nonfoods cannot be inferred from the fact that a slightly larger percentage of the former than of the latter is classified as having maintained stable prices (A). Since direct price increases were more reluctantly reported than indirect price increases and were most frequent in foods, it is possible that certain food merchants were classified under A although they raised their prices; therefore, the frequency of A may be overrepresented for the food trade as compared to the nonfood trade.

Among the groups listed in Table 22 the highest percentage of direct price increases was found among liquor dealers (78 per cent). A more detailed grouping (not given in the table) shows direct price increases reported by 88 per cent of the produce wholesalers, 57 per cent of the retail grocers, and 48 per cent of the "general line" wholesale grocers (all included under "groceries and produce"). The total frequency of direct

[2] This last omission may distort the picture of certain fields; e. g., the pricing procedures of grocers differed greatly before and after May, 1943 (cf. VI, 2 and X, 2, respectively).

[3] Very few food dealers classified under C resorted to both direct and indirect price increases.

TABLE 22

Frequency of Types of Pricing Procedures

Surveys between October, 1942, and May, 1944

Kind of Business	Sample (Number of Interviews)	Per Cent of Sample with Procedure Contributing to		
		Price Stability (A)	Indirect Price Increases (B)	Direct Price Increases (C)
Total Sample	461	29%	37%	34%
First Grouping:				
Nonfood retailers	208	25	46	29
Nonfood wholesalers	32	22	47	31
Nonfood manufacturers	64	39	45	16
Food retailers	52	36	10	54
Food processors and wholesalers	75	33	12	55
Laundries and cleaners	30	23	47	30
	461			
Second Grouping:				
Men's wear	47	53	23	24
Women's wear	63	13	60	27
Shoes and gloves	35	37	54	9
Apparel, general	46	13	67	20
Furniture and housefurnishings	49	22	49	29
Drugs	35	54	29	17
Meat	43	28	30	42
Groceries and produce	84	38	1	61
Liquor	23	9	13	78
Laundry and cleaners	30	23	47	30
	455*			

* Six stationery stores not included in second grouping.

First grouping. Nonfood includes apparel, furniture and housefurnishings, and drugs. Food includes groceries, produce, meat, and liquor.

Second grouping: "Apparel, general" includes wholesalers and retailers of apparel who did not deal predominantly in either men's wear, women's wear, or shoes. Department stores are included in this category. In all these cases women's wear played a substantial role.

"Women's wear" includes 30 women's specialty stores, 18 manufacturers of women's clothing and underwear, 8 manufacturers and retailers of women's hats, and 7 fur wholesalers and retailers.

"Shoes and gloves" includes 30 shoe manufacturers, wholesalers, and retailers, and 5 manufacturers of leather gloves.

"Furniture and housefurnishings" includes 14 furniture manufacturers, 17 retail furniture, 10 retail housefurnishings, 5 retail hardware, and 3 retail luggage stores.

Information concerning *dates of pricing procedures* for the two fields in which the date played a substantial role:

Groceries and produce—38 firms before and 46 after May, 1943.

Meat—12 firms in 1942, 24 in the first 9 months of 1943, and 7 in the last quarter of 1943.

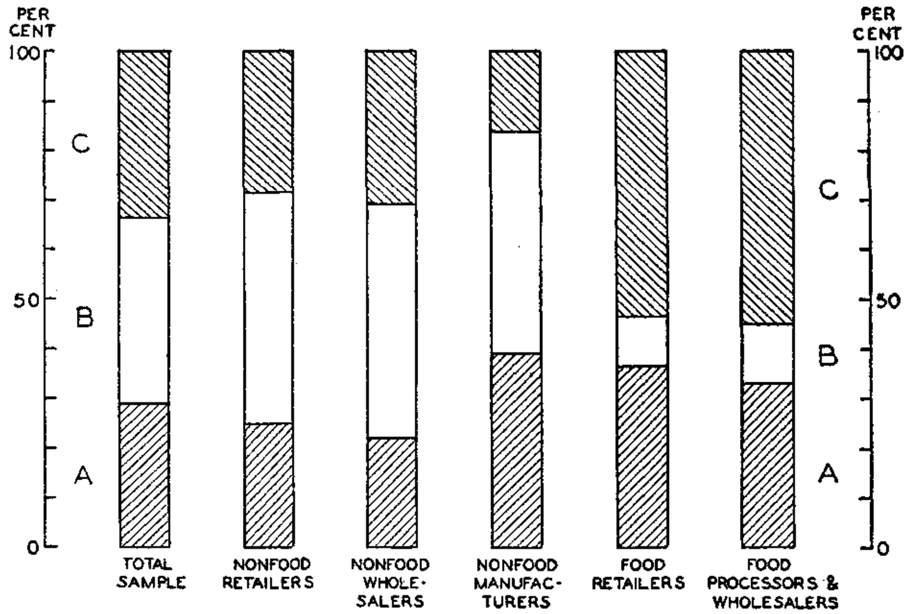

FIGURE 5. FREQUENCY OF DIFFERENT PRICING PROCEDURES
(in per cent of samples)

Procedure A: Keeping prices stable B: Raising prices indirectly
C: Raising prices directly.

and indirect price increases is higher in meat (72 per cent) than in groceries and produce (62 per cent).

The highest percentage of businessmen reporting price stability was found in drugs (54 per cent) and in men's wear (53 per cent). Men's wear includes both suits and furnishings. The sample of retailers could not be separated as to these two lines; among the manufacturers of suits, however, over 80 per cent of our small sample fell into category A. The smallest percentage of direct price increases was found among shoe merchants. Among the groups included under furniture and housefurnishings (wooden and upholstered furniture, housefurnishings, etc.), there were no substantial differences in the percentages classified in each category. In furniture and housefurnishings retailers indicated a somewhat greater tendency toward price stability than manufacturers, while in apparel the opposite was true.

In conclusion it appears that pricing procedures in 1942 and 1943 differed for different articles and also for different firms handling the same article. The differences among the various business fields and firms would loom even larger if in addition to the frequency of the types of procedure, the extent of price increases were also taken into account. We have thus far not considered the causes for these differences. This will be the task of Part Three.

PART THREE

FACTORS FAVORING OR IMPEDING PRICE STABILITY

Why did different merchants adopt different pricing procedures under price control? Why did certain prices go up more than others? Why did prices not go up any more or any less than they actually did? It was, of course, not possible to answer these questions completely. Yet a systematic study of the factors that favored and the factors that impeded the success of price control sheds light on the causes of the great differences in pricing procedures in 1942 and 1943.

Those underlying conditions that affected all kinds of consumer goods in the same manner were not considered. We took as given the extent of America's war effort and of government expenditures with the resulting increase in consumers' incomes and limitation of the aggregate output of civilian goods; we took as given the productive capacity and the ingenuity of American industry and agriculture as the result of which the total output of the civilian sector of our economy increased despite some shortages in manpower and materials; finally, we took as given the tax legislation, the wage legislation, and the delays in enacting price control legislation. There can be no doubt that, other things being equal, with larger war expenditures, smaller industrial capacity, or less favorable farming weather the pressure toward price increases would have been greater; or that with higher taxes or earlier and more complete wage freezing and price control the pressure would have been smaller. The general conditions under which both OPA and business operated cannot, however, explain the differences in the price movements of different commodities.

Each chapter here deals with the influence of one of the following variables on the success of price control: The type of regulation issued, the presence or absence of rationing, the market structure, wartime changes in supply-demand conditions and in profits, periodic changes in prevailing expectations and "atmosphere," and the attitudes of individual businessmen. The evidence as to whether each of these variables favored or impeded price stability was derived partly from findings presented in Part Two, and partly from specific investigations.

While none of the variables could alone have accounted for the success or failure of price control, each played a certain role. A multitude of factors affected business decisions at the same time and thus made price control a very complex task. In certain cases the prevalence of acute shortages and the existing market structure exerted the strongest influence on the choice of pricing actions. In most cases, however, the explanation for the differences in pricing procedures in different commodities and at different times was to be found more in the expectations and attitudes of businessmen and consumers than in any objective factor. The conviction that the wartime price level would inevitably rise tended to increase demand and promote price increases; the conviction that the line could and would be held tended to curtail demand and promote price stability. In arousing the one or the other basic attitude toward inflation, the actions and announcements of the price control agency loomed very large.

CHAPTER XII

TYPE OF REGULATION

Can the greater or lesser price stability of different commodities be explained by differences in the government regulations applied to them? We shall compare first the three major types of price regulations—those providing base-date, formula, and dollar-and-cent ceilings—and shall find that each type was relatively satisfactory in certain fields and relatively unsatisfactory in others, but that dollar-and-cent ceilings ranked very high and certain formula ceilings very low as anti-inflationary weapons. We shall then contrast the effects of all-encompassing and strictly enforced regulations with those of regulations that covered only certain pricing situations or were inadequately enforced, and shall find that the former promoted price stability more than the latter.

One type of price control, the "price freeze," provides base-date ceilings; maximum prices of individual sellers are fixed at their level in a certain base period. The main example of this type of control is the GMPR; certain other regulations, especially those applied to manufacturers of men's clothing and to restaurants, used the same principle.

In the second type of price control, "formula ceilings," formulas are fixed according to which businessman must calculate the margins between costs (or buying prices) and selling prices. This type of control has many forms, all of which were used at some time or other in different fields. It may be based on a margin (markup) added to individual direct costs of manufacturers (cost-plus formulas; costs usually include only expenses for materials and labor, while margins cover overhead and profits) or on a margin added to suppliers' ceilings (in which case the margin covers labor costs). The margin itself may be the one an individual businessman customarily used, or used at a certain period ("historical margin"), or it may be fixed uniformly for all businessmen in a certain field. In either case it may be set as a percentage of costs or selling prices, or in dollars and cents. Formulas using individual costs or historical margins are similar to the price freeze in that neither results in uniform prices for different sellers. Formulas based on suppliers' ceilings and dollar-and-cent margins, on the other hand, result in prices common to a whole group of sellers. In this respect they are similar to the third type of control, dollar-and-cent ceilings.

"Dollar-and-cent ceilings" are maximum prices set uniformly for different sellers of the same merchandise. This "flat pricing" may be established nationally or separately for each community, and ceilings may differ for different groups of sellers.

It was frequently argued that base-date ceilings were nothing more than a stopgap measure intended to arrest price increases until the authorities could prepare suitable regulations for individual commodities. Yet, in the spring of 1944, two years after its introduction, the GMPR was in all probability still the most important of all price regulations.[1] Likewise, the belief of some observers that formula ceilings would soon be replaced by dollar-and-cent ceilings proved to be incorrect; in certain fields the formula ceilings constituted the final solution of price control.

Neither the theory of price control nor its operation in 1942 and 1943 can be understood without comparing the three solutions developed for the same problem. The price regulations will be judged both from the viewpoint of their effects on price stability (Were they conducive to price increases? Were they easy or difficult to apply and to enforce?) and from the viewpoint of their effects on business (Were they equally fair to different businessmen? Did they impose undue hardships and inconveniences?).

Before summarizing our findings about the three types of price control from these points of view, we shall describe their merits and drawbacks in the order of the above criteria. Two great drawbacks will not be mentioned since they were shared equally by all three: None of them was found to have been effective in arresting either quality deterioration or involuntary uptrading.

1. *The Price Freeze*

Among the fields surveyed, the GMPR remained in force during the entire period of our study for retailers and wholesalers of apparel and housefurnishings—with a few exceptions among which women's outerwear, certain seasonal goods, and hosiery are the most important—for manufacturers of shoes, gloves, men's furnishings, women's hats, and paper, and for cleaners. During that same time it also applied for considerable periods to certain fields in which it was eventually supplanted by other regulations; among these we shall consider meat, groceries, laundries and liquor.

[1] The relative importance of the various types of price regulations at various times has never been gauged; to measure it, for example, by the net sales value covered, would require a rather complex study.

a) Merits and drawbacks

Interviews revealed the following favorable features of base-date ceilings:

(1) Their introduction may easily create the conviction on the part of businessmen and consumers alike that a new era of price stability has started, supplanting a preceding period of rising prices.

(2) They have the least tendency, compared with other price control methods, to restrain merchants from selling below ceilings. Base-date ceilings, being different for each seller, tended less than others to be considered fixed prices rather than maximum prices.

(3) They can be applied to unstandardized goods and therefore do not necessitate standardizing the goods produced.

(4) They are easy to understand and require little additional work on the part of businessmen. Traditional price differences between different producers and different distributors are maintained.

The price freeze had several drawbacks; some of them, which we shall discuss first, were revealed right after its institution, others only much later:

(1) Base-date ceilings perpetuate chance differences in prices prevailing during the base period. A businessman who happened to have raised his prices before the base date was benefited as against one who had not. Rarely did merchants complain that they had been caught with all their prices too low,[2] but frequently they complained about those of a few isolated articles. In this respect many businessmen condemned the practice of the OPA which they described as granting relief only if the profits of the firm and not the profits made on specific items justified price increases. As a result items with relatively low ceiling prices were often discontinued.

(2) They may cause an "initial squeeze." If the same base date is used for both manufacturers and distributors, retail prices may be frozen at a level based on relatively old purchases, which does not take into account more recent increases in manufacturers' prices. Therefore, in replenishing their stocks after the freeze, retailers may have to pay more than the usual percentage of their frozen selling prices. The OPA tried to overcome inequities thus caused by the GMPR by granting relief to retailers and by compelling certain manufacturers to roll back their prices.

In our surveys the specific question as to whether the retailer had suffered from a squeeze at the time of the general freeze was not asked, because it was considered a leading question. The respondents were, how-

[2] But the president of a shoe chain said, "The best servants of the consumers were penalized for doing what the government wanted, that is, keeping prices down in the spring of 1942."

ever, given several opportunities to talk about the squeeze as, for instance, when the discussion turned to differences in the movements of buying and selling prices, to the unfairness of any of the regulations, and to applications for relief. The spontaneous statements made by retailers of apparel and housefurnishings in the winter of 1942-43 show that, whatever the actual effects were in the summer of 1942, six months later few retailers considered the initial squeeze worth mentioning, while others volunteered the statement that they had not been affected by it at all.[3] This was said most frequently by large firms, many of which explained that they had extensive, low-cost inventories on hand which they could sell at their comparatively satisfactory March prices.

(3) Base-date ceilings may result in a squeeze when costs increase. If price and wage control are not universal, increases in buying prices, production costs, or expenses may, in due time, cause a squeeze which may lower the will to continue selling at base-date ceilings. This problem was discussed before with regard to the meat industry, which was squeezed because of advances in uncontrolled livestock prices (VI, 3). In 1943 that was the most frequent complaint of retailers, manufacturers of men's furnishings, and laundries.

(4) Under base-date ceilings it is difficult to price seasonal commodities that were not produced or sold during the base period.

(5) Similarly, it is difficult to price new or changed commodities, the production of which is taken up after the base period.

The more the base period receded in time, the more difficult it became for merchants to determine the proper prices for seasonal and new articles. In fields where the GMPR was not replaced by other types of regulations (or before it was replaced), the prices of such articles were determined under the similar-commodities clause and, as time passed, more and more merchants gained the impression that it was permissible to use that clause as an escalator for price increases (VII, 2).

(6) They are relatively difficult to enforce. Since the base-date ceiling for the same commodity may differ from firm to firm, and a price actually paid during the base period may have been lower than the ceiling, as

[3] In 48 interviews in which problems closely related to the initial squeeze were discussed, 13 retailers said spontaneously that they had suffered from the squeeze, 19 that they had not suffered from it, and 16 did not mention it at all.

Our findings confirm the statement in the *Second Quarterly Report* of the OPA that "The extent of the squeeze was much less than might at first be thought" (p. 27). Moreover, statistical studies of the comparative movements of wholesale and retail prices as reported by W. W. Rostow and D. D. Humphrey show that the retail price squeeze in the spring of 1942 must have been relatively small (*American Economic Review*, Vol. 32, September, 1942, p. 490, and December, 1942, p. 751).

time passed businessmen had great difficulty in knowing the ceiling prices of their suppliers and consumers in knowing the ceiling prices of retailers. Similarly, control and check-up of violations was very difficult for the OPA. This was true especially of prices in small stores that had no adequate records. In a number of cases the interviewers were told in 1943: "We say that we sold at these prices in March, 1942."

b) Effects on different commodities

It appears from the information presented in Part Two that the base-date freeze was unsatisfactory, in the sense that it did not forestall price increases, in the following commodities:

meat prior to December, 1942 (VI, 3), and liquor prior to August, 1943 (VI, 1), where violations were widespread;

groceries, prior to May, 1943 (VI, 2), although even before that date the price freeze was supplemented by other forms of control; and

laundries, prior to August, 1943 (VII, 4), where the GMPR was said to have caused a reduction in the quality of service.

On the other hand, the base-date freeze tended to stabilize prices in:

men's suits (X, 1), where manufacturers had to use various base periods earlier than March, 1942 and were allowed to add specific percentages for increased material and labor costs;

drugs (X, 3), where the GMPR was aided by long-established "fair-trade practices";

shoes (VII, 1), where quality deterioration was caused mainly by shortages in high-quality leather;

paper (not reported in Part Two), where a small survey of both manufacturers and wholesalers revealed general compliance with the GMPR, which this industry considered a workable regulation;

restaurants (X, 2), where the freeze arrested an upward price trend although compliance was undoubtedly not fully satisfactory; and, to some extent, in

the retail apparel trade, where relatively few direct price increases originated although indirect increases by manufacturers were transmitted to the customers and excessive use was made of the similar-commodities clause.

c) Business satisfaction with the GMPR

The businessmen's satisfaction or dissatisfaction with the base-date freeze was studied by asking those merchants whose pricing was governed by the GMPR the direct question: "Would you be in favor of replacing the GMPR by other forms of price control?" Of those who expressed an opinion, 39 answered in the affirmative, 35 in the negative (Table 23). All

TABLE 23

OPINIONS ABOUT GMPR IN THE SUMMER OF 1943

KIND OF FIRM	NUMBER OF FIRMS WITH OPINIONS	
	GMPR Should Be Maintained	GMPR Should Be Replaced by Formula Ceilings
Retailers of apparel and housefurnishings	24	28
Manufacturers of shoes, men's furnishings, and underwear	2	10
Manufacturers of men's clothing	9	1
Total	35	39

of the former advocated the replacement of the GMPR by formula ceilings, some maintaining that the change would achieve greater price stability, but the great majority indicating that they were primarily interested in relaxing price control and getting permission to raise prices.

In the winter of 1943-44, at a time when the OPA was conferring with representatives of the retail trade about introducing a new form of retail price control in place of the allegedly no longer effective GMPR, the division of opinions continued. Many retailers favored control based on "historical markups," some refused to discuss the question (e.g., by saying: "Who can object if the government wants to give him a present?"), some were against any change whatsoever, and some favored the GMPR as best promoting price stability.[4]

2. *Formula Ceilings*

Although base-date ceilings covered more commodities than any other type of control, the OPA issued more formula regulations than any other kind. We shall study the most important ones applied to women's outerwear (MPR 153, 287, and 330); groceries (MPR 237 and 238, later replaced by 421, 422, and 423, and MPR 271 and 376), and liquor (MPR 445).

[4] An executive of a large department store said early in 1944: "While a year ago I myself thought that something should be done to replace the GMPR, now I see the problem of retailing in a different light. Nobody has as yet devised a method which would work better than the GMPR."

a) Merits and drawbacks

The following favorable features of formula ceilings were mentioned by different businessmen:

(1) They are applicable to producers and distributors of continuously changing nonstandardized goods.

(2) Many businessmen emphasized that a "squeeze" is less probable with margin formulas than with other types of control. Most formulas automatically take cost increases into account.

(3) They are businesslike in the sense that businessmen are accustomed to pricing on the basis of margins. This is true only of percentage margins, and even then many respondents noted exceptions. Some said that, while they could still use margins to determine selling prices, they had to forgo their traditional practice of "averaging out" prices of different articles in the same line, that is, using higher margins on certain articles and lower ones on others. Many merchants, particularly of produce and of millinery, said that they never used margins but just fixed prices "intuitively" or according to what "competition permitted." Finally, though probably least important, most retailers, especially grocers, were accustomed to calculating margins on selling prices rather than on costs and complained about having to change their traditional methods.

The following major drawbacks of formula ceilings were found to differ in extent depending on the type of formula provided by the regulation:

(1) Percentage markups create an incentive to buy from expensive sources and to deal in more expensive rather than less expensive goods.

(2) Cost-plus formulas lower the incentive to buy or produce as cheaply as possible.

(3) Percentage markups not only transmit but even augment price increases from one level of production or distribution to the next.

(4) Formula ceilings encourage the practice of passing the same article through the hands of several intermediate dealers. (This may be, and in some cases was, made impossible by special provisions establishing maximum margins from one level to another, e.g., from the farm to the retail level.)

(5) Enforcement is rather difficult, especially in the case of historical margins (many businessmen have no exact records of their past margins) and cost-plus formulas (because of the complexity of cost accounting), and generally because of the lack of uniformity in the prices of sellers of comparable articles.[5]

[5] The necessity of keeping detailed records and making exact cost calculations in connection with formula ceilings was considered by some businessmen to be a disadvan-

(6) Uniform margins may result in windfall profits for businessmen who operate with low margins, and in insufficient profits for those with high margins. (The latter may not be a drawback if the reduction in margin is offset by the elimination of such services as are unnecessary or even undesirable in wartime.)

b) Effects on different commodities

Women's Clothing. The relatively unsatisfactory results of formula ceilings in this field were analyzed earlier (VII, 3). MPR 287 (for manufacturers) and MPR 330 (for retailers) are cost-plus regulations using percentage historical margins. Several wholesalers and retailers said spontaneously that in their opinion MPR 287 was a "bad regulation" for the consumer. Exactly the same garment sometimes cost more than before because increased manufacturing costs put it in a higher price line; the retailer then referred to his price list for the price line corresponding to the new (higher) buying price, and added his usual percentage margin to arrive at his new (higher) selling price. About two-thirds of the manufacturers interviewed were also dissatisfied with the regulation, both from the viewpoint of the consumer because it did not prevent price increases, and from their own viewpoint because it forbade averaging out prices and because of the highest-price-line limitation.

The provision of MPR 287 and 330 setting an over-all ceiling on women's ready-to-wear for each individual businessman by prohibiting him from selling any garment at a price higher than his highest price in March, 1942 was probably the most controversial of all price regulations.[6] Very few businessmen, either manufacturers or retailers, defended it, although many conceded that it had prevented certain price increases in medium-priced and expensive garments on the manufacturing level. Yet it did not prevent the elimination of low-end lines or a shift of production to the highest price line. Finally, the provision did not prevent voluntary uptrading, since consumers were free to shift to stores carrying higher price lines.

Groceries. The 1943 regulations setting uniform percentage margins for nonperishable groceries contain 296 percentage figures, representing margins fixed for 37 types of food for four classes of wholesalers and four

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tage, by others an advantage. The former complained of the great burden it imposed upon them. The latter felt that it improved their accounting systems. As one manufacturer of women's wear expressed it, "We know now for the first time where we stand."

[6] The regulation was amended in the spring of 1944 without bringing substantial relief. The Price Control Extension Act of 1944 forbade the highest-price-line limitation for retail stores but not for manufacturers. Certain effects of the regulation preventing expansion of businesses and hurting sellers of inexpensive garments are discussed in Chapter XXI.

classes of retailers.[7] After many changes in the regulations, wholesalers were generally satisfied with the way they were classified, while retailers considered the classification less acceptable and objected primarily to the publicity given to it. Actually, independent grocers fared better than chains in the year following May, 1943, but this trend was caused by many factors (see Chap. XXI), and does not prove that the independents were not hurt by the publicity given to the fact that they were allowed higher prices than chains. In August, 1943, 10 independents said that the difference between their margins and those of the chains was fair and satisfactory; 5, that it was smaller, and 6, that it was larger than would correspond to their additional costs—which seems to indicate that the OPA did a rather good job.

The greatest problem concerned the size of the markups for individual products. It was found in our surveys that traditional markups differed greatly from store to store.[8] In studying the records of 11 wholesalers we found 52 instances in which the new margins set by the OPA were lower than those previously used; 37, in which they were higher; and 31, in which the difference was insignificant. Any lowering of the markups was greatly resented. Very few merchants realized that price increases might justify lower percentage margins, since lower percentages added to higher costs may leave greater dollar profits than higher percentages added to lower costs. Profits would, however, be cut if sales fell off, and many grocers withheld judgment on the new markups, saying that it depended on future volume.

A survey made shortly after the introduction of the new markups revealed that wholesalers were more critical of them than retailers (Table 24). In smaller surveys conducted toward the end of 1943 dissatisfaction appeared to have diminished, partly because, contrary to expectations, business volume had not declined and partly because high-cost grocers had adjusted their handling costs to the new markups by discontinuing deliveries or introducing self-service. Moreover, it was found that markups fixed

[7] Classification of wholesalers: Class 1, cooperatives; Class 2, cash and carry; Class 3, service and delivery; Class 4, institutional wholesalers. The highest margin was allowed to Class 4, the lowest to Class 1.

Classification of retailers: Class 1, independents with 1942 sales under $50,000; Class 2, independents over $50,000 but under $250,000; Class 3, chain outlets under $250,000; Class 4, all stores over $250,000. Large high-cost independent retailers were permitted to apply for reclassification from Class 4 to Class 1. The highest margin was allowed to Class 1, the lowest to Class 4.

[8] It proved difficult to ascertain the traditional markups of independent retail grocers because many of them appear to have said, "We used to have" when they meant "We ought to have" a certain markup. On nonperishable groceries 2 independents said that their traditional average markup was 20 per cent; 5, between 22 and 25 per cent; 2, 30 per cent; and 6, between 33 and 36 per cent.

higher than those previously used did not always bring about price increases because low-cost grocers frequently sold below ceilings.

To judge from the merchants' opinions and, even more, from the fact that the new regulations stabilized grocery prices (see X, 2), one would have to conclude that formula ceilings were a success in this field. The validity of this conclusion is, however, restricted in that the wholesale and retail formula ceilings in this case were coupled with retail dollar-and-cent ceilings, fixing absolute limits to the prices paid by the ultimate consumer. It is impossible to determine how the formulas would have worked without those flat ceilings. Even the fact that grocery prices remained stable on the wholesale level covered only by formulas, and that the prices of those groceries for which no flat retail ceilings were established also remained stable, does not prove the effectiveness of formula

TABLE 24

GROCERS' OPINIONS ABOUT REGULATIONS OF MAY, 1943

Interviews made in June and July, 1943

Reactions to Markups	Number of Firms	
	Wholesalers	Retailers
Satisfied, no criticism	0	2
On the whole, O.K.; some exceptions concerning individual products	0	13
No general answer possible; some markups good, some bad; answer depends on future volume	9	10
Most markups insufficient; some exceptions concerning individual products	6	9
Markups greatly insufficient, much lower than needed	6	4
Total	21	38
Comparison with Regulations in Force Until May, 1943		
Prefer new regulations	15	22
Prefer old regulations*	3	3
Both regulations unsatisfactory	2	0
Cannot tell	2	5
Total	22	30

* Usually expressed by saying that the old regulations allowed greater latitude to the merchants; one retailer said, "Previously I could switch brands to increase prices, now I can't do that."

regulations; the former might have been held in check by retail prices, and the latter, by the stable prices of other interchangeable commodities.[9]

3. *Dollar-and-Cent Ceilings*

The most important dollar-and-cent ceilings (flat prices) were those established nationally for wholesalers of meat and all sellers of rayon hosiery, and by communities for retailers of meat, groceries and certain fresh fruits and vegetables, and for laundries (the last two only in certain communities, including Chicago).

a) Merits and drawbacks

The main advantages of this type of price control were found to be:

(1) Transmitting price increases from one level to the next is practically excluded by the establishment of flat prices, which, therefore, convey the idea of absolute price stability to businessmen and consumers to a much greater extent than other ceilings.

(2) Being uniform for all sellers (or for specified groups of sellers) of a given article in a given region or community, flat prices are very easy to enforce. This property gives them their most important advantage over other types of price control.

(3) Flat prices can be widely publicized and can be checked by consumers. Although newspaper publicity of the ceiling prices of meats and groceries had an auspicious start in the summer of 1943, the OPA discontinued it (cf. XXI, 1), and relied more on Local Price and Ration Boards than on consumers to do the checking. Nevertheless, consumer surveys indicated that the American public was much better aware of the existence of price ceilings on goods for which dollar-and-cent ceilings were established than on goods with other types of ceilings.[10]

9 The markup system did not work very well in fresh fruits and vegetables prior to the establishment of dollar-and-cent ceilings (see VI, 3), although most retailers were satisfied with the 40 per cent markup granted to them. Produce wholesalers were greatly dissatisfied when percentage markups were changed to dollar-and-cent markups.

MPR 445, setting uniform margins for wholesalers and retailers of liquor in August, 1943, appears to have had some beneficial effects on compliance, although these effects were achieved, at least in part, by raising ceiling prices. The new margins set by the OPA were lower than those previously used by merchants who had not been complying with the GMPR but higher than those used by most merchants who had been complying.

10 According to unpublished nationwide surveys made for the Office of Price Administration in December, 1943, the majority of consumers did not know that there were ceilings on women's dresses, men's suits, or shoes, which were under the GMPR or formula ceilings; on the other hand, most consumers were aware of the dollar-and-cent ceilings on meat and sugar (permission to quote granted).

(4) Flat prices eventually cause the least amount of unproductive work for businessmen, although initially, at the time of their establishment, they may require considerable work. (On the other hand, determining flat prices causes the most work for the OPA.)

Some of the drawbacks of dollar-and-cent ceilings are:

(1) Flat pricing applies properly to standardized goods only. In fields in which the products of different manufacturers differ greatly, the introduction of this type of control requires standardization (this was done by the OPA for laundering in the Chicago district, for rayon hosiery, and, by the establishment of grades and delimitation of regions, for meat) or the issuance of very extensive price lists.[11]

(2) Seasonal variations in supplies require either complex adjustments of the ceilings or reliance on the businessmen's selling below ceilings when supplies are heavy. The OPA usually chose the second alternative, with small success: flat prices proved to be "sticky"; prices that were uniform for all sellers and were publicly known were often considered not only as maximum but also as minimum prices.

(3) Flat prices, like uniform margins, may result in a squeeze for high-cost operators, and in windfall profits for low-cost operators. They may cause hardships if costs increase.

(4) Flat prices, more than any other form of price control, create the impression of a strait jacket imposed by government on business. They eliminate certain traditional differences between operators, regardless of how carefully the OPA may attempt to classify them.

b) Effects on different commodities

Dollar-and-cent ceilings were highly successful in stabilizing grocery prices (X, 2) and brought about substantial progress in that direction in produce, but failed to solve the problems of the meat industry or to bring about compliance with the meat ceilings (VI, 3). In rayon hosiery flat pricing was successful in arresting price appreciation, although the hosiery order (MPR 339) encountered more opposition than any other flat-price regulation. It was opposed partly because of its grade-labeling provisions,

[11] A price list issued by one district office of the OPA contained over 500 items of groceries; certain meat regulations fixed 200 prices for different cuts and grades; the hosiery order contained 8 closely printed pages of prices differing according to construction, quality, type of purchaser, and seller.

Fixing dollar-and-cent retail ceilings for produce was especially difficult when wholesale prices fluctuated below the permissible maxima. Then the OPA had to determine the weighted average, per quantity sold in a given area, in order to calculate the retail prices. This procedure was repeated weekly and resulted in fluctuations of the ceiling prices.

TABLE 25

Opinions of the Laundry Industry about Dollar-and-Cent Ceilings

Interviews made in October, 1943

Opinion	Number of Laundries	
	Power	Hand
Are you satisfied with the new prices?		
Yes; new prices satisfactory	12	2
Certain prices should be higher	2	3
Prices in general not high enough	3	1
	17	6
Are the services specified by the OPA well selected?		
Yes; discontinuation of several services advantageous	6	
No substantial change	6	
Too few services specified	3	
	15	
Are the minimum weights of bundles well chosen?		
Yes; raising of minimum weights advantageous	9	
No substantial change	3	
Weight should have been raised still higher	3	
	15	
Are the price differences between the services appropriate?		
Yes; former inequities removed	5	
No substantial change	6	
No; certain differences too small, others too large	4	
	15	

Note: References by some businessmen restricting their judgments to times of war (e. g., "After the war we shall again need many more forms of service") are disregarded in the table.

which were eventually discontinued, and partly because it reduced the margins of some merchants by failing to provide compensation for every type of distribution service (e.g., it allowed the same margin for wholesalers who carried stock as for those who did not).

The introduction of flat prices was made the subject of a special survey in laundries. In August, 1943 the Chicago Regional Office of the OPA set dollar-and-cent ceilings for four carefully defined services of family power laundries (it was said that previously more than 40 different services were offered by Chicago laundries), fixed the prices for relatively high minimum weights for bundles (in order to induce consumers to send only large bundles which permit savings in washing and delivery), and set prices which in its opinion were from 6 to 9 per cent higher than the March, 1942 prices. In our survey, operators of three laundries said that the new prices allowed no price increases, while 17 others calculated the average increase as against their GMPR prices at 6½ per cent.[12] It was to be expected that the price increases would receive a favorable reception, yet it was interesting to note that not only the new prices but even the complex details of the new regulations were approved by most laundries (Table 25). With very few exceptions, they adapted their services to the standards set by the OPA and eliminated a great variety of "frills." Only 2 of 15 laundries denied that uniform ceilings had any advantages; seven maintained that they had great advantages, and three of those praised the OPA highly. "Uniform prices result in stable trade; women don't change laundries as often as before." In general we must conclude that flat pricing was successful for laundries, although the survey was made too soon after its introduction to permit a complete appraisal, and new difficulties were expected by the laundries if and when their labor costs should go up.

4. *Comparison of Different Types of Regulations*

In the preceding three sections we discussed the merits and drawbacks of each type of regulation separately. We shall now attempt to compare the three types by organizing the same material according to five criteria.

a) Direct effects on prices. Flat prices and, to some extent, the price freeze, convey the impression of price stability to businessmen and consumers; this, in turn, tends to curb noncompliance and hoarding. Neither of these types of regulation transmits price increases from one distribution level to the next. Formula ceilings not only transmit price increases but also lower the incentive to cut production costs. In addition, percentage formulas encourage the sale of more expensive goods. The price freeze had the least, and flat prices the greatest, tendency to restrain merchants from selling below ceilings.

b) Applicability. Formula ceilings may be applied to all types of merchandise, while the price freeze is hardly applicable to seasonal or new goods, and flat pricing is inapplicable to unstandardized goods and difficult to apply to goods with great seasonal variations of supply.

c) Difficulty of enforcement. Flat prices are most easily enforced because they are uniform and because the OPA can enlist the aid of con-

[12] It is, however, possible that the laundries underestimated the extent of the price increases.

sumers. The lack of uniformity in base-date and formula ceilings makes them difficult to enforce.

d) *Fairness.* Base-date and dollar-and-cent ceilings are considered less equitable to business than formula ceilings in that they cause a squeeze if costs rise, whereas formulas take most cost increases into account.

From the point of view of being equally fair to all sellers of the same commodity only historical-margin formulas were considered fully satisfactory. Uniform margins and flat prices cause either windfall profits for low-cost operators or a squeeze for high-cost operators, and base-date ceilings tend to perpetuate chance differences in prices and to cause an "initial squeeze" for retailers.

e) *Difficulty of operation by businessmen.* Formula ceilings represent the smallest and flat prices the greatest deviation from traditional business practices. Both base-date and formula ceilings maintain traditional price differences, but the former, unlike the latter, interfere with customary pricing procedures. Base-date and dollar-and-cent ceilings have, however, the advantage over formulas that they cause less unproductive work and are easy to understand.

This brief summary shows that none of the three types of regulation is clearly superior to the others. From the point of view of direct effects on prices and difficulty of enforcement dollar-and-cent ceilings appear to be the most and formula ceilings the least desirable, but from the point of view of applicability and difficulty of operation by businessmen formula ceilings have definite advantages. Actually these considerations, separated here for the sake of simple presentation, are not independent of one another; it was found that unfairness and hardships were often conducive to price increases because they evoked businessmen's hostility to price control (cf. XVII, 3).

5. *Strictness of Regulations*

It might be that the effectiveness of a regulation in promoting price stability depended not so much on whether it provided base-date, formula or dollar-and-cent ceilings, as on whether or not it was strict with respect to its provisions and to their enforcement. Findings reported in Part Two seem to bear this out.

In ranking the regulations according to their strictness, we shall start with the limiting case at the bottom of the scale, the absence of any regulation. We found considerable price increases:

in uncontrolled commodities (restaurant meals before April, 1943, jewelry, and flowers, V, 2), despite the fact that neither acute shortages nor rush buying were pronounced in these fields;

in fields where only certain articles or certain production or distribution levels were controlled while others were not (e.g., produce and meat, VI, 3);

in commodities for which the OPA did not supplement inappropriate base-date ceilings (e.g., furs and liquor, VI, 1; handbags, umbrellas, and accessories, VII, 1); and finally

in groceries before May 1943, under conditions of "confusion" (VI, 2).

By contrast we found, quite generally, that clear regulations that covered most business situations and were rigorously enforced promoted price stability (e.g., groceries after May, 1943 and men's suits; X, 1 and 2).

We did, however, find some exceptions to the rule that the stricter the regulation and its enforcement the greater its effectiveness: a) Some uncontrolled commodities rose no more in price than some controlled commodities. Although exact data are not available, there can hardly be any doubt in the light of the estimates presented in Part Two that the prices of certain jewelry, flowers, and restaurant meals advanced less than those of certain dresses, handbags, and furniture. b) One commodity under "loose ceilings" (VI, 1), women's hats, had a relatively satisfactory price trend. c) Prices advanced greatly in some commodities subject to regulations containing detailed pricing formulas (e.g., women's ready-to-wear), while they remained substantially stable in certain lines controlled by base-date ceilings alone, which did not cover all the pricing problems of the sellers (e.g., china and glassware). d) In apparel and housefurnishings prices were stable in the first few months after the GMPR, when efficient enforcement mechanism did not yet exist.

Despite such exceptions the findings as a whole seem to indicate that there is more than a grain of truth in the thesis that all-encompassing regulations are more favorable to price stability than partial controls (at least under conditions of total war and full employment), because price increases tend to spread from one line or one level to the next, and because loopholes in regulations are apt to be used. This thesis alone is, however, not sufficient to explain all differences in pricing procedures and in the extent of price increases. Factors other than the type of regulation must have been responsible for the differences in the extent of quality deterioration, which was not effectively counteracted by any type of regulation, and for the differences in the pricing procedures of merchants in the same field subject to the same regulation.

CHAPTER XIII

Rationing as an Aid to Price Control

The question whether government regulations determined the success or failure of price control was not fully covered in the last chapter. It has frequently been said that "quantity controls," especially rationing, are prerequisites for achieving price stability in times of war, in other words, that only price control in conjunction with rationing, and not price control alone, can arrest wartime inflation.

The following discussion will show that this theory is valid only under certain conditions, which, however, did not prevail generally in the United States in 1942 and 1943. In many fields rationing was of substantial aid to price control but not indispensable to its success. In others, price control was successful without rationing, and, where it was not, it is more than questionable whether rationing should have been introduced for the sole purpose of helping to control prices.

1. Delimitation of the Study

The proposition that it might be possible to close the inflationary gap by rationing alone will be mentioned here only briefly. Theoretically, consumer demand could be scaled down to the level of available civilian supplies (current production and stocks) by limiting total consumer expenditures and rationing all consumer goods. Such rationing could be made to work by restricting civilian production to a few standardized goods, by fixing their quantity in advance through strict methods of allocating raw materials, and by registering consumers with specific stores where alone they would be permitted to trade. Such extreme measures might be feasible without adverse consequences in a beleaguered fortress, but hardly under conditions of relative abundance of supply in a country remote from the war theatre. It can be submitted that civilian morale would be lowered if government interference were not kept at a minimum understood to be necessary under the given conditions. In fact, in the United States in 1942 and 1943, quantity controls were introduced for reasons other than to combat price inflation. They were therefore more moderate than such controls as would be necessary to equalize effective demand and available supplies of civilian goods.[1]

Production controls, allocation of raw materials, and priorities were instituted to assure the flow of military supplies in the order and quantities required by military considerations. Consumer rationing was introduced to assure the equitable distribution of scarce goods essential for consumers. That the avowed purpose of rationing was independent of price control does not, however, rule out the possibility that rationing made price control workable. It has, in fact, been argued by economists that controlled prices keep demand at a higher level than would correspond to the scarce supply: hence, price control itself creates the need for rationing and cannot be successful without it. They maintain that for competitive goods price control "destroys the automatic regulation of distribution," which would rule in a free market, and that therefore, price control "unaccompanied by rationing . . . leaves distribution chaotic."[2]

This argument raises several points. First, as to the causes of the disparity between demand and supply: The decline of civilian supplies is, of course, due in the first place to military demand which is independent of price. Once a disparity between civilian demand and supply arises, price control need not aggravate it but, on the contrary, may lessen it, because effective demand depends not only on current but also on expected prices, especially in the case of nonperishable goods.[3]

Secondly, as to the effects of the demand-supply disparity on prices and on the distribution of goods, we must consider them separately for each of four possible situations:

a) Absence both of price control and of rationing: prices will rise and distribution will be inequitable in favor of the wealthy.

b) Rationing without price control: this was never actually in effect but was suggested by the meat industry in 1943. By analyzing their proposition (sec. 4) we shall find that even under the most favorable conditions (i.e., even for meat, which cannot be stocked or hoarded to any great extent)

[1] On the theory of rationing, cf. H. P. Neisser, "Theoretical Aspects of Rationing," *Quarterly Journal of Economics,* Vol. 57, May, 1943, pp. 378-397; M. Kalecki, "General Rationing," *Oxford Bulletin of Statistics,* Vol. 3, Jan. 11, 1941, pp. 1-6; and W. A. Wallis, "How to Ration Consumers' Goods and Control Their Prices," *American Economic Review,* Vol. 32, September, 1942, pp. 501-512; on the theory and practice of rationing, cf. R. G. Gettell, "Rationing: A Pragmatic Problem for Economists," *American Economic Review,* Vol. 33, Supplement, March, 1943, pp. 260-271.

[2] A. C. Pigou, *The Political Economy of War,* Rev. Ed., New York, 1941, pp. 139 ff. Further similar statements are quoted by G. Katona, *War Without Inflation,* New York, 1942, p. 40.

[3] The influence of expectations on demand will be discussed extensively below (XVI, 5)

rationing alone cannot be relied upon to keep prices from rising or to assure absolutely equitable distribution.

c) Price control without rationing and d) price control with rationing. In comparing these two situations we shall find in section 2 that the curtailment of effective demand by rationing did help to keep prices down, but that its contribution to price stability was hardly decisive. With respect to the effects on distribution it has been argued that when demand exceeds available supplies of an unrationed commodity sold at a controlled price "first come, first served" becomes the rule, time-consuming and demoralizing queues develop, and early-comers can purchase goods beyond their requirements to the detriment of late-comers (such as busy war workers). This may discredit price control and even lead to its breakdown because the buyers may pay prices above ceilings in order to obtain the scarce goods. We found, however, that when the disparity between supply and demand was moderate, many unrationed goods sold at controlled prices were distributed without queues and with early-comers having no substantial advantage over late-comers. Only in cases of substantial disparity was distribution disrupted to the extent that rationing became an indispensable counterpart of price control. Because of certain adverse psychological effects and technical difficulties (sec. 3) it appears that rationing should not be introduced when it makes only a small contribution to equitable and smooth distribution and to price stability.[4]

Consumer rationing had three forms. Soon after Pearl Harbor, for very scarce commodities needed in war production, certificate rationing was introduced (new automobiles, typewriters, tires, etc., could be bought only with a certificate issued in case of proved need). Somewhat later, for those scarce mass-consumption items for which no close substitute existed, unit rationing was started (for gasoline, fuel oil, sugar, coffee, shoes). Finally, in March 1943, for those scarce groups of commodities where many items were interchangeable, point rationing was instituted (for processed—mainly canned—foods, and for meats, fats, oils, cheese). All food rationing was applied to

[4] That price control can function effectively without rationing has been argued more extensively elsewhere by this author (*War Without Inflation,* Chap. II). The following statement by J. K. Galbraith supports this thesis: "Most economists have urged that price control could not long precede rationing, once effective demand had exceeded supply . . . In the imperfect market this is not the sequence. In these markets, to put the matter baldly, there can be price control in a vacuum and it will work even though effective demand exceeds supply. Formal rationing is necessary, not to reinforce the price controls, but *in the first instance* to substitute social (and better planned) allocation of supplies for what may be the technically efficient allocation of private sellers." ("Price Control: Some Lessons from the First Phase," *American Economic Review,* Vol. 33, Supplement, March, 1943, p. 255).

operators of restaurants as well as to individual consumers.[5] Unit and point rations of food and shoes were alike for every person and were, therefore, not fully equitable because of differences between the requirements and needs of different persons (e.g., the meat requirements of adults and children, lumberjacks and clerks, the food requirements of those who regularly eat in restaurants and those who do not, the canned-goods requirements of people in various parts of the country, etc.). Differential rationing was, however, not introduced for fear that it would be too complex and still not be fully equitable. Only the rationing of canned goods, meat, and shoes was included within the scope of this study.

2. *Primary Effects of Rationing on Ceilings*

Upon preliminary study, the available evidence concerning the price increases of rationed and of unrationed goods does not seem to bear out the contention that rationing helped to maintain price stability. Both among rationed and unrationed goods we find some whose prices remained relatively stable and some whose prices increased. Among foods, price control was relatively successful in unrationed cereals as well as in rationed sugar and coffee (and coffee prices remained stable after rationing was lifted). In canned goods, rationed in March, 1943, compliance with price control remained unsatisfactory until June; and in meats, rationed at the same time, the difficulties of price control were not lessened until the end of the year. In shoes, direct price increases were insignificant both before and after rationing, while quality deteriorated in both periods.

Such considerations, however, have two shortcomings: First, we do not know how prices would have moved and what difficulties price control would have encountered, for example, in meat and shoes, if rationing had not been introduced. Secondly, rationing may have been handled rather ineffectively at the beginning and may have required some time to achieve the degree of perfection necessary to assist price control.

In our surveys members of the meat industry were found to agree with the second point. They told of great initial difficulties in meat rationing:

[5] Unit rationing: goods are sold upon the surrender of stamps, each of which represents a fixed quantity of a single commodity. Point rationing: goods are sold upon the surrender of stamps, each of which represents a fixed number of points that can be spent for the purchase of various articles for which different point values are set from time to time.

The original ration quotas of restaurants were determined according to the volume of rationed food sold in December, 1942. They were adjusted by means of complex formulas based on the restaurants' reports concerning changes in their dollar receipts and customer count. Persons eating in restaurants did not have to surrender ration stamps.

reports of inventories on hand before rationing were not always prepared conscientiously, businessmen and consumers did not at first cooperate fully, and for several months point values were not properly adjusted to fluctuations in supplies.[6] Nevertheless, recalling the scramble for goods and the difficulties of allocating goods before rationing, most meat dealers agreed that rationing was necessary and that it had curtailed effective demand. Except for a few processors and retailers, all those interviewed shortly after rationing was introduced said that it had already lessened the pressure on ceilings. Shoe merchants reported that rationing in their field had reduced the pressure on the ceilings of cheap and medium-priced shoes, but not of expensive ones, the demand for which remained in excess of supply. In shoes, canned goods, and coffee, rationing was said to have been helpful in keeping prices down but not indispensable; in meat and sugar it was called absolutely necessary for the success of price control.

In contrast to the reports that rationing helped control prices were the statements by some merchants that prices above ceilings were sometimes paid because of rationing itself. In our interviews with meat dealers it was frequently said that restaurants and retail butchers (and consumers) paid prices above ceilings to obtain meat without coupons. Some retail meat dealers also said that, in many cases, meat was not cut in the manner prescribed by the OPA but rather in such a manner as to leave some high-point meat on as many cuts as possible so that more points—and more money—could be charged for them. In other cases, meat was given to favored customers at reduced point values and higher prices on the pretext that it was in danger of spoiling (in which case the law required price reductions). These statements, however, prove only that price control was violated under rationing: it is an open question whether the violations would have been more or less frequent in the absence of rationing.

Restaurant rationing was found to have had two main shortcomings that made its enforcement difficult and tended to lessen compliance with it. First, it was difficult to verify the data submitted by the restaurants on which their quota was based; secondly, restaurants ran short of rationed goods when business expanded, since changes in quotas were determined according to changes in the business volume of the preceding months.

A glance at the price movements of a few commodities in which substantial shortages were not relieved by rationing supports the contention that rationing helped the price control of scarce goods. As described in

[6] It was not until the summer of 1943 that the authorities had collected extensive data on prospective supplies and the habits of consumers (their preferences for different kinds of meat and their reactions to changes in point values). For long periods and in many parts of the country consumers could not get what they wanted for their ration stamps.

Part Two, certain unrationed fresh fruits and vegetables—potatoes, onions, oranges, etc.—were sold far above ceilings at times of temporary scarcity. And there were frequent and considerable illegal price increases in most unrationed commodities in which shortages persisted, for example, in pre-war upholstered furniture, luggage, and zippers.

3. *Secondary Effects of Rationing*

If rationing helps to relieve pressure on price ceilings, the question arises whether it should not have been introduced for many more articles, especially for those in which the price control regulations did not operate satisfactorily. Our studies revealed that moderation in the use of rationing was justified. We found that, in addition to the beneficial effects just discussed, rationing had many undesirable effects on the behavior of consumers and businessmen.

Some unfavorable effects of rationing were of a psychological nature. Rationing made consumers "point conscious," which means that it made them less "price conscious." Any change in public attitudes that leads to buying with little regard to prices may result in price increases. Undoubtedly public awareness of acute shortages tends to bring forth such attitudes and may be relieved by rationing. But rationing itself may enhance the awareness of shortages. Most retailers of rationed goods reported that consumers asked, "What can I get for my points?" rather than "How much?" This change lessened the pressure that consumers may normally exert on retailers to comply with price control.

The introduction of rationing may lead businessmen and consumers to believe that unrationed goods are also scarce and may therefore increase the demand for them. Thus at the beginning of 1943 when the forthcoming rationing of canned goods and meat was announced in advance, and in February of that year when shoes were suddenly rationed, it was generally believed that many further necessities of life, especially clothing, would soon be rationed. The month of February witnessed tremendous buying waves for all kinds of apparel, especially women's ready-to-wear (see XVI, 3). As a result, retailers' resistance against price increases by their suppliers, and especially against quality deterioration, was lowered. "We had to buy whatever was offered to us since our shelves were cleaned out," said the executive of a large women's-apparel chain.[7]

[7] The hoarding wave in canned goods after the announcement and prior to the introduction of rationing is of lesser significance. Such rush buying can be eliminated by an improvement in the technique of rationing, namely, by abstention from advance announcements. Combatting the fear that rationing will spread constitutes a much more difficult problem.

The introduction of shoe rationing also brought forth rush buying for unrationed substitutes. Factories producing low-quality play shoes were said to have sprung up, and, according to shoe retailers, unprecedentedly large amounts were spent on merchandise of slight intrinsic value.

For a while it appeared that clothing would have to be rationed for no reason other than that shoes had been rationed. The buying wave subsided in March, however, after well-documented official announcements had revealed that there was no serious shortage of apparel. It would appear from this experience that the public in general is susceptible to rational explanations and that there are methods of mitigating the unfavorable effects of the introduction of rationing. Full disclosure of the special developments that necessitate the rationing of one commodity but that do not apply to other commodities would probably have favorable effects, but this method has not been tested because no new rationing measure has been introduced since March, 1943.

The technical difficulties of rationing constitute another drawback. Merchants complained bitterly that rationing caused extra work and often made it necessary for them to hire additional employees. Business transactions were slowed up and customers had to wait longer to be served. Grocers had to sort and count stamps, watch expiration dates, report on inventories, and change the markings on goods as point values changed. In our survey of wholesale and retail grocers in the summer of 1943 it was found that technical problems connected with rationing played by far the largest role in making these merchants hostile to any type of wartime regulation.[8] Some of the difficulties were alleviated by reforms introduced during the winter

[8] Among the many further complaints voiced by retailers were the following: Customers sometimes forgot to pay for their purchases, since they as well as the clerks were engrossed with the coupons; in service stores customers had to be advised what to get for their coupons, while in self-service stores customers arrived at the check-out counter with insufficient stamps to cover their purchases. The system of ration banking was generally considered a great help, but wholesalers complained greatly about difficulties in filling orders and delivering goods to small retailers who had no ration bank accounts. For wholesalers the required monthly inventory of rationed items and points generally constituted the greatest problem. One large wholesaler said he had 15 employees out of a total of 225 who did nothing but paper work connected with rationing.

Food merchants made many recommendations that, in their opinion, could have lessened the burden of work. They advocated a reduction in the number of different stamps issued (at the time of the survey, coupons of 8, 5, 2, and 1 points were in circulation), permission to weigh instead of count coupons, the elimination of expiration dates, and the restriction of rationing to fewer items. These findings, included in our mimeographed report of August, 1943, will not be discussed here, because many of the most important grievances were overcome with the issuance of tokens and elimination of expiration dates in the winter of 1943-44.

of 1943-44. Nevertheless, it remains true that rationing, even in its technically most efficient form, constitutes a burden for businessmen as well as consumers, which burden should not be augmented without good cause; in other words, rationing of consumer goods should be introduced only where, because of substantial shortages, equitable distribution of essential goods cannot be achieved otherwise.[9]

4. *The Meat Management Plan (Rationing without Price Control)*

It appears that under certain conditions price control can operate effectively without rationing. Is the opposite also true? Could rationing operate effectively without price control? In other words, could rationing alone keep prices down as well as guarantee equitable distribution? The "Meat Management Plan"—proposed by the American Meat Institute and several important livestock organizations but not accepted by the government—maintains that this is true with respect to meat.[10]

According to that plan, the great difficulties confronting price control in the meat industry could be overcome by achieving a balance between the amount of meat coming into the market and the amount going out. The plan proposes "to control total supply and total demand" so that the latter should not exceed the former even for a single week. Supply would be controlled by introducing and enforcing a permit system for livestock slaughter and thus determining the exact tonnage of supply. The needs of the armed forces and of Lend-Lease would be determined in advance, and civilian demand would be controlled by rationing. Then all other existing controls, especially price ceilings, would become unnecessary. Nevertheless, prices would be managed by the government because, being the only buyer of the meat not sold to holders of ration stamps, it would be in a position to determine the wholesale prices, and competition between retailers would then keep retail prices down.

In surveys conducted in the summer and fall of 1943, some few members of the meat industry declared themselves fully in favor of the Meat Management Plan. They thought that by balancing supply and demand normal economic conditions would be re-established and all difficulties

[9] Even distribution and allocation problems were not always entirely solved by rationing. "Informal rationing" by manufacturers, processors, and wholesalers (Chap. XVIII), which is often inequitable, remained in force despite government rationing in meat, expensive shoes, and fancy-grade canned goods.

[10] The plan was first presented in a mimeographed bulletin of the American Meat Institute of March 20, 1943; it was later reprinted in pamphlets issued by the Livestock and Meat Council. For a thorough analysis of the plan, see D. Gale Johnson, "The Meat Management Plan," *Iowa Farm-Economist*, Vol. 9, November, 1943, pp. 12-13.

caused by government interference would vanish. Most respondents, including representatives of the largest firms, endorsed the plan, but expressed much greater caution in appraising it. They said that it was not perfect but would work better than price control and would be simpler to operate. Moreover, in their opinion, it was possible to obtain wholehearted public support for rationing but not for price control. It was often conceded that under the new plan meat prices would be higher than prevailing ceiling prices, but they would be lower than black-market prices; thus the actual average price paid by the consumer would be reduced and nevertheless that obtained by farmers and industry increased. Ultimately, many packers argued, prices would fall because, in the absence of ceilings, farmers would expect price increases and would raise more cattle and hogs than under price control.

The following major objections to the plan are based on extensive discussions with members of the meat industry, including some who urged its adoption:

a) The success of the plan is dependent upon efficient rationing. If the government is not successful in eliminating illegal slaughtering and black markets, it cannot determine supply and demand in advance and cannot adjust them to each other. But black markets arose not only because of price control but also because of the desire of some people to increase their share of scarce supplies.[11]

b) Under conditions of scarcity the reliance on competition among retailers to keep prices down is not entirely justified. When ration stamps are fully utilized retailers cannot expect to increase total demand by reducing prices. Nor can a single retailer hope to gain many customers by charging lower prices than his competitors. A retailer might lose some customers by offering them cheap but small and irregular supplies; and he might gain some by offering regular though expensive supplies, which he might secure by paying higher prices to suppliers. Thus retail and wholesale prices for rationed meat could be raised without regard to the prices paid by the government for its own needs, unless the government were to engage in price-regulatory storage policies on a large scale for which no adequate facilities exist at present.

c) While rationing limits the total physical amount demanded, higher prices might be asked and offered for especially desirable products, for example, high-quality meat cuts. Thus inequities might arise contrary to the primary objective of rationing, to share alike without regard to wealth and income.

[11] According to one of the largest packers, "Rationing has brought the black market" (The Cudahy Packing Company, *Annual Report for 1943*, p. 7).

d) In order to achieve an exact balance between demand and available supplies, it might become necessary to ration different kinds of meat separately and to change point values often and quickly. These requirements would impose a great burden on the trade, which, however, might be lessened by using stockpiles of meat in case of unforeseen small discrepancies.

There can be no doubt that the positive proposals of the Meat Management Plan—to determine in advance the quantities available in each ration period and to adjust demand accordingly, to institute a permit system for livestock slaughter, etc.—are sound and could help to insure the effective operation of price regulations. Yet their adoption could not eliminate the necessity of price control. Rationing alone could hardly suffice to achieve price stability.

CHAPTER XIV

The Role of the Market Structure

1. Commodity Lines More or Less Difficult to Control

Differences in market structure made the prices of certain commodities easier to control than others and were found to explain certain differences in the success of price control. Businessmen, in discussing why the regulations were relatively unsuccessful in one field or the other, called attention to characteristics of the market which, in their opinion, made certain commodities more difficult to control than others. Executives of the OPA also emphasized the role of market organization when they explained differences in the complexity of the regulations applied to different fields. J. K. Galbraith, while Deputy Administrator of the OPA, declared that difficulties of the price controller increased as the type of market approached perfect competition, and decreased as it approached monopoly.[1]

Whether a commodity was more or less difficult to control depended upon the degree of competition and also upon various characteristics of the commodity itself. Businessmen, in our interviews, called attention to the number and size of the firms, to product differentiation, and to the ease with which new firms could enter the field. Control of a commodity produced and sold by a large number of small firms was said to be difficult, by a limited number of large firms easy. If a line contained a variety of interchangeable products, especially unstandardized or seasonal goods, control was said to have been more difficult than if it contained well-established brands sold at the same price by different sellers. If entry into a business was relatively easy, because it required small capital outlay and did not depend on patents or large-scale advertising, control was said to have been more difficult than if the opposite were true.

In explaining these opinions businessmen pointed out that in a field in which producers are few and each of them manufactures only a few well-

[1] "Price control in the perfectly competitive market is a matter of classic difficulty. Price control in the imperfectly competitive market is, by comparison, at least, a simple matter" (*op. cit.*, p. 254). Some of our findings are in close agreement with Galbraith's analysis.

defined products it is relatively easy to ascertain base-period production costs and prices and to check upon compliance with price regulations. A few respondents also maintained that, since businessmen in highly competitive fields had lower profit margins and smaller reserves than large producers of branded goods (i.e., than those in quasi-monopolistic fields), the OPA had greater difficulties in keeping prices down in the former than in the latter when production costs rose.

Some commodity lines with many sellers and a great variety of products were said to have been relatively easy to control because a few large producers and their brands were the established leaders in the field. If price changes were traditionally initiated by a few leading firms, the maintenance of stable prices by those firms for their branded goods promoted the success of price control in the entire field.

In certain commodity lines businessmen explained the difficulties of control by the variability of the supply of perishable products. In fields in which supplies vary greatly from season to season or even from day to day, and must be sold quickly because the products are perishable, erratic price fluctuations were always the rule, and price control was relatively difficult. Great variations in transportation costs, resulting from differences in the distances between supplying and consuming areas, were also noted as having made it difficult to establish uniform prices.

The commodity lines that the businessmen in our surveys described as relatively difficult to control include those in which the most substantial price increases occurred; the lines that were called relatively easy to control include those in which prices were most stable.

Commodity lines relatively difficult to control (beginning with the most difficult):

Fresh fruits and vegetables. Produce dealers pointed out that each product has many types, grades, and sizes; that products sold in one consuming area come from both nearby and distant growing areas; that supplies fluctuate daily and seasonally; and that not only are there many sellers but many intermediate dealers handle the same products.

Fresh fish. The number of different producing areas and of kinds and qualities of fish is very great. This was taken by the OPA as justification for the delay in introducing price control of fresh fish. In its first regulation (MPR 418; July, 1943) the OPA listed 48 different types of salt-water fish.

Women's ready-to-wear and accessories. Small manufacturing firms are preponderant, the products are not standardized and vary from manufacturer to manufacturer, and entry into this field of business is easy. The price of a dress or a hat has always been determined less by production costs than by such intangible factors as fashion or the reputation of the seller.

Furniture. Respondents in this field stated that the largest factories with mechanized production methods were converted first and to the greatest extent to war production. We were told, for example, that "Only 20 per cent of the furniture is now made by large factories, the rest by middle-size and small ones." Furthermore, furniture is not standardized and brand names are rare.

Meat. In economic literature the American meat industry is frequently referred to as noncompetitive because a few large packers have a very substantial share both in slaughtering and in processing; yet respondents in this industry emphasized the competitive nature of their business. The packers' margin, expressed as a percentage of the selling price, has always been very small so that even slight increases in livestock prices could cause operating losses; and entry into the meat business is relatively easy. Seasonal variations in meat supply, differences in transportation costs, and lack of adequate storage facilities enhanced the difficulties confronting the meat regulations. Though a large proportion of business is in the hands of a few large firms, this did not greatly simplify the administration of price control, as their numerous local branches are relatively independent.

Restaurants. Respondents maintained that no two restaurants are comparable, since meals designated by the same name and service differ from place to place.

Commodity lines relatively easy to control:

Linoleum and other housefurnishings. As the foremost example of a commodity line in which the given market structure favors price stability, linoleum was mentioned by many wholesalers and retailers. Its manufacturers are few, and each produces brands, with well-established price lines, known to the trade as well as to many consumers from printed price lists and booklets. This applies to some extent also to rugs, linen, china and glassware, and certain items of kitchenware.

Men's wear and shoes. Although no apparel line is produced exclusively by a few large firms, large firms were said to play a much greater role in the manufacture of shoes and men's suits, coats, and hats than in that of women's ready-to-wear and hats. Brand names are well known in the former, and their price lines are well established.

Drugs; canned and dried groceries. Although it was said that the civilian sales of branded as against nonbranded goods in drugs, toilet articles, canned goods, chewing gum, etc., had not increased during price control—because of shortages, military demand, or the impossibility of keeping pace with rising demand—the price and quality leadership of the brands continued to dominate the markets. Producers and sellers alike said that they were "compelled" to follow the leading firms in determining the prices of their unbranded goods or branded goods that were not widely advertised. Despite the decline in the relative sales position of grocery chains in favor of independents, most small stores acknowledged that chains remained the price leaders. Compliance by grocery chains with dollar-and-cent ceilings in the summer of 1943 admittedly influenced the pricing practices of independent grocers.[2]

Comparison of the commodity lines called difficult and those called easy to control with the pricing practices prevailing in those lines (Part Two) supports the thesis that the given market structure exerts a substantial influence on the relative success of price control. Yet the importance attributed to the single factor of differences in market structure

[2] It appears, however, that "trade leadership" had a beneficial effect on compliance only in commodities in which there were no acute shortages, for example, in dry groceries, but not in meat.

must not be exaggerated. Even in such difficult fields as meat and produce, price control was more successful at certain periods than at others, and within each field irrespective of whether it was easy or difficult to control the degree of compliance with price regulations differed greatly from firm to firm.

2. *Large and Small Firms in the Same Commodity Line*

Greater or lesser success of price control resulting from differences in market structure has thus far been discussed by comparing various commodity lines. It is, however, possible that differences in the size of firms accounted for variations in the pricing procedures adopted even among sellers of the same commodity. Was there a difference in compliance with price regulations among large and small firms?

Most large firms, at some time or other in the course of the interview, would make a comment about small firms' not complying with price regulations. Some even went so far as to say that "None of the little fellows pay any attention" to the regulations. Large firms, they said, considered their reputation, were aware of their social responsibility, had so many employees that violations could not be kept secret, had large staffs to keep track of and explain all regulations, and were checked closely by the OPA. Small firms, they maintained, had no reputation to lose, could make cash transactions without keeping records, were not checked upon by the OPA, and frequently violated regulations unintentionally because they did not know about them or did not understand them.

There is no doubt that unintentional violations of ceilings were more frequent among small than among large firms. This was due not so much to the complexity of individual regulations as to the fact that, in the case of small firms, one person had to be familiar with a number of different regulations. The owner of a small women's-wear store, for instance, had to apply different base-date, formula, and dollar-and-cent ceilings to various goods on his shelves, while the manager of a single line in a large store was concerned with one regulation only and was helped in his task by a special price control division of the firm. The impact of the complexity of the regulations on large and small stores was illustrated by the president of a large apparel store as follows:

"One day the manager of our hosiery department brought me the new hosiery order and denounced the OPA vigorously for the excessive amount of work the regulation would impose on him. No doubt the man had to study the regulation for several days and nights, but afterwards his job became simpler than ever before. In the past he had had to check different prices and allowances of different suppliers, watch his competitors' prices, and decide whether or not he should make special promotions. With the present dollar-and-cent ceilings he has much less work to do, and part of the time he now waits on trade. (This has increased his hatred of the OPA still further!) Yet I realize that a small storekeeper selling dresses, blouses, and handbags in addition to hosiery can't keep track of the hosiery order."

Our evidence is insufficient to determine the comparative frequency of intentional violations by large and small firms. It does, however, cast doubt upon the generalizations made by large firms. We found some small firms who openly admitted having raised their prices and others who displayed prices exceeding dollar-and-cent ceilings; but we found just as many who showed us that they made painstaking calculations and time-consuming inquiries from their suppliers and the OPA in order to avoid pricing merchandise above ceiling. Our surveys revealed that small firms in general were in a less advantageous position than large ones with respect to obtaining supplies (Chap. XX). Some of them may, therefore, have been induced to pay (and to charge) prices above ceiling in order to get goods. On the other hand, some small merchants said that their prices were more stable than those of their large competitors because they had no experts to advise them how to raise prices "legally." In the light of our evidence it seems improbable that the size of the firm alone was an important factor in determining the choice of pricing procedures.[3]

[3] A possible exception to this statement was noted in the meat industry (cf. Table 11, VI, 3).

CHAPTER XV

Wartime Changes in Supply, Demand, Business Volume, and Profits

Were different supply-demand conditions and consequent differences in sales and profits responsible for the variations in pricing procedures from one commodity to the other? Some respondents maintained that changes in business volume and profits played an important role in influencing businessmen either to violate or to comply with price control. Our findings show that this opinion was justified only under certain specific conditions. We shall discuss how and why the sales and profits of businessmen dealing in different commodity lines differed, and shall then consider the effect of those differences on pricing actions.

1. *Demand and Supply Factors Affecting Business Volume*

Sales trends varied from commodity to commodity during price control. Data on changes in business volume in different lines are presented in Appendix III. It is shown there that in 1942-44 both physical and dollar volume rose more in women's wear, food, and drugs than in men's wear, furniture, and housefurnishings — to mention only the most conspicuous differences among the commodities included in our study. The differences in sales trends were brought about by changes both in demand and in supply.

On the demand side, sales were affected by rising incomes and many other war-time developments (induction into military service, reactions to shortages, etc.). It is well known that consumers whose incomes rise do not increase all their expenditures proportionally: Luxuries and semi-luxuries are more income-sensitive than food and rent, and among foods, meat is more income-sensitive than cereals. In 1942 and 1943 the number of families in the middle income brackets increased greatly. These families, with more money to spend, were largely prevented by wartime shortages from increasing their expenditures for rent and durable consumer goods. Therefore the main effects of rising incomes, apart from increased savings, were an increase in total expenditures for food, apparel, and housefurnishings and a shift in consumer preference from lower- to higher-grade goods in those lines (voluntary uptrading). Reference was made to this shift in Chapter IX, since in most instances it occurred jointly with involuntary uptrading that resulted from manufacturers' decisions to increase the proportion of their better-grade products without regard to consumer preferences.

Not only rising incomes but also rationing and the expectation of shortages promoted voluntary uptrading. Rationing contributed to it primarily in shoes and coffee and, to a lesser extent, in canned goods and meat. Many consumers decided to purchase better-grade goods for which the same number of coupons was required as for lower-grade goods. As to the expectation of scarcities, retailers of apparel and housefurnishings reported that in 1942 and the first quarter of 1943, when their customers expected certain merchandise to become unavailable or to be rationed, many of them bought higher-grade goods than they had been accustomed to buying. Their expectations proved to be justified in some instances (nylon hosiery, rubber goods, coffee, etc.) and unjustified in others (woolen goods, clothing in general).[1] When shortages actually developed, uptrading became negligible and often even the reverse process took place: Buyers were concerned only with getting the goods, irrespective of qualities.

According to our information voluntary uptrading did not extend to all luxury products. Demand for expensive jewelry, for example, did not increase greatly; merchants argued that the incomes of many persons in the highest brackets did not go up during the war, that wartime habits did not favor conspicuous consumption and that runaway inflation — which would have caused such purchases—was not expected by the general public (see also IX, 3).

In restaurants, business volume was clearly affected by demand factors: the number of their customers increased in 1942 and 1943 as against the preceding years (cf. IX, 3). In this case demand was fostered by increased incomes, by the fact that more women were working outside their homes, and, in 1943, by the rationing of meat.

Wartime conditions affected the demand for men's wear and luggage. In 1942 and 1943 fewer men were buying civilian clothing than in the preceding years because they were in the armed forces or were uncertain about their draft status. The demand for men's furnishings was less affected than for suits and coats, mainly because the former are less durable. The effects of the draft on the sales of men's clothing were partly offset by increased purchases by civilians with rising incomes. Most of our respondents, both manufacturers and retailers, reported that the number of men's suits sold declined somewhat after the spring of 1942 and attributed occasional increases in their dollar sales to voluntary uptrading. This is in

[1] Rush buying and hoarding will be discussed extensively in the next chapter, because their most important effect was an increase in demand at certain times.

sharp contrast to women's clothing where there was a considerable increase in the number of items sold. The greatly increased demand for luggage was explained by the great amount of wartime travel.

On the supply side the business volume of different commodities was primarily affected by the limitation of civilian output through wartime regulations and conditions. The production of some lines of merchandise was entirely discontinued so that their sales became negligible; our surveys did not cover these goods (automobiles, refrigerators, radios, rubber products, etc.). In all other commodity lines, both industrial and agricultural, a limit was set on the expansion of civilian output by lack of materials (often brought about by priorities given to military production), lack of equipment (coupled with the prohibition of expanding plants), manpower shortages and transportation difficulties (which, for example, restricted imports). In some lines, as the result of such limitations of output, buyers experienced shortages; this happened not only when the quantities available for civilian consumption declined but also when they increased to a lesser extent than demand. In some other lines, however, the limitations were not effectual: The available quantities either sufficed to satisfy demand fully, or were large enough to satisfy the over-all demand, although buyers could not always get the desired style, grade, brand, etc.

By combining the various conditions of demand and supply we can distinguish between four different market situations that were found to have existed during the period studied. Our information on changes in demand, on the presence and absence of shortages resulting from limitations of output, and on changes in business volume, enabled us to classify the various commodities studied accordingly.[2]

Group I: Relatively stable demand; absence of shortages indicated that limitations of output were not effectual; no substantial increase in business volume.

Commodities: Men's clothing, men's and women's hats, inexpensive shoes, cereals, certain canned goods (under rationing), service of inexpensive cleaners. The supplies of these goods were adequate to satisfy demand that did not increase greatly during price control.

Group II: Great increase in demand; absence of over-all shortages indicated that limitations of output were not effectual; substantial increase in business volume.

Commodities: Women's ready-to-wear and accessories, men's furnishings, drugs, all groceries in 1942, dry groceries in 1943, most fresh fruits and vegetables, restaurant meals, jewelry, and flowers. In these lines both supply and demand increased considerably. Retailers as well as ultimate

[2] The pricing actions that occurred in each group will be considered in section 4.

consumers were able to get merchandise, although their choice was often limited.

Group III: Increase in demand; acute shortages indicated that limitations of output were very effectual; no substantial increase in business volume.

Commodities: Furniture, most housefurnishings, kitchenware, meat (after rationing and before November, 1943). Sales of these commodities remained relatively stationary because of the inadequacy of available supplies. In this group belong also most of the durable consumer goods and low-end apparel and housefurnishings lines which practically disappeared from the markets and in which, therefore, business volume declined considerably.

Group IV: Increase in demand; presence of shortages indicated that limitations of output were effectual; substantial increases in business volume (or at least in dollar sales).

Commodities: Expensive shoes, underwear, luggage, liquor, meat before rationing, certain fresh fruits and vegetables. While for some of these goods the evidence is incomplete as to the trend of physical volume, their dollar sales increased substantially. In all these goods there were acute shortages because demand rose much more than supplies.

We find that in two groups (II and IV) sales did increase and in two (I and III) sales did not increase substantially; the demand-supply conditions that accounted for these trends differed in each case.

2. *Influence of Profits on Supplies*

Among the supply factors that might have affected business volume we have not mentioned costs. We found that changes in unit costs (sec. 3) did not substantially influence the total rate of production during the period studied. Most respondents said that neither cost increases (e.g., higher wages) nor cost reductions (e.g., simplification of products) had affected total output, although they had changed profits. (Only among laundries did some respondents say that not only shortages of skilled labor but also increases in labor costs had induced them to cut down on their business volume.)

Occasional cost reductions did not serve to alleviate shortages of supply. Our inquiries into the effects of price control on production also furnished evidence that shortages would not have been relieved by increased profits resulting from higher prices. When asked whether price control had affected business decisions in such a way as to lower the total volume of production, most businessmen in the fields of apparel and housefurnishings declared that it had done so only in a few exceptional instances.[3] They went even further and expressed the opinion that higher prices would not have increased production. Of 30 manufacturers of apparel who discussed this question with us in the summer of 1943, 18 said that their output had reached the limit set by available manpower, materials, and equipment, and it would therefore have been impossible for them to increase it if the OPA had granted higher ceilings. Ten manufacturers said, in essence, that the question was not correctly put and could not be answered by yes or no. They declared that even though for the time being selling prices and profits alone did not determine the size of their output, the OPA should not have taken advantage of this situation and should not have fixed their selling prices as low as it did. Only two manufacturers said that they would have produced more if their prices had been higher.[4]

In a survey conducted in January and February, 1943, 73 retailers of apparel and housefurnishings were asked the following specific question: "Do you think an increase in the ceiling prices of the commodities you buy could induce a substantial increase in their production and supply?" Although the form of this question might be considered conducive to an affirmative reply, only 10 merchants said "yes," 48 said "no," and 15 expressed no opinion.

In the food trade, businessmen in general expressed a much less favorable opinion than in apparel and housefurnishings lines concerning the effects of price control on production and its composition. Many food merchants said that higher farm prices might have brought about greater farm production; some even that delays in the issuance of regulations had curtailed food supplies. There were frequent reports that farmers had altered their production schedules in such a manner that undesirable changes in food supplies resulted. The best-known instance of a shift in output directly caused by the relation between the ceilings of two commodities concerns the corn-hog ratio. Cash sales of corn were curtailed in 1943 when it was more profitable to feed corn to hogs for which the ceiling was relatively high. Differences between ceiling prices and uncontrolled prices were said to have affected supplies of fresh fruits and vegetables.

3 Prominently mentioned among the exceptions was a regulation setting the prices of fall and winter underwear at such low levels that several manufacturers discontinued production; in some fields, among which luggage was mentioned repeatedly, manufacturers were said to have cut production in expectation of new regulations providing higher ceilings.

4 Changes in cost-price relations were, however, often said to have been responsible for shifts from lower-grade to better-grade products or from "necessities" to "luxuries" (cf. Chap. XXII). As a result of such shifts certain low-end lines disappeared from the markets and others became very scarce (cf. IX, 3; these goods belong therefore in Group III of our classification of commodities according to supply-demand conditions).

When only "essential" vegetables were subject to control (first half of 1943), farmers increased their production of "luxury" fruits and vegetables to take advantage of the higher prices obtainable for them.

3. Increases and Reductions in Costs

In our sample changes in profits (before taxes) were found to have been closely associated with changes in dollar sales: in 1942 and 1943 most firms with rising sales had rising profits and most firms with declining sales had declining profits.[5] This suggests that increases in unit costs in relation to changes in prices could not have been very significant. The findings reported in this section confirm this assumption. With most firms certain factors tended to raise and others to lower unit costs during price control. The most important increases were brought about by higher labor costs; the most important reductions, by the simplification of production and distribution that was made possible or even required by wartime conditions.

In July, 1942, that is, two months after selling prices were frozen by the GMPR, the Little Steel Formula established basic wage rates at 15 per cent over the rates paid in January, 1941. Most firms interviewed reported that application of the formula raised their wage rates, but because of previous wage adjustment the increases were relatively small, and some formula ceilings took them into account. This makes it understandable that most respondents complained less about the Little Steel Formula than about the following changes in their labor costs:

a) Increases in basic wage rates ordered after the Little Steel Formula went into effect (e. g., in the laundry industry where workers had been relatively underpaid) or granted by some businessmen in violation of the wage stabilization. Most laundries and restaurants and some small retailers declared that in their fields "practically no one"

[5] The effect of increased dollar sales of a firm on its profits (before taxes) depends partly on the presence of fixed costs, i. e., costs that do not rise proportionally with volume (rent, depreciation, etc.); partly on the change in prices and variable costs (labor, raw materials) per unit sold. If prices and variable costs per unit are unchanged, or if one changes in the same proportion as the other, the added profit due to higher dollar sales will be the larger the firm's fixed costs. But if (to take another extreme case) costs of labor and materials do not change while prices increase in the same proportion as dollar sales then the whole rise in dollar sales is added to the firm's profits, quite irrespective of whether the firm has large or small fixed costs. The actual situation with most firms was probably between these two extremes, since we found that changes in dollar sales were associated with changes in profits not only in business lines with relatively high fixed costs (e. g., large manufacturers of apparel and furniture), but also in those with relatively low fixed costs (e. g., small women's-wear manufacturers, wholesale grocers, laundries).

complied with the wage regulation and, therefore, in order to keep their employees, they were compelled to raise wages and salaries.

b) Increases in wages despite stable basic wage rates. Apparel manufacturers and meat packers, in particular, reported advancing costs due to reclassification of labor, overtime, paid vacations, etc.

c) Additional labor costs due to increased labor turnover, inefficiency, and absenteeism. "In eight months we hired 1,250 people to fill 150 jobs," said the manager of a restaurant chain; and most other restaurants, laundries, and department stores stressed the same point, although with less extreme examples.

In only two business lines did respondents say that total profits were substantially lowered by increased labor costs the effect of which was not offset by other changes in costs. These were manufacturing of women's clothing and laundries, in which wages represent a large percentage of total costs. Pay roll amounted to 50 to 75 per cent of total receipts in 17 power laundries interviewed in 1943, and the proportion had increased in 14 of them since 1941.

While most businessmen complained about the inefficiency of their new help, practically all retailers and restaurateurs who answered the relevant question or furnished us with exact data indicated that operating costs had advanced only in absolute amounts but had declined in per cent of total receipts. This was due partly to higher prices, partly to a deterioration in the quality of the service rendered (the average employee took care of more customers than before), and partly to certain economies in operating costs.

Food retailers introduced shorter business hours, reduced or eliminated deliveries, and transformed their stores to self-service or optional self-service (self-service was introduced during price control by five of 36 independent grocers interviewed). Laundries made savings by reducing deliveries (which was compulsory by an ODT order) and by eliminating "frills" (which was permitted at unchanged prices). Restaurants improved their operating efficiency, particularly in 1943, when rationing compelled them to plan their menus more economically: they served shorter and less varied menus and reduced waste by serving the same meals on consecutive days.

In the manufacturing of apparel and housefurnishings the most important economies in operating costs resulted from a reduction in the number of patterns and styles produced. In furniture such a reduction was prescribed by the WPB (L-260, March, 1943 — but some manufacturers said that they went further than required by the order), while in most apparel lines it was introduced voluntarily because, as manufacturers said: "Whatever we produce we can sell" or "We no longer need to cater to all the wishes of our customers." The number of styles produced by a manufacturer of women's lingerie was reduced from 150 in 1940 to 25 in

1943; by a manufacturer of gloves from 200 in 1940 to 30 in 1943. These were the extreme instances in our sample, but several other manufacturers cut the number of their patterns by 25 to 50 per cent, and only a minority of the clothing manufacturers interviewed failed to make any such reduction in operating costs. The effect of this simplification on profits was enhanced by the fact that usually the least profitable patterns and styles were eliminated and that style changes from season to season were likewise reduced.

Transition to all-year-round production and reduction in selling and advertising expenses were also mentioned as having brought about economies during price control. Most respondents said, however, that the prewar concentration of production of seasonal goods in a few months of the year had disappeared before the introduction of price control. As to selling expenses several manufacturers and wholesalers declared that despite the fact that, as they said, selling no longer constituted any problem, they did not reduce their sales force and continued to advertise to the same extent as before price control. They did not attempt to economize in these respects partly because they believed that advertising and visits to customers by salesmen would contribute to the maintenance of postwar markets. Most retailers said that they did not reduce, and in some cases even increased, their advertising expenditures because they considered advertising necessary to maintain or increase business volume.

In our interviews with manufacturers the inquiry as to the nature and frequency of factors reducing operating costs followed the discussion of rising labor and raw-material costs and took the form of asking whether any other business developments had compensated for the cost increases. Of 40 manufacturers of clothing articles, 29 answered this question in the affirmative and named a variety of compensating factors. Table 26 shows the answers relevant to cost economies.

Among cost increases other than higher labor costs manufacturers mentioned the higher prices of raw materials and distributors their higher buying prices. Such cost increases would contribute to reducing profits if selling prices did not rise in the same proportion. The profits of most manufacturers of apparel and housefurnishings were not adversely affected by increases in their raw-material costs because they operated under formula ceilings and were permitted to transmit all such increases to their customers.[6] The profits of men's-underwear manufacturers operating under the

[6] In women's-wear manufacturing, however, MPR 287 ordered that margins be cut 10 per cent below each firm's pre-GMPR margins. By some respondents this was considered a great hardship, while others declared that the reduction was justified. One large manufacturer, for example, said: "Only our March, 1942 markup was reduced

TABLE 26

FACTORS FAVORABLE TO PROFITS

(other than direct or indirect price increases)

29 Clothing Manufacturers; Spring, 1943

Factor Mentioned	Frequency of Observations
Simplification of production process:	
Fewer patterns and styles, elimination of low-margin products	23
Fewer style changes from season to season	7
Reduction of selling and advertising expenses	7
Increase in physical volume of business	12
All-year-round steady production as against seasonal fluctuations	3
Elimination or reduction of sales below regular prices	10
Elimination of end-of-season losses, diminution of style risks	5
Total	67

GMPR, however, and those of the meat packers operating under dollar-and-cent ceilings, were adversely affected by increased cotton and livestock prices, respectively.

Among distributors it was found that percentage margins between buying and selling prices tended to recede in the second half of 1942 and in 1943, because some manufacturers had formula ceilings while retailers were subject to the GMPR (V, 1), because retailers had to make purchases from more expensive suppliers (VII, 2), and because manufacturers' discounts were discontinued (VIII, 3). In interviews with 31 department stores, variety chains, and large specialty stores the percentage margins between selling and buying prices (initial markups[7]) were said to have been higher in 1943 than before the GMPR went into effect in two firms, practically unchanged in three firms, and lower in 26 firms. We found, however, that most wholesalers' and retailers' margins had been unusually high in March, 1942, and had not declined more in the two years after the GMPR than they had advanced in the year before it. In 10 case studies with large distributors exact data were obtained on initial markups. The average initial markup for that small sample was 35.1 per cent in 1940, 37.6 per cent in the first half of 1942, and 35.3 per cent in

and not our normal markup; in the spring of 1942 our markup was exceedingly large because before the GMPR we raised prices as fast as we could."

[7] See VIII, 2 for the explanation of this term which is contrasted there with earned markups; the former do not include the effect of markdowns, the latter do.

the first eight months of 1943.[8] The trend toward lower retail margins did not prevail in the liquor trade, where illegal price increases were frequent (VI, 1). In uncontrolled goods, as buying prices advanced, retailers' usual pricing procedure was to raise selling prices in the same proportion, although we received information of slightly increasing percentage margins from jewelers and of decreasing ones from several florists (V, 2).

4. *Effects on Pricing Procedures*

Appendix III presents information on profits as well as sales in different commodity lines. It shows that for our total sample neither sales changes nor profit changes were correlated with business actions either favorable or unfavorable to price stability. A number of businessmen, however, did lay great stress on those factors in explaining why prices and qualities had been kept more stable or less stable in some goods than in others. In these cases respondents made one of two conflicting generalizations:

a) A substantial increase in profits or sales exerts a favorable influence on price stability, while a decline tends to cause violations of ceilings. Some manufacturers and distributors of women's apparel and some grocers explained that they had kept prices and qualities relatively unchanged or made little use of the similar-commodities clause because their business was highly profitable anyhow.[9] On the other hand, meat processors and dealers "justified" their violation of price ceilings by unfavorable profit trends (cf. VI, 3).

b) A substantial increase in sales tends to cause violations of ceilings, while the absence of such sales increase has a favorable effect on price stability. Some manufacturers and distributors of women's apparel and some grocers contended that when sales expanded and demand seemed inexhaustible "the sellers' market was highly developed" and "competition ceased to exist," so that compliance with price control deteriorated. On the other hand, some businessmen whose sales had remained relatively stationary, particularly manufacturers and retailers of men's wear, said: "There is no sellers' market in our products"; therefore, "competition still protects the consumer" by helping to keep prices down.

[8] In an earlier study—December, 1942 and January, 1943—46 of 68 retailers of apparel and housefurnishings said that their buying prices had advanced during the second half of 1942 (V, 1; cf. Table 4). Of the 46 the majority (26) said that they had transmitted at least part of the increases to their customers, while the minority (20) said that they had absorbed all increases themselves.

[9] Some retailers of apparel credited the profit increase caused by the reduction of markdowns with having been particularly effective in contributing to compliance with price control in their field.

It is necessary to probe beyond the generalizations of the respondents and to study which of the various changes in supply-demand conditions, presented in the preceding sections, did and which did not cause a pressure on ceilings.

First we take the market situation as characterized in Group I (p. 132): Sales remained relatively stationary because demand did not increase. In these cases businessmen were eager to increase their business volume and competed with each other, occasionally by selling below ceilings and usually by keeping prices and qualities unchanged. They abstained from increasing prices for fear of losing business. The profits of some businessmen in this group were rising, those of others declining, but profit trends in this case do not appear to have influenced pricing actions.

Thus in Group I we find confirmation for the statement that stationary or declining sales tended to promote price stability. But this was not always true. When the stability or decline of sales was caused by limitations of output (Group III), keeping prices stable would not have helped to increase sales. On the contrary, businessmen competed with each other, not in finding customers, but in getting the goods, and one means of doing this was by paying higher prices, which could then be shifted on to the consumer. Acute shortages therefore tended to undermine compliance with price control.[10] This appears to have been true irrespective of sales or profit trends. Some sellers of scarce goods had unfavorable sales and profits (Group III), others favorable ones (Group IV); in both groups actions conducive to price stability were relatively infrequent. Thus we find that in some scarce goods pricing procedures unfavorable to price stability were associated with unfavorable profit trends (e.g., meat), while in others they were not—e.g., in liquor, which ranks high in the list of profitable commodities (cf. Table 56, Appendix III), but very low in compliance with price control (cf. Table 22, Chap. XI). Shortages were the important factor in both cases.

When limitations of output were not effectual and sales increased substantially because of rapidly growing demand, as happened in women's ready-to-wear, groceries, and drugs (Group II), the effect of demand-supply conditions on pricing was ambiguous, so that the businessmen's pricing actions could not have been determined solely by those conditions. According to some sellers of these goods, higher profits resulting from

[10] In a few isolated lines—e. g., certain kitchenware and American watches—prices were said to have remained relatively stable despite acute shortages. The tendency toward noncompliance may have been offset in these goods by the effects of market structure (prevalence of large firms producing brands; XIV, 1). A specific instance of a causal relation between shortages and price increases was noted in VI, 3 with respect to scarce fresh vegetables.

sales increases were conducive to price stability. These sellers were conscious of having refrained from increasing their prices because their expanding business was highly profitable. But other sellers of the same commodities found that they could sell all they could produce or buy even if they raised prices or lowered qualities. In these cases the pressure exerted by urgent demand, which improved the bargaining position of the sellers as against the buyers, was conducive to price increases.

Changes in profits resulting from cost economies rather than from sales increases likewise had different effects on the pricing actions of different businessmen in Group II. We found that among women's-wear manufacturers who profited substantially by the reduction of the number of their patterns some deteriorated the quality of their products greatly while others did not. Manufacturers who could not profit by a simplification of production because they had produced only a few styles before price control also differed greatly as to their pricing procedures. Our findings among manufacturers and retailers of apparel contradict the assertion that substantial price increases were made only if business would have been unprofitable without them.

Some retail grocers violated the regulations despite rising profits when they considered those profits unsatisfactory as compared to what they and their families might have earned in defense industries. Yet for most grocers profit trends appear to have been less influential than the successive periods of price control (cf. Chap. XVI) in determining pricing procedures.

To summarize the analysis of the effects of changes in supply and demand conditions on compliance with price regulations and on the choice of pricing procedures, we can make two generalizations:

a) Relatively stationary sales resulting from the absence of an increase in demand rather than from limitations of output tended to contribute to price stability.

b) Acute shortages in supplies resulting from limitations of output tended to contribute to price increases (irrespective of sales developments).

With regard to commodity lines to which none of the conditions described under a) and b) applied, we found that sales and profit trends, although they did exert some influence in certain individual cases, were not generally a decisive factor in determining pricing actions.

CHAPTER XVI

Influence of Price Control on Demand

1. *Periods of Price Control and Fluctuations in Demand*

We saw in Chapter X that in certain periods of 1942 and 1943 price stability was maintained better than in other periods. Prices were comparatively stable, for example, in apparel and housefurnishings in the summer of 1942, and in food and apparel in the second half of 1943. This finding gives rise to the question as to whether different phases of price control can be distinguished. Were there periods in which the regulations were relatively effective and others in which they were relatively ineffective? If so, what determined the differences? We shall find that the "atmosphere" in which the OPA operated, as well as the businessmen's evaluation of price control and their expectations as to future price stability or price increases, changed several times in 1942 and 1943 and influenced pricing actions. The discussion of changes in atmosphere will be coupled with an analysis of changes in the effective demand for consumer goods, because different evaluations of price control were found to have had an effect not only on prices but also on the rate of purchases, both of businessmen and of consumers, for example, by stimulating or by discouraging excessive buying and hoarding.

Data compiled by the Department of Commerce on consumer expenditures indicate that certain periods of 1942 and 1943 were characterized by particularly heavy buying, and others by retarded buying. Both disposable incomes (income payments to individuals minus personal taxes) and consumer expenditures have risen rapidly in the past few years, but the proportion of disposable incomes spent declined from 90 per cent in 1939 to 73 per cent in 1943. In other words, the proportion of savings increased with incomes. That trend was, however, interrupted in certain periods and accelerated in others. The most pronounced increase in consumer spending and decline in savings occurred in the first quarter of 1943 (see Table 27, col. D).

Consumer expenditures include purchases of services, durable goods (e.g., furniture, automobiles), semidurable goods (e.g., apparel) and perishable goods (e.g., most food products). Spending for any of these goods

TABLE 27

Consumer Expenditures in Relation to Disposable Incomes

Quarters	Seasonally Adjusted Annual Rates in Billions			Portion of Disposable Incomes Applied to	
	Disposable Incomes	Total Expenditures	Net Savings	Total Expenditures	Expenditures for Nondurables
	A	B	C	D	E
1941—I	$ 79.2	$71.0	$ 8.2	89.6%	46.7%
II	86.4	73.7	12.7	85.3	45.0
III	92.8	77.3	15.5	83.3	45.6
IV	96.5	76.4	20.1	79.2	43.6
1942—I	99.8	80.3	19.6	80.5	46.6
II	105.9	79.5	26.4	75.1	43.5
III	112.8	82.8	30.0	73.4	43.1
IV	121.5	85.4	36.1	70.3	41.7
1943—I	120.4	90.3	30.1	75.0	45.8
II	125.4	89.4	36.0	71.3	42.9
III	124.0	91.1	32.9	73.5	44.2
IV	125.9	93.0	33.0	73.9	45.3

Source: *Survey of Current Business*, Vol. 24, April, 1944.

Consumer expenditures are expressed in Tables 27 and 28 in actual rather than in constant prices. Deflating the expenditure data is impossible because of the absence of exact measures of quality deterioration in each quarter. This fact, however, does not detract from the validity of the argument in the text. By comparing, for example, the seasonally adjusted sales of clothing (Table 28) in the first quarters of 1942 and 1943 with those in the following quarters, the abnormal development of the physical volume of sales in the first quarters is evident, since there were no price recessions in those two years. Only for the purpose of further analyses, not made in this study—for example, to compare consumer buying in the first quarters of 1942 and 1943—would a deflation of the expenditures be needed.

or services may be accelerated, but only durables and semidurables may be bought in advance of immediate needs. In Table 27, however, "expenditures for nondurables" (col. E) include both perishables and semidurables. The sales trends of certain semidurables alone (clothing sales of department stores, Table 28) fluctuated much more than did total consumer expenditures. Department-store clothing sales were very heavy in the first quarter of 1942 and in the first quarter of 1943, and light in the second and third quarters of 1942.

TABLE 28

SALES OF DEPARTMENT STORES AND MAIL-ORDER HOUSES

Corresponding Quarter of 1941 = 100

	1942				1943	
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter
Total sales	127.9	103.0	101.2	113.9	141.0	120.1
Sales of clothing	132.5	104.9	107.4	119.3	157.9	129.8

Source: *Survey of Current Business,* Vol. 23, October, 1943, p. 5; based on data collected by the Board of Governors of the Federal Reserve System.

Both Tables 27 and 28 present quarterly data, although changes from heavy buying to slow buying may not have coincided with the end of the quarters. Figure 6 indicates the monthly trends of total consumer expenditures and of retail sales of apparel and their relationship to disposable incomes. When the expenditure curves rise more sharply than the income curve, an acceleration in the proportion of incomes spent is indicated; when the expenditure curves fall or rise more slowly than the income curve, a smaller proportion of incomes was spent. Periods of "accelerated spending" are found before the GMPR and in January and February, 1943; periods of "retarded spending" immediately after the GMPR and possibly in the summer of 1943.

These nationwide statistical data on fluctuations in consumer spending were corroborated by information received from our interviews with Chicago merchants. Both the information on changes in demand and on changes in prices suggest that the time during which price control was studied (beginning with the issuance of the GMPR) can be divided into three periods. The dividing dates cannot, of course, be set exactly, but on the whole it was found that the first period ended and the second began in the late autumn of 1942, and the second ended and the third began in May, 1943.[1] (The third period was still continuing when our study was terminated in the spring of 1944.)

[1] F. C. Mills divides the time from the GMPR to June, 1943 similarly into three periods: the six months between March and September, 1942, the six months between September, 1942 and March, 1943, and the final period of three months to June, 1943. Calculating the monthly rates of change of various price and wage indexes, he finds that the rate of increase was higher in the second than in the first and third periods (*Prices in a War Economy,* National Bureau of Economic Research, 1943, pp. 15 ff.).

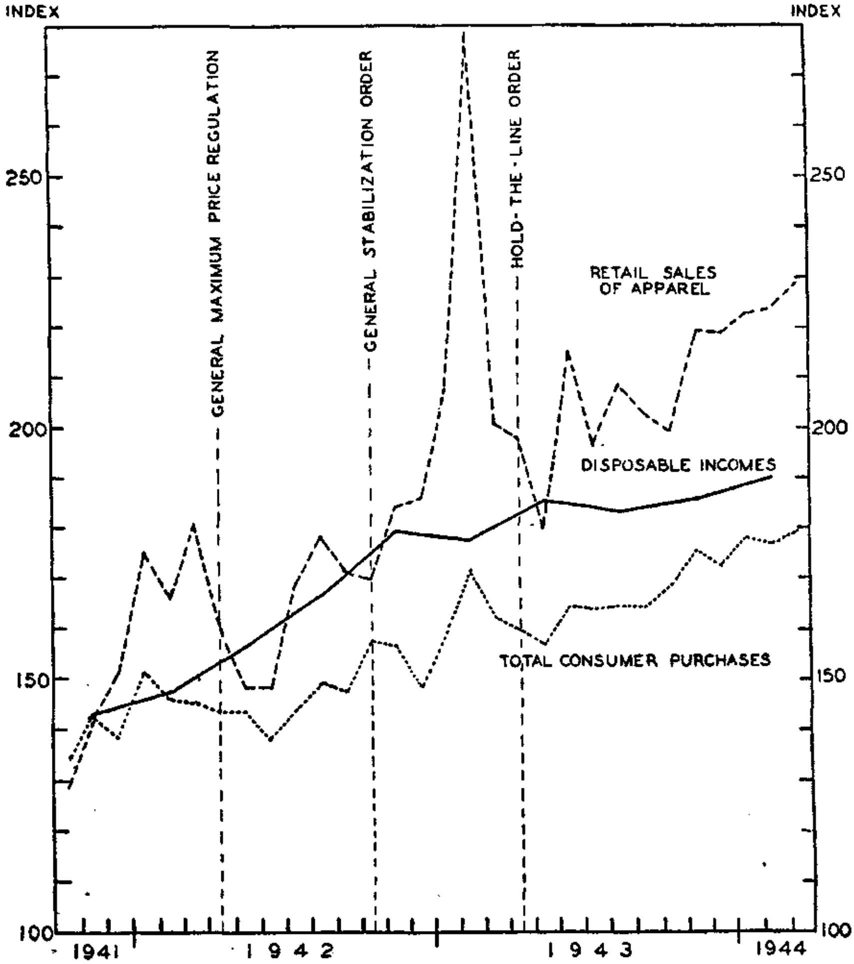

FIGURE 6. CONSUMER INCOMES AND PURCHASES; OCTOBER, 1941 - MARCH, 1944

Source: *Survey of Current Business.* Seasonably adjusted indexes. Disposable incomes, quarterly data, 1939 = 100. Total consumer purchases of goods and retail sales of apparel stores, monthly data, 1935-39 = 100.

2. *Spring, 1942 to Fall, 1942: Stabilizing Effects of the GMPR*

In the first few months of 1942 consumer purchases were heavy and retail prices advanced sharply. The BLS index for food prices rose 8.4 per cent from December, 1941 to May, 1942; the index for clothing prices (semidurables), 10.1 per cent. When asked about rush buying (panic buying, hoarding) retailers referred to the first four months of 1942 much

TABLE 29

OCCURRENCE OF RUSH BUYING AND SLOW BUYING AT DIFFERENT PERIODS
Reports by Department Stores and Retailers of Apparel and Housefurnishings

TYPES OF BUYING	NUMBER OF FIRMS			
	1942			1943
	First 4 Months	Second 4 Months	Third 4 Months	First 4 Months
Rush	36	0	12	21
Slow	0	22	7	0
Neither	37	51	54	5

Answers received to the following questions are here recorded:

"Was there a period of rush buying (panic buying, hoarding) in your store in the past 12 months? If so, when? In what commodities?"

"Was there a period of unseasonally slow business in your store in the past 12 months? If so, when? In what commodities?"

References to rush buying in hosiery, rubber goods, and goods whose production was entirely discontinued (refrigerators, radios, etc.), frequent in the first 4 months of 1942, were not taken into account, in order that the data for successive periods should be comparable.

The 1943 sample was much smaller than the 1942 sample.

more frequently than to any other period of that year (Table 29; references to rush buying were still more frequent in 1943). Two explanations were given for the heavy buying at that time. The first was the expectation of shortages. Consumers knew that many durable goods as well as merchandise made of rubber and silk were no longer being produced, and the disappearance of these goods was accompanied by reports and rumors about forthcoming shortages in many other lines. The second was the expectation of price increases. "Everyone bought heavily to avoid paying higher prices later on," was the consensus among businessmen based on their own as well as their customers' reactions. Retailers of women's apparel in particular retained vivid recollections of the considerable and frequent price increases in that period. An executive of a large apparel store reported that in January, 1942 he had paid $3.75 for a certain dress, and that in reordering the same dress during the following three months he had paid $4.00, $4.50, and $4.75 respectively. Because of these price increases he had done everything he could to accumulate inventories in February and March, 1942.

The issuance of the GMPR in April, 1942 was accompanied by a broadcast by President Roosevelt outlining a seven-point program to stabilize national economy and by an announcement of Price Administrator Leon Henderson stating that "the ceilings will not be punctured."

The GMPR froze the prices of certain goods at high and other goods at low levels as compared to their 1939 prices (Table 30). According to BLS indexes, the average price of one type of apparel (dresses) rose 57 per cent and that of another (women's shoes) only 13 per cent from the outbreak of the European war to the GMPR. There were great differences in the price increases even in the same commodity produced by different manufacturers. (See Table 30 for different rates of price increases of three men's-suit manufacturers.) Nevertheless, apparel and housefurnishings prices were stabilized by the GMPR regardless of whether they had ad-

TABLE 30

DIFFERENCES IN PRICE INCREASES PRIOR TO THE GMPR

According to BLS Indexes*

Commodity		Prices of March, 1942 (September, 1939 = 100)
Men's wear:	Top coats	118.8
	Wool suits	127.9
	Cotton overalls	144.9
	Business shirts	125.8
	Street shoes	126.8
Women's wear:	Dresses	157.5
	Shoes	113.0
	Panties	121.7
Housefurnishings:	Living-room and bedroom suites	131.4
	Mattresses	125.7
	Sheets	146.3

Data Obtained from Case Studies

BEST-SELLING SUIT† OF	MANUFACTURERS' PRICES OF MEN'S SUITS (1939-40 = 100)		
	Fall, 1941	March, 1942‡	After July, 1942§
Manufacturer A	110	136	126
Manufacturer B	111	119	128
Manufacturer C	131	144	141

* *Monthly Labor Review*, Vol. 54, May, 1942, p. 1171.

† Among the three suits, that of Manufacturer A is the most expensive, and that of Manufacturer C the cheapest. All three prices were stable for several years until the spring of 1941.

‡ GMPR price.

§ Ceilings changed by MPR 177.

vanced sharply or slightly in the preceding months. At the same time consumer demand receded.

Sales statistics of many retailers indicated that consumer buying was slower in the summer of 1942 than warranted by seasonal factors (cf. also Table 29). They gave three different explanations for that development:

a) Customers had overbought in the preceding months.

b) Expected shortages had not materialized, and talk of forthcoming shortages had stopped.

These explanations, if correct, would indicate that the GMPR just happened to be put into effect when buying would have declined even without price control.

c) GMPR caused a decline in demand. "When ceilings came along the stampede stopped"; "Large-scale buying ceased when no further price increases were anticipated."

The relative importance of the three factors cannot be determined. Yet developments in 1943 add weight to the last explanation and confirm that consumer demand and the effectiveness of price control were not independent of each other.

3. *Fall, 1942 to Summer, 1943: Increased Buying and Higher Prices*

The main events on the inflation front during the second half of 1942 can be summarized as follows:

After the announcement of the Little Steel Formula (July) the cost of production of consumer goods continued to advance.

Higher farm prices were demanded in Congress, in the press, and over the radio, despite the fact that many of them, being uncontrolled, rose continuously and, in July, caused the first important break in ceilings (of canned, dried, and frozen fruits).

The President's request for new anti-inflation legislation was followed by heated debate in Congress (September) during which the dangers of imminent price increases were called to the attention of the public by the very people who wanted to prevent them.

Congress finally passed legislation enabling the President to issue the General Stabilization Order (October 3) extending price control to many important food products and freezing wages and salaries.

The General Stabilization Order did not prolong the period of relative price stability and restrained buying. The last few months of 1942 witnessed gradual changes for the worse. As the base date of the GMPR became more remote, the need grew for its supplementation (cf. XII, 1). The OPA, however, so far as it acted at all, tended to depart from "tight pricing" principles. OPA officials called the GMPR a stopgap measure and introduced more and more formula ceilings, which were not conducive to price stability. Moreover, according to the merchants themselves, the use made of the similar-commodities clause was not checked. Nevertheless, at the end of 1942 many merchants were still convinced that the prices of most goods subject to the GMPR were stabilized (cf. Table 20 in Chap. X). The picture changed rapidly during the first few months of 1943. In our interviews businessmen called attention to three major developments of that time:

a) Informal rationing, that is, the allocation of unrationed goods by manufacturers to their customers (cf. Chap. XVIII), became the prevailing practice, whereas it had been used only sporadically in 1942. When retailers attempted to fill their shelves, depleted by Christmas shopping, their orders were only partially filled and deliveries were greatly delayed. As a consequence retailers began to order far beyond their requirements and the notion of extensive shortages spread in business circles.

b) Consumer buying did not recede seasonally in January and rose contraseasonally in February when a wave of panic buying and hoarding set in (see Figure 6).

c) Direct and indirect price increases became much more widespread. In February and March, 1943, businessmen and consumers offered no resistance to price increases or quality deterioration; getting the goods was the primary consideration of all buyers.

What economic or political developments may have accounted for these facts recorded by our field studies? In explaining the new situation Chicago businessmen referred primarily to indications and announcements of forthcoming shortages and price increases. With regard to *shortages* the following events were noted:

President Roosevelt in his budget message of January 11, 1943 announced a substantial increase in war expenditures and added: "Civilians can be supplied with an average of about $500 worth of goods and services during the next year. This implies an average reduction of almost 25 per cent in civilian consumption below the record level of the calendar year 1941."

The War Production Board predicted early in January that in 1943 civilian expenditures for goods and services would drop 10 to 15 per cent from their 1942 level.[2] The Department of Commerce estimated that total consumer expenditures would decline from $82 billion in 1942 to $77 billion in 1943 and that the sales of retail stores would drop 13 per cent.[3] The daily press gave wide publicity to these predictions during the first quarter of the year.

[2] Office of War Information, Advance Release, January 7, 1943.

[3] *Survey of Current Business,* Vol. 23, March, 1943, pp. 5 and 9. In August, 1943 (p. 4), the Department revised its estimate of consumer expenditures to $88 billion. The difference between the two estimates is much larger than accounted for by price increases. Actually, in 1943 total expenditures of consumers rose 11 per cent and retail sales 9 per cent (estimates of Department of Commerce, *Survey of Current Business,* Vol. 24, April, 1944, p. 13 and January, 1944, p. 8).

In February and March canned goods, meat, and shoes were rationed, and the rationing of canned goods and meat was announced several weeks in advance. The advance announcements gave great impetus to anticipatory buying and hoarding. The expectation prevailed that rationing would spread to more and more goods.

At the end of February the Office of Civilian Supply of the WPB published data about a "bedrock economy," presenting a picture of sharply restricted civilian supplies with which American economy would have to be satisfied "in the last extremes of a total war." [4] Regardless of what was actually meant by the eight words quoted, the data were widely considered as authoritative predictions of forthcoming shortages.

The expectation of *price increases* was based on the following events:

The resignation of Price Administrator Henderson and his replacement by Prentiss M. Brown were viewed as indications that the Administration was giving in to pressure groups intent upon raising prices. Upon assuming office in January, 1943, Mr. Brown announced that living costs could not be expected to stand at flat levels. He asserted that "a slow, orderly rise in prices is inevitable under present conditions, but the advances can be held to a normal rate of about one-half of one per cent a month."[5]

In January the National Retail Dry Goods Association resolved that "the GMPR should be replaced by a simple regulation providing for the markup practices (gross percentage markup) of individual retailers as of the year 1941 or the month of March, 1942, at the option of the retailer." [6] This resolution was in accordance with the conviction and practice of some manufacturers and retailers that the GMPR was outdated and no longer to be obeyed.

In February and March the press reported that the OPA intended to abandon price control of all "luxuries"; some of the unofficial lists printed in newspapers included among luxuries not only jewelry, furs, and all goods made to order, but also high-priced clothing and housefurnishings in general.

The evidence indicates that, the expectation of shortages and price rises promoted noncompliance and increased demand. Possibly, it even affected the distribution of supplies: some businessmen asserted that their suppliers and competitors withheld goods from the market in the early spring of 1943.

4. *Summer, 1943 to Spring, 1944: Firmer Price Control*

The following main events of the spring and summer of 1943 paved the way for the third period of price control, which began in the second half of that year:

Veto of the Bankhead-Steagall Bill designed to raise the level at which ceilings might be imposed on farm products (April).

Issuance of the Hold-the-Line Order (April) with the declared purpose of halting wage increases and controlling the cost of living. The Price Administrator is directed "to authorize no further increases in ceiling prices except to the minimum extent required by law."

[4] *New York Times,* February 21, 1943.

[5] *New York Times,* January 21, 1943.

[6] *The Bulletin,* National Retail Dry Goods Association, February, 1943, p. 13.

Establishment of dollar-and-cent ceilings for groceries and meat on the retail level (May).

Official announcements and public discussions centering around price rollbacks through subsidies rather than the inevitability of price increases.

Strong attacks on the Administration's home-front policies; they reached their climax in May but subsided a few weeks later, after changes were made in the leading personnel of the OPA, War Food Administration, and Office of War Mobilization.

Bill prohibiting subsidies killed by Presidential veto (July).

Withholding tax (effective July 1) curtailing consumer purchasing power.

No new rationing measure after March, 1943.

It is not possible to determine exactly when the new phase of price control began. It was characterized both by the absence of panic buying and by the retardation of direct and indirect price increases. While the two most important governmental measures, the Hold-the-Line Order and the introduction of dollar-and-cent food ceilings, were issued in April and May, compliance remained unsatisfactory in these months when Congressional attacks against the OPA reached an all-time high and newspaper and radio reports predicted a complete breakdown of price control. Beginning with June, however, compliance improved gradually, and the trend of food prices showed a break after two years of continuous advance. Similarly, according to our surveys, quality deterioration of apparel became less pronounced (X, 1).[7]

In the summer and fall of 1943, some businessmen explained the absence of rush buying as a "natural reaction" to the hoarding wave in the first quarter of the year. Others explained the relative price stability as a reaction to earlier price rises, saying, in effect: "There is a limit to how much prices can be raised and quality lowered." There may be some truth in the belief that waves of hoarding and of price increases evoke temporary reactions. Yet these explanations ignore the new regulations issued in the summer of 1943. The onset of the more effective phase of price control must be attributed primarily to those regulations and to the attitudes and expectations that they gradually evoked. The regulations alone did not suffice; the business community had to become convinced that strict price control was here to stay and would be rigidly enforced and that public opinion would no longer condone violations of ceilings—and this took some time.

[7] The BLS clothing index seems to contradict our findings. It advanced much more in the year after than in the year before May, 1943 (see Figure 2, Chap. IV). The increase after May, 1943, however, was due mainly to the disappearance of low-end clothing rather than to price appreciation. It is possible that even the former was reflected in the index with a certain time lag, since BLS field workers may not have made substitutions for low-end lines until they could not be found at all in retail stores, although they may have become very scarce several months earlier.

Prevailing opinions about the future trend of supplies changed more suddenly. Businessmen were greatly impressed by the fact that expected shortages had not developed and that manufacturers' deliveries of various civilian goods were larger than expected in the summer and fall of 1943. In the fourth quarter of 1943, the armed forces released certain quantities of textiles and metals for civilian production and disclosed "cutbacks" in the war production program. Businessmen were, however, much more impressed by military developments than by the slight actual improvements in the supply situation. The surrender of Italy (September) created the expectation of a speedy end to the war, which led many retailers to a reversal of their inventory policy. Before that time they had bought all the goods they could obtain and made commitments far beyond their requirements; after that date they saw a potential danger in huge inventories and commitments, especially of low-quality wartime products. This led to greater discrimination in buying and consequently to a pressure on manufacturers to maintain qualities.[8]

In the winter of 1943-44 and in the spring of 1944 the OPA increased its efforts of checking up on compliance and of instituting legal action against violators. At the same time it endeavored to improve its relationship with the business community and succeeded in achieving considerable public support for its policies. Prices remained fairly stable and there was no rush buying during this period despite a number of adverse developments. Although the third Administrator of the OPA, Chester Bowles,[9] made several unequivocal statements about keeping prices stable, various actions of the OPA (such as the increase in coal and corn ceilings, and conferences about the replacement of GMPR by formula ceilings for the retail trade) were interpreted by some businessmen interviewed as presaging a new period of lax price control. Whereas the greatest problem of the first year of price control after the GMPR had been rising food prices, the major problem of the second year was undesirable trends in the apparel industry: elimination of low-end lines and shifts of production to better-grade apparel continued unabated. Yet the OPA did not extend dollar-and-cent ceilings to the major lines of apparel but maintained clothing regulations that offered the businessmen considerable latitude in pricing and

[8] Theoretically, it is possible that the expectation of an early victory would lead to price increases rather than price stability, since one may react to the belief that victory is assured by making less effort to comply with wartime regulations. However, no evidence of this type of reaction was found in our surveys: in the fall of 1943, the degree of compliance seems to have depended on market expectations more than on patriotic motives.

[9] Mr. Bowles became General Manager of the OPA in July, 1943, and its Administrator in October, 1943.

made checkups by individual consumers[10] and by Local Price Panels practically impossible; Congress did not permit the use of quality standards; and the WPB took only occasional measures to stimulate the production of low-end lines by granting special priorities (for the production of work clothings, infants' wear, etc.). Respondents explained that the line had been held under such circumstances primarily because of businessmen's resistance both to direct and indirect price increases. Toward the conclusion of our surveys in the spring of 1944 several businessmen said that they even preferred to allow their business volume to drop rather than to buy merchandise of unsatisfactory quality or unduly high price. Others reported that the quality of some articles of clothing and housefurnishings was being improved, because of the release of certain raw materials and the anticipation of the end of the war.[11]

5. *The Strategic Role of Price Control*

From this sketch of developments on the inflation front from 1942 to 1944 we see that price movements in different fields were closely interrelated. The preceding chapters emphasized the differences in the price changes of different commodities; in this chapter we have tried to show certain similarities in their price trends: in some periods all prices tended to go up, in others, they all tended to remain stable. This may be explained by the fact that the same atmosphere—at certain times conducive to inflation and at other times to price stability—pervaded all sectors of business. The prevailing atmosphere contributed to the success or failure of price control.

Changes in the atmosphere were characterized by changes in the expectations of businessmen and consumers. We had to analyze the different phases of price control not solely in terms of the price, rationing, wage, and tax measures actually issued, but also in terms of official and unofficial statements and rumors about what was expected. Expectations of shortages and of price increases in certain periods were contrasted with expectations of a steady flow of supplies and of price stability in others. Such announcements as "The price ceilings will not be punctured" (Leon Henderson, April, 1942) or "Prices will advance by about ½ of 1 per cent per month" (Prentiss Brown, January, 1943), influenced compliance as well as demand. A "little inflation" may not be considered harmful in retrospect,

[10] Cf. the reference to surveys among consumers in XII, 3, indicating that the majority of consumers did not know there were any ceilings on clothing; those who did know could not check them, since they differed from store to store and time to time.

[11] In certain articles, primarily in upholstered furniture, the improvement in quality was said to have been accompanied by direct price increases.

but the expectation that a little inflation is inevitable may lead to considerable price increases.

Therefore the assertion seems unwarranted that price control deals exclusively with the symptoms of inflation without affecting its underlying cause, the gap between consumers' disposable incomes and available civilian supplies.[12] Price control influenced effective demand and to some extent also the flow of supplies. Some businessmen hesitated to sell when price control was expected to be relaxed or abandoned, and did not hesitate when stable prices were expected. More important were the effects of price control on demand. When price control was believed to be cracking and businessmen and consumers expected price increases, the former stocked up and the latter bought merchandise in excess and in advance of their requirements. When price control worked efficiently and was expected to insure price stability, purchases fell off.

The most important single factor contributing to the relative success of the fight against inflation was that the rate of consumer expenditures advanced much less than consumer incomes; in other words, consumers increased their rate of saving. Persons with larger incomes customarily save proportionately more than persons with smaller incomes. Can it therefore be assumed that the propensity to save always rises with rising incomes? The answer seems to be, yes, provided prices are not expected to go up. In 1942 and 1943 such factors as the lack of many products on which consumers might otherwise have spent their money and the purchase of war bonds motivated by patriotism doubtless contributed to the higher rate of savings. But they did so at a time when price control was in existence and confidence in its success prevailed. Without such confidence the rate of saving would probably have been much lower, just as it was lower in relation to disposable incomes in the first quarter of 1943 when substantial price increases were expected (cf. Table 27, above).

The statements frequently repeated in public discussions of inflation that "price control increases effective demand" and "the lower the prices are kept by price control (or by subsidies) the more will be bought"[13] seem

[12] G. Katona, in a section entitled "Price fixing is tinkering with the thermometer," quoted several authors making that assertion and attempted to disprove their arguments (*War Without Inflation*, 1942, pp. 29 ff.). Leon Henderson wrote in his foreword to Julius Hirsch's book on *Price Control in the War Economy* (New York, 1943 p. xvi): "As to Dr. Hirsch's remark that 'prices are only symptoms,' I do not deny that they are symptoms, but they are more than that. That fact lies at the very basis of the things that OPA has done. Current price movements powerfully affect inventory accumulation and speculative withholding of goods. In this way, they not only bring about further price movements but they seriously distort the flow of materials."

[13] The quotations are from newspaper editorials; they are no doubt related to such statements of economists as: "OPA activities so far have for the most part only post-

to stem from a failure to distinguish between current and expected prices. Effective demand depends on both. When expected prices are higher than current prices, demand is larger than when the two are equal. We must therefore contrast two situations: in the absence of wartime price control, current prices are relatively high but expected prices are still higher. Under efficient wartime price control, on the other hand, current prices are relatively low and expected prices are the same as current prices. It can then be seen that demand may well be smaller in the second than in the first situation. The conclusion that American price control retarded demand for consumer goods and promoted saving seems to be well substantiated. This very effect of price control created the conditions in which it could succeed, for heavy consumer spending would have destroyed price stability.

Notes

On consumer confidence in the success of price control: Nationwide consumer surveys conducted by a government agency in collaboration with the National Opinion Research Center proved that at various times in 1942 and 1943 the majority of consumers expected that price control would succeed. Permission was granted to quote the answers to the following question: "Do you think the government will really be able to keep prices under control?"

Time of Survey	All Prices Sept., 1942	Food Prices May, 1943	Food Prices Sept., 1943	Clothing Prices Sept., 1943
Yes	65%	60%	63%	65%
No	19	22	25	21
Don't Know	16	18	12	14

The question was not asked between September, 1942, and May, 1943, that is, during what we found to be the least satisfactory period of price control.

On the role of price expectations: The importance of the thesis that expectations of higher prices tend to increase demand has been minimized by the contention that the effect can only be temporary, because hoarders will eventually draw on their hoards. This argument overlooks that hoarding may result in price increases that spiral and spread and that overbuying is usually wasteful.

Whereas a study of the rates of expenditures and saving in 1942 and 1943 supports the thesis that they were not independent of price expectations, there is an apparent contradiction in 1941. In that year, when prices began to rise and, with few exceptions, were not controlled, the rate of saving increased from quarter to quarter and total savings amounted to $14.2 billion against $7.3 billion in 1940, when prices were relatively stable. A study by the BLS indicates, however, that the savings for families in every income bracket over $2,000 were considerably lower in 1941 than in 1935-36. (Data for the intervening years are not available.) One possible interpretation of this finding is that in 1941 families who moved to higher income brackets did not adopt the savings pattern corresponding to their new income. In fact, the authors of the study conclude that "the lower savings in 1941 by families with incomes over $2,000 suggests a large

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poned (and enlarged) the problem of inflation" (W. A. Wallis, *American Economic Review*, Vol. 33, Supplement, March, 1943, p. 276).

amount of anticipatory buying at that time" (*Monthly Labor Review,* Vol. 55, October, 1942, p. 706).

On the theory of the propensity to save: What Keynes calls a "psychological law," that "when aggregate income increases, consumption-expenditure will also increase but to a somewhat lesser extent" (*Quarterly Journal of Economics,* Vol. 51, February, 1937, p. 219), must probably be revised, since it fails to take expectations into account. Possibly allowance must be made not only for price expectations but also for income expectations.

CHAPTER XVII

Businessmen's Attitudes Toward Price Control

1. *Psychological Factors*

In discussing changes in atmosphere and their effects on pricing procedures, we considered the role of expectations in contributing to the success or failure of price control. We must go further in the study of psychological factors by analyzing the businessmen's attitudes toward price control. Without them the list of variables that influenced pricing actions cannot be complete because the pricing decisions of different firms differed greatly even where the objective conditions (given type of regulation, certain supply and demand conditions, etc.) appeared to be the same. Moreover, psychological factors must have been the link that determined the degree of importance attached to the various "objective factors." How changes in objective conditions influence decisions and actions depends upon the reacting person, because an individual acts in terms of what changes in the environment *mean* to him.

Our study of the origin of the businessmen's attitudes toward price control served to disclose a number of considerations, not yet discussed, which influenced pricing decisions. These were the businessmen's preoccupation with their firms' good will and postwar sales, their realization of the threat of inflation, their hostility toward government regulations, their feeling of having been treated unjustly, and the work caused by the regulations.

Our method of interviewing supplied much material for the analysis of the businessmen's attitudes. We made little use of direct questions to obtain this material.[1] Certain "open" questions, however, led to lengthy spontaneous discussions that disclosed the underlying viewpoints of the respondents. In some instances questions on price movements, evasions or compliance, or profits, were most fruitful; more often, the following two questions:

> What would you say were the main positive achievements of the OPA in your line of business? What were its main mistakes?

[1] Information obtained through certain direct questions will be presented at the end of section 2. Cf. Chapter II on "direct" and "open" questions.

Would you be in favor of changing the OPA regulations applied to your business? (If yes:) How? Why should that be done? (If no:) Why not?

Frequently significant cues were offered by spontaneous discussion of the functions of price control at the outset of the interview, after the interviewer had stated the general purposes of the study. The great advantage of this method over direct questioning was that it brought forth few *ad hoc* answers, that is, opinions made up at the time of questioning and unrelated to the mental context or the actions of the respondents (cf. II, 2). On the other hand, this method had the disadvantage that it did not yield material about the attitudes of all respondents.[2]

We shall use our material to describe and classify the businessmen's attitudes (sec. 2), to discuss their most obvious sources (sec. 3), and to show that certain pricing procedures were closely associated with certain attitudes (sec. 4). By attitudes we mean the governing thoughts or underlying generalized viewpoints representing valuations, and not, as is sometimes meant, the psychological "acts," or tendencies, to act (in the latter case a close correspondence between attitudes toward price control and pricing procedures would follow from the definition itself).

It would have been possible to go further with the psychological analysis. Many interviews provided sufficient material to permit the study of conflicting motivations and to distinguish between certain stereotypes, "rationalizations," and "genuine" attitudes.[3] It would also have been possible to focus the interviews themselves on the psychological factors and introduce lines of questioning that would have yielded insight into the depth and rigidity of the attitudes, or the pattern and articulation of the respondents' mental context, or even to consider differences in the personalities of businessmen. We abstained from doing so because of the great length of our

[2] The discussion of attitudes is based on a sample of 440 interviews, 150 others having yielded no relevant information. (The interviews with sellers of uncontrolled commodities are not considered here.)

[3] While conscious motives do not tell the whole story, and may be nothing but rationalizations, modern psychology (with the possible exception of orthodox psychoanalysis) holds that conscious motives are of great importance for behavior, especially in the case of actions to which much thought is given.

The possibility that the respondents deliberately falsified their answers can be ruled out with greater certitude concerning the respondents' expressed preferences and motives than concerning their statements about business data. A merchant might conceivably have said that his production or profits were declining even though he knew they were rising, because, being hostile to the OPA, he wanted to show how badly it was working. But it is hardly conceivable that he would have made either complimentary or uncomplimentary remarks about the OPA if he did not mean them. We cannot think of a possible motive for his having done so, particularly since he could—and many respondents did—refrain from expressing any opinion at all.

questionnaires, because we did not want the respondents to feel that they were subjects of an investigation, and because most of our interviewers had economic rather than psychological training. We shall restrict ourselves to the description of those attitudes that were relevant to the success of price control.

2. *Classification of Attitudes*

It was found possible to classify the attitudes of the businessmen interviewed. Our first attempt to use a five-point scale extending from fully cooperative attitudes to definite hostility toward price control will not be presented here because of lack of objective criteria of classification (although several readers agreed about the classification of most—not all—interviews). Two extreme groups could, however, be defined satisfactorily. The first will be called "pro-price-control" or "fully cooperative"; the second, "anti-price-control" or "hostile." All interviews that failed to satisfy the criteria of these two groups were put in a third intermediate group.

Pro-price-control: Awareness of the necessity of keeping one's own selling prices from rising *and* absence of any statements showing opposition to price control as a method of fighting inflation.

Anti-price-control: Advocacy of higher ceiling prices *and* absence of any statements showing appreciation of price control as a method of fighting inflation.

The negative criteria were often the determining ones because many respondents pleaded for higher prices and nevertheless expressed themselves as opposed to inflation, while others advocated stable prices but opposed the use of government regulations to achieve that objective.

The classification of the interviews according to these criteria (Table 31) shows:

a) Less than one-fourth of the respondents were definitely hostile toward price control; all others expressed some degree of realization of the need for controlling prices. Thus the statement frequently made that "American business is opposed to price control" appears to be unfounded.[4]

b) Less than one-fifth showed full personal acceptance of hardships caused by price control, although many more opposed price increases in general and supported the principles of price control. Thus the attitudes of businessmen were much less cooperative than could be desired in the interest of preventing inflation.

Less than half of the respondents were decidedly pro- or anti-price-control; the majority belonged to the intermediate group.

[4] It is improbable that Chicago businessmen were more cooperative toward government regulations than businessmen in other parts of the country.

TABLE 31

CLASSIFICATION OF ATTITUDES

COMMODITY LINE	SAMPLE (NUMBER OF INTERVIEWS)	PER CENT OF SAMPLE		
		Fully Coopera- tive	Inter- mediate	Hostile
Total Sample	440	19%	57%	24%
Men's wear	32	34	60	6
Women's wear	58	21	64	15
Shoes and gloves	29	34	52	14
Apparel, General	46	13	72	15
Furniture and housefurnishings	44	16	59	25
Drugs	42	24	62	14
Meat	45	5	53	42
Groceries and produce	89	18	52	30
Liquor	25	12	56	32
Laundries and cleaners	30	20	57	23
	440			
Apparel and housefurnishings:				
In second half of 1942	18	22	72	6
In first half of 1943	144	21	60	19
In second half of 1943	47	26	66	8
Total	209	22	62	16
Foods:				
In second half of 1942	26	0	42	58
In first half of 1943	33	9	49	42
In second half of 1943	100	18	52	30
Total	159	13	50	37

NOTE: The commodity lines are described in the note to Table 22 (Chap. XI). The interviews are classified here in the same way as in the "second grouping" of Table 22. The attitudes are not broken down according to manufacturers, wholesalers, and retailers, because the differences between these groups were insignificant.

c) There were great differences in the attitudes of businessmen belonging to different fields and interviewed at different times.

Sellers of drugs, apparel, and housefurnishings were relatively more cooperative, and those of foods more hostile toward price control. Among the individual commodity lines men's wear ranks highest and meat lowest in the attitude scale. Among further subdivisions not shown in Table 31 two must be mentioned in which pro-price-control attitudes were rare. Of the produce wholesalers interviewed, 6 per cent were pro- and 41 per cent anti-, and of the furniture manufacturers, 7 per cent were pro- and 21 per cent anti-price-control.

The frequency of each attitude cannot be judged for 1942 because few questionnaires used in that year were designed to reveal attitudes. In 1943, however, it appears that more businessmen were pro-price-control in the second than in the first half of the year, both in apparel and house-furnishings, and in foods. This change corresponds to the change in atmosphere as described in the preceding chapter.[5]

As explained above, the interviews were divided into three attitude classes on the basis of relatively simple criteria. The relevant statements of most interviews in each group were found to be similar. Therefore we are in a position to present "composite pictures" describing in detail the attitude patterns of the cooperative and hostile respondents, and of several types of respondents with intermediate attitudes. Unimportant variations from the patterns are disregarded.

Composite Picture of Interviews Classified as Pro-Price-Control

Businessmen in this group were convinced that inflation was a dangerous threat and that prices would have soared without the OPA. They criticized the OPA for not making regulations and enforcement stricter.

These businessmen recognized that they could and should make a personal contribution toward holding the line. They did not feel that a slight reduction of margins justified raising prices, or that inconveniences and additional work justified a wholesale condemnation of price control. They indicated an awareness of the contributions of price control not only to the national welfare but also to their own business, saying that price control reduced risks, facilitated planning for the future, and curtailed profiteering.[6]

The following brief quotations were taken from interviews classified in this group:

[5] As shown in Table 31 the sample contained more food merchants in the second than in the first half, and more apparel merchants in the first than in the second half of 1943; this difference involves a potential bias in the percentages of the cooperative or hostile groups.

[6] Our criteria of classification do not imply that merchants who were pro-price-control were fully satisfied with everything the OPA did. On the contrary, many specific regulations were criticized by these businessmen with the purpose of improving price control.

"Although we were caught in a squeeze because of promotional sales in March, 1942, we did not apply for relief. Inflation control would be greatly hampered if all merchants received relief on all items on which their markup was lowered."

"Percentage markups would open the way to inflation. Keep the [base-date] ceilings as they are and let consumers do the policing. Every store should be asked to make a distinct effort to stop quality deterioration."

"The advantages of price control are so great that we should not attack the system every time there is a small reduction in our margin. Every manufacturer should feel that he is an important part of the system."

"OPA is the best thing that ever happened. The only ones who complain are those who want to make even more money out of the war."

Composite Picture of Interviews Classified as Anti-Price-Control

The function of price control in the fight against inflation was not recognized by businessmen belonging to this group. On the contrary, price increases were advocated for one purpose that was expressly stated, namely, to enable the businessmen to make larger profits in the current "sellers' market."

OPA regulations were condemned. Their main effects were described as taking up the time of the businessmen, disturbing production and allocation of goods, and subjecting business to the dictatorship of government bureaucracy. Businessmen advocated abolishing the OPA or putting it under the control of business. It was acknowledged that this would lead to higher prices, which, however, were called much less of an evil than business regimentation.

Quotations from interviews:

"GMPR is unjust; it should be replaced by ceilings based on each firm's average past profit margin." What effect would that have on prices? "They would go up. If we want goods, we have to pay higher prices; if customers want goods, they must pay. Price control should be relaxed to permit higher profits."

"If wages are allowed to rise, ceilings should be raised commensurately. It isn't right for the OPA to consider such things as business volume or total profits." (Statement by merchant with rising volume.) "If sales volume decreases, ceilings should be raised." (Statement by merchant with declining volume.)

"Enforcement should be less strict. If selling prices are only slightly higher than ceilings, the OPA should not prosecute. It should act only against black markets and not against legitimate businessmen. Instead of attempting to keep prices stable, which is obviously impossible, the OPA should adopt the principle: to every man his fair share of profits."

Types of Interviews Classified as Intermediate

Most merchants in this group thought more favorably of price control than of the OPA. Beyond this agreement several different types of viewpoints could be distinguished.

First type: General pronouncements were made about the danger of inflation and the need for price control. Businessmen of this type agreed that the OPA did much good, that without it prices would have been higher. Yet they showed no personal acceptance of doing their share in fighting inflation. They seemed to feel that the task of arresting inflation was that of the government or of the other fellow, saying, for example, that suppliers should not be allowed to raise prices and chiselers should be punished, but that as long as they were not, nothing could be done and price increases were inevitable. Inconvenience caused by work connected with price control loomed very large in the minds of these merchants.

Second type: These merchants acknowledged in general terms the need of fighting inflation, but in discussing their own business experiences they ignored or flatly contradicted that general statement. The respondents on the one hand stated that prices should be kept stable, and on the other hand severely criticized the OPA for not permitting them to raise their prices.[7] They argued that small price increases were not dangerous and that the OPA should not be concerned with small infractions of the regulations.

Third type: The businessmen of this type were for strict price control yet against what they called "profit control." They advocated ceiling prices based on the costs of the average businessman rather than on the past prices and margins of individual firms. Some low-cost producers and distributors, for instance, maintained that freezing their below-average prices or margins was profit control, not necessary to hold the line. Some firms with diversified operations argued that the OPA should have set uniform margins on each separate operation or service without regard to total profits. The advocates of such reforms showed no recognition of the fact that the uniform margins would often permit them to raise their prices beyond those quoted in the base period, while they would reduce the prices of some of their high-cost competitors.[8]

Fourth type: The grievance caused by one specific provision of a regulation dominated these merchants' thinking. They spoke only of the damage done by that provision and were thereby prevented from judging any other aspect of price control.

[7] Inconsistencies were also found when several executives of the same large firm were interviewed. In some cases the top official strongly condemned the OPA, while lesser officials appreciated the value of the regulations. In other firms the president declared that the policy of the firm was to comply in every respect, irrespective of profits or losses, because inflation must be arrested, while managers of departments were definitely hostile to regulations because they made it difficult to increase the department's profits.

[8] Therefore some high-cost firms called uniform dollar-and-cent ceilings an "unfair restriction on profit-making."

In summary it appears that the mental pattern of most respondents in the intermediate group was not fully integrated. The dominance of either a cooperative or a hostile view did not preclude the presence of opposite views: there was at the same time attraction toward and repulsion from the same objective and action. Such ambivalent attitudes could hardly have been very stable. The fact that more than half the businessmen in our sample were in the intermediate group suggests that the distribution of attitudes in the business community might easily have been different, or could easily have been changed so as to be more in line with the requirements of the war economy.

Note: Findings on Attitudes through Specific Questions

The information about the character and frequency of the different attitudes can be supplemented by the following answers obtained to direct questions:

Question: Would you say that on the whole the OPA did a good job or a bad job? Or did more good than harm, or more harm than good?

Almost 78 per cent of the merchants who expressed an opinion said that on the whole the OPA did a good job, or did more good than harm; and only 22 per cent that it did a bad job or more harm than good. Many respondents declared, however, that the question could not be answered in simple terms.

Question: Are the methods of enforcing the price regulations satisfactory, or do you think enforcement should be made more strict or less strict?

About 67 per cent of the respondents who expressed an opinion said that enforcement of the regulations was inadequate; 33 per cent that it was adequate. The former were divided into three almost equal groups, one asserting that it was impossible to improve enforcement, one that enforcement should be stricter, and one whose point of view could not be clarified.

TABLE 32

MANUFACTURERS' PROBLEMS

55 Manufacturers of Apparel and Housefurnishings, Summer, 1943

TYPE OF PROBLEM	NUMBER OF FIRMS REPORTING			
	Greatest Difficulty (Main Business Problem)	Some Difficulty	No Difficulty (No Problem at All)	No Reference Made*
Shortages	11	19	15	10
Manpower	25	16	5	9
Selling	1	2	44	8
Regulations	5	20	14	16
Gross Margin	5	15	19	16

* In a few cases failure of interviewer or reluctance of respondent; mostly, however, indication that in the opinion of respondent the respective problem was not really worth discussing.

Question (addressed to manufacturers only): Of all the problems that confront you these days, we would like to know which ones are causing you the greatest difficulties:

(a) to obtain raw materials,
(b) to maintain personnel,
(c) to sell your merchandise,
(d) to cope with government regulations,
(e) to maintain a satisfactory margin.

Which of these constitute really difficult problems, and which are so easy they don't amount to anything?

The answers to this question, presented in Table 32, show that the difficulties created by price control—either by the complexity of the regulations or by unsatisfactory profit margins—were considered much less pressing than those arising from shortages of manpower and materials.

3. *Origin of Attitudes*

It was found that the attitudes toward price control had a variety of sources. Our material permits us to describe several of those sources but not to assign weights to them.

Past profit trends. A study of individual businessmen's attitudes and profit trends reveals no clear-cut relation between the two (Table 33). Among cooperative businessmen only a slightly higher proportion had rising profits and a slightly lower proportion falling profits than among hostile ones. Approximately one-fourth of the businessmen who were fully cooperative had declining profits, and more than half who were antagonistic had rising profits. On the other hand, among those respondents who were hostile and had unfavorable profit trends or who were cooperative and had favorable trends, there were some who themselves declared that profits had determined their attitudes.

TABLE 33

ATTITUDES AND PROFITS

Sample: 349 Interviews

ATTITUDE	PER CENT OF ATTITUDE GROUP WITH		
	Rising and Satisfactory Profits	Intermediate Profit Trends	Declining and Unsatisfactory Profits
Fully cooperative	61%	15%	24%
Intermediate	47	28	25
Hostile	55	15	30

Only those interviews are considered in which the attitudes were clearly revealed and information was obtained about the trend of profits (before taxes) during the six months preceding the interview. The classification of profits is the same as in Table 56 and is explained in Appendix III.

Profit expectations. In a number of individual instances, attitudes appeared to be correlated not with past profits but rather with expected profits. Thus, in the first few months of 1943, several merchants in the apparel field with very satisfactory profits and hostile or intermediate attitudes referred to forthcoming shortages in civilian goods (cf. XVI, 3), that would cause their profits to decline. Similarly, many grocers declared in the summer of 1943 that the new food regulations would lower their profits, and it was found that this expectation influenced their attitudes. It was, however, not possible to present numerical data about the correlation or lack of correlation between expected profits and attitudes.[9]

Price expectations. The expectation that price control would break down or that ceilings would be raised or eliminated, or the expectation that the OPA would hold the line, definitely affected the businessmen's attitudes and pricing actions. The prevalence of such expectations was mainly responsible for the correspondence between "atmosphere" and attitudes. Price expectations tended to be uniform in the same field at the same time and appear to have created "group attitudes" from which only a few merchants could free themselves.[10] Yet not in all periods of price control did such group attitudes exist. In certain periods and in certain business fields the majority of merchants were found to have had no definite price expecta-

[9] Some answers to the inquiry about profit expectations were very definite, while others consisted of quoting newspaper reports and public announcements about forthcoming business trends, which were sometimes given full credence and sometimes not. The largest group of merchants refused to answer the question as to their profit expectations directly; they referred to certain possible future developments that would increase, and to other equally possible developments that would decrease thir profits ("depend-on answers").

[10] The greatest number of definite answers about expected price trends was obtained in a survey of general-line wholesale grocers in June, 1943. At that time of strong public attacks against the OPA most merchants expected that their prices would go up because the ceilings would be raised or eliminated—which expectation proved incorrect!—and their attitudes toward price control were rather unfavorable.

Price Expectations \ Attitudes	Pro-Price-Control	Intermediate	Anti-Price-Control	Total Number of Firms
Our prices will go up	0	6	6	12
Our prices will remain stable	2	3	0	5
No answer	0	3	1	4
Total number of firms	2	12	7	21

tions. Moreover, in a number of cases the price expectations influenced actions but not attitudes. In these cases, merchants said that they would be "suckers" to abide by regulations that would soon be lifted, yet their attitudes were not hostile to price control.

In 1943 more than 100 of our respondents offered reasons for their expectation that ceilings would be raised. The majority explained it on the grounds that higher wages would have to be granted to labor and higher prices to farmers and manufacturers in order to maintain high production. The minority said either that the government was not seriously endeavoring to stabilize prices or simply that price stability in wartime was impossible.

Long-range considerations. Preoccupation with the firm's reputation and its sales volume after the war was frequently found to be associated with cooperative attitudes; exclusive concern with current profits, with hostile attitudes. The long-range point of view prevailed mainly among manufacturers of branded goods and large retailers; the short-term consideration, among medium-sized food merchants. The frequency of the latter increased in times of unfavorable atmosphere; when merchants believed that "everybody" was opposed to the OPA, they did not fear injury to their reputation by noncompliance.

Fairness of the regulations. While the majority of the respondents declared that the regulations were fair and equitable, some felt that they were discriminatory. The feeling of injustice done by the OPA then contributed to hostile attitudes. Such a feeling was created, for example, by certain specific regulations—e.g., the highest-price-line limitation (XII, 2) and the hosiery order (XII, 3)—which restricted the business volume or the margin of certain merchants more than that of others.[11]

Unfairness of regulations was frequently expressed in terms of comparison with entirely different business lines. "Why should increases in coal prices be permitted, when our prices are frozen?" inquired a shirt manufacturer. "Why should we make a smaller rate of profit than the shipyard making battleships?" asked a retail meat dealer.[12]

[11] It was observed, however, that regulations were called unfair more frequently in the first few weeks after their issuance than several months later. "Every regulation that comes out is startling and appears to be unfair," said a wholesale grocer, "but after a few weeks you get used to it."

[12] Wesley C. Mitchell pointed out that "The prices government fixes or negotiates need not be commercially attractive; for the government can bring patriotic pressure as well as force to bear. But to sustain morale, it must offer what men feel is a fair deal." (*Wartime Prosperity and the Future,* National Bureau of Economic Research, New York, 1943, p. 7.)

Grievances about language and procedures. Many businessmen in discussing price control put the stress on their dissatisfaction with several aspects of the regulations other than the ceilings themselves. Such emphasis was often associated with hostile attitudes. The most frequent criticism of this sort was directed toward the complexity and lack of clarity of the regulations and procedures prescribed by the OPA. The regulations were condemned by one-fourth of the businessmen interviewed as being unnecessarily complicated and legalistic and containing too many references to other orders not readily available to them.[13] Some businessmen complained that it was impossible to obtain authoritative interpretations from the OPA. Some said that there were too many specific regulations and that they were changed too often; others, on the contrary, deplored the rigidity of the regulations in the face of changed conditions or of different methods of doing business.

Complaints about an unnecessarily great amount of work, especially about reports that had to be filed, were much more frequent in the earlier than in the later periods of price control. Rationing was attacked in this respect more than price control.

That the OPA checked upon the wrong people was one of the most frequent complaints of large firms, who said: "The OPA should know that a large firm like ours is complying fully."

It was often said—especially in periods when such assertions were voiced in Congress and in the press—that the OPA was "unbusinesslike," that its administrators were bureaucrats or theorists without business experience, and that it acted without consulting business or ignored the advice it had requested.

While doubtless such grievances were sometimes justified, in many instances they reflected not bad intentions or lack of knowledge on the part of the OPA but its failure to explain its actions adequately. The OPA erred in some cases in the direction of too great complexity and in others in the direction of too little differentiation; in most cases, however, its major failure consisted in not making clear to the business community that the complex situation itself made it impossible to strike a just balance between simplicity and equity. In discussing the provisions of various price regulations, our interviewers were again and again struck by such remarks as: "We have no idea what the purpose of the provision is" or "Can you tell me why this was done?" To be sure, some regulations were ac-

[13] The following paragraph of a regulation for bakeries may be quoted as an extreme example: "Section 1351.1918 (a) (7) is amended to read as follows: All commodities listed in Appendix A are those known to the trade as such excepting therefrom such thereof, if any, while subject to another regulation." (MPR 319, Amendment 5 of July 27, 1943.)

companied by clearly formulated official statements of the reasons for them and their objectives.[14] In many more cases, however, nothing was done to prevent some merchants from concluding: "This regulation is bureaucratic nonsense" or "The OPA is intent on changing American business." During the second half of 1943 the situation improved somewhat; at that time many respondents said: "People are beginning to understand the OPA better."

Misconceptions. The respondents' understanding (or lack of understanding) of the need for and purpose of price control served as one of the basic characteristics of the different attitude groups. The following specific misconceptions, frequently expressed by businessmen in the hostile and intermediate groups, contributed to the development of their unfavorable reactions to price control:

a) Many businessmen said that price control was not necessary because those who should benefit from it, the consumers, had plenty of money and did not care.

b) Many did not understand why expensive goods and luxuries were controlled, since they never considered that wartime price increases tend to spread from one type of goods to others or that production might be shifted to expensive goods if their prices were not controlled.

c) Some of them spoke of wartime sellers' markets as if they were an upward phase of a normal business cycle. They thus revealed no understanding of the need for sacrifices in wartime.

d) Many saw only the hardships caused by price regulations and failed to realize that they themselves benefited by those same regulations (e.g., because the risks involved in their businesses were reduced).

There was little evidence in any interviews of steps having been taken by either private or public organizations to create a fuller understanding of price control.

Note:

Political opinions have not been mentioned in our discussion of the origin of attitudes toward price control. Although we did not inquire about party affiliations they were often revealed spontaneously, and there is no doubt that they were sometimes closely related to the respondents' attitudes toward price control. There were occasional indications that the OPA served as a scapegoat for other political grievances. Yet some businessmen declared spontaneously that they were strongly opposed to the Roosevelt Administration and nevertheless endorsed the principle of price control and the procedures of the OPA.

Political opinions expressed by the respondents in general terms were frequently inconsistent with their attitudes toward price regulations as applied to their own busi-

[14] For example, the rationale of three very extensive regulations for groceries was clearly presented in the introduction to MPR 421 of July 8, 1943.

nesses. Some businessmen, for example, declared themselves in agreement with certain articles in the press or statements of trade associations containing wholesale condemnation of the government's anti-inflation policies and, nevertheless, revealed full personal acceptance of specific price regulations. Thus it remains an open question whether and to what extent attitudes toward price control originated in political opinions.

Patriotism can hardly be considered a basic source of the different attitudes toward price control. It is inconceivable that businessmen in certain lines were much more patriotic than in other lines, or that they were less patriotic during the first few months of 1943 than a few months earlier or later. Patriotism did, however, doubtless contribute greatly to the acceptance of the price control program; there can be little question that without it most attitudes would have been more hostile.

4. *Correlation Between Attitudes and Pricing Actions*

A close correspondence was found between attitudes toward price control and pricing procedures. This is shown in Table 34, which comprises all interviews clearly revealing both. In 152 cases the correspondence was positively confirmed: interviews revealed either fully cooperative attitudes and actions tending toward price stability (57 interviews), or hostile attitudes and actions tending toward direct (73) or indirect (22) price increases; in only 33 cases (23+4+6) was the correspondence contradicted.

In considering the various commodity lines we find that men's wear, shoes, and drugs, which rank highest in the attitude scale (Table 31), were characterized by relatively stable prices; and groceries, liquor, and meat, which rank lowest in the attitude scale, by the most frequent price increases and noncompliance. Women's wear, furniture, and laundries occupy an intermediate position in both scales.

Many of the differences in the pricing procedures of individual businessmen dealing in the same commodities and therefore subject to the same objective conditions—price regulations, market structure, etc.—are fully explained by their attitudes. The degree of their cooperation with or hostility toward price control was found to have been particularly effective in determining the extent to which they raised prices indirectly either by lowering qualities or by using the similar-commodities clause.

Price stability is more likely when attitudes toward price control are cooperative, less likely when they are hostile. It does not follow from this conclusion that attitudes are the ultimate causes of pricing actions. It may be, for instance, that an initial success of price control, due to abundant supplies in an easily controllable market, brought about cooperative attitudes, which in turn reinforced price stability. There were doubtless many variations in the chain of causation, and our evidence indicates only that attitudes played a focal role in determining business actions. Multiple and even conflicting motivation is the rule rather than the exception in human behavior, which must be understood as a reaction to the total field situation.

TABLE 34

ASSOCIATION BETWEEN ATTITUDES AND PRICING PROCEDURES

Pricing Procedures \ Attitudes	Fully Coopera-tive	Inter-mediate	Hostile	Total Number of Inter-views
A. ("Stability")	57	62	6	125
B. ("Indirect Increases")	23	104	22	149
C. ("Direct Increases")	4	72	73	149
Total Number of Interviews	84	238	101	423

See Chapter XI for the classification of pricing procedures. Uncontrolled commodities and legal direct price increases are not considered.

This table yields a contingency coefficient of 0.40, based on the assumption that pricing procedure C is less favorable to price stability than procedure B.

The multiplicity of motivations makes it easy to understand that no one factor alone—neither the type of regulation, rationing, market structure, demand and supply conditions, profits, "atmosphere," nor attitudes—determined the differences in pricing actions, although each of them did play a certain part. The paramount role of the interaction between certain variables became evident in this and the preceding chapter. The businessmen's reactions to objective conditions, their pricing, buying, and selling policies, themselves changed the objective conditions. While their reactions were primarily determined by their attitudes and expectations, these in turn depended on many variables, most important of which were actions and announcements of the price control agency.

PART FOUR

CHANGES IN THE RELATIVE POSITION OF DIFFERENT FIRMS

The analysis of the impact of price control on business is not exhausted with the study of pricing procedures and their causes. There were not only changes in prices but also changes in the relative sales and profit position of different firms during price control. The latter were brought about by differences in the ability to obtain goods, in bargaining positions, in the rate of demand for different commodities, and in merchandising policies. We have already discussed divergent trends among sellers of different commodities. Even among sellers of the same commodities we noted certain shifts in relative position that might not have taken place or that would have been different in the absence of price control. Therefore the findings reported in this part of the monograph will not only contribute to the history of different types of business in the years 1942-44 but will also reflect on public policy and on its errors of omission or commission. They will thus complete the analysis of the success or failure of price control.

Some of the changes in relative position depended upon the type of firm, that is, upon whether it was a manufacturing, wholesale, or retail concern, whether it was a chain or an independent, large or small, expensive or inexpensive firm. Suppliers' methods of allocating their limited merchandise to their customers ("informal rationing") weakened the position of distributors as against manufacturers and tended to freeze the relative volume of certain retailers (Chap. XVIII). Manufacturers' discrimination against certain wholesalers (Chap. XIX) and against many small firms (Chap. XX) adversely affected their relative business position. On the other hand, it was not so much supply as demand factors that brought about shifts from chains to independent stores—particularly in groceries—and from inexpensive to expensive firms (Chap. XXI). Ultimately we found that the type of business did not unequivocally determine relative trends in volume and profits; wartime regulations did not eliminate business initiative, so that some individual firms, regardless of type, managed to improve their positions more than others under price control (Chap. XXII).

CHAPTER XVIII

INFORMAL RATIONING

When demand exceeds supply and prices are controlled sellers may use a "first come, first served" method of distribution, or they may introduce informal rationing, that is, some systematic method of allocation. For civilian goods the former was predominant on the retail level throughout the entire period covered by our survey, and on the manufacturing and wholesale levels during 1942. But for a few of those goods as early as the fall of 1941, and for most of them by the beginning of 1943, unfilled orders had piled up and delivery dates had been delayed to such an extent that manufacturers, processors, and wholesalers introduced informal rationing. When government rationing was introduced it did not always supersede informal rationing, as it often failed to reduce demand to the level of available supplies (for example, in the case of expensive shoes and choice beef). While informal rationing can hardly be considered a result of price control, yet without price control it would not have developed as it did, since goods would then presumably have been sold to the highest bidder.

1. *Suppliers' Methods of Allocation*

When manufacturers were unable to satisfy demand fully, their first change in selling policy usually consisted of selling only to old customers. Buyers who were not regular customers of given suppliers experienced difficulties in getting goods as early as 1941. In a survey made in the summer of 1943, 64 per cent of our sample of apparel and furniture manufacturers stated without qualification that they accepted no new customers (Table 35); 25 per cent said that old customers were given preference but that exceptions were made; the remaining 11 per cent, who still accepted new customers freely, were either producers of relatively plentiful goods or expanding new firms.

It seems, however, that for many firms the refusal to accept any new customers represented a principle rather than an actual practice. In the opinion of most retailers there were hardly any manufacturers who would not accept certain very desirable new accounts. Several manufacturers excluded not only new customers but certain old ones as well. Bad credit

TABLE 35

ACCEPTANCE OF NEW CUSTOMERS BY MANUFACTURERS OF APPAREL AND FURNITURE

Survey Made in Summer, 1943

Manufacturers of	Number of Firms		
	Not Accepting New Customers	Occasionally Accepting New Customers	Freely Accepting New Customers
Men's wear	11	3	2
Women's wear	10	4	3
Shoes and gloves	8	2	1
Furniture	5	4	0
Total	34	13	6

risks, as well as buyers who had a reputation for complaining about terms or merchandise, or who were for any reason considered troublesome, were frequently dropped.

When shortages developed to the extent that even the orders of regular customers could not be filled, manufacturers gradually developed various methods of allocation, often by trial and error. Many firms experimented first with scaling down all orders equally, that is, with delivering only a certain per cent of every order, until they discovered that that system merely induced buyers to order far beyond their requirement and favored those who dared to make the largest commitments. By January, 1943 most of the manufacturers interviewed had begun to take into account each customer's previous purchases as one consideration determining the size of his allotment. Thereafter many firms introduced exact and impartial systems of quotas based on previous purchases, and by the summer of 1943 44 per cent of our sample of apparel and furniture manufacturers were using that form of allocation.

The methods by which apparel and furniture manufacturers interviewed in the summer of 1943 were distributing their goods may be broken down into three categories (Table 36):

a) *Allotments based exclusively on previous purchases.* Past purchases were usually defined as those made in the preceding year but were sometimes determined by complex formulas taking into account the purchases of several years. The quotas in most cases were 70 to 100 per cent of 1942 purchases. Some manufacturers figured out exact quotas in advance, informed their customers of their allotments and how they were

TABLE 36

METHODS OF ALLOCATION BY MANUFACTURERS OF APPAREL AND FURNITURE

Survey made in Summer, 1943

Manufacturers of	Number of Firms Basing Allotments on Percentage of Previous Purchases		
	Exclusively	Partially	Not at All
Men's wear	9	3	4
Women's wear	6	5	6
Shoes and gloves	5	3	3
Furniture	4	1	6
Total	24	12	19

A few manufacturers used different methods for different products; in that case their method of allocating their most important product was tabulated.

determined, and permitted them to draw on those allotments at any time during the season. One large firm, desiring to make the allocations entirely impartial, designated each customer by number rather than by name before calculating the quotas. Other firms classified in Table 36 in the same category had much less accurate systems, and some retained a surplus of merchandise after their regular allotments, which they disposed of at will.

b) *Allotments based partially on previous purchases.* In some cases the amount of goods allocated to each customer depended not only on the rate of his past purchases but also on several further considerations: the duration of his connection with the manufacturer, the amount of pressure he brought to bear, the degree to which he was tied to the manufacturer ("We take care first of those who depend on us entirely for their supplies"), and "business friendship" in general.

c) *Other methods.* These were of three main types: First, allocation by salesmen; each salesman was given a certain quantity which he was free to distribute as he pleased (some salesmen then made their allotments according to their customers' previous purchases). Second, allotments based on the size of the orders received, usually connected with an absolute limitation on the quantity sold to any one customer. Third, allotments based on customers' "needs"; a few firms said that they knew their customers well enough to determine how much each one really needed.[1]

[1] Other very flexible methods are indicated by the following quotations: "You must be sure to record that our quotas are very flexible. We scrutinize the accounts over the

In general, there is no doubt that the more flexible the firm's allocation system, the greater the danger of its being abused, to the detriment of certain retailers and also of the public. Favoritism and preferential treatment of customers who offered to buy merchandise that was difficult to sell or to pay prices above ceilings may sometimes have occurred even among firms who, in principle, had "exact" allocation systems, but were more frequent in their absence.

Retailers of apparel and furniture generally confirmed the manufacturers' statements. Most of them said they were more faithful to their regular suppliers than ever before because it was difficult, although not always impossible, to get access to new ones. Although few retailers knew how merchandise was allocated to them, the majority called informal rationing fair or even bragged about having better "connections" than their competitors; only a few retailers voiced violent complaints against informal rationing.

Preferential treatment of old customers and the development of methods of allocating goods to them has thus far been discussed for the fields of apparel and furniture. The trend was similar in the other commodities surveyed, with certain variations in degree. Among food products, systematic allotments were most frequent in liquor and meat, less frequent in dry and canned groceries, and very rare in produce (except for citrus fruits).

The largest meat packers worked out complex allocation systems but left the execution of them to their branches. It was the opinion of many of their customers that being liked by the salesmen was more important than the official system.[2] Smaller processors and wholesalers had even more flexible methods of distribution. All retailers who purchased their meat from wholesalers complained bitterly about the allocation methods of their suppliers, while those who bought directly from packers were about equally divided in their opinions as to whether they were being treated fairly.

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last couple of seasons and look to see whether they were increasing or decreasing their trade with us."

"Pet accounts get the merchandise. We are human after all. Even the shipping clerks, if they don't have enough to fill all the orders, decide to send the stuff to the ones they like."

[2] The flexibility of some packers' allocation systems is illustrated by the following information obtained from the owner of several meat markets, who said he always had plenty of meat: "I used to trade with three big firms, buying from a different one each week. Now I go to each of the firms and tell them that I used to get so many pounds a week. The quantity I mention is correct, except that I don't mention that I didn't buy from them every week. Then I get my allotment from each of my suppliers every week. [Packers to whom this statement was quoted denied the possibility of its being correct.] In addition, of course, I always offer to buy the kind of meat that the packers are most anxious to sell. Finally, you must remember that my firm has been in business a long time and everybody around the stockyards knows me."

A few processors and wholesalers of groceries worked out very detailed systems of distributing their goods solely on the basis of past purchases.[3] In most cases, however, salesmen were entrusted with distributing the merchandise without supervision from the central office. Yet few retailers or wholesalers expressed dissatisfaction with the quantities allotted to them, although many said that they had no way of judging whether or not they were receiving their fair share (Table 37).

TABLE 37

GROCERS' JUDGMENTS ON THE ALLOCATION METHODS OF THEIR SUPPLIERS

Judgment	Wholesale Grocers	Retail Grocers
Allocations fair	5	12
"It is impossible to say"; "I don't know."	7	9
Allocations unfair	2	6
Total	14	27

Most drug wholesalers rationed their products primarily on the basis of past purchases, although they frequently faced the difficulty that the quantities of available goods were too small to be distributed among all their customers. A few who dealt in several thousands of items encountered the further problem of having inadequate records about each retailer's past purchases of each item.

2. *Informal Rationing by Retailers*

In the retail trade informal rationing was relatively rare. In apparel and housefurnishings even those items in which there were great shortages were usually sold without any restrictions in 1943. In these lines retailers either did very little to abate hoarding[4] or, when they did make occasional

[3] An example of an exact system is illustrated by the following information: "We use stickers for scarce goods. Each salesman gets a number of stickers. If we get, for example, 480 cases of pork and beans and would need 6,000 to satisfy demand, we make 480 stickers and give them to the salesmen according to their previous sales. The salesmen in turn distribute the pork and beans among their customers on the basis of past purchases. If there isn't enough to go around, the salesman can tell by the stickers in his customers' books which ones got their share and knows to whom to give new shipments as they arrive."

[4] In general, salesmen in retail stores were eager to sell as much as they could, either because of the prevailing commission system or, in its absence, because of tradition and habit. It was difficult for the owners or managers of stores to persuade salesmen to

attempts to limit sales to individual customers, they were not successful. In February, 1943, for example, the announcement by some stores that they would sell no more than two or three dresses to a customer resulted in greater public awareness of shortages and thus accelerated rather than retarded scare buying. In a number of packaged foods and cosmetics, however, "one per customer" became the established practice, and its stimulating effect on hoarding wore out after it had been in force for many months. Several retail grocers and butchers sold scarce goods on certain days only. The most frequent methods of informal rationing in the retailing of food, drugs, and liquor, however, were by tie-in sales and by selling only to regular customers. Retailers frequently declared that such practices were just and patriotic because they led to the widest distribution of scarce goods and forestalled both hoarding and the buying up of supplies by speculators for resale at higher prices. Tie-in sales on the retail level were called not only an equitable method of informal rationing but also a method of reducing waste. Butchers, for example, argued that certain unpopular cuts of meat would have gone to waste if they had not been sold together with scarce but popular cuts, since price reductions would not have stimulated demand for them.

Rationing of services was introduced by most laundries in the summer of 1943, when hot weather increased their business and at the same time intensified their labor shortage. No new customers were accepted and the number of finished bundles or shirts per customer was limited Yet exact rationing was rarely enforced and the preference of the truck driver often determined which customer was favored.

3. *Freezing of Buyers' Status and Superiority of Sellers*

The major consequences of informal rationing were that it froze the relative business volume of the buyers or that it put them in an inferior bargaining position to the sellers.[5] The former was more pronounced when rationing was based strictly on past purchases; the latter, when it was flexible according to the preference of the seller.

If manufacturers had accepted no new customers and had based their allotments exclusively on the rate of their customers' previous purchases, no new retail stores could have been opened and no old ones could have enlarged their relative share. Although such an extreme state of affairs was nowhere reached, exact allocation systems did tend to freeze the

abstain from such sales talk as, "We have only a few of these suits left" or "If you don't buy now, you won't ever be able to get the same quality again."

[5] Certain adverse effects of informal rationing on wholesalers and small retailers will be considered in the next two chapters.

relative business volume of retailers, which depended mainly on their ability to get goods. Informal rationing thus contributed to stifling business expansion and also to keeping inefficient businesses in operation. It had the most important adverse effects on retailers (and their customers) located in expanding war centers and on those whose traditional sources of supply dried up. Among the 55 manufacturers of apparel and housefurnishings whose allocation systems we studied, there were only 14 who endeavored to take into account the increased needs of certain retailers resulting from population increases, and most of them did that on an impressionistic basis.

When allotments were flexible, buyers felt themselves dependent upon and inferior to their suppliers. The seller had the upper hand, and the buyer knew that he might be made to suffer if for any reason a supplier did not like him. This created a tendency for purchasers to "court" suppliers[6] and, most significantly, not to insist upon the maintenance of unchanged prices or qualities. Retailers of all kinds made the same type of comment: "This is no time to find fault with a source of supply." It was found, moreover, that retailers who always bought from small jobbers or who used to shop around were definitely handicapped as compared to those who had close and direct relations with manufacturers. Similarly, consumers known to their neighborhood storekeepers were in a favored position, but it was probably easier for a consumer to establish new relations with a retailer than for a retailer to become a "regular account" of a large supplier.

The feeling of inferiority on the part of retailers developed even toward suppliers who had exact allocation systems. The retailers were rarely convinced that those systems contained no loopholes whatsoever, and they feared that they might be changed at any time.

Could public policy have averted or minimized the undesirable consequences of informal rationing? Regulations could have been issued requiring larger allotments to growing war centers, but probably nothing much could have been done to change the superior position of suppliers over their customers, since no regulation could have eliminated the sellers' market resulting from shortages and increased demand. Government orders prescribing how sellers should allocate their merchandise would have been difficult to enforce and would have had the disadvantages inherent in rigid allocation systems. Compulsory rationing of further commodities would not necessarily have eliminated all informal rationing and was opposed by most retailers, who said that they preferred informal rationing with all its shortcomings to the technical difficulties of government rationing. Yet the subjective feeling of inferiority on the part of retailers and their attempts to get special favors might have been reduced, if sellers had been obliged to inform

[6] "Formerly salesmen used to entertain the buyers, now the buyers are doing the entertaining," we were frequently told.

buyers how their quotas were established and if allocation methods had been supervised by public or private agencies (e. g., by trade associations). Actually, what helped most to equalize the position of manufacturers and retailers was the consideration given to postwar sales. The main reason why some suppliers took no advantage of their superiority was that they knew they would need their customers' good will when the war was over.[7] This consideration gained in importance toward the end of 1943, so that retailers were then in a somewhat better position than before to resist price increases and quality deterioration.

[7] That this concern was not unfounded is evidenced by the fact that some retailers prepared "black lists" of unfair suppliers from whom they did not intend to buy after the war.

CHAPTER XIX

THE WHOLESALE TRADE

The relative position of certain important groups of wholesalers—those dealing in dry goods, apparel, furniture, housefurnishings, and meat—deteriorated during price control. This development had adverse effects not only upon the wholesale firms directly concerned but also upon the retailers and, in turn, the consumers, who depended upon them for supplies. It made it difficult for them to obtain merchandise and often resulted in price increases. At the same time wholesalers of the other commodities studied either maintained or improved their positions.

1. *Direct Contact Between Manufacturers and Retailers*

The importance of apparel and furniture wholesalers had been declining steadily for many years before the outbreak of the war in Europe. Whereas at one time most manufacturers sold little of their output to retailers and the largest part of it to wholesalers, between 1920 and 1940 direct sales from manufacturer to retailer became increasingly common. This trend was temporarily reversed from 1940 to 1942, when there were no acute shortages in most nondurable consumer goods, so that wholesalers could and did accumulate large stocks. During those years of rapidly growing demand retailers often found it convenient to turn to wholesalers for quick replenishment of their stocks.

In 1942 and 1943 two new developments took place, adverse to some wholesalers. First, wholesalers were no longer able to purchase at bargain prices, as some of them had been accustomed to doing, because manufacturers had no slow-moving merchandise and discontinued their end-of-season clearance sales.[1] Since wholesalers themselves reduced their markdowns, this change had a relatively small effect on their profits as long as their business volume increased. The second and more important new development was informal rationing, introduced as the result of increased shortages and more highly developed sellers' markets. When manufacturers allocated their

[1] "Before price control I used to offer a manufacturer $6.75 a piece for a wnole lot of dresses priced to sell in small lots at $8.75; this type of buying no longer exists," said, for example, a wholesaler of dresses.

TABLE 38

REDUCTION OF SALES TO WHOLESALERS

Apparel Manufacturers; Fall, 1943

Type of Action	Number of Firms
Discontinued sales to wholesalers	11
Cut proportion of sales to wholesalers	13
Maintained proportion of sales to wholesalers	10
Never sold to wholesalers	11
Total	45

goods to customers of their own choosing, many wholesalers found themselves excluded from their usual sources of supply because they always paid lower prices than retailers. Whereas before the war manufacturers had sold to wholesalers in order to increase their production or make it more regular, they now found it possible to sell their full-capacity output to retailers. Several manufacturers of apparel and housefurnishings told us that considerations of equity and concern with postwar sales had restrained them from increasing their direct sales to retailers, but the majority admitted that they had curtailed or even discontinued sales to wholesalers (cf. Table 38 concerning the practices of apparel manufacturers). Other manufacturers continued to sell to wholesalers, but only at the prices paid by retailers. As a result:

either the wholesalers' business volume declined (if they refused to buy from manufacturers at higher than usual prices),

or their profits declined (if they paid the prices charged to retailers while their selling prices remained unchanged under price control),

or, finally, they violated the regulations by paying more for the goods and charging more for them.

Our surveys revealed that all three developments occurred among wholesalers of dry goods, apparel, furniture, housefurnishings, and meat, but it was not possible to determine the frequency of each.[2] The great majority reported (a) that some manufacturers either refused to sell to them or charged them the same price as retailers; (b) that their dollar sales had dropped from 1942 to 1943, which indicates a substantial decline in their unit sales; and (c) that their margin had decreased from 1942 to 1943 (Table 39). The reported decline in dollar sales was corroborated by the sales data published by the largest American general-line wholesaler. In

[2] Our sample of wholesalers in these fields was very small and could not be increased because many such wholesalers refused to be interviewed.

TABLE 39

ADVERSE TRENDS IN WHOLESALING

17 Wholesalers of Apparel, Dry Goods, and Furniture; Summer, 1943*

Type of Information	Number of Firms
(a) "Discriminated against" by manufacturers†	15
No change in getting merchandise	2
(b) 1943 dollar sales lower than 1942	11
1943 dollar sales about the same as 1942	4
1943 dollar sales higher than 1942	2
(c) 1943 margin smaller than 1942	12
1943 margin about the same as 1942	3
No information about margins	2
(d) Occasionally paid retailers' prices and charged higher prices (admission made during interview)	7

* Some information completed in 1944.

† "Cannot get goods from some of our usual sources of supply"; "Had to stop buying from some manufacturers"; "Have to compete with retailers in buying merchandise."

addition to its extensive wholesale division this firm operates a retail chain of general-merchandise stores, and the sales of the former developed much less favorably than those of the latter during every one of the eight quarters beginning July 1, 1942 (Table 40).

TABLE 40

SALES TREND OF A LARGE GENERAL-MERCHANDISING WHOLESALER

Percentage Changes in Dollar Sales as Compared with the Corresponding Period of Preceding Year in Wholesale and Retail Divisions

	1942		1943		1944	
	Whole.	Retail	Whole.	Retail	Whole.	Retail
1st quarter	+35.0%	+23.1%	+ 0.9%	+23.5%	— 0.2%	+10.1%
2nd quarter	+21.0	+16.1	+15.4	+27.2	— 8.9	+ 8.8
3rd quarter	— 0.8	+16.1	—12.7	+17.6		
4th quarter	+10.4	+16.0	— 0.4	+13.0		
Full year	+13.8	+17.3	— 0.1	+19.1		

Source: Annual reports and mimeographed press releases of Butler Brothers, Chicago.

The following statements made in the summer of 1943 illustrate the situation further:

"For the past 10 years the proportion of our sales to wholesalers has been steadily decreasing. In December, 1941, it amounted to 10-15 per cent. In 1942 we discontinued sales to wholesalers entirely." (Manufacturer of men's furnishings.)

"We used to sell our cheaper garments to wholesalers. Now we don't produce those garments. Today the wholesalers buy better garments and pay the same prices as the retailers. Since the wholesalers did not buy those garments before, they have no ceiling price for them. The wholesalers sell to retailers who never bought those same garments from the factory and who, therefore, have no ceiling price for them either." (Manufacturer of women's underwear.)

"My orders placed with several New York manufacturers were not filled. So I went to New York. There I found that shipments were being made to retailers. The manufacturers never even suggested that I should pay more than I used to, but there was nothing for me to do but offer to pay the same price as the retailers. That way I got the dresses. I add a fixed markup to my buying price and can still easily sell all the goods I buy." (Wholesaler of women's dresses.)

"A wholesaler cannot do business at the GMPR prices. It is a question of violating the law or going out of business." (Wholesaler of women's wear.)

The last two quotations show that manufacturers' discrimination against wholesalers occasionally led to price increases: some wholesalers who paid higher prices in 1943 than in 1942 raised their selling prices. Altogether in our sample 7 out of 17 wholesalers of apparel, dry goods, and furniture admitted selling above their ceilings (see Table 39, d). Their statements were corroborated by many retailers who complained of price increases by wholesalers.[3]

Wholesalers' business volume declined to a particularly great extent in the meat industry. Most meat packers declared that, since demand greatly exceeded supplies, wholesalers were no longer needed to handle surplus goods and that they had therefore stopped selling to them—with the exception of a few old firms whom they "carried along."

Not all "middlemen" were affected adversely. Even among wholesalers of apparel and dry goods, some were able to overcome most of the difficulties by establishing close connections with either retailers or manufacturers and rendering special services for them. For example, some wholesalers took complete charge of certain manufacturers' sales, including the setting up of showrooms; some handled certain retailers' entire purchases or gave them

[3] Several retailers also said they had to pay higher prices to get goods from wholesalers, with whom they had never dealt before, to supplement their small direct allocations from manufacturers (VII, 2). In the light of such statements, and frequent references to new practices of "rejobbing" in textiles and apparel (VII, 3), it would seem that certain wholesalers increased their business volume to the detriment of price stability.

advisory and supervisory services in the conduct of their business. Furthermore, resident buyers and manufacturers' agents who do not purchase goods for their own accounts but write orders and receive commissions from manufacturers or retailers appear to have prospered during the whole period under consideration. Manufacturers who always sold exclusively through agents and had no sales organization of their own usually did not build up such organizations during the war, and retailers could not dispense with the services of buyers who received quotas on the basis of their previous purchases from manufacturers.

Wholesalers of groceries, produce, drugs, liquor, and paper—among the fields studied by us—were found to have gained in business volume. In these fields the position of the wholesaler was so well entrenched that direct selling by manufacturers to retailers made no substantial headway in spite of the sellers' market and informal rationing. It was even said that liquor wholesalers were encroaching on the retail business by selling directly to consumers. Most grocery and drug wholesalers performed special services, such as packaging bulk goods under individual brand names, which continued to be indispensable to the distribution process. Some wholesale grocers, especially cooperatives, gained in importance in 1943 because they handled many difficult problems caused by shortages and rationing, which the small retailers who were their regular customers or who belonged to their organizations could not have solved alone.

Note: Statistical Data on Wholesalers' Sales

The Bureau of Foreign and Domestic Commerce reported on wartime changes in wholesaling in a study showing the monthly sales of all wholesalers (almost $100 billion in 1943) subdivided into 19 commodity lines.[4] The information presented is summarized by the statement that the functions of the wholesalers "assumed a much greater importance" during the war. The article notes that the great increase in the sales of all types of wholesalers was interrupted in 1943, when physical volume in general declined and dollar sales in apparel and housefurnishings either increased less or decreased more on the wholesale than on the retail level (Table 41). The divergence between the trend of retail and wholesale sales is explained by the Bureau as follows:

"Part of this is due to the lack of exact correspondence between the goods sold in a particular business by the two outlets. But the principal reason for this tendency is that retailers had built up their inventories to a greater extent than wholesalers and were thus able to make greater sales by drawing on stocks" (*Survey of Current Business*, Vol. 23, August, 1943, p. 20).

The article does not mention as a cause for the declining importance of certain wholesalers that, in a sellers' market and under price control, manufacturers found it profitable to increase the proportion of their sales to retailers and, consequently, to reduce—or even eliminate—their allotments to wholesalers. The extensive data compiled by the Bureau of Foreign and Domestic Commerce show no decline in the 1943

[4] *Survey of Current Business*, Vol. 23, August, 1943, pp. 15-22. Data for the second half of 1943 are published in the January, 1944 issue of the same periodical.

sales of wholesalers of dry goods and apparel; this is possibly due to the inclusion of manufacturer-owned sales outlets, agents, and brokers among wholesalers.

TABLE 41

CHANGE IN WHOLESALE AND RETAIL SALES AND INVENTORIES

	PERCENTAGE CHANGE FROM	
SALES OF	1939 to 1943	1942 to 1943
All wholesalers	+80%	+ 6%
All retailers	+50	+ 9
Food wholesalers	+79	+14
Food retailers	+67	+ 8
Apparel wholesalers	+85	+12
Apparel retailers	+91	+21
Housefurnishings wholesalers	+54	—12
Housefurnishings retailers	+41	—11
INVENTORIES OF		
Wholesalers	+12	— 1
Retailers	+ 9	—12

Source: *Survey of Current Business*, Vol. 24, January, 1944 (for sales) and March, 1944 (for inventories).

2. *The Importance of the "Wholesale Squeeze"*

In view of the reports that the wholesalers' buying at retailers' prices resulted in price increases to consumers, it might be argued that the reduction in the relative business volume of the wholesale trade was not detrimental to the wartime national economy. To this the wholesalers presented several counterarguments that carry weight: First, and most important, their inability to obtain their normal proportion of goods cut off supplies from retailers who depended upon them—primarily stores in small towns and neighborhood shops in large cities. Secondly, they performed several functions the elimination of which would have adversely affected the war economy: they promoted the production of styles or substitute articles best suited to wartime needs, helped retailers in their assortment and pricing problems, occasionally stored surplus goods, and reduced the number of shipments from manufacturers to retailers by pooling the shipments of different manufacturers. Finally, it was in the national interest not to squeeze them out of business because after the war they would be needed more than during the war to lessen seasonal fluctuations in production and to reduce manufacturers' selling expenses. Therefore, the wholesalers argued, their fight for survival was justified from the point of view of the national welfare, even if it brought about occasional price increases.

Several wholesalers blamed the OPA for their difficulties. That agency was charged with lack of consideration for the functions of the wholesalers and in some cases even with the deliberate aim of driving them out of business. Several regulations were cited in support of such assertions; for example, the hosiery and meat orders fixing dollar-and-cent ceilings in such a way that the wholesalers' margin was reduced, and various textile orders establishing formula ceilings for manufacturers and base-date ceilings for wholesalers. The wholesalers' grievances may have been justified, but the basic source of their difficulties was not so much OPA regulations as the more fundamental fact that in a sellers' market manufacturers do not need wholesalers. Certain regulations were issued ordering manufacturers to maintain the proportion of their sales at wholesalers' prices,[5] but even they were not always effective.

The main factor that lessened the inequities suffered by wholesalers was the same one that tended to relieve the adverse consequences of informal rationing: many manufacturers realized that they would need the wholesalers again after the war and therefore refrained from dissolving their business connections with them. Most wholesalers believed that those manufacturers who discontinued selling to them acted shortsightedly. Whether the newly established direct contacts between manufacturers and retailers will endure after the end of the war and the disappearance of the sellers' market is an open question. Of course, efficient wholesalers, who adapted their businesses even to the adverse war conditions, may improve their postwar position by introducing new merchandising policies. Ultimately, however, the future of the wholesale trade seems to depend upon the fate of that group of its customers for whom it is most difficult to establish direct contact with manufacturers, namely, small retailers.

[5] For example, RMPR 304 (for cotton flannel shirts) and RMPR 506 (for work gloves).

CHAPTER XX

Small vs. Large Firms

Thus far our findings have not been broken down according to the size of the firms concerned. In many respects such a breakdown is not necessary because no substantial differences were found in the actions or attitudes of large and small firms. In two respects, however, our inquiries did reveal significant differences: first, in every business line except groceries large firms generally had better access to merchandise and, secondly, many more small than large firms were discontinued during price control.[1]

1. *Differences in Ability to Get Merchandise*

Before price control large firms, most of which had ample capital and credit, were in a position to build up extensive stocks of merchandise, while most small ones, transacting business on a hand-to-mouth basis, could not do so. The accumulation of low-cost inventories gave the former the advantage of greater inventory profits in the period of rising prices and also in the first phase of price control. In the second half of 1942, as the seller's market developed, many suppliers cut out all poor credit risks, and most of these were small firms. Later, when informal rationing became a common business practice, large customers were often given preference over small ones.

The bulk of our information about preferential allocations to large firms in 1943 was received from manufacturers and retailers of apparel and housefurnishings. Manufacturers in these fields explained that their preference was not based directly on the size of the customer but on the duration of the business connection and the desirability of the firm as a postwar customer—and it so happened that more large than small firms qualified in both respects. A few manufacturers said, however, that they treated large and small customers alike or even gave a larger percentage of previous purchases

[1] Only among retail grocers, drug stores, and laundries did we interview a representative sample of small concerns (see Appendix II). In all other lines information received from large respondents about trends that might have varied according to the size of the firm was checked by interviews with a few small ones. Our studies did not include certain business lines in which small business is preponderant and which were hard hit by wartime developments (e. g., hardware and appliance stores, filling stations, certain service trades).

to the small ones, because they wanted wide distribution for their products, because many small accounts bought from them exclusively, because small customers would be more faithful than large ones after the war, or because large customers were "sharper buyers."

Most retailers in the same fields, regardless of the size of their business, agreed that large firms had better access to merchandise, although there were some—especially among the large ones—who expressed the opposite opinion (Table 42). The reasons which they presented in support of their beliefs differed significantly from the reasons given by the manufacturers and were, for the most part, not comparable. They mentioned some forces that favored large and some that favored small stores, but generally conceded that the former were the more powerful. Among these was, first, and most important, the fact that only large firms could afford to have buyers in the market tracking down goods and visiting suppliers personally and often. Secondly, suppliers would often ship the entire available supply of scarce goods to a few large customers to avoid the additional costs and labor involved in making many shipments to small customers. A factor that favored medium-size firms was that they were sufficiently flexible to be able to handle very small as well as large quantities—whichever happened to be available.

TABLE 42

OPINIONS ABOUT ACCESS TO SUPPLIES BY SMALL AND LARGE FIRMS

78 department stores, apparel and furniture retailers

Information from	Large Firms Favored	No Difference	Small Firms Favored	Total
Small and medium-size stores	20	3	3	26
Large stores	33	8	11	52
Total number of firms	53	11	14	78

Small stores were occasionally given preference over large ones for two main reasons: First, in the opinion of large as well as small retailers, suppliers wanted to save the quantity discounts traditionally given to large customers. Secondly, in the opinion of many large retailers, small stores could afford to pay higher prices because they did not adhere rigidly to ceiling prices. Small retailers generally denied the last statement.[2] A few of them did say, however, that price control had helped them inasmuch as without it the larger

[2] As shown in XIV, 2, we found no evidence of substantial differences in compliance with price regulations on the part of large and small firms.

firms would have outbid them for the available merchandise. And some small retailers said that they were no worse off than larger ones because they, too, had close relations with some of their regular suppliers.[3]

On December 29, 1942 the WPB issued an order (L-219) limiting the inventories of retailers and wholesalers of all consumer goods except food. Sellers with inventories over $50,000 and annual sales over $200,000 were prohibited from maintaining inventories in excess of a certain quantity calculated according to their "normal" sales-inventory ratios (plus a certain percentage of tolerance). The explanation of the order stated: "The order will protect more than a million smaller stores by improving their opportunity to obtain merchandise which otherwise might go to the larger merchants." According to our information this objective was not achieved. Practically all manufacturers, wholesalers, and retailers interviewed in the spring and summer of 1943 declared that the inventory limits permitted by the order proved to be so liberal that the order rarely caused a reduction or even forestalled an increase in the inventories of large stores. Consequently it did not help small ones to obtain supplies, and some respondents even suggested that it might occasionally have had the opposite effect. Merchants selling a great variety of goods, some of which were scarce and some plentiful, were said to have been favored as against merchants dealing in one line only, because the limitation applied to the inventories of the entire firm. Thus large department stores, for example, could expand their inventories of, say, women's wear, when their inventories of hard lines declined, whereas a small women's-wear shop had no such leeway.

The trend in favor of large buyers was evident also in the meat business. Here it was said that small firms had less access to desirable supplies than large ones because only the latter had established firm relations with their suppliers.[4]

Groceries was the only field in which large stores had no advantage over small ones in getting supplies. To be sure, several very small grocers did

[3] According to manufacturers and wholesalers small retailers of apparel and housefurnishings in small towns and villages profited greatly from the inability of mail-order houses to deliver all the goods ordered from them. In 1943 one large mail-order firm returned roughly 25 per cent of the orders received, not only in scarce hard goods but also in relatively plentiful soft goods, because the merchandise advertised in its catalogue was exhausted before all orders could be filled.

[4] Among large firms, however, grocery chains were said not to have been favored in obtaining meat.

Meat was the only business line in which small merchants were found to be definitely hostile toward large ones. Small packers, processors, and wholesalers said over and over again, "The OPA is under the influence of the large packers" or "Big packers could afford to lend their men to the OPA." The hostility was also—and more justifiably—engendered by the allocation practices of the large firms.

complain bitterly about being cut off from supplies and said that salesmen no longer bothered to visit them. On the whole, however, it seems that small and medium-size grocers were flexible enough to seek out new sources of supply for their relatively small needs, or were closely affiliated with large wholesale organizations which took good care of them. Large chains, on the other hand, often relied exclusively on their own processing or packaging firms for certain supplies, and those sources could no longer fill their needs. Moreover, large organizations could not make use of the small quantities that sometimes became available. Finally, suppliers of branded foods were primarily interested in having their products in as many stores as possible and therefore preferred to sell their limited quantities to many small rather than to few large stores. The chains and the largest independents acknowledged that smaller stores had a preferential position but attributed it to lack of compliance with price control, that is, to the small grocers' willingness to make payments on the side or enter into package deals.

Since the ability to obtain merchandise was in many lines the essential determinant of business volume, it is probable that except for grocers large retailers enjoyed more favorable sales trends than small ones. The limited sales data that we were able to gather in interviews gave no positive confirmation of this assumption. It is, however, confirmed by data on year-to-year changes of sales of identical stores compiled by the Department of Commerce. Using these data, the Department concludes that, with the main exception of food stores, "In most lines of retail trade the sales of larger stores show a greater increase than those of smaller stores during the period since 1939. Moreover, in the same period the inventories of the larger stores also have increased more rapidly than those of the smaller concerns."[5] However, the difference revealed by the figures is not very great.

2. *Differences in Mortality Rate*

Information obtained in our interviews about divergent trends among firms according to their size, other than differences in ability to get merchandise, was scattered and rarely unequivocal, the only notable exception being reports on the mortality rate of large and small firms.

a) *Work caused by OPA regulations.* Since many large firms set up special price control and rationing divisions, the work connected with the regulations often cost them more money, in proportion to sales and profit, than it cost the small firms, yet the extra work was more troublesome for the small ones. One small grocer described this situation graphically when he said that he was better off than the chains because he could take the ration stamps home and count them on Sundays with his wife and children, while the big stores had to hire clerks to do their counting!

[5] *Survey of Current Business,* Vol. 24, March, 1944, p. 12.

b) *Ability to hire help.* Opinions were divided as to who was favored in this respect. Some merchants said that large firms had the disadvantage of having to hire a few hundred rather than just a few employees; others said that small firms were at a disadvantage since they usually paid lower wages. Then, too, small ones sometimes found themselves in the plight expressed by the owner of a small hand laundry who declared, "If the girl who does the ironing quits, I'll have to close."

c) *Operating costs.* Here again opinions differed greatly. Several large firms maintained that small ones were better off in that they could take care of increased business volume without a proportional increase in their labor costs. On the other hand, large firms carrying or producing a greater assortment of merchandise were usually in a better position to switch from one item to another or to simplify their production.

d) *Discontinuation of business.* Relatively more small than large firms went out of business during price control.[6] The first possible explanation of this fact that comes to mind is that the profits of large firms might have developed more favorably than those of small ones. According to our findings, however, the trend of profits played little part in determining the difference in the rate of mortality. The most common causes for business liquidations were found to have been induction into military service and preference for other employment, more attractive under war conditions; these causes were naturally more effectual with small than with large firms, since the latter have greater investments to protect, and do not depend on the personal work of a single owner.

We obtained information about the closing of retail grocery stores from retail and wholesale grocers and from real-estate firms, each of whom knew a number of grocers who had gone out of business during price control. Of 350 retail stores renting space from one real-estate firm, 50 moved out during the year from July, 1942 to July, 1943, and 11 of the 50 were food stores. Not one of these 11 store owners could be induced to stay in business by an offer of reduced rents; according to the real-estate firm, they all said that profit trends had played no part in their decisions. A wholesale grocery firm (cooperative), which had lost almost 100 members from 1940 to 1943, said that more than half of them had closed their stores to work in war plants. Their reasons were that the hours were shorter in factories than in the retail trade; that there was less worry, responsibility, and uncertainty; and, in cases where several members of the family had worked in the store, that they could earn more money (although their profits had been rising when they closed their stores). Their decisions were sometimes influenced by the difficulties of rationing, seldom by those caused by price control.

[6] "The lines in which smallness is most prevalent are on the whole the lines where the decline in numbers (of business firms) has been the greatest." "The decline has been heaviest among very small firms—particularly one-man enterprises" (*Survey of Current Business,* Vol. 24, May, 1944, pp. 11 and 9).

Percentagewise the mortality rate of grocery chain outlets seems to have differed little from that of independents in 1942 and 1943. One large chain closed as many as 14 per cent of its outlets in the Chicago area in the first year of price control. Loss of personnel, especially of store managers, was the main reason given by chains for having closed stores. Also, when two outlets were located close to each other, one was often closed because it was believed that total volume depended more on the quantity of goods available to the entire chain than on the number of stores.

The only fields in which a decline in profits or even losses were frequently mentioned as having caused merchants to go out of business were small power laundries and hand laundries. Another reason occasionally given in explanation of the closing of some hand laundries, which did only finishing and ironing on their premises, was that the commercial steam laundries, which had always done their washing, were reluctant to accept their business.[7]

The two most significant differences between large and small firms—the superior ability of large apparel and housefurnishings firms to obtain goods and the greater mortality rate of small firms—appear to have been caused by transitory wartime conditions. Therefore one might conclude that small firms would no longer be at a disadvantage after the war. Many of our respondents, both large and small businessmen, disagreed with this conclusion. They said that large firms, in general, had accumulated relatively greater reserves than small ones during the years 1941-44, not so much because the former had better profit trends, but simply because they had greater foresight. We did gather evidence that certain small retailers had not established ample reserves to cover eventual losses from "victory goods," substitute goods, or low-quality merchandise on their shelves, whereas large ones usually had. We have no evidence, however, as to whether this difference prevailed between large and small businesses in general and to a sufficient degree to place the latter at a serious disadvantage in the postwar period.

[7] Commercial lauundries found the retail or hotel business more profitable than servicing small hand laundries; several of the latter suggested that "the OPA should order steam laundries not to quit any hand laundries previously served."

CHAPTER XXI

CHAINS VS. INDEPENDENTS, INEXPENSIVE VS. EXPENSIVE FIRMS

There was a movement away from some chain stores and some inexpensive stores during the two years surveyed. This movement was primarily a result of consumer preference rather than of supply conditions dependent upon the size of the firm. Most marked was the deterioration in the sales position of grocery chains as against independents and of inexpensive shoe stores as against expensive ones.

1. Trend Away from Grocery Chain Stores

Beginning with the spring of 1942 the sales of independent grocery stores developed more favorably than those of chains; from 1942 to 1943 the former rose 14 per cent while the latter fell 4 per cent.[1] Our findings from 33 grocers who reported on the percentage changes in their sales confirmed these nationwide data (Table 43): 4 out of 6 chains, and only 5 out of 27 independents, reported declines in dollar sales from 1942 to 1943; 7 independents and no chains reported gains of over 15 per cent.

Independent grocers in explaining their favorable sales trends mentioned five causes (Table 44) and put the greatest emphasis on the customers' desire to maintain close trade relations with a neighborhood grocer.

a) Relationship between customer and grocer. Part of the shift from chains to independents was due to the fact that during the war consumers came to prefer buying from the latter. The one reason for this preference that was most frequently mentioned and most extensively discussed was the desire on the part of customers to establish and maintain friendly relations with an individual merchant—usually the neighborhood grocer—for the purpose of getting favors from him. Most of the independent grocers interviewed admitted that they treated their regular customers better than casual ones, saved scarce goods or better meat cuts for them, advised them how best to use their ration stamps, kept their ration books for them, and sometimes even accepted their stamps before they were valid or after they had expired. It was particularly in connection with rationing that customers wanted special attention to be sure they were getting full value for their

[1] *Survey of Current Business*, Vol. 24, February, 1944, p. 15.

TABLE 43

SALES OF RETAIL GROCERS

Percentage Changes in Dollar Sales from 1942 to 1943

Type of Firm	Number of Firms with			
	Increase		Decrease	
	More than 15%	Less than 15%	Less than 15%	More than 15%
Small independents	4	10	2	0
Large independents	3	5	3	0
Chains	0	2	3	1

Small independents—less than $100,000 annual sales.

Large independents—more than $100,000 annual sales.

The data for chains and independents are not strictly comparable because the sales of chains include outlets that were closed during 1942 or 1943 (see XX, 2); in other words, the number of chain outlets was larger in 1942 than in 1943. For independents, however, discontinuation of business did not affect the data, since information on sales was received only from retail stores open in both years.

coupons; as one independent grocer said, "People trust chains with their money but not with their stamps."[2]

b) Lack of time or gasoline. More than half of the independents mentioned briefly that chains had lost business because they were closed in the evening when women warworkers had to do their marketing; because it took longer to be served in chains; because people had no gasoline to drive to the supermarkets; or because, with fewer deliveries being made and less marketing being done by car, customers were going to the nearest store.

c) Relative proportion of produce sales. Independent grocers were always best able to compete with chains in fresh fruits and vegetables. In 1943 among the various products sold by grocers, fresh fruits and vegetables showed the greatest gain in dollar sales. This was due primarily to the fact that from 1942 to 1943 the price of produce rose substantially, whereas the prices of meat, canned goods, and cereals rose only slightly. The conclusion that this factor played a large role in determining the superior sales performance of independent stores cannot be proved directly, since in most stores no data could be obtained on the sales of the various kinds of merchandise. Yet we found that, of our entire sample of grocers, those with no produce department had the smallest increases in dollar sales in 1943, those with large

[2] In our surveys we found that because of rationing all Chicago chains had lower sales both of meat and of canned goods in 1943 than in 1942, while 6 out of 15 independents had higher sales of meat, and 8 out of 21, higher sales of canned goods.

TABLE 44

REASONS FOR MORE FAVORABLE SALES TREND OF INDEPENDENT GROCERS THAN OF CHAINS

34 Independent Grocers; Fall, 1943

Reasons Spontaneously Given	No. of Times
Customers want to establish and maintain trade relations with one particular grocer	25
Independent stores have longer hours, consumers have no time or gasoline to go to supermarkets	19
Fresh fruit and vegetable sales are relatively larger in independent stores than in chains	17
Independents can get goods more easily than chains*	14
Consumers are not interested in economizing	13

* On the other hand, 5 grocers said that chains have better access to scarce goods.

The frequency with which each reason was given is not fully indicative of its relative importance, since no distinction is made in the table between those that were mentioned briefly and those that were discussed in great detail.

produce departments had by far the largest increases, and those with small produce departments fell between the two.[3]

d) *Ability to get merchandise.* Grocery chains experienced somewhat greater difficulties in getting supplies in quantities adequate for their business than most independents (see XX, 1). Many independent grocers mentioned this as having contributed to their more favorable sales trends.

e) *Effect of rising incomes.* In 1943 some independent grocers maintained that "consumers are not interested in economizing" and that the chains therefore no longer benefited from having lower prices. Furthermore, they said that consumers often turned to the independents to get fancy grades and expensive brands not carried by the chains (voluntary uptrading).

Managers of chain stores mentioned the same factors as independent grocers as having caused the decline in their relative business share. Yet chains put the greatest and independents the least emphasis on the effect of rising incomes. The former also volunteered one further explanation, namely,

[3] In three stores exact data could be obtained on the changes in dollar sales of the various departments from 1942 to 1943:

	Produce	Groceries	Meat
Small independent store	+27%	+11%	— 4%
Large independent supermarket	+30	—11	(no meat)
Large independent store	+12	—23	+ 9

The third of these is a very large centrally-located store with a relatively small produce department.

that they had deliberately stopped selling certain merchandise on which the margins set by the OPA were insufficient.[4]

Since our investigation covered a period in which the wartime conditions favoring independent stores were in effect, it is not possible to decide whether the independents were justified in their assertion that the OPA did them harm by establishing different classes of grocery stores and giving publicity to the differences between their prices and those of the chains (cf. XII, 2). Many independents feared that consumer awareness of the extent of price differences between chains and neighborhood grocery stores had increased during price control. The OPA itself took their misgivings into account and changed its publicity policy accordingly. Whereas, at the time when dollar-and-cent grocery ceilings were established and shortly thereafter, the OPA asked the newspapers to print the lists of maximum prices—comprising, of course, the prices of both chains and independents—it abstained from doing so after the summer of 1943. It is probable that owing to this policy the consumers' knowledge of maximum prices decreased, although every store still had to display its own ceiling prices.

All factors giving independent stores an advantage over chains appear to be of a temporary nature. Above-average increases in fresh fruit and vegetable prices were arrested in the fall of 1943; shortages in some meat and groceries became less acute, and many items were removed from the ration list in the winter of 1943-44. The other factors may remain operative for the duration of the war but certainly no longer. Thus it is understandable that many small independent grocers expressed great anxiety about their postwar position.

Note: On Chains in Fields Other than Groceries

Of the factors cited above as adversely affecting the sales of grocery chains only the last two—differences in the ability to get merchandise and the effect of rising incomes—apply to other chains. Outside the field of food, however, chains, being large firms, had the advantage over most independents in getting supplies (see XXI, 1). Only the effect of rising incomes operated in favor of independents which, on the whole, carry more expensive goods than chains.

The sales of all chains (food and nonfood) constituted 22.4 per cent of the total American retail sales in 1940 and 1941, 24.4 per cent in 1942, and 22.8 per cent in 1943 (*Survey of Current Business*, Vol. 24, February, 1944, p. 13). The percentage of nonfood sales is not published separately, but, in view of the great decrease in the sales of the largest chain group—the grocery chains—the data for 1942 and 1943 seem to

[4] An extensive study of chain store sales by the Bureau of Foreign and Domestic Commerce explains their decline as resulting primarily from difficulties in obtaining supplies, partly also from manpower and gasoline shortages and the effect of rising incomes. No mention is made of the customer-grocer relationship or of the proportion of produce sales. (R. L. Osborne, "Retail Sales of Chain and Mail Order Firms," *Survey of Current Business*, Vol. 24, February, 1944, pp. 12 ff.)

indicate that in apparel, variety merchandise, and drugs there was no movement away from chains. These data do not prove, however, that consumers might not have preferred buying those goods in independent rather than in chain stores. The lack of divergence in the total sales of nonfood chains and independents might have been brought about by the fact that independents were favored by demand factors (consumer preference for more expensive stores) while chains were favored by supply factors (informal rationing by manufacturers).

2. *Trend toward Expensive Stores*

One factor contributing to the deterioration of the relative sales position of grocery chains was that their being inexpensive was no longer as much of an advantage as it had been. This same factor operated to the disadvantage of inexpensive stores in other fields as well. In certain lines additional factors entered the picture that were occasionally advantageous to the cheaper stores.

We have seen that certain manufacturers of women's wear switched production from their lower to their higher price lines (VII, 3). Retailers who had carried only those lower price lines no longer found them available and were prevented by the "highest-price-line limitation" from buying more expensive garments. Very inexpensive women's-wear stores, especially the dress departments of variety chains, consequently suffered severe sales losses.

The only other field in which inexpensive stores were found to have been adversely affected by suppliers' decisions to switch to more expensive products was that of flowers. The supply of cheap cut flowers declined, and, although there was no law to prevent their doing so, most inexpensive florists found it impossible to switch to the sale of high-priced flowers.

Demand factors affected the different types of stores to an even greater extent than supply factors. The same considerations that influenced consumers to purchase better-quality goods in the same store (voluntary uptrading because of higher incomes, rationing, and expectations of shortages, cf. XV, 1) also favored the higher-price stores, because some people intending to shop for better-grade goods decided to look for them in stores that they had never before frequented. Moreover, voluntary uptrading often took the form of preference for branded as against unbranded articles, and expensive stores usually carried more of the well-known brands than their less expensive competitors.

We found clear evidence for the effects of such a shift in consumer preference in three lines: in groceries, in cleaning, and in shoes. Despite the general trend toward independent grocery stores, voluntary uptrading caused inexpensive centrally-located independents to suffer substantial sales losses. These stores operated under the same handicaps as grocery chains, particularly that of being inconveniently located, but their managers insisted that they had lost business primarily because they were inexpensive. In one of them total sales in 1943 declined 7 per cent and the sales of dry and canned groceries 23 per cent. The manager commented:

"Small price reductions used to increase our sales; we used to buy distress merchandise and do a lot of advertising and undercutting. Now fewer people come to us to save money. In 1943 advertising prices below ceilings didn't increase sales."

Among cleaners, expensive ones reported substantial sales increases, while inexpensive ones said that their sales had declined solely because of their lower prices ("reversed demand curve"). For example, the manager of an inexpensive chain declared:

"Our volume has shrunk tremendously because our prices are the lowest in the city. *We petitioned the OPA for price increases so we could get back some of our business,* but our request was denied. We now operate at 50 per cent of capacity, while we fixed our prices so cheap with the idea that they would guarantee full-capacity operations."

The most consistent reports of shifts from inexpensive to expensive stores came from shoe dealers. The trend was not pronounced in 1942. But in 1943, after rationing was introduced, there was a very marked divergence in their sales positions: sales of the expensive stores increased considerably, and would have increased still more if greater supplies had been available; sales of all inexpensive stores interviewed declined (Table 45). Customers

TABLE 45

DOLLAR SALES OF INEXPENSIVE AND EXPENSIVE SHOE RETAILERS

1942 = 100

Store	1941	1942	1943
Inexpensive store A	73	100	94
B	86	100	80
C	95	100	---
D	85	100	---
E	83	100	---
F	---	100	85
G	---	100	90
Expensive store H	82	100	115
I	88	100	130
J	77	100	118
K	74	100	---

The distinction between the two types of shoe stores is relatively simple because of their traditionally established price lines. There are, for instance, shoe chains that never carried shoes over $4, and others that never carried shoes under $6 (except in clearance sales). Shoe stores selling all price lines are not included in the table.

were unwilling to expend their coupons for low-priced shoes, and shoe stores traditionally carrying only cheap shoes found it impossible to switch to more expensive ones because a WPB order forbade manufacturers to produce more shoes in any price line than they had produced before rationing. (No comparable regulation was issued for any other consumer goods.) Inexpensive shoes accumulated in many retail stores to such an extent that in January, 1944 the OPA permitted merchants to sell a certain percentage of their shoes below $3 without ration coupons.

The most important changes in supply or in demand that limited or even reversed the trend toward uptrading, and therefore operated to the disadvantage of expensive stores, have already been discussed: certain very high-grade articles could no longer be produced or were not in demand during the war (in apparel, jewelry, etc.; cf. IX, 3). In some cases, the trend toward expensive stores was further counteracted by their inability to maintain their customary services. Among grocers, for example, certain high-price stores had specialized in telephone orders and frequent and reliable deliveries, and their sales fell when, because of transportation or personnel shortages, they became unable to render the same kind of service.

Finally, some department, general-merchandise, apparel, and housefurnishing stores said that the trend toward expensive stores had been counterbalanced by a new development in favor of less expensive ones: consumers had learned that the price differences between different stores were less justified in 1942 and 1943 than they had been previously. Except for dollar-and-cent ceilings, price control regulations had no equalizing effect on prices; yet ceilings, shortages, and wartime manufacturing practices had an equalizing effect on qualities. Manufacturers who sold to both expensive and inexpensive stores used to add distinctive features to their product for the former, but beginning with 1942 they reduced the number of their styles and qualities and eliminated all unnecessary product differentiation. Therefore, in buying from more or from less expensive stores, customers found fewer differences in the merchandise than in the service, display, air conditioning, and, primarily, in the price—since the stores added different markups to their buying prices. As some consumers became aware of this situation, they switched their purchases to the less expensive stores.

How was the relative sales position of expensive and inexpensive retailers affected by all these changes in supply and demand? Nationwide sales statistics are not broken down according to the two types of stores. Our inquiries, however, seem to indicate that the factors favoring high-price stores were, in general, more powerful than those favoring low-price stores.

Since the shift toward expensive stores resulted primarily from wartime changes in incomes, consumer preference, and supply, it might be assumed that it would be a transitory development. Some merchants, however, expressed the opinion that the shift in consumer preference toward certain expensive goods, especially branded goods that maintained their quality under price control, would outlast the war economy to the advantage of their producers and distributors. Our knowledge on habit formation by consumers is too limited to permit any definite conclusion about this possibility.

CHAPTER XXII

Business Initiative Under Price Control

It has been said by opponents of price control that it stifled business initiative. A few businessmen whom we interviewed concurred in this opinion and made such comments as, "We aren't a private enterprise any more" and "Price control is a strait jacket that leaves us no freedom of action." If these extreme statements were true in the strictest sense for all business, it would follow that the relative sales and profit position of similar firms operating under the same regulations would have been frozen.[1] We have already seen that this was not so. We have indicated great variations in individual businessmen's pricing procedures and in the degree of their compliance with price control, and have occasionally referred to differences among them in attempting to cut costs and in changing their sales practices and their assortment of goods. It follows that during the period when price control was in effect American businessmen did exercise their initiative in many directions in order to improve their positions.

Among business decisions that departed radically from previous policies, we may recall that in the summer of 1943 many merchants reversed their policy of accumulating large inventories (XVI, 4); that some grocers introduced self-service (XV, 3); that most retailers discontinued clearance sales and markdowns in 1943 (VIII, 1); that manufacturers of women's wear lowered the quality of their products under the impact of rush buying in February, 1943 (XVI, 3). Whether or not price control was felt to be a strait jacket varied from firm to firm, just as did the extent to which businessmen exercised initiative.

The divergent sales developments of comparable individual firms provide further evidence of the fact that different merchants made different decisions. Differences in the sales trends of firms operating under similar conditions are shown elsewhere for men's clothing stores (Table 53, Appendix III) and for shoe stores (Table 45, Ch. XXI). Table 46 presents the varying sales trends of the departments of two department stores, and those of three wholesale grocery firms.

[1] In this chapter we consider firms that are comparable in size and in carrying either expensive or inexpensive goods so that differences brought about by those two factors (Chap. XX and XXI) do not enter our present discussion.

TABLE 46

EXAMPLES OF DIFFERENT SALES DEVELOPMENTS OF COMPARABLE FIRMS

DOLLAR SALES OF DEPARTMENT STORES

Departments	Percentage Change as Compared with Corresponding Period of Preceding Year		
	4th quarter 1943		Dec. 1943
	Firm A*	Firm B*	351 Stores†
Women's coats and suits	+35%	+13%	+19%
Women's dresses	+21		+20
Women's blouses	+64	‡	+19
Women's underwear	+15	+ 9	+12
Women's furs	+17	+27	+18
Women's shoes	+ 3	—11	— 9
Infant's wear	+10	‡	+12
Piece goods	+30	‡	+26
Small wares	‡	+13	+ 9
Men's clothing	— 5	+ 1	— 1
All housefurnishings	— 8	‡	— 8
Thereof furniture	‡	+ 9	— 7
Toilet articles	+26	‡	+12
Basement store	— 8	‡	— 2
Total	+10	+ 3	+ 4

DOLLAR SALES OF WHOLESALE GROCERY FIRMS

Quarters	Percentage Changes as Compared with Corresponding Quarters of Preceding Year				
	1942		1943		
	Firm X	Firm Y	Firm X	Firm Y	Firm Z
1st	+41	+18	+ 7	+15	+ 3
2nd	+28	+ 5	+ 8	+ 9	— 4
3rd	+26	+ 7	+ 5	— 8	+ 1
4th	+12	+24	‡	‡	+ 2

* Data obtained from interviews with two Chicago stores.

† *Federal Reserve Bulletin*, Vol. 30, March, 1944, p. 281; national averages.

‡ Data not available.

The two department stores are similar in price range and location, but have, of course, always differed with respect to the relative importance of various departments within each store. Yet such differences cannot explain the divergent rates of change in the sales volume of individual departments. From the fourth quarter of 1942 to the fourth quarter of 1943 firm A, for instance, increased its sales of blouses and women's coats and suits considerably more than firm B and more than the average of 351 American stores. Similarly there were great differences in the sales trends of the three wholesale grocers represented in the same table: at certain times one and at certain times another of them increased its sales more than the other two.

Although the prevailing methods of informal rationing by manufacturers tended to equalize the rate of purchases by wholesalers and retailers, and although price competition by means of undercutting and markdowns practically disappeared, some firms managed to improve their positions by changing the assortment of their merchandise and by promoting new items when old ones became unobtainable, scarce, or unprofitable. Such changes depended upon the ingenuity of individual merchants in increasing their supplies from old sources, finding new sources, and either catering to consumer demand for new merchandise or even creating it. The impetus for making the changes frequently came from developments beyond the businessmen's control. But each merchant had great leeway in deciding which new articles to take up, to whom to turn for supplies, and how to promote the new lines; and each solved these questions in his own manner.

Perhaps the best example of initiative in shifting the assortment of goods to overcome shortages was provided by mail-order houses. Traditionally their business, both mail-order and retail, consisted largely of hard lines, which became scarce or unobtainable. To maintain their volume they therefore embarked upon a policy of expanding their soft lines and succeeded in making substantial inroads in these fields. That most of their retail stores were located in outlying districts and that it was difficult to get access to new sources of supply did not prove to be insuperable obstacles.[2]

Our inquiries into the effects of price control on individual manufacturers' output and its composition revealed that, of the many policy changes made by manufacturers to increase their profits, some were detrimental and some were advantageous to the national economy. Different merchants were concerned to greater or lesser degrees with immediate as against postwar sales and profits, or with their firm's reputation, and exercised their initiative accordingly.

[2] In one large mail-order firm soft goods constituted 25 per cent of retail sales in 1941; in 1943, when total sales were only slightly lower, this ratio rose to as much as 41 per cent.

Some manufacturers shifted from essential low-profit goods to less essential but more profitable goods.[3] We have already presented details of how different women's-wear manufacturers shifted their production from their lower to their higher price lines when their margins were higher on the latter than on the former and the price regulation required the maintenance of customary margins (VII, 3). We have also shown that such practices as manufacturing "new" products (usually higher-priced goods different from former lower-priced goods in unimportant respects only) and lowering quality were widespread under the impact of certain regulations and yet varied in extent from firm to firm (VII, 1). Changes in output from simple items of mass consumption to luxury or semiluxury items were made not only because the latter were more profitable to the manufacturers but sometimes also because they were more profitable to the distributors: for example, wholesalers and retailers found that under existing regulations it was to their advantage to promote the sales of such goods as fur coats, fur-trimmed coats, expensive handbags, and expensive costume jewelry, and consequently they exerted pressure on manufacturers to increase the production of those items. Since total output could not be substantially increased, larger production of luxuries usually led to smaller production of cheaper merchandise.

As examples of initiative taken by manufacturers of apparel and housefurnishings that improved their business position and at the same time had favorable effects on the wartime national economy, we may refer to the simplification of products and the reduction in the number of patterns and styles (XV, 3). In many cases, it was the rigid ceilings that brought about the simplification and standardization of products and the elimination of waste. Furthermore, most merchants declared that price control did not impede the production of substitute goods or such changes in the manufacturing process as contributed to the better utilization of available materials. New articles produced in 1942 and 1943 consisted not only of "victory goods" but also of some that may remain popular after the war. For example, merchants succeeded in creating a demand for blouses and sport shirts made of new fabrics developed during the war.

In the meat industry a number of changes in business policies were made during price control to increase profits while complying with price regulations. Packers sold relatively more of their output to nearby outlets, thus

[3] For example, certain manufacturers increased their output of long-sleeved, ankle-length union suits and reduced that of short-sleeved garments, although demand for the latter was said to have been much more pressing. Long-sleeved garments had a more profitable ceiling price because, having been produced in smaller quantities before price control, they had been priced relatively high in March, 1942 (the base date), while short-sleeved garments with a large output had been priced relatively low.

lowering transportation costs; reduced their sales to wholesalers and processors in favor of retailers and hotel-supply houses; and shifted their production from less to more profitable departments, for example, from fresh meat to processed or fabricated meat. It seems that large integrated firms had greater leeway in changing business policies, although it was a small packer who said in one interview, "Price control doesn't prevent us from taking the same hog and making it into any one of many different products—ham, luncheon meat, sausages, smoked meat, or canned meat."

There can be no doubt that business initiative did not disappear under price control. Price regulations did not efface the difference between "good businessmen" and "poor businessmen." It is, of course, possible that the variety of the businessmen's actions and the frequency of new decisions were much greater in the peace than in the war economy, and, in this sense, were reduced by the wartime regulations. Whether or not this is true cannot be established definitely because little is known about the dynamics of business decisions. Yet we do know that rigidity as well as flexibility was found in business behavior even in the absence of government regulations. In the peace economy merchants not only made spontaneous decisions to change prices, size of output, assortment of merchandise, etc., but frequently acted in a routine manner by following rules of thumb without regard to their appropriateness under the given conditions.[4] In the war economy, too, both types of action existed side by side.

As examples of business rigidity in 1942 and 1943 we may recall that many apparel retailers held their usual clearance sales in January, 1943, when demand at regular prices was soaring and the reduction of profits by markdowns could probably have been avoided (VIII, 1); and that most restaurateurs adhered rigidly to their traditional ratios of receipts to food costs when the rate of their expenses was declining and dollar margins rising (V, 2). In analyzing these actions—the first tending to reduce, the second to increase, profits—it became apparent that merchants were simply carrying over habitual practices with no realization of their new implications.

Business flexibility involves, first, the realization that conditions have changed and, secondly, the choice of policies that appear appropriate under the new conditions. We have cited in this chapter many examples of such flexibility in business behavior during price control. Since fundamental changes in the business environment, especially in available supplies and consumer demand, were much more frequent in the war than in the peace economy, it would appear that the former offered more rather than less occasion for new business decisions. However, insofar as price control kept economic conditions more stable than they would have been without it, it

[4] Cf., for instance, *Cost Behavior and Price Policy*, Committee on Price Determination, National Bureau of Economic Research, New York, 1943, p. 6.

kept businessmen from making as radical and sweeping changes as they might otherwise have made. In that sense doubtless price control did limit the businessmen's freedom of action. Yet it may be that they made just as many genuine new decisions in wartime under price control as they made in peacetime without it.

PART FIVE

CONCLUSIONS

CHAPTER XXIII

Interviewing as a Tool of Economic Research

This monograph has presented information obtained by means of detailed free-answer interviews conducted among a small sample of businessmen. Ultimately it must be left to the reader to judge whether and to what extent that method proved fruitful in this study. We shall, however, attempt to draw certain conclusions from our findings that may aid in an evaluation of the detailed interviewing method for economic research in general. We shall consider first the types of problems to which that procedure was found to have been most applicable, and shall then point both to its shortcomings and to its potentialities for future use.

Statistical data on prices, incomes and expenditures, sales and profits, etc., compiled from very large nationwide samples or even from complete records now serve as the empirical foundation of economics and the testing ground of economic theory. Is there a need for detailed interviewing as an additional research method in this field? In the light of our studies, it appears that such interviewing has four main functions as a tool of economic research:

a) To assemble preliminary data on new developments. Especially in periods of rapid economic changes new developments emerge that are not studied by statistical agencies. By interviewing it is possible to discern such new trends and supply evidence that more extensive statistical surveys would be worth while. In our studies, for example, we gathered information about changes in retail markdowns (Chap. VIII), about shifts to higher-priced and better-grade goods (Chap. IX), and about factors contributing to the reduction of manufacturers' costs (XV, 3). Data on these developments were sometimes considered secret, or had not yet been compiled by the businessmen themselves. Nevertheless, when mutual confidence was established in personal interviews, many respondents did assemble and reveal the requested information.

b) To show the significance of developments not clearly revealed in the averages computed by statistical agencies and to suggest the need for new *types of breakdowns.* Since economic life changes constantly, a statistical scheme of presentation applied successfully for many years may eventually fail to reveal significant trends, and detailed interviews with a small sample may indicate the need for new types of breakdowns. For example, interviews with comparatively few wholesalers of different kinds showed that the traditional breakdown of large samples of the wholesale trade (collected by government agencies) gave little indication of developments that took place in certain branches of that trade under price control (Chap. XIX). Or, our studies showed that the statistics on sales of "men's apparel" should be broken down for men's suits and men's furnishings, since the wartime trends, both of physical volume and of prices, were different for each (cf. Appendix III).

c) To assemble information about developments not susceptible to the usual type of statistical survey. Certain information about business practices is not of such an exact quantitative nature as lends itself readily to statistical compilations. Nevertheless, it relates to economic facts without which the description of business activity is incomplete and the full implication of business actions cannot be assessed. In our interviews, for example, we were able to study the frequency with which manufacturers used certain methods of allocating their goods to retailers (Chap. XVIII), differences in the degree of quality deterioration in various lines of apparel (VII, 1), the attitudes of the businessmen toward price control at different times, and changes in their price and profit expectations (Chap. XVII). To be sure, interviewing could not furnish exact measurements in these respects, but it could supply indications of the changes that occurred in certain fields at certain times and also of the importance of the changes.

d) To find out why certain changes took place. This may be the most important function of interviewing. It is sometimes possible to ascertain the presence or absence of causal connections by analyzing correlations among various statistical data. But only detailed interviews can probe into the motives behind business decisions. In our studies, for example, we found that individual businessmen belonging to the same field and operating under the same price regulations often acted very differently. Inquiries into the causes underlying the behavior of each respondent paved the way for an understanding of the differences—and, ultimately, for the determination of the factors responsible for the success or failure of price control. Such inquiries showed, for instance, that wartime supply-demand conditions were results as well as causes of business behavior, and they revealed how and why this was so. Reactions to price control were found to have had an especially great influence on the rate of demand: confidence in its success tended to reduce, and the conviction that it would break down to increase, the purchases of both businessmen and consumers (XVI, 5).

Our analysis of the major functions of the free-answer interviewing method suggests that it could achieve most if conducted in conjunction with the usual type of statistical surveys. It need hardly be said that the collection of preliminary data on new trends and the discovery that new breakdowns have become necessary could be of assistance in the preparation of statistical surveys. Moreover, data from large-sample surveys showing the relationship—or lack of relationship—between certain variables (e.g., between price movements and trends in physical volume) could profitably supplement and be supplemented by findings from detailed interviews as to developments not susceptible to statistical study and as to motives underlying behavior. This point may be illustrated by an example outside the scope of this monograph: Extensive statistical data on the expenditures and savings of families in various income brackets at a given time offer only a slight basis for predicting their probable future behavior; data revealing the relationship between changes in income (or other variables) and changes in expenditures or savings may have greater significance for prediction, especially if considered in conjunction with factors presumably influencing consumer behavior, such as (in 1942-44) shortages, rationing, war bond drives, etc.; but the validity of the conclusions drawn from such studies could be greatly enhanced if the quantitative data obtained from many families were supplemented by detailed interviews with a few indicating which factors actually played the greatest role in influencing them either to spend or to save.

Can free-answer interviewing make a unique contribution, not obtainable in any other way, to our knowledge of economic motivations? It has sometimes been said that information obtained by interviewing is "self-evident" or that it can be gotten from newspapers or trade journals. This statement, while correct in some instances, fails to recognize that only interviewing can give substance to what must otherwise remain mere guesswork, individual opinions—often contradictory—or even wishful thinking.[1]

This assertion raises the question as to the reliability of information obtained from interviews. It has often been argued that respondents may not be aware of their real motives or may not be willing to reveal them. Yet this objection, though often justified, does not invalidate the usefulness of the method. In the first place, the motives expressed and the opinions held by respondents (for example, by businessmen), and especially those frequently voiced by them, are important and worth knowing even if they are erroneous. Secondly, as we tried to show in discussing our method (II, 2) and our inquiries into business attitudes (XVII, 1), it is possible to avoid many of the pitfalls that are considered to be inherent in interviewing and

[1] This is true not only of motives underlying economic behavior but also of such "factual" data as, for example, differences in quality deterioration of different products.

to obtain detailed information, given spontaneously, that represents much more than expression of views held superficially. To be sure, we made only a first crude step toward the analysis of business decisions. What we want to emphasize is that in studying motivation the "indirect method" of having respondents discuss spontaneously their concrete experiences holds greater promise than the "direct method" of polling (e. g., of asking businessmen whether they are for or against price control, whether they expect higher or lower prices, etc.), although it may be that we sometimes "leaned over backward" in avoiding specific questions.

The fact that we may not have gone deep enough into the problems of economic motivation represents only one of the shortcomings of our method. Some of our failures point clearly to the need for close cooperation between detailed interviews with small samples and extensive statistical surveys. For example, in studying uptrading our method of research revealed that it was widespread, in which commodity lines it was more and in which lines it was less prevalent, and why and how it was done. But our study remained incomplete because statistical surveys on changes in average prices and the disappearance of low-end lines were not existent (so that we were compelled to make a roundabout attempt to gather such information by studying changes in advertised prices; IX, 2). Similarly, our incomplete data on changes in sales, costs, and profits serve at present only to indicate certain factors affecting business decisions; they lack supplementation by comprehensive statistical surveys or by interviews of larger samples with more specific questionnaires, which alone could reveal the frequency and extent of the indicated changes.

We attempted to supplement our information by a few case studies, in which certain business records were made available to the interviewers and were discussed by them with the respondents (cf. II, 1). Such case studies enabled us to present data, for example, on the percentage of expensive, medium-priced, and cheap goods sold at different times by a few retailers of apparel and furniture (Table 17, IX, 3) and on the different trends in various departments of two department stores (Table 46, Chap. XXII). They also yielded valuable insight into manufacturers' actual practices in changing assortment and prices (cf. the description of the use made of the similar-commodities clause in VII 2). Thorough investigation of a very limited number of firms holds out further promise as an aid to detailed interviews. They might not only supplement the information obtained in interviews but, if used to precede them, might assist in the preparation of questionnaires.

We failed in gathering evidence about several important issues because we were not aware of their significance when we embarked on the survey concerned. One of the major lessons of our experience was that the preparation of questionnaires should be guided by definite assumptions that can be either confirmed or disproved. For example, the fragmentary information presented in Chapter V on the pricing procedures of restaurateurs could have been greatly improved had we been aware in advance of its significance for estimating the price movements of restaurant meals. Or, our evidence concerning the role of expectations could have been made stronger if we had known in advance what we found out during the interviews, viz., that only in certain periods were many businessmen guided by definite price and profit expectations; it would then probably have been possible to assemble numerical data on differences in behavior in different periods. On the other hand, our more extensive material concerning the influence of price control on demand (Chap. XVI) and of understanding on compliance (Chap. XVII) was based on theoretical assumptions that determined the formulation of our questionnaires. When the questions were derived from theoretical analysis, it was sometimes possible to show the error involved in certain generalizations made by the businessmen (e.g., that increased sales or profits were always conducive to price stability; Chap. XV), or to restrict the validity of those generalizations (e.g., by demonstrating the effects of different supply-demand conditions on pricing procedures). Investigations guided by definite assumptions and carried out both by a statistical survey of a large sample and by detailed interviews with a small sample may perhaps be the most appropriate method of obtaining information about past as well as incipient developments, especially during such complex periods of transition as will set in with the end of the war.

Detailed interviewing may then serve two purposes. First, it may contribute to widening and deepening economic knowledge and testing economic theory. The study of the dynamics of business decisions has a legitimate function in economic research, since "costs and prices are both influences on, and results of, business decisions."[2] Secondly, such interviewing may play an important role in assisting public policy, both in guiding it and in checking upon its results. Government agencies responsible for economic regulations can profit from knowledge of the prevailing opinions, misconceptions, and expectations of businessmen and consumers, and from knowledge about the most suitable ways of explaining changing conditions and new

[2] *Cost Behavior and Price Policy*, by the Committee on Price Determination, National Bureau of Economic Research, New York, 1943, p. 114. The authors of that monograph advocate that studies of the process of reaching business decisions be made by case studies with individual firms, by ascertaining what information is available to those who make decisions, and by examining individual instances of action and not merely issues of broad policy. They say that "while such studies cannot give definite answers to all questions, or 'explain' all actions of the firms, they can provide a useful and almost indispensable counterpart to statistical inquiries" (p. 115).

regulations.[3] Several agencies have made substantial use of interviewing for such purposes during the war economy. Further progress in that direction is needed, not because the government should always defer to the wishes and opinions of businessmen and consumers, but because knowledge of different or contradictory opinions can be utilized to lessen resistance to public policies and because, ultimately, reactions to policies determine their success or failure.

[3] Cf. G. Katona, *War Without Inflation,* New York, 1942, pp. 173 ff.

CHAPTER XXIV

Toward an Appraisal of Price Control

The ultimate conclusions of our findings must take the form of an appraisal of price control. Having studied the impact of price regulations on business we shall now ask how it came about that government and business succeeded in limiting price increases to the extent observed, and whether that accomplishment had any adverse effects on production or caused any substantial inequities.

Our studies, of course, do not warrant a final and comprehensive appraisal of price control. We did not consider all the widespread activities of the OPA or the entire period of its operation and did not collect complete data even in our limited fields. And the time of this writing is too close to the actual events to permit the necessary perspective for an ultimate evaluation of price control. Yet even a preliminary analysis of its accomplishments and failures in attempting to stabilize the prices of consumer goods in 1942 and 1943 is significant for the history of the war economy and can add to the understanding of government interference or government cooperation with business. Having studied economic trends as they developed, we must point out the lessons that can be learned from them before they are submerged in the historical past.

1. *The Functions of Price Control*

By what standards is price control to be judged? What effects of the price regulations are to be deemed desirable and what effect undesirable? Criteria for an appraisal of wartime price control can be established only by viewing it within its proper context, the entire war economy. The three main objectives of the war economy are:

a) To utilize national resources, both human and material, in such a manner as to provide, first, adequate manpower and equipment for the armed forces, and secondly, the highest possible level of civilian production, properly allocated among various consumer goods and equitably distributed among the people.

b) To maintain a high state of civilian morale.

c) To insure that the best possible economic situation compatible with the first two requirements will prevail when the war is over.

Inflation, that is, a general rise in prices, is detrimental to the achievement of each of these objectives. It disorganizes production and distribution because it upsets both family budgets and business cost calculations and therefore results in a struggle for higher wages and speculative profits. It lowers national morale because it brings about an arbitrary and therefore inequitable redistribution of incomes and wealth (losses for those with savings, insurance policies, or fixed incomes, and gains for those with debts and possibly for certain producers and wage earners). Finally, inflation during the war makes a postwar collapse more likely. Extensive wartime price rises, correctly attributed to higher money incomes and smaller civilian supplies, may easily pave the way for a price slump after the war when incomes decline and civilian supplies expand. The very expectation of such a slump would hamper the process of industrial reconversion.

By the same token, price stability during the war can be considered the best insurance for uninterrupted production and peaceful labor-management relations. And, if the war should end without substantial increases in the prices of civilian goods, reconversion would be facilitated by the presence of deferred consumer demand and substantial reserves in the hands of consumers to satisfy that demand. Such reserves, namely, liquid savings, will necessarily have accumulated in the very process of fighting inflation.

How can price stability be achieved during a total war? According to one theory taxation alone could suffice. By taxing away excess incomes—with or without the obligation to refund part of the tax after the war—disposable consumer incomes could be kept at the level of available civilian supplies. It is generally conceded, however, that to drain off *all* excess incomes is not politically feasible. And even if the "inflationary gap" could be entirely eliminated, the expectation of shortages and price increases might lead to spending out of old savings or out of regular cash holdings (i.e., might accelerate the velocity of money). Taxes must, therefore, be supplemented by price control.

On the other hand, neither can price control alone, without anti-inflationary taxes, suffice to keep prices stable in a time of increasing incomes and of rigid or declining supplies. If there is no draining off of excess money, it becomes unlikely that indirect price increases and violations of price control can be kept within limits.

Price control can, however, play the central role in the fight against inflation, for it can decisively influence the behavior of businessmen and consumers. In wartime the belief that prices will go up greatly stimulates spending and curtails saving; conversely, the existence of price control and the conviction that it will be successful promotes the propensity to save and reduces consumption in excess and in advance of needs.

If price control is to succeed in engendering the required attitudes and expectations among businessmen and consumers its objective must be absolute price stability and not just the stability of certain prices or the limitation of price increases. Lax and flexible control is insufficient in a total war economy because price increases tend to spiral and to spread. What is one man's price is the other's cost and what has been granted to one can hardly be denied to another. Therefore, only when the aim is to keep the entire price level stable can it be hoped that nothing worse than a "little inflation" will occur.

The main difficulties of fighting inflation derive from the first two objectives of the war economy. Price stability must be achieved without lowering morale and without disrupting production.

Keeping prices stable need not conflict with the maintenance of high morale. Price regulations do cause difficulties and impose sacrifices, but these are of little consequence as compared to the hardships that would result from uncontrolled price increases. The maintenance of morale depends, therefore, upon a clear understanding by both businessmen and consumers of the need for and the purposes of price control. If such an understanding is achieved, and if the price regulations are equitable and do not interfere arbitrarily with production, distribution, or consumption, price control need not arouse hostility but, on the contrary, can enlist the cooperation of all concerned. Such cooperation is, in fact, essential to the success of price control, the intricate rules of which cannot be enforced by police power alone.

Is there a conflict involved between maintaining production of essential goods at the highest possible level and keeping prices from rising? Not generally, because stable prices are not incompatible with satisfactory profit rates, and the maximization of short-run profits without regard to future business trends is not the only or even the strongest motive of business behavior. Yet the rigid maintenance of price stability may induce farmers and businessmen to change their production schedules in a manner undesirable to the national economy. It may also, if cost increases become inevitable, cause undue hardships and stifle production. These possibilities raise two questions: Did price control have any adverse effects on the total volume of production or its composition or on the relative position of different businesses? and, if so, were those effects adequately counteracted? Production incentives may be granted or inequities offset by higher prices or by subsidies. The judicious use of subsidies may be more appropriate than raising prices, since price increases have cumulative effects.

2. *Accomplishments and Failures*

On the basis of these criteria—price stability without adverse effects on production and morale—was American price control from 1942 to 1944 successful? We can, of course, answer this question only with respect to those goods that we studied—primarily food, apparel, and housefurnishings. Since there is evidence, however, that those were the very goods with which the OPA was least successful,[1] we may say that our studies warrant the following general conclusions:

a) Price control was effective in keeping prices down: without it prices of consumer goods would have risen much more than they did.

b) Price control could have been even more effective: direct and indirect price increases could have been prevented to a greater extent than they were.

c) The price paid for the accomplishments of price control was not unduly high: production and morale were impaired at certain times in certain fields, but they suffered no permanent or irremediable ill effects.

The primary evidence for the first conclusion was provided by our comparison of price movements in periods when price control was strict and efficient with those when it was lax and inefficient. That prices were more stable in the first few months following the GMPR (April, 1942) and after the introduction of dollar-and-cent food ceilings (May, 1943) than in the winter and spring of 1943 must, according to our findings (Chap. XVI), be attributed to the effectiveness of price control. The extent of its accomplishments was further indicated by our comparison of the price movements of consumer goods before and after price control (see especially p. 56) and of those of strictly controlled, loosely controlled, and uncontrolled commodities (XII, 5).[2]

The main body of evidence supporting the first conclusion also supplies the justification for the second. We found that widespread circumventions of controls were primarily caused by inept government policies, hostile business attitudes, and expectations of price increases. All of these were susceptible to change and, in fact, did vary from time to time and from com-

[1] After comparing the price movements of consumer goods with those of producer goods, minerals, military supplies, and construction costs, F. C. Mills concluded that "the rise in commodity prices from 1939 to 1943 was largely concentrated in the goods intended for human consumption" (*Prices in a War Economy,* National Bureau of Economic Research, 1943, p. 62). Even among items of consumer expenditure the prices of rent, fuel, and services rose less than those of food, apparel, and housefurnishings.

It should again be emphasized at this point that our conclusions are derived from evidence collected in just one key center of American economy, Chicago. We have no evidence as to whether price control was more or less successful in Chicago than elsewhere in the nation. With respect to one commodity, namely, meat, compliance may have been better in Chicago than in many other parts of the country because of the easier supply situation (cf. VI, 3); on the other hand, it seems improbable that business attitudes toward price control were more favorable in Chicago than elsewhere.

[2] A comparison of the price movements in the First and the Second World War further confirms the conclusion as to the success of price control (cf. *Chart Series* of the Bureau of Labor Statistics, November, 1943, pp. 28-40).

modity to commodity. Possibly price control could not have been as successful in all fields during the entire 1942-44 period as it was in certain commodities at certain times; but the analysis of the differences in the accomplishments of price control does seem to indicate that greater success might have been achieved in more fields and for longer periods. This could have been accomplished, for example, by introducing the more effective food regulations earlier than May, 1943, or by attempting to change those attitudes and expectations that were found to be conducive to price increases in the first few months of 1943.

The second conclusion also implies that the degree of success in the fight against inflation depended primarily upon the actions of the government and of business (and to some extent of consumers), rather than upon given objective conditions. In studying the influence of the latter on the choice of pricing procedures, we found that the market structure (XIV, 1) and acute shortages (XV, 4) were determining factors in certain cases. In most cases, however, the supply-demand conditions and also the sales and profit trends proved to be variables to which businessmen reacted according to how they interpreted them in the light of their expectations and attitudes. Moreover, these variables themselves were influenced by the actions of the OPA and the business community (XVI, 5).

The conclusion that the accomplishments of price control greatly outweighed its adverse effects is derived from the following findings: We noted instances in which undesirable shifts in production occurred because of what the OPA did or failed to do (e.g., shifts to better-grade goods, Chap. IX; or to nonessential goods, Chap. XXII), but found no support for the contention that total civilian production was lowered by price control to any substantial degree beyond the curtailments necessitated by the war needs for manpower, equipment, materials, and transportation (cf. XV, 2). The relative position of certain types of firms was adversely affected during price control, but some of the changes were due to consumers' preferences (cf. Chap. XXI on grocery chains and inexpensive stores) and others could hardly have been averted by more equitable public policies (cf., the inequities caused by informal rationing; Chaps. XVIII, XIX, and XX). Our surveys also showed that business attitudes toward government regulations could have been much more favorable than they were, but that only in isolated instances and periods were they definitely hostile to price control. Businessmen's and consumers' dissatisfaction with price control and their willingness to pursue individual advantages despite the adverse consequences for the national economy were not negligible; on the other hand, they were neither permanent nor universal (cf. Chap. XVII).

One major endeavour of this study was to discern the reasons for the accomplishments and failures of price control. Our direct evidence concerning the fields and periods in which greater or lesser price stability was achieved has been presented in Parts Two and Three;[3] what remains to be done is to draw conclusions from the findings that will, of necessity, transcend somewhat the scope of the information obtained. It appears that the government, the business community, and the consuming public, all have considerable achievements to their credit. The OPA tackled a task in which practically no past experience existed, and the prevailing great variations in doing business precluded the issuance of simple rules. Yet it succeeded in devising regulations and procedures capable of arresting price increases and at the same time satisfactory to business (cf. Chap. XII). Businessmen exercised great ingenuity in maintaining high levels of civilian production under difficult conditions and, by guaranteeing a continuous flow of well-diversified supplies, contributed to relieving the pressure on prices. Many of them appear to have promoted price stability not merely by adhering to ceilings but by making every effort to keep prices from rising and qualities from deteriorating even when the letter of the law offered them considerable leeway.[4] Resistance of businessmen and consumers against low-quality goods and their abstention from undue inventory accumulation and hoarding were conspicuous in 1943-44 (XVI, 4). The consumers' voluntary choice of saving instead of spending (XVI, 5) must be mentioned as the last but not least important factor contributing to the maintenance of their own purchasing power.

The debit side of American price control requires a somewhat more detailed summary. The control of inflation was insufficient, first, because of the government's delay in introducing appropriate measures. Universal price regulations were introduced too late, farm products were too long exempted from control, and in many fields the OPA relied too long on loose regulations containing many loopholes. Also, price control was probably not supplemented soon enough and to a sufficient degree by anti-inflationary tax measures (although this question did not fall within the scope of our investigation). Subsidies likewise might have been introduced earlier and used as a

[3] We may refer here to the findings that the greatest price increases in apparel and housefurnishings occurred in women's outerwear, furs, accessories, and in upholstered furniture, and the smallest increases in men's outerwear, and china and glassware (VII, 1); that among foods the price developments in fresh fruits and vegetables and meat were less satisfactory than in canned and dried groceries (Chap. VI); and that the most pronounced inflationary trends occurred in the period from October, 1942 to May, 1943 (XVI, 3).

[4] Cf., for example, the great differences in indirect price increases in the same commodity produced and sold by different businessmen (VII, 1). Attitudes toward price control and the consideration of long-run interests appear to have played a greater part than the letter of the law in determining the extent to which individual businessmen resorted to indirect price increases (XVII, 4).

weapon to dissipate the widespread expectation that the government would not be able to hold the line because of inevitable increases in labor costs or the necessity of granting higher profits to stimulate production.[5]

Why were strict price regulations delayed or sometimes not issued at all? According to all indications, one reason was the prevailing belief of both the Congress and the Administration that public opinion would be opposed to them and business would not cooperate with them. We found some justification for the latter belief by studying businessmen's attitudes (XVII, 2) and their preferences for various types of regulation (XII, 1, c). But we found no justification for the resultant course of action: government agencies, instead of deferring to business by abstaining from strict regulations, could have attempted to change business attitudes and to rally public opinion behind price control. Apparently the importance of this task was for a long time not clearly perceived. The failure to evoke full understanding of the functions of price control and confidence in its success was largely responsible for occasional waves of hoarding and inventory accumulation and the resulting price increases. Our inquiries as to why there was sometimes more and sometimes less confidence in the success of price control revealed also that only clear-cut policies and regulations lend themselves to creating the proper expectations and can be explained convincingly (cf. Chap. XVI).

Price increases tended to spread from one commodity to another, and small price increases tended to engender larger increases. This was shown by analyzing the food situation prior to May, 1943, when the fact that only certain articles were rigidly controlled created confusion among the merchants (VI, 2); by pointing out that businessmen frequently "justified" violations of ceilings with the statement that nobody complied with them (VI, 1 and 3); by presenting evidence that the expectation of shortages spread from merchant to merchant (XVI, 2) and that the introduction of rationing led to the expectation of more rationing (XIII, 3); finally, and most significantly, by showing the effect of "atmospheres" of hostility and of anticipated price increases in the pricing of practically all commodities (Chap. XVI). In all these instances either the regulations or their psychological preparation were not fully appropriate.

The share of businessmen in keeping prices stable or in raising them is inadequately described by stating that they complied with strict provisions and took advantage of loopholes in the regulations. On the one hand, as

[5] In XVII, 3 it was shown that the most frequent reason given by businessmen for expected price increases was their belief that labor would have to be given higher wages, and farmers and manufacturers higher prices, in order to maintain high production. An established policy that necessary production incentives would be granted in the form of subsidies rather than by raising prices might have dispelled the expectation of price increases that was found to have been a potent inflationary factor.

said before, many businessmen went much further in resisting price increases and quality deterioration than required by the law. On the other hand, selling above ceiling prices, quality deterioration, and other circumventions of price control, were found not to have been the exceptional actions of a small minority, but at certain times and in certain fields the prevailing form of business behavior. They were widespread because the business community as a whole failed to realize that it should, in its own interest, have maintained price stability and that it had it within its power to do so. Isolated instances of lowered profits and of losses, a few inappropriate regulations, and the failure of the OPA to explain the purpose and function of its regulations in a convincing manner, were not the only causes of business hostility toward price control (Chap. XVII), and their occurrence does not relieve business from its share of responsibility. Business resistance against direct or indirect price increases was particularly weak in times of rush buying (XVI, 3) or when informal rationing was so abused by suppliers as to intensify the buyers' consciousness of their dependence upon them (XVIII, 3). To the extent that consumers spent excessively, hoarded merchandise, and paid prices above ceilings, they also contributed to direct and indirect price increases, possibly because they, too, failed to realize what was at stake. Influencing business attitudes and guiding public opinion are not the tasks of the government alone; they constitute a challenge that was inadequately met by private organizations and the government alike.

3. Prospects

Our surveys were terminated in the spring of 1944. At that time, with the invasion of Europe, American war economy appeared to be entering a new transitory phase, intermediate between full-fledged war economy and reconversion to peace economy. In what way the impact of price control on business changed during this phase is not yet known, but business actions were doubtless affected by the anticipation of cutbacks in war production and of the resumption of civilian output. The direction of this new influence may be indicated by pointing out how price control will be affected by the end of the war. Price control in the first postwar period will differ from price control during full-fledged war economy as discussed in this study in three fundamental respects.

a) After the war it will be more difficult to enlist the cooperation of businessmen and consumers. That patriotism will no longer be as impelling a motive to induce them to endure any necessary sacrifices or inconveniences is only part of the story. In addition, we found that during the war there was frequently a clear division between short-range and long-range behavior, that is, between what people were willing to do for the duration and what they planned to do after the war. When the war ends this cleavage will disappear, and it will be more difficult to induce businessmen and consumers to adopt temporary modes of behavior different from the ones that they strive to adopt ultimately.

b) After the war our economy will be confronted not only with the threat of inflation but also with the new threat of deflation. Though inflationary pressures will persist, there will be less reason to fear the spreading and spiraling of small price increases if an increase in civilian production and a decrease in consumer incomes can be anticipated or if they actually occur.

c) The objectives of price control will change. The stimulation of civilian production will become the primary goal to which the maintenance of strict price stability may be subordinated. It is by no means certain that production can best be stimulated by granting higher prices, but it may become necessary to adopt more flexible methods of pricing.

Despite these differences the major lessons of price control during the total war economy can and must be utilized in the postwar period. "Decontrol," like control, requires clear-cut and comprehensive policies, and their success depends upon the behavior of businessmen and consumers as influenced by regulations and by prevailing expectations. It may, therefore, be possible to stimulate reconversion to prewar goods and qualities not by granting extensive price increases but by announcing in advance that price ceilings will be lifted when production reaches a certain level. At the same time, it may be possible to restrict the demand for goods while the shortage of supplies continues by announcing in advance how extensive future supplies will be. While during the war price regulations and government publicity had only the objectives of keeping prices down and dispelling expectations of price increases, after the war they will have to be framed according to the complex interplay of different hopes and fears of business and consumer groups as to forthcoming changes in prices, supply, and demand.

It will be true then as it has been in the past few years that the creation of the appropriate atmosphere—one conducive either to restricted spending or to risk-taking and expanding production—will depend upon the success of both public and private agencies in explaining to businessmen and consumers the given situation and future developments, and in making clear the need for and the purposes of government regulations. The task will be more difficult after the war, but experience during the war has shown that it is possible to bring about an understanding of changing conditions and regulations and thereby to influence economic behavior.

APPENDIX I

(TO CHAPTER II)

THE QUESTIONNAIRES

The length and the number of questionnaires prepared makes it impossible to reproduce them here in their entirety. Altogether 12 different ones were used, although many of them contained identical or similar questions. A few characteristic parts of three questionnaires are presented here.[1] Double asterisks indicate questions which the interviewer was instructed not to omit under any circumstances, single asterisks those which were to be omitted only if absolutely necessary.

From the Questionnaire for Retailers of Apparel and Housefurnishings

Section B. Prices and Qualities

**We are studying the changes in prices and qualities since the GMPR. Are there any articles which you buy now at substantially the same prices as in May, 1942? Any articles for which you pay more than in May, 1942? Are there any articles the quality of which remained unchanged and any of which the quality is poorer?

**B 1 Articles bought in which both price and quality are substantially the same as in May, 1942:

**B 2 Articles bought in which price is the same but quality is poorer than in May, 1942:

**B 3 Articles bought in which price is higher than in May, 1942:

B 4 Do the answers apply to selling prices? If not, what are the differences? Reasons for the differences.

B 5 When did the price changes occur? Continuously, or was there a period in which they were more pronounced than in other periods?

**B 6 Why did prices change? (Ask with reference to specific article and watch out for the following considerations.)

6.1 Because of changes in the price regulations.
6.2 Because of formulas used by suppliers.
6.3 Because of new articles introduced.
6.4 Because of purchasing from new suppliers.
6.5 Because of changes in discounts or markdowns.
6.6 Other reasons.

**B 7 Why did price and quality remain unchanged in some articles; price go up or quality deteriorate in others?

7.1 Because of differences in regulations.
7.2 Because of differences of compliance in different lines.
7.3 Because one commodity is more controllable than the other.

[1] Several additional questions are quoted verbatim in the text.

7.4 Other explanations.

B 8.1 Are the prices quoted by different suppliers for the same goods more uniform than before price control?

8.2 Are the differences between your prices and those of your competitors larger, the same, or smaller than before price control?

**B 9.1 If now you put up the same money as in May, 1942 for (name the most important articles with higher prices or lower qualities) how does the merchandise you obtain compare? How much less is the merchandise worth? How much less would you have paid for that same merchandise when the GMPR went into effect?

9.2 If a customer spends the same amount of money as in May, 1942, in your store for . . . how does the merchandise he buys compare?

Section E. Evaluation of the OPA

**We are interested in knowing what you think about the OPA.

*E 1 Would you say that on the whole the OPA did a good job or a bad job, or did more good than harm, or more harm than good?

*E 2 What would you say were the main positive achievements of the OPA in your line of business?

*E 3 What would you say were the main mistakes made by the OPA in your line of business?

*E 4 Has there been an improvement or a deterioration in the administration of price control in the last few months? In what way?

*E 5 Would you say that the OPA regulations were generally fair or unfair?

5.1 Were some types of business benefited or hurt by the regulations? How? To what extent?

*5.11 Small or large firms?

5.12 Manufacturers? Wholesalers? Retailers?

5.2 Do you think OPA has done better or worse in your line of business than in other lines?

E 6 Are the OPA orders usually clear and easy to understand?

E 7 Has the OPA done a satisfactory job in checking up on compliance with its regulations?

7.1 Or would you say that the methods of enforcing price control should be changed? How? Why?

**E 8 Would you be in favor of changing the OPA regulations applied to your business? How? Why (Why not?)

8.1 By abandoning the GMPR? If so, what should be done?

8.2 What do you think of the proposal of introducing dollar-and-cent ceilings on the retail level?

8.3 What kind of formula ceilings would be appropriate?

8.4 Should ceilings be made simpler or be differentiated to a larger extent?

*8.5 What would be the effect on prices of the changes you favor?

E 9 What were the effects of price control on supplies?

9.1 Have price ceilings, in your opinion, hampered production?

E 10 Should the OPA be abolished or reorganized?

From the Questionnaire for Manufacturers of Apparel and Housefurnishings

Section C. Sales and Assortment

**C 1 It has frequently been said that selling merchandise has become easier than before the war. What has been your experience in this respect?

1.1 Does that mean that everything you have to offer now finds a ready market? Exceptions? When? What?

*1.2 Do you still try to increase the market for your goods?

1.21 If not, since when?

1.22 If so, how? When? Why? Promotions; advertising (unchanged, increased or reduced)? Any changes in number and function of your salesmen?

C 2 Do changes in demand or customers' wishes determine the type and assortment of merchandise you produce? In what respect?

**C 3 What other important considerations govern your taking up the production of new merchandise, or of new styles, grades, patterns?

**3.1 What considerations govern your discontinuing old merchandise or old styles, grades, patterns? (Watch out for the following considerations:)

a. Government orders.
b. Shortages.
c. Changes in demand.
d. Larger or smaller profits in different types of goods.
e. Evasion of regulations.

*3.2 What changes in the assortment or in the proportion of the goods produced have you made in 1942 and 1943? (Try to get description of specific instances.) Why were the changes made?

C 4 Can you satisfy the demand of your customers?

4.1 If not, since when?

**4.2 What do you do about it? In what way do you allocate your merchandise?

*4.3 Do you have a preference for certain types of customers?

4.4 Do you treat all customers alike?
Important considerations:
a. Preference for large or small customers.
b. Preference for old customers.
c. Business friendship.

4.5 Do you consider the question of how urgent your customers' needs are?

*4.6 How do you treat new customers?

4.7 Are there more or less changes in your clientele than there used to be? Why?

4.8 Do customers complain about your allocation of goods?

4.81 More or less frequently than they used to?

From the Questionnaire for Wholesale and Retail Grocers (June-July, 1943)

Section B. The New Grocery Regulations

**We are interested in finding out how the new markup and dollar-and-cent ceilings on groceries work. Would you tell us what you think about these regulations? What are your main complaints, what your main recommendations?

B 1 How did the regulations affect you?

**1.1 Is your margin satisfactory? In what commodities, yes? In what commodities, no?

1.2 Is your task too complicated? In what respect?
1.3 Are frequent recalculations necessary?
B 2 What do you think of the regulations from the point of view of stabilizing prices?
**2.1 Do the regulations assure price stability?
2.2 Do the regulations help enforcement?
*2.3 Has compliance with the regulations improved or deteriorated?
*B 3 Are the differences in the markups of the various commodities justified?
*3.1 How do the markups compare with those which you had before the regulations went into effect?
*3.11 In which articles did the markups increase, in which did they remain unchanged, in which did they decrease?
**B 4 What do you think of the retail store differentials (the classification of wholesalers)?
4.1 Are the different classes of retailers (wholesalers) properly determined?
4.2 Do the differences in margins compensate for services rendered?
4.3 What do you think of the publicity given to store differentials?
*4.4 Have the differentials caused any shift in consumer buying (in retailers' buying)?
*B 5 Did the ceilings have any effect on the assortment of goods you carry?
5.1 Have you discontinued carrying available merchandise because margins are insufficient?
5.2 Do you feature certain merchandise because margins are favorable?
*B 6 Selling below ceilings.
6.1 Has it become more or less frequent since the new regulations went into effect?
6.2 How frequent is selling below ceilings? In what commodities? How much below ceilings?
**B 7 How do the new regulations compare with those which they replaced?
7.1 Were the new regulations necessary? If so, why?
7.2 What would you say are the main differences between the new and the old regulations?
7.3 Which do you prefer? Why?
*7.4 How did the old regulations work?
B 8 Are there any articles you carry which are not under the new regulations?
*8.1 Should the new regulations be applied to them?
*B 9 Do you think the new regulations will remain in force in their present form for a long time to come?
9.1 If not, what changes do you expect? Why will these changes be made?
9.2 If yes, what will be the long-term effect of the regulations?

APPENDIX II

(TO CHAPTER III)

THE SAMPLE

The sample is broken down in Table 47 according to the kinds of business of the firms interviewed. Further breakdowns of apparel and housefurnishings retailers (A 1), food dealers (B), and smaller fields (C) follow.

TABLE 47

SAMPLE ACCORDING TO KINDS OF BUSINESS

Kinds of Business	Total Number of Firms	Number of Case Studies*	Total Number of Interviews
A. Apparel and Housefurnishings			
1. Retailers			
Department stores†	23	7	38
Women's wear	31	7	44
Men's wear	22	2	31
Shoes	13	3	24
Furniture	13	3	18
Other housefurnishings	20	0	21
	122	22	176
2. Wholesalers	21	2	25
3. Manufacturers			
Women's wear	21	3	29
Men's wear	19	4	24
Shoes and gloves	12	1	15
Furniture	15	2	18
	67	10	86
Total	210	34	287
B. Food			
Retailers	60	8	79
Groceries: Wholesalers and processors	46	7	56
Meat: Packers, processors, and wholesalers	35	7	58
Restaurants	35	2	41
Total	176	24	234
C. Smaller Fields			
Drugs	38	0	42
Liquor	23	3	27
Laundries	23	0	25
Cleaners	8	0	10
Flowers	14	0	14
Jewelry	16	0	16
Paper	20	0	21
Total	142	3	155
Total Sample	528	61	676

* Included in total number of firms.

† Also mail-order houses and variety chains.

Surveys among Apparel and Housefurnishings Retailers

All department stores and some specialty stores were interviewed about several of the different commodity lines they carried. Table 48 presents the list of surveys and the total number of firms with which each survey was conducted.

TABLE 48

SURVEYS OF APPAREL AND HOUSEFURNISHINGS RETAILERS

23 Department and 99 Specialty Stores

Commodity Line	Number of Stores Specializing in the Respective Line	Number of Other Stores Interviewed about the Respective Line
Women's outerwear and underwear	24	16
Men's outerwear and underwear	22	10
Shoes	13	9
Furniture	13	8
Furs*	3	12
Millinery†	4	8
Handbags	2	9
Luggage	3	6
China and glassware	5	6
Linen and sheets	3	7
Carpets and floor coverings	2	8
Hardware and novelties	5	8
	99	

* The fur questionnaire was also used in interviews with 4 fur wholesalers.
† The millinery questionnaire was also used in interviews with 3 hat manufacturers.

Food Surveys

Among retailers three separate surveys were conducted: one concerning meat, one concerning groceries and produce, and one concerning baked goods. The sample of 60 firms is subdivided as follows:

7 chains: meat, groceries, and produce;
18 independents: meat, groceries and produce;
19 independents: groceries and produce;
6 independents: meat only;
10 bakeries.

Among wholesalers and processors of groceries, two separate surveys were conducted: one among wholesalers and processors of canned and dry groceries, and one among wholesalers of produce. The sample of 46 firms is subdivided as follows:

22 general-line wholesalers (usually also processors);
15 produce wholesalers;
9 processors.

Two further food surveys were made: one among meat packers, processors, and wholesalers, and one among restaurants.

In 6 department stores separate interviews were made with the managers of the grocery departments and restaurants; these were included in Table 47 not among department stores but among food retailers and restaurants, respectively.

Surveys in Smaller Fields

Flowers and jewelry: retailers only.

Drugs, liquor, and paper: 54 retailers;
22 wholesalers;
5 paper manufacturers.

Of the 23 laundries interviewed, 7 were also cleaners and were interviewed about both lines.

TABLE 49

NUMBER OF REINTERVIEWS

NUMBER OF TIMES INTERVIEWED	KIND OF BUSINESS			Total Number of Interviews
	Apparel and House-furnishings	Food	Smaller Fields	
One	156	131	129	416
Two	36	35	13	168
Three	13	7	0	60
Four	5	3	0	32
Total	210	176	142	676

Small Firms

Only in a few surveys did the problems in which we were interested necessitate interviewing a relatively large number of small firms: Among retail grocers, 16 of the 37 independents interviewed had sales under $50,000 in 1942 (Class I grocers, according to the OPA price schedules). Among 30 retail drug stores, 12 were small neighborhood stores; and among 23 laundries, 7 were "hand laundries." Of the 35 restaurants, 9 had less than 6 employees, while 9 were national or local chains or had over 100 employees. Of the total of 122 retailers of apparel and housefurnishings, 35 were small, having 4 or less employees; here, of course, very small neighborhood stores are much less numerous and less important than in the food and service lines. Among manufacturers and wholesalers of apparel and housefurnishings the proportion of small firms is believed to be similar, but no exact data can be given because our information on the sales volume of the firms and the number of their employees is not complete.

Chronological Sequence of Surveys

The different surveys were conducted at the following times: end of 1942 and January and February, 1943, the meat industry and retailers of apparel and housefurnishings;

spring of 1943, manufacturers and wholesalers of apparel and housefurnishings; summer of 1943, wholesale and retail grocers and restaurants; fall of 1943, second surveys of the meat industry, and of manufacturers and retailers of apparel and housefurnishings; winter of 1943, smaller surveys. Occasional reinterviews were made at various times in 1943, and the first quarter of 1944 was devoted exclusively to reinterviews in all fields.

APPENDIX III

(TO CHAPTER XV)

SALES AND PROFITS

1. Sales Trends in Different Business Lines

In collecting data on the sales of different commodities detailed interviews of a small sample cannot, and need not, compete with the extensive national surveys of established statistical agencies. The most complete available data on the *dollar sales of retail stores* have been compiled by the Bureau of the Census and the Bureau of Foreign and Domestic Commerce (Tables 51 and 52). They are, however, broken down according to types of store rather than commodities. For our purpose of determining whether changes in sales of a commodity were correlated with the pricing procedures adopted by sellers of that commodity, the published data have the following shortcomings:

a) The information on the sales of individual commodities is incomplete in that it does not include the sales of those commodities by department stores. Department stores constitute a separate entry which is not subdivided by departments. Therefore the published data represent the sales trend of each commodity only if the business of department and of specialty stores developed in the same manner.

b) Many specialty stores also sell several different commodities. Therefore the sales trend of, say, shoe stores, as reported in the published data, is representative of the trend of shoe sales only if the sales trends in hosiery, handbags, etc., were the same as those of shoes.

c) In the published data, different types of the same commodity are not distinguished. For example, sales of women's apparel stores include the sales of expensive and inexpensive garments, hats, blouses, suits, etc.; sales of furniture stores include refrigerators and radios together with wooden and upholstered furniture.

By supplementing the general statistical data with information from our surveys it will be possible to indicate certain trends in the sales of individual commodities which are not apparent from the published figures; though, of course, the small size of our sample and its geographical limitation must be kept in mind.

Apparel. Table 50 shows that the physical production volume of men's garments decreased while that of women's garments increased in 1942 and 1943. According to the nationwide statistics, the dollar retail sales of both women's and men's apparel rose in those years but the former much more than the latter (Tables 51 and 52). It was found in our surveys that men's apparel included at least two groups with unequal sales development: men's suits and coats, and furnishings. In the first four months of 1942, that is, immediately before the introduction of price control, the sales of men's suits and coats increased greatly (at that time it was expected that wool would become scarce, and certain restrictions—on trouser cuffs, two-pants suits, etc.—were announced in advance), while in the following eight months they declined. In 1943 there was some improvement in dollar sales but not in physical volume. Changes from 1942 to 1943 in the dollar retail sales of suits and coats as reported by our respondents ranged from an

TABLE 50

VOLUME OF PHYSICAL PRODUCTION OF CLOTHING FOR CIVILIANS

1935-39 average = 100

	1939	1941	1942	1943
Women's and children's garments	110	124	127	131
Men's and boys' garments	108	124	102	84
Shoes, hosiery, hats, and gloves	107	117	103	99

Source: *Federal Reserve Bulletin*, Vol. 30, April, 1944, p. 309.
Garments include outerwear and underwear.
The index is based on data on monthly output or shipments, active machinery hours, and man-hours worked; price changes do not affect the index.

increase of 12 per cent to a decrease of 20 per cent. In men's furnishings, on the other hand, our respondents said that their physical volume rose slightly and their dollar sales greatly from 1942 to 1943. Reported increases in dollar sales of furnishings ranged from 10 to 40 per cent.

Our findings agree with the published data that the sales of women's outerwear rose much more than those of men's outerwear (Table 53). Yet we found extensive differences in the sales of individual sellers and of different types of women's clothing. The manufacturers and retailers of women's clothing in our sample reported increases in their dollar sales ranging from 5 to 50 per cent in 1942, from 17 to 35 per cent in 1943; the increases were much greater in blouses and small wear than in coats and suits. Most sellers of women's wear said that not only dollar sales but also the number of dresses, coats, etc., increased both in 1942 and in 1943. The number of hats sold was reported to have increased much less.

Department stores interviewed by us reported substantial increases in sales of women's and children's wear and toilet goods, and decreases in men's civilian suits, furniture, housefurnishings, toys, and "hard lines" in general.[1]

National statistics on the dollar sales of shoe retailers show substantial increases in 1942 and small further increases in 1943. Shoe production declined in 1943, and it appears that after the introduction of rationing the number of rationed shoes sold at retail likewise declined. We found that both physical volume and dollar sales of expensive shoes advanced while those of inexpensive shoes declined after rationing (cf. Table 45, Chap. XXI).

Housefurnishings. According to national statistics, retailers of furniture and housefurnishings experienced practically no increases in their dollar sales in 1942 and 1943. The sales of these retailers include, however, different articles with unequal sales trends. They sell radios, lamps, and other appliances in which business fell off sharply, and wooden and upholstered furniture, in which—according to our information—dollar sales advanced somewhat during price control.

Food. According to the compilations of the Bureau of Agricultural Economics, the physical volume of civilian consumption increased in 1942 and 1943 for most food prod-

[1] Cf. the breakdowns of department stores sales according to durable and nondurable goods in *Survey of Current Business*, Vol. 23, October, 1943, p. 5; according to departments in every issue of the *Federal Reserve Bulletin*, which, however, gives only monthly changes in per cent.

TABLE 51

SALES OF INDEPENDENT RETAIL STORES

Percentage Change of Dollar Sales as Compared with Preceding Year

TYPE OF STORE	CHICAGO			34 STATES		
	1942	1943	First half 1944	1942	1943	First half 1944
Men's apparel	+10%	+ 3%	— 6%	+21%	+17%	— 1%
Women's apparel	+14	+25	+10	+22	+33	+ 9
Shoes	+10	+13	—12	+33	+16	— 3
Dry goods	+26	+27	+15	+29	+25	+ 7
Furniture	—10	— 3	+ 8	0	+ 3	— 2
Food (total)	+26	+27	+10	+21	+19	+ 5
Thereof: Groceries without meat	——	+25	+ 4	+22	+21	+6
Drugs	+11	+21	+17	+22	+24	+12
Liquor	——	+27	+ 7	+27	+ 8	+ 8
Restaurants	+18	+26	+ 9	+25	+30	+11
Jewelry	+ 5	+36	+13	+27	+29	+10
Flowers	+ 3	+23	+21	+ 9	+30	+22
Department stores, total	+15	+12	+ 4	+16	+17	+ 8
Other kinds of business, total	——	+16	+10	——	+13	+ 5
All stores	+ 6	+15	+ 8	+ 4	+15	+ 7

Source: *Bureau of the Census*, Current Statistical Service, Releases for December, 1942, December, 1943, and June, 1944.

Samples of over 700 firms in Chicago, and of over 19,000 firms with more than $3.5 billion sales (1943) in the 34 states.

ucts, except those that were rationed. Per capita consumption of canned fruits and vegetables declined considerably, and meat consumption slightly, from high levels reached in 1941. Total consumer expenditures for food and dollar sales of food stores rose in both years, but national data on the dollar sales of different food products are not available.

According to their annual reports, the total dollar sales of the large meat packers (including sales to government agencies and sales of poultry, eggs, by-products, etc.) were roughly twice as large in 1943 as in 1939, and in most cases somewhat larger in 1943 than in 1942, although the tonnage did not increase in 1943 as it had in previous years. Retail meat dealers in our sample showed substantial sales increases up to the time of meat rationing and again after November, 1943. Total 1943 sales trends differed from store to store: in 6 stores meat sales were found to have been higher in 1943 than in 1942, in 6 they were about the same, and in 7 they were lower.

Both the published data and our surveys indicate that grocery sales expanded considerably in 1942, and in our sample the trend of the different departments did not differ greatly. In 1943 sales of fresh fruits and vegetables showed further great advances;

TABLE 52

SALES OF ALL RETAIL STORES

1941 Dollar Sales = 100

Type of Store	1939	1941	1942	1943
Department, including mail order	79	100	111	122
Men's clothing and furnishings	77	100	118	138
Women's apparel and accessories	78	100	128	173
Shoes	81	100	128	135
Furniture and housefurnishings	66	100	109	105
Grocery and combination	81	100	127	136
Drug stores	83	100	122	147
Liquor	72	100	140	167
Eating and drinking places	74	100	129	167
Jewelry	62	100	128	165
Florists	77	100	118	—
All durable-goods stores	66	100	64	58
All nondurable-goods stores	79	100	119	134
All stores	76	100	104	113

Source: Bureau of Foreign and Domestic Commerce, *Survey of Current Business,* Vol. 23, November, 1943, p. 7; the estimates given there for 1943 were corrected by data from later issues.

Summary of the sales of all retail stores in the United States; total sales in 1943, $62.9 billion.

wholesalers interviewed by us who specialized in these products increased their business from 30 to 150 per cent against 1942. On the other hand, of 14 general-line wholesalers whose major products were canned and dry groceries, only 9 had larger sales in 1943 than 1942, and the gains were slight. Most independent retailers interviewed increased their total dollar sales (cf. Table 43, Chap. XXI; average increase, 11 per cent), but there were several whose sales of dry and canned groceries declined from 1942 to 1943, while their produce sales rose. To what extent the latter development was due to the considerable price increases in fresh fruits and vegetables could not be determined.

Drugs. Drug stores increased their business volume consistently and substantially according to the national statistical data. Fountain sales doubtless played some part in this increase, but could not have been solely responsible for it, since 83 per cent of the retail druggists interviewed by us reported a "substantial increase" in their sales of drugs, pharmaceuticals and toiletries (Table 54).

Liquor. National dollar sales of retail liquor stores increased both in 1942 and 1943, but to a greater extent in the former than the latter year when consumers found whiskey very scarce. We found in our surveys that in 1943 the trend differed from store to store to an exceptionally great degree: exact data from 12 stores showed a spread from 5 per cent decrease to 70 per cent increase in dollar sales (the Bureau of the Census reported an average increase of 27 per cent for Chicago). The physical volume was said to have increased in one half and decreased in the other half of the 12 stores.

Laundries and cleaners. All laundries interviewed (24) reported that demand for their services had increased; yet because of labor shortages several laundries had limited

TABLE 53

SALES OF MEN'S AND WOMEN'S OUTERWEAR

Percentage Change of Dollar Sales in 1943 as Compared with 1942

From Case Studies with 10 Chicago Retailers

Type of Store	Men's Civilian Clothing	Women's Clothing
A. Department store	+12%	+30%
B. Department store	—20	+27
C. General apparel store	+10	+25
D. General apparel store	— 7	+31
E. Men's specialty store	+10	——
F. Men's specialty store	+ 5	——
G. Men's specialty store	+ 4	——
H. Women's specialty store	——	+25
I. Women's specialty store	——	+22
J. Women's specialty store	——	+24

The table includes 10 firms that supplied exact data for two comparable periods. The data for stores B, G, and J refer to the first 9 months of 1943 as against the first 9 months of 1942.

their high-price services. Thereby 4 laundries had reduced their business volume in 1943, and 9 had allowed it to increase only slightly. The dollar sales of most cleaners rose 15 to 20 per cent from 1941 to 1943, but a few inexpensive cleaners reported unchanged or even declining sales because of lack of demand for their services.

Uncontrolled commodities. All available data indicate that in 1942 and in 1943 the increase in the sales of restaurants and of jewelry and flower stores was greater than the average increase of all other types of retail stores. In 1942 jewelers specializing in installment sales experienced a decline, and other jewelers an increase in dollar volume; in 1943 the sales of all jewelers increased because they all expanded their cash business. As to the dollar sales of Chicago florists, the Bureau of the Census reports an increase of 3 per cent in 1942 and of 23 per cent in 1943 (weighted average of 12 and 10 florists respectively), while we found a 15 per cent increase in 1942 and a 26 per cent increase in 1943 (unweighted average of 14 florists). In view of the large price increases in flowers (cf. V, 2) it is questionable whether the physical volume of sales changed greatly. In restaurants the sales increase was greater in 1943 than in 1942.

Many respondents who did not give us annual sales data furnished information about the trend of their dollar sales in the last few months before the interview as compared with the same period of the preceding year. Of 455 respondents, 55 per cent said that their sales had increased substantially (20 per cent or more) and only 25 per cent that they had remained unchanged or declined (Table 54). Substantial gains were reported most frequently by sellers of drugs, groceries and produce, women's wear, and shoes; least frequently by sellers of men's wear, furniture, and liquor.

Since we determined in each interview what type of pricing procedure the businessman adopted, we were in a position to compare each respondent's sales trend and pricing procedure. The two are not correlated. Pearson's mean-square contingency coefficient between each businessman's sales trend (as classified in Table 54) and pricing procedure

TABLE 54

CLASSIFICATION OF INTERVIEWS ACCORDING TO TREND OF DOLLAR SALES
Sales Trend before Interviews as Compared to Same Period of Preceding Year
Surveys between October, 1942, and May, 1944

KIND OF BUSINESS	SAMPLE (NUMBER OF INTERVIEWS)	PER CENT OF SAMPLE WITH		
		Substantial Increase	Small Increase	No Change or Decline
All firms	455	55%	20%	25%
Men's Wear	46	22	17	61
Thereof: Men's suits and coats	21	9	14	77
Women's wear	57	68	23	9
Shoes and gloves	35	63	17	20
Apparel, general	45	69	11	20
Furniture	46	28	48	24
Drugs	42	83	10	7
Meat	52	48	29	23
Groceries and produce	77	65	23	12
Liquor	25	32	32	36
Laundries and cleaners	30	50	33	17

Note: The groupings of the different business fields in this table correspond to those in Table 22, Chap. XI, where they are explained in detail. Each commodity line includes the manufacturers, wholesalers, and retailers in that field. "Men's suits and coats" includes all manufacturers of those commodities and only those retailers who furnished separate data about their sales of suits and coats.

Respondents were asked to compare their sales in the three months preceding the interview with those in the corresponding period of the preceding year.

"Substantial increase" means an increase of 20 per cent or more; "small increase," 1 to 20 per cent.

(as classified in Table 22, Chap. XI) is 0.04 for the total sample, and is not significant for any commodity line. If we take the largest group alone, the interviews in which "substantial sales increases" were reported, we find that approximately equal proportions kept prices stable, raised them indirectly, and raised them directly.[2]

2. *Profit Trends in Different Business Lines*

The currently available information on 1942 and 1943 profits of firms engaged in the different business lines studied in this monograph is incomplete.[3] We shall have to rely on a few national compilations of corporate earnings, on the published annual reports of leading corporations, and on fragmentary information from interviews.

Table 55 shows that the 1942 profits before taxes of the corporations engaged in the retail and wholesale trade and in the manufacturing of "food" and "textiles and

[2] Of 250 respondents with sales increases of 20 per cent or more as against the preceding year, 30 per cent adopted pricing procedure A, 36 per cent procedure B, and 34 per cent procedure C (cf. Chap. XI for definition of the pricing procedures).

[3] At the time of this writing the Bureau of Internal Revenue has not released its profit statistics for those years.

leather" exceeded substantially those of the excellent year 1941; and in 1943 there was a further although much smaller increase in most groups. Tax measures appear to have had a much greater effect on profits than price control: profits after taxes rose much less than profits before taxes, and in most groups the changes in profits after taxes were insignificant in 1942 and in 1943.

TABLE 55

ESTIMATED CORPORATE PROFITS (NATIONAL TOTALS)

1941 = 100

KIND OF BUSINESS	BEFORE TAXES		AFTER TAXES	
	1942	1943	1942	1943
Trade: Total	137.3	143.3	109.6	108.5
Retail	145.1	148.1	113.7	115.4
Wholesale	128.1	137.5	104.5	99.8
Manufacturing: Total*	128.7	146.6	106.5	113.5
Food, beverages, tobacco	140.9	160.1	112.3	116.2
Textiles, leather	151.4	147.6	104.6	100.5

Source: *Survey of Current Business*, Vol. 24, July, 1944, p. 6.
* Includes manufacturers of durable goods, producers of war materials, etc.

The National City Bank in compiling the profits after taxes of the leading corporations found the following percentage changes from 1942 to 1943 in some of the fields discussed in this study: miscellaneous retailers and wholesalers + 12.6 per cent, department stores + 12.2 per cent, clothing manufacturers + 5.6 per cent, food chain stores + 2.2 per cent, other chain stores + 1.0 per cent, mail-order houses — 0.8 per cent, meat packers — 3.2 per cent, shoe manufacturers — 4.4 per cent, furniture manufacturers — 18.5 per cent.[4]

That both 1942 and 1943 were very profitable years for the retail apparel trade was confirmed by the compilations of the Controllers' Congress of the National Retail Dry Goods Association. Profits (before taxes) of 299 department stores and apparel specialty stores amounted to 6.1 per cent of sales in 1941, 7.5 per cent in 1942, and 10.2 per cent in 1943. (The sales of these stores increased 17 per cent in 1943.)

Among Chicago meat packers operating profits advanced substantially from 1939 to 1942 and also, but to a smaller extent, from 1942 to 1943. They reported, however, that their beef and pork departments operated with losses which were counterbalanced by profits from by-products and other divisions. According to the annual reports of the "big four" packers their operating incomes, before dividends received, fixed charges, and income taxes, were $32 million in 1939, $96 million in 1942, and $118 million in 1943 (net incomes after taxes, $22, $43, and $43 million, respectively). The business year in this industry ends on October 31; in the winter of 1943-44 both volume and margins increased.

[4] *Monthly Letter of the National City Bank of New York*, April, 1944.

TABLE 56

CLASSIFICATION OF INTERVIEWS ACCORDING TO TREND OF PROFITS BEFORE TAXES
Surveys between October, 1942 and May, 1944
Profit Trend before Interviews as Compared with Same Period of Preceding Year

KIND OF BUSINESS	SAMPLE (NUMBER OF FIRMS)	PER CENT OF SAMPLE WITH		
		Rising and Satisfactory Profits	Inter-mediate Cases	Declining and Unsatis-factory Profits or Losses
All Firms	370	45%	25%	30%
First Grouping:				
Nonfood retailers	151	53	16	31
Nonfood wholesalers	23	35	39	26
Nonfood manufacturers	52	44	14	42
Food retailers	43	39	35	26
Food processors and wholesalers	71	39	34	27
Laundries and cleaners	30	30	43	27
	370			
Second Grouping:				
Men's wear	31	39	16	45
Women's wear	49	49	14	37
Shoes and gloves	30	53	10	37
Apparel, general	34	65	32	3
Furniture and housefurnishings	30	40	23	37
Drugs	26	46	4	50
Meat	49	43	24	33
Groceries and produce	65	37	22	41
Liquor	21	62	9	29
Laundries and cleaners	30	30	43	27
	365			

See Table 22, Chap. XI, for explanation of groupings and business fields.

In our surveys all grocers called 1942 a very good year: with 3 exceptions all 37 wholesale and retail grocers who answered our inquiry said that profits before taxes were substantially larger in 1942 than in 1941; 7 declared spontaneously that in that year profits were the highest ever made. In 1943 the profits of 7 informants increased further, those of 16 were smaller than in 1942 but larger than in 1941, and those of 5 smaller than in 1941.

Although we obtained exact profit data only in a few interviews, most respondents indicated the trend of their profits shortly before the interview. We inquired about the rate of profits before taxes "in the last few months" (preferably the six months before the interview) as compared to the profits in the corresponding period of the preceding year.[5]

In presenting the information received it would not be sufficient for our purposes to differentiate between rising and falling profits; rising profits may have been subjectively unsatisfactory for the merchant if they were absolutely very small. We distinguish rather for each business field surveyed between (a) profits that were higher than in the corresponding period of the previous year and were deemed to be satisfactory, (b) profits that were declining and were unsatisfactory (including losses),[6] and (c) intermediate cases (Table 56).

Differences in the profit trends in the various commodity lines and business levels were not very great, although it appears that nonfood retail stores, especially department stores included under "apparel, general," were more profitable than other businesses.[7] For the entire sample no correlation was found between profit trends and pricing actions. Stable prices were maintained (pricing procedure A) by 27 per cent of the 166 respondents with rising and "satisfactory" profits and by 30 per cent of the 111 respondents with declining and "unsatisfactory" profits. In two business lines, however, the meat industry and laundries, profit trends and pricing procedures did appear to be associated: here compliance with price control regulations seemed to be more satisfactory among firms with rising profits than among those declining profits. The question of correlation between pricing procedures and profits calls for further analysis. This is given in Chapter XV, where the former are studied under various conditions of supply and demand, which determined profits. The size of our sample does not permit a statistical (multiple) correlation analysis involving all these variables.

[5] We did not ask about profits after taxes although they may have been more relevant for the businessmen's satisfaction or dissatisfaction with price control than profits before taxes. But during considerable parts of 1942 and 1943 no businessman could know the rate of his profits after taxes since tax legislation was pending and taxes were enacted retroactively. Moreover, profits before taxes varied to a much greater extent from firm to firm than profits after taxes.

[6] While rising profits were often not considered satisfactory, especially in comparison with the profits of defense industries or the income of wage earners, falling profits were practically always considered unsatisfactory, even when profits were still substantial.

[7] In this group increases in sales volume and reductions in markdowns (Chap. VIII) contributed to the profit increases.

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GENERAL INDEX