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The
CONSUMER INTEREST:
A Study in Consumer Economics

The CONSUMER INTEREST:

A Study in Consumer Economics

BY PERSIA CAMPBELL

QUEENS COLLEGE

NEW YORK HARPER & BROTHERS, PUBLISHERS

GENERAL EDUCATION

THE CONSUMER INTEREST:
A STUDY IN CONSUMER ECONOMICS

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To my colleagues and students at Queens College

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ACKNOWLEDGMENTS

Many people have had a hand in this book, knowingly or unknowingly, and it is too large a task to thank them all individually. I should like to take this occasion, however, to express my thanks to Professor Helen Canoyer, University of Minnesota, Professor J. S. Davis, Food Research Institute, Leland Stanford University, and Dr. J. F. Dewhurst of the Twentieth Century Fund, who read through the manuscript and made various suggestions which I did not always accept but for which I am, nevertheless, very grateful. Mr. Clifford Patton of the National Association of Consumers kindly read the proofs.

PERSIA CAMPBELL

January 1949

The CONSUMER INTEREST:

A Study in Consumer Economics

INTRODUCTION

This is a study in consumer economics, that is to say, a study of the economy from a consumer point of view. This involves an evaluation of total economic activity in terms of the end results in consumption goods, and the satisfactions derived from their use by the different families and individuals in the community. This is a larger subject than that generally comprised under the title "consumption economics," which is concerned primarily with the process of consumption, that is, with the buying, or otherwise obtaining, preparing, and using consumption goods, and the problems of choice and of satisfaction underlying this process. In this study we are concerned with all aspects of the economy because we want to know how effectively our resources are used, both individual resources and the resources of the group as a whole, to satisfy our material wants. What comes from all our getting and spending? And do we want what we get, or get what we want?

WHO ARE CONSUMERS?

The concepts of "consumer" and "consumption" are rather vague. "Who are these consumers?" is a question that has been asked many times and frequently in anger, by people who have not realized they themselves were consumers, usually because they have been in a position to obtain satisfying quantities of consumption goods. The consumer, as we shall use the term here, refers to all persons who make final or ultimate use of economic goods, and therefore it includes everyone, whether or not they contribute to production: children, the aged, the sick, the so-called leisure class, as well as those who contribute, directly, to the production process. Consumers, therefore, do not constitute a distinct group as do certain producer, religious, political, or other such groups who may develop a specialized group interest. They include members of all groups when engaged in the function of consumption.

In a money exchange economy such as ours, the functions of those who produce for sale and those who buy for consumption become sharply differentiated, both in time and space, and this leads at times to the erroneous impression that the term consumers applies only to those who actually do the shopping on behalf of their families, acting as the consumer-buyer, or consumer-agent for each family group. To others, the term consumers is used to designate only "those people frothing at the mouth" who have taken a lead in organizing sections of the public about their consumer interest, giving impetus to a slowly developing consumer movement.

When we speak of consumers here we refer to all members of the community when functioning as consumers, that is, when concerned about or engaged in the consumption of economic goods for final use. Just as a farmer may also be a father, a church member, a political leader, and so on, but as a farmer has a certain set of interests, so an individual is more than a consumer of goods, but as such has a set of interests. But whereas farmers constitute a distinct group in the community, separately classified in the census, everyone is a consumer and everyone therefore has a consumer interest as part of the total interest as a person and member of a community group, though some people are more aware than are others of the fact that satisfactions of consumption provide the criteria for evaluating the whole production process, and are more active in endeavoring to bring this point of view to bear on public policy.

The consumer interest is, therefore, a part of the total public interest; it has to do with the general welfare in its material aspect. This comprises all living conditions in so far as they are affected by economic circumstances, including the conditions under which consumption goods and services are produced, since a person does not cease to live while "at work." It does not embrace all of life; people might prefer to suffer material want rather than enjoy material comfort in order to have religious or political freedom, or just to pursue the way of life that suits their taste; wage earners may prefer to work with one employer under poorer material conditions than with another employer, if the human relations are more satisfactory. Man does not live by bread alone, but without it, as the past bitter years have shown, he does not live.

WHAT IS CONSUMPTION?

"Consumption," narrowly defined, is the final act of using up goods and services to produce satisfactions; it is what happens at the meal table as the food is eaten, or at the theatre watching a play, though for a large range of

consumption goods the use-value takes longer to disappear. But the "consumption process," as distinct from "consumption" and as understood in current economic discussions, includes more than this final act of use. It includes also the choice-making that underlies a purchase in a complex money economy like our own, selection at the "market," transfer of goods from the store shelves to the shopping bag, and the preparation of goods in the home for final use—all of which are in fact productive activities, adding values to goods and services before they pass into consumption, though of a non-commercial kind.

In a pioneer community where nearly everything consumed by the family is also produced by it, the distinction between commercial and non-commercial production does not exist, or not so sharply, and "consumption" can be applied strictly to the final act of use. But under our modern conditions, we have come to think of goods as they pass from the market into the hands of consumers, as passing at that point from the production into the consumption process, a usage that has proved convenient in economic discussions, providing we remember to differentiate in our thinking between the "consumption process," and the act of "consumption" itself.

Consumption Versus Expenditures

The confusion that exists with respect to the meaning of consumption leads at times to its being identified with expenditures. Statistics of expenditures are interpreted by some as the measure of consumption levels. Much debate, for instance, has gone on in academic circles about "the propensity of people to consume" when what is meant in fact is the "propensity to spend," as distinct from the "propensity to save" from any given income—this confusion, it has been said, resulted from "the development of a theory of consumption without an understanding of the concept of it."

The tendency to identify consumption with expenditures is partly due to the great interest shown during recent years by market research men in what are spoken of as consumption studies, but which relate primarily to the activities of consumers at the market. These investigators want to know such things as what income people have, and how they are likely to spend it, if expenditure patterns of the past will continue into the present, and how people can be induced to change these patterns by skillful salesmanship. They are interested in sales and are concerned with satisfactions only as a factor in sales. They think of consumers primarily as housewives shopping at the market.

Under the circumstances of our modern economy, converting money into

goods and services—handling expenditures—is an important part of the consumer function, but this function includes also all or some of the activities associated with both the process and act of consumption as set out above. In some instances, the level of expenditures for any particular commodity is higher than the level of consumption, because of deterioration or waste after it is brought from the market. In other cases, productive value is added in the home. Attention should also be drawn to a point made by Dr. J. F. Dewhurst, that some items customarily classified as consumer expenditures, are in fact incurred in the production of income—for example, fares to work, clothing necessitated by the job, and so on.

In our type of economy many consumption goods and services become available otherwise than through the market mechanism. The government contributes considerably to the consumption level in ways that are not often recognized, and though government goods and services are sometimes paid for directly by consumers, as, for instance, is usually the case with water supply, many others are paid for from the general funds of the Treasury. For families who do not pay taxes, or not proportionately to benefits received, this constitutes a direct increase in consumption goods unrelated to expenditures. Some of these government goods and services, as garbage collection, public parks, education, and so on, are available to all members of the community, though all may not take full advantage of them. Others, as health clinics, subsidized housing, free lunches, are limited to low-income groups.

In some communities the proportion of consumption goods provided directly by government may be very much greater than in others, or greater for certain classes or groups, so that a comparison limited to expenditures may be misleading. The same applies to contributions from philanthropic sources; these are not likely to be very significant in the total picture, though as a matter of fact some of our largest institutions of art and learning, as well as hospitals and research institutions of various kinds, are operated largely on the basis of private endowments. The material basis of religious exercises is often maintained on a contributory basis. Another significant field of organized community effort, partly philanthropic, relates to recreational facilities of all kinds—an important factor in the leisure-time activities of different income groups.

Nor in examining consumption levels can we ignore the goods produced at home which never go through regular market channels. Millions of people in the world today are living under conditions in which they are almost completely outside the influence of a money economy. They have no "ex-

penditures," or very few, and their consumption level depends almost entirely on what they can produce for themselves. In our own economy there is a considerable amount of production on farms for home use; indeed, some of our farms, usually the poorer ones, are almost entirely operated on a non-cash basis. Even under urban conditions, the capacity of the family to produce direct consumption goods may be an important factor in their actual standard of living. This is not just a matter of the managerial capacity of the mother and other members of the family to maximize the use-value of all the family resources—though the importance of this contribution does not always get the recognition it deserves—but also of the daily chores by which the materials for consumption that come into the home from various sources are converted into the final stages for use in a way that will largely determine the quality of the satisfactions that flow from them. The importance of proper care and repair of consumers' capital goods in order to prolong their effective life is another point to be noted; it came to public attention particularly during the war.

It is true that little can be done by the urban family without the materials which in our industrial economy come mainly through market channels and have to be paid for. Slum conditions, for instance, are not conducive to the creation of an environment of taste and harmony in which the satisfactions of consumption can be best realized. Nevertheless, it is important not to overlook the extent to which direct production for consumption is a factor in the level of living, which reemphasizes the point made above that the level of expenditures is not to be taken as equivalent to the level of consumption, or the actual standard of living, even in our highly organized money economy.

Another matter to be considered in connection with a definition of consumption is leisure. Leisure is a concept not easy to define, though most people would agree that it is part of our "pleasure-income," a positive good, so that an increase in leisure, other things being equal, would mean an improvement in living conditions. However, we cannot ignore the fact that to some people leisure time is a period of boredom and frustration, of time on their hands which they do not know how to use to their satisfaction, time which has to be "killed" rather than enjoyed. In our modern exchange economy, what we usually mean by leisure is time not spent on a paid job; here we have to distinguish leisure from unemployment or underemployment—unless there is an element of leisure in unemployment. Again, in order to raise the level of living of his family, a worker may go home from the paid job to produce goods and services for direct consumption, or even for

sale. He may keep a vegetable garden for the fun of it, with the output a by-product; or he may work in it primarily to obtain the output, with fun as the by-product. Is this "leisure" time? We even speak of "leisurely" work. Again, leisure is not to be confused with time necessary for rest, for physiological rehabilitation, though it must be admitted that the distinction is not easy to make. In exploring the meaning of such a concept we could obviously wander off into many by-paths which would give us a better understanding of the area to be explored. Students would be well repaid in interest if they spent some time on it.

There are some people who think of leisure not as *time* to "do what you want to do, without any feeling of compulsion" (which seems to assume that the daily job is not agreeable in itself), or as *opportunity* "to utilize time as one wishes," but as an *attitude of mind,* pursuing an interest without any sense of obligation, or urgency or competitive pressures, regardless of whether it is or is not the source of one's livelihood—a state of mind, expressing a sense of ease and satisfaction in whatever one is doing. Perhaps for those people who are beset with anxieties of one sort or another, there can be no possibility of leisure. To Thorstein Veblen, leisure was a mark of class, of those who found their material security in the subservience of others. Let us here take leisure to mean time free from earning, or producing "a living," in which activity, or inactivity, can be enjoyed for its own sake regardless of the outcome. Associated with leisure in this sense (or a part of it) is the period of old age, after retirement from a paid job or work necessary to satisfy material wants. Other things being equal, an increase in leisure raises the level of consumption.

The concepts of consumer and of consumption certainly need further clarification, but they are clear enough for us to proceed with the basic purpose of this study: to focus attention on the importance of evaluating the economy in terms of what people finally get out of it in goods and services, and the satisfactions derived from their consumption. Consumer economics is functional in its approach. It is concerned with the quality and kind of consumption goods and services that actually result from all the economic activity people engage in. Are they using their limited resources of materials, time, energy, knowledge, organizational capacity to best advantage, judged by the ends achieved? It is also concerned with the way this output is divided up.

THE GOAL OF "OPTIMUM" OUTPUT

The objective is not necessarily to "maximize the output" of material goods and services, though we often talk of "maximum production" as a goal. We

might prefer, having achieved a certain total, to conserve our time and energy and have more leisure to enjoy the fruits of our labor, or pursue non-economic interests—as, in fact, we have done increasingly during the past century, so that leisure has become an ever more important factor in consumption. It is better to think of "optimizing" our output rather than "maximizing" it, since what we are aiming at is maximum satisfaction, to achieve an abundance of well-being rather than of goods, though it is necessary to have a sufficiency of the latter to insure the former. Non-economic activity, or activity that is motivated primarily by political, religious, or other social considerations may itself affect the actual standard of living, and must, therefore, to this extent be taken into account—as economic factors may in turn affect these other areas of human interest.

IDENTIFYING THE CONSUMER INTEREST

Though we can say that, from a consumer point of view, the economy is to be appraised in terms of the "standard of living" of the masses, or of different groups in the community, we have to recognize that great difficulty presents itself in any attempt made to apply such general criteria to the particular issues that are continuously emerging from a complex economic system, particularly one so dynamic as our own. For instance, where does the consumer interest lie with respect to proposals for the repeal of the Taft-Hartley Labor Act, or for the St. Lawrence Waterway, or for guaranteed minimum profits on large-scale rental housing, all of which might have a noticeable effect on the average level of consumption, or that of particular areas or particular groups.

The difficulty arises in part because of the complexity which obscures the influence of any particular development on the output and distribution of consumption goods. In part, it is due to the fact that people as consumers have not put themselves in a position, or only on few occasions, to develop and bring to bear a point of view spelled out in concrete terms with respect to any particular phase of economic activity. Nevertheless it is on the proper solution of such issues, that improvement in the American standard of living largely depends.

When the U. S. Chamber of Commerce wants to find out what "business thinks" on a particular issue, it first formulates a series of questions, a process which in itself serves as a basis for articulating opinion, and then circulates this widely among all member associations. But even if unanimous agreement is then indicated, this may not coincide with what the N.A.M. thinks. That is to say, even when business opinion is aroused and well articulated,

it is not always easy to define the area of agreement on particular issues, though it is usually assumed there is a general "business point of view" with respect to the total functioning of the economy. The same can be said for "labor." People as consumers are not organized so effectively about their general interest as the specialized groups are organized about theirs, though there are a few consumer organizations that concern themselves with general economic questions, and some other groups which include a study of "consumer problems" in their general program. But these groups together do not have money or facilities to formulate and try out opinions on a scale in any way comparable with what is done by the specialized groups nor can they focus continuing attention on emergent economic problems in the light of their general criteria of evaluation, one expression of which is the promotion of the general welfare in its material aspect.

All specialized groups, of course, maintain that in furthering their particular ends they are furthering the public interest, so that the real problem is how to determine where the public interest does, in fact, lie in any particular economic situation, and the most effective way to do this is through the articulation of a consumer point of view, since all the people are consumers in one of their basic functions.

FORMULATING A CONSUMER VIEWPOINT

Though we must recognize that a clearly formulated consumer viewpoint with respect to any particular issue is not always to be had, we should not overlook the fact that there is a growing body of literature and experience accumulating in the consumer field, which deserves more attention than it has so far received. In the early 1930's, for instance, the Consumers Advisory Board of the National Recovery Administration devoted much of its energy to formulating such a viewpoint with respect to industrial code provisions and produced a considerable amount of written opinion, much of which unfortunately is now gathering dust in government files. The Consumers Advisory Committee to the Office of Price Administration in 1944–1946 was also instrumental in clarifying consumer opinion on price and rationing issues that came up within its jurisdiction. Moreover, the committee was able to secure organized support on a considerable scale through continuing contact with local consumer committees, which enabled it to bring influence to bear on economic decisions, though not enough to save O.P.A. There has also been a considerable body of consumer opinion developed by non-governmental agencies about particular issues as they have arisen from time to time.

The formulation of a consumer point of view is itself likely to be a controversial process It involves clarification of issues by recognized leaders, followed by discussion and opinion-making by those especially conscious of the problems involved, and they are tremendous. Issues of great importance arise at all stages of the economic process There are, to illustrate this point, three general stages to which attention must be directed. There is, first, the actual production of goods and services on the basis of an allocation of resources, made, under our system of economy, partly by the decision of entrepreneurs in anticipation of profit and partly by the decision of government. Secondly, claim to the output has to be divided up on some basis among the different families and groups in the community; the pattern of consumption will differ according to the way in which it is divided up, and so also will the nature of the goods and services produced and the total output. Finally, there is the selection of goods at the market by consumers, within the limits of their pocketbook and on the basis of choice that is influenced by many factors which are themselves subject to change and reevaluation. These goods have then to be handled, processed at home, and used before we arrive at the satisfactions which give meaning to the total activity. Indeed, it might even be said that until we are able to measure satisfactions, we are not ready for an evaluation of the economy in terms of its end results.

A FUNCTIONAL APPROACH TO ECONOMICS

In analyzing economic problems from this functional approach, we are therefore not in a position to present a consumer point of view on many of the issues that arise. To the extent that we have to ask questions as to where the consumer interest, that is to say, the public interest in its consumer aspect, lies with respect to any issue likely to affect the standard of living, this study falls short of its title; and indeed it falls far short. It becomes rather an introductory "economics for consumers," an attempt to present some of the significant areas of the economy in a way that will focus the attention of those who are concerned about the material aspects of the general welfare, and lead to the clarification of the consumer interest with respect to particular issues as they arise

There is the further question of how to bring consumer opinion, once it is developed, to bear effectively at the market place and at all other points in the economic and political process where decisions affecting the "standard of living" are made, and it is hoped that this study will make clear the importance of consumer organization to that end.

This book is practical in purpose. It is presented with an urgent sense of

the necessity for injecting into the making of decisions in the economic field an interest that is general and not particular, and that can be properly defined as the public interest in one of its essential aspects. Since our domestic economy is an integral part of the world economy, this applies not only on a domestic but also on a world scale.

The task of analyzing and evaluating economic activity in these terms is clearly one to challenge the interest and ability of students of economics to continuing work in one of the fundamental areas of human welfare. But analysis and appraisal must lead to constructive proposals as to how we can optimize the use of our resources to improve the material conditions of people, not only in our own community but throughout the world, at least to the point where reality can be given to the fourth freedom, freedom from want.

SUMMARY

In brief, we are all consumers, and all have an interest in increasing the enjoyment derived from the consumption of material goods and services, both for our own individual families and for the community as a whole. As consumers, we appraise the economy—that is, the system by which we utilize our resources for the production and distribution of consumption goods—in terms of the end results, namely, the "standard of living." These goods may come through commercial channels, or from government, or home production, or be a gift of nature, as the climate. To "improve" the "standard of living," we must find a more effective way of utilizing these resources for optimum output, and of dividing this output for maximum enjoyment. This is not a question of subordinating group interests to the interests of the whole, or producers to consumers, as some fear, but of coordinating group interests so that we can better satisfy our wants, with less time and energy.

Before proceeding further to consider some of the problems involved in bringing about this result, we must first be clear as to what we mean by "standard of living," which is a vague and elusive phrase, and get a better understanding of how it is affected by various factors under changing circumstances.

Section I

THE AMERICAN "STANDARD OF LIVING"

Chapter I

WHAT IS THE "STANDARD OF LIVING"?

PROBLEMS OF DEFINITION

"Standard of living" is used with a number of different meanings which we must now explore, turning it around, as it were, to reveal its various facets, for they are many. Indeed, discussion in this as in other areas of economics is too often knotted up in a tangle of meanings. Professor J. S. Davis has been active in attempts to secure more general agreement among economists with respect to the use of such phrases, particularly those which are a gateway to controversial issues.

Let us start off by asking what is commonly meant by the standard of living—your standard of living, the American standard of living, comparative international standards of living? If you ask this question casually of the man in the street, the first answer will most likely be in terms of wages, or take-home pay, and there will be an association in his mind between high wages and high standard of living, though he will soon admit, if the matter is pressed, that high wages in a period of high prices may bring in less in goods and services than low wages in a period of low prices, and that what really matter are these goods and services.

The Level of Consumption

This leads us then to the first definition of standard of living. With reference to a particular family it is the measure or total of the goods and services they at present enjoy, the amount and kind of food they eat, the sort of house they live in, clothing, music lessons and teeth braces, the movies and church contributions, durable goods still in use. Their savings go in with this too—that is, not savings primarily for investment, but savings that represent security, a doctor in the event of sickness, a decent burial at death—goods, as it were, paid for in advance of expected use. For the urban worker a large part of these goods and services have to be bought from wages; his

wife may be a good manager, take care of their things so they last longer, shop to best advantage, and he may do his own plumbing or even keep a vegetable patch, but generally speaking his family's consumption will depend in large part on the purchasing power of his wages. For the farmer the situation is somewhat different.

In addition, there are the free or subsidized goods and services obtained either from private or public sources, for which the family does not pay directly, or does not pay the full cost—the factory canteen, rest and recreation rooms, medical clinics, the public schools, parks and libraries, sidewalks, and the police protection which makes enjoyment of these other things possible; even the climate might be included here. Over the years, considerable improvement has taken place in conditions of work for many people, partly as a result of factory legislation, of union organization, and of new concepts of industrial efficiency. The worker who has sanitary, pleasant surroundings while on the job, is living better, other things being equal, than one who does not. If improved conditions of work are at the expense of the weekly paycheck, however, the family will suffer, but usually good working conditions are associated with high productivity per man-hour, and high real wages. During World War II, while there was a ceiling over wages, many unions pressed for more direct benefits through such services as medical care, vacations with pay, etc., many of which were shared by the family. An important factor to be considered here is leisure.

In this first definition of standard of living, we are dealing with something actual and more or less subject to quantitative measurement. It is synonymous with the "level of consumption."[1]

The Acceptable Standard of Living

If you ask a social scientist for a definition of standard of living, you may get quite a different answer from that given above in terms of the level of consumption. This second definition of standard of living has to do not with things as such, but with an attitude of mind toward things. Most people have a sense, more or less conscious, of the material things and services which it is fit and proper for them to have. Nowadays a middle-class family may find it impossible to get a maid. According to the first definition, their present standard of living does not include a maid. But before the war they had a maid and they will get one again as soon as economic conditions allow, and therefore a maid would be included in their standard of living according

[1] See Thomas D. Eliot, *American Standards and Planes of Living*, 1931; J. S. Davis, *Journal of Marketing*, October 1941.

to the second definition, because they think it is fit and proper for them to have one.

A family's sense of what is fit and proper, whether this has to do with housing, a funeral, or Sunday dinner, is rooted in social class or social status, in its broadest significance, including the whole complex of social forces that determine one's choices. It is not a remote ideal. The little boy may dream of owning an airplane, but what he pesters his family or writes Santa Claus for is a bicycle such as his friends up the street have, and he feels he ought to have too. It is at the root of our current housing problem. Most people have shelter of some kind, most of it much better than the rest of the world enjoys, but it is not good enough for us; we do not think it is proper for us to live "doubled up" and under the slum conditions that prevail in considerable areas of American cities—the gap is too wide between what we think is fit and proper for us to have and what in fact we do have. It is the sense of what is "fit and proper" which underlies the phrase, "what a man owes his wife and family." The sociologists will tell you it has a definite effect on the birth rate. It is a dynamic factor in change.

According to this definition, the standard of living may include more or less things than a family actually has—usually more in our fluid, "vertically mobile" society—and thus it becomes a powerful force, driving one on to further acquisitions. If the gap between the two is wide, it may result in great unrest. This condition tends to develop in a society such as ours with universal education and a wide range of consumption levels, particularly when there is a lavish display of luxury items and intensive advertising campaigns stimulating wants. We can anticipate unrest throughout large areas of the world where poverty is widespread, as information about other countries becomes more general. In adverse circumstances as, for instance, the depression of the thirties, the sense of what is fit and proper intensifies resistance to a cut in pay, and for many people "conditioned to keeping up appearances," makes a change in the consumption level proportionately harder to bear. When on the other hand attitudes toward what is right and proper are modified, as for instance in England during the war, a fall in the consumption level, particularly in fashion items, can be borne more easily.

The Normative Standard

According to a third definition, "standard of living" is not the sum total of things you have, nor yet your sense, perhaps quite irrational, of what you should have; it is the sum total of the things you ought to have, according

to some objective and scientific criteria—it is a norm of consumption.[2] The normative standard is not necessarily an "ideal" standard, if by the latter we mean the best that can be imagined; the normative standard is more realistic, in that it takes into account practical limitations on Utopia. This norm may be closely related to the total indicated by the first or second definition, or both, or it may even add up to the same amount, but it is not the same thing, and the chances are the totals will differ considerably. Would an ideal society be one in which all three are about equivalent or is "progress" dependent on a constant striving for goods we haven't got? According to the third definition, the standard of living, or what "ought" to be, is measured generally in terms of one or another of three different levels.

THE POVERTY NORM. The first is what might be referred to as the poverty level, and has been of interest primarily to charity organizations and public welfare departments who have to decide under what circumstances they should distribute relief. At what level of living should a family be considered as above assistance from relief agencies, whether public or private; or to put it another way, how much relief must be given to bring a family up to a level which is considered the minimum even for families who cannot support themselves in our present society? In some of our large metropolitan areas, various charity organizations have set up a joint council to prepare a budget to guide relief distributors.

MINIMUM SUBSISTENCE The second normative level is usually spoken of in terms of "minimum subsistence," and has been of special significance in connection with the establishment of minimum wages. This is a level below which no American family should be expected to live on a long-run basis. Presumably, the difference between the concept of the poverty line and the minimum-subsistence line, though not clear, is that the first is intended to apply only in the case of families temporarily in need, or those suffering from special disability (a large family, under our system, seems to constitute such a disability for low-income groups). A "living wage" is the sum which will provide this minimum subsistence. It is a sum below which no employer should be permitted to hire labor, since nothing less will provide the essentials of "decent" living for a human being. However, the federal minimum wage was not based on any definite budget, and in many areas today the actual minimum is considerably higher than the legal minimum. Our ideas of what is "decent" change with the times and our productive capacity. The minimum-subsistence level tends to merge into the third level,

[2] See Faith Williams and Carle C Zimmerman, *Studies of Family Living in U. S and Other Countries*, Dept of Agric, Misc Public No 223, 1935

sometimes described in terms of "minimum comfort," or "health and decency" (though the latter phrase is occasionally used as synonymous with minimum subsistence). Father James A. Ryan, in his notable *A Living Wage* (1906), based his argument mainly on the principle that wages should be sufficiently high to enable a laborer "to live in a manner consistent with the dignity of a human being." The problem is to agree on criteria for determining at what level the living wage should be fixed and, in view of the actual circumstances of the economy, can be fixed, since what is important is not money but the things that money can buy, which will depend on the amount produced and how it is divided.

In a number of states with minimum wage laws for women, "cost-of-living" budgets have been set up to represent a "minimum subsistence" for working women living alone or with their families. For instance, the New York State Department of Labor, Division of Women in Industry, in carrying out the provisions of the state minimum wage law, prepares an annual budget for a single woman at the minimum wage level, based on a survey made to determine "the amount sufficient to provide adequate maintenance and to protect health." The meaning of adequacy in this case is influenced by the fact that the determination is to be used as a basis for minimum wage fixing. In determining minimum standards of housing, the Division took into account the views of housing authorities and various social agencies, consulted local real estate boards, and made its own studies of existing housing conditions in each community. The prescribed standards "include location in a respectable neighborhood, reasonable accessibility to public transportation facilities, adequate heating and electric lighting facilities, with a private toilet, running water and tub or shower for each family." With respect to clothing the budget "is a composite of consumer habits and needs. In its formulation the Division recognized that social and psychological as well as actual physical needs play a role in determining clothing standards. The budget does more than provide mere body covering—it enables the working woman to meet the standards of dress of the group of which she is a member. . . . It is generally accepted that outside of work no distinction can be made between the standards of dress of factory employees and of 'white collar' workers such as clerks and salespeople."

THE HEALTH AND DECENCY OR MINIMUM COMFORT NORM. The third normative standard, generally referred to as the health and comfort standard, though difficult to identify, can be thought of as a consumption level for the semiskilled, or skilled, and lower-paid salaried classes. Reference should be made in this connection to the work of the Heller Committee for Research in

Social Economics of the University of California, which has prepared normative quantity and cost budgets for different income and occupational classes, particularly the wage earner, the white-collar worker, and those in executive positions.

The committee points out that the items, quantities, and prices used in any "standard" budget are inevitably subject to controversy There is no practical use, they argue, "in setting up a budget for wage earners which costs twice the average wage and includes items such as domestic service and rentals in an exclusive residential district, which are completely outside the range of the wage earner's purchasing power On the other hand, a mere reflection of actual spending ways under present conditions, with the ever present possibility of undernourishment, overcrowding and insecurity cannot be called a 'standard' A third difficulty arises from the tremendous variation in standards and spending habits of the same economic group . . . owing to the different size of family, tastes and attitudes, etc." The committee therefore compromised. "Where minimum physiological requirements are available, as in the case of food, or commonly accepted requirements of health and decency, as in the case of housing, the budgets conform generously," they explained. In other items they have attempted to set up an allowance which "will accord with average spending habits of the economic groups and will meet generally accepted ideas of decency and comfort"

The most recent budget study at the "minimum comfort" level, was presented in December 1947, by the U S Commissioner of Labor Statistics, to the Western Subcommittee of the Congressional Joint Committee on the Economic Report, as a "modest but currently adequate standard of living for a city worker's family of man, wife and two school age children."[3] This study was prepared in response to a request from a Congressional committee to find out what it costs a worker's family to live in the large cities of the United States In interpreting this request, the Bureau of Labor Statistics selected a family of four (father, mother, and two children of school age), in which the money income was all brought in by the father, except for occasional small amounts earned by the son The commissioner explained that "the head of this budget family of four will typically have earnings somewhat higher than the average of American wage earners generally"[4]

[3] Bureau of Labor Statistics, U S Dept of Labor, *City Worker's Family Budget*, December 1947

[4] Statement by U S Commissioner of Labor Statistics before the Joint Committee on the Economic Report, December 12, 1947 Note The average of American wage earners includes men and women, the unmarried, the childless, juniors, etc whose lower income might provide an equal per capita consumption with that of the "budget" family

The report states: "This is not a subsistence budget, nor is it a luxury budget; it is an attempt to describe and measure a modest but adequate American standard of living." In this case the determination of adequacy was not affected by minimum wage considerations. It should be emphasized that this is a budget of "expenditures" not of consumption as such. It takes no account of elements in consumption not derived directly from consumer expenditures. For instance, education costs include only expenses paid directly by the family, as for school books, not the total cost of educational services available. The important difference between expenditure and consumption levels should be kept in mind.

The techniques by which this "standard of living" (to be interpreted as "standard of expenditures") was arrived at are perhaps more interesting than its results since they represent, in the main, a combination of normative standards as set up by independent authorities where such exist, checked by current expenditure practices of families at the selected budget level. For instance, the food standard was arrived at by taking the National Research Council's estimates of "need,"[5] in terms of nutritive values, "not merely the minimum sufficient to protect against actual deficiency disease but a fair margin above this to insure good nutrition and protection of all body tissues." The records of urban workers' families getting about these food values, regardless of income class, were then selected from a study made in 1936. The food items to be listed in the standard budget were based on the actual consumption pattern as indicated in the records of these selected families, with adjustments for seasonal differences.

In setting up the housing standard, the investigators were guided almost entirely by the norms established by the American Public Health Association through its Committee on the Hygiene of Housing—for the selected family of four this included a separate dwelling unit of five rooms with bathroom, water and sewage connections, installed heating equipment adequate to maintain a temperature of 70° during the winter months, and various other detailed provisions of this kind. In the case of other consumption items for which no norms have been established, or are not generally recognized, the investigators developed a statistical technique for arriving at what they describe as consumer judgments towards an acceptable standard of adequacy, as reflected in buying practices. They take the position that in those areas of consumption for which accepted "scientific" norms do not exist, "the budget level must be sets of goods and services regarded as so necessary that families would go into debt or reduce their level of savings

[5] See below, p. 318.

to maintain consumption at that level when, for example, prices in general are increased." This constitutes the "resistance point."

The resistance point is not an easy concept to grasp. As a matter of fact, we have very little data on the effect of rising and falling prices on the actual expenditure pattern of individual families, and such data as are available are difficult to interpret because income levels tend to change as prices change. Surveys have indicated, however, that at any one time families below a certain income level will, on the average, go into debt to support a level of consumption, or rather those elements in consumption derived from expenditures. This was a factor taken into account by the investigators. To this extent, the budget reflects what we described above as an "acceptable" rather than a "normative" standard.

With respect to particular areas of consumption for which there are no accepted norms, the technique used for arriving at a standard of adequacy can be illustrated by the clothing list. From the data accumulated in various expenditure studies, the investigators plotted a curve showing the increase in quantities of clothing bought as between different income groups, from low to high. At the point where the rate of increase in quantity (that is, in the unit number of garments) leveled off, they decided to base the standard. Apparently the fact that as income continues to rise more money is spent on "quality" rather than on quantity was not taken into account, though reference was made to it. As in the case of food, they examined the expenditure records of actual families at the budget level, to find out the sort of clothing customarily bought, before listing the items to be priced.

The modest character of the budget is illustrated by the items included under recreation, personal care, etc. The family owns a small radio, buys one daily newspaper, including a Sunday edition, and 32 copies of some popular-priced magazine in a year. Movies are attended by the husband, wife, and daughter once in three weeks and by the son once in two weeks. A telephone in the dwelling is not included, but allowance is made for three local calls each week, and so on.

The quantity budget finally set up for the family of four was priced at a mixed group of retail establishments in a number of large cities. Its cost, as of June 1947, ranged from $2734 in New Orleans to $3111 in Washington, D. C., the lowest and highest cost cities among those selected. If taxes, insurance, and occupational expenses (that is, costs incurred for particular consumption items required by special types of jobs) were added, the total for these two cities was $3004 and $3458 respectively. The average weekly wage for industrial workers about the same time was approximately $50.45,

or somewhat over $2600 annually, assuming full-time work throughout the year. But this figure includes the wages of women as well as men. Indeed, as pointed out by the commissioner, in 1940 only about 9.3 percent of all persons in the labor force—including manufacturing as well as all other types of business and employment—were male heads of families of four, and 11 percent of even larger families, and these families included people of all ages, as distinct from the budget family. No valid conclusions can be drawn, therefore, as to the relation between the cost of the standard budget and average wages.

The relative cost of different elements of the budget for a four-person family was shown for the city of Birmingham, because its costs were in the middle of the range of the 34 cities. In June 1947, expenditures for goods and services made up about 89 percent of the estimated total cost of the budget; taxes, insurance, contributions, etc., accounted for about 11 percent. Percentage distribution of expenditures for goods and services in Birmingham was as follows:[6]

	March 1946		June 1947	
Item	Amount	Percent of Total	Amount	Percent of Total
Food	$ 824	32.7	$1057	36.4
Housing[a]	671	26.6	702	24.2
Clothing	357	14.2	425	14.6
Medical care	155	6.1	161	5.5
Transportation	248	9.8	261	9.0
Other goods and services	266	10.6	298	10.3
Total goods and services	$2521	100.0	$2904	100.0

[a] Cost of housing was measured by rented houses or apartments of five rooms; it includes housefurnishings, fuel, and light.

The Satisfactional Standard

In the three definitions of "standard of living" discussed above, it will be noted that in all cases it is measurable in terms of material things and services, whether one is talking about what people have, what they think is desirable and proper for them to have, or what the scientists or jurists think they ought to have. There is still another definition, however, even more elusive than those already discussed—in fact we have no present objective

[6] See *Monthly Labor Review*, February 1948, p. 155.

measures for it, and no technique for arriving at them. It has to do not with the actual goods and services consumed, but with the satisfactions derived from their consumption. It is the end result in terms of feeling, and therefore is entirely subjective.

Last century, Frederic Le Play, a European sociologist, and his followers, in preparing accounts of expenditures of individual families in different European countries, gave considerable attention to this problem of describing or measuring the satisfactions of consumption. One family with much less in the way of material things than another may nevertheless be, or at any rate appear to be, much happier, and so may one community be happier than another. Of course this may be due to spiritual, political, or other non-material factors, and to that extent has only an indirect bearing on our present subject. It is impossible to separate the satisfactions derived from the consumption of actual goods and services, from those resulting from other experiences. This points up the fact that the consumer interest is only part of a person's total interest.

It is possible that we are less happy than our ancestors despite the increasing accumulation of material things, though it is hard to believe that an increase in satisfaction has not gone along with the obvious improvement in the condition of the masses of the people. Emancipation of the individual from a degree of poverty that means such things as undernourishment, ill health, illiteracy, short life expectancy, economic insecurity must of itself be a source of satisfaction, whenever such emancipation is achieved. With respect to international comparisons, there is a temptation to argue at times, particularly in connection with imperialist policies, that other people are accustomed to a simpler way of living, and therefore are as satisfied with a low real wage level as we are with a higher one; but in this we must beware of falling prey to arguments which spring from quarters interested in exploiting ignorance.

In referring to the difficulty experienced in measuring the change in living conditions that occurs when a family moves from one area to another, the National Industrial Conference Board declared[7] with reference to interstate migration during the First World War, that "A man . . . who moves with his family to another place may find that a complete rearrangement of his manner of living has become unavoidable, but the difference eludes mathematical measurement. The individual frequently conceives of the standard of living as something measured not so much by the sum of material things and the necessary services which enter into a man's expenditures as by the

[7] *Cost of Living in the U. S., 1914–1917,* 1920.

sum of the satisfactions which he derives from such expenditures. He expresses it not alone in terms of dollars and cents but in such vaguely indefinite terms as comfort, ease and wellbeing." A report of the International Labor Office on *The Workers' Standard of Living* points out: "If we fix our attention on the satisfactions derived from consumption, the results must be highly individualistic, since it is impossible to compare the satisfactions and dissatisfactions, utilities and disutilities."[8]

Level or Plane of Living

The I.L.O. study referred to above, goes on to suggest that there is a fifth meaning given at times to the term "standard of living." This is when it is used in the same sense as "level of living" or "plane of living," interpreted as the "total way of life," including "all the non-economic as well as economic elements which go to make up the life pattern of the individual and contribute to his well-being," but as the I.L.O. further points out, "this interpretation is too broad for realistic treatment." Here again we should draw attention to the fact that in its 1947 budget study, the B.L.S. seems to use "level of living" as synonymous with "actual level of consumption derived from expenditures." Dr. Davis seems to use level of living to include the total content of consumption together with leisure. The Social Commission of the U. N. Economic and Social Council seems to use the phrase in the "total way of life sense," or at any rate to include such factors as the quality of family relationships, as well as the satisfactions derived from material consumption.

These various meanings given to "standard of living," as set out above, do not exhaust the list, but they will do for the present discussion. We have tried to show in an illustrative way, what the phrase implies in each of these meanings, and it is clear that each is very important in an understanding of the whole problem of consumption. The trouble arises not from the lack of significance in each meaning, but from the confusion that results from a misunderstanding as to the way in which the phrase is to be interpreted, and particularly when there is no consistency in its use by the same writer—a not infrequent occurrence. A writer starts off a paper using definition No. 2, but over the page may slip back to definition No. 1, which is easy to explain since the latter is, by and large, the usual definition among laymen who give any thought to the matter at all.

When scientists use terms differently from the layman, particularly on matters of current public interest, the latter gets no guidance from the

[8] I.L.O., *Studies and Reports Series B*, No. 30, 1938.

quarters where he may be expected or advised to look for it, and, in fact, he comes to mistrust what he does not understand. This is particularly important in connection with the development of a consumer point of view towards economic questions, since so much of the field is unexplored. Problems relating to the material well-being of individuals and groups, national and international, are bound increasingly to become matters of public discussion, and this discussion would be facilitated by an agreement on the use of terms.

One suggestion made is that we popularize different terms for these different meanings. For instance, as mentioned above, it has been suggested that when we have the subject matter of definition No. 1 in mind, we should not use "standard of living" at all, but the "level" or "content" of consumption. But would the layman fall into line? Moreover, it is difficult to maintain consistency in the use of different terms when we are really not talking about different things, but different aspects of the same thing, as a peak viewed from a number of different vantage points. Material welfare derives from the total quantity and quality of consumption and the satisfactions that result from it, and all this is proper subject matter for discussion bearing on standards of living. The actual facet we have in view can perhaps be indicated best by the use of adjectives, or qualifying phrases, following a suggestion by Dr. Davis, as one might refer to the north or east face of a peak. We might, for instance, speak of the *actual* standard of living when we have in mind definition No. 1; the *desired or acceptable* standard of living for definition No. 2; the *normative* standard for 3; the *subjective or satisfactional* standard for 4. The important thing for students is that they should be clear as to the meaning of the phrases they use and make themselves clear to others, while realizing, as Bruno Lasker has pointed out, that "It is of the essence of popular speech that it is not clearcut." In the following pages we shall use level of consumption and actual standard of living synonymously. Whenever we use standard of living without a qualifying adjective, it is to be understood as covering more than one meaning of the phrase.

WHOSE STANDARD OF LIVING?

We have discussed the problems of definition. A second major problem arising out of a study of the standard of living in its various aspects has to do with locating the group whose circumstances are to be described. When we talk of the American standard of living, do we have in mind Park Avenue, or Tobacco Road, or the group of people in all occupations getting $2000 a year, or urban or rural dwellers, or those on relief? The differences

between sections and classes in America are so great as to make a statistical average misleading, if this average is to be put forward as representative of an American standard of living.

The Range in Consumption Levels

One approach to the problem is to give the broad range of consumption levels, describing, let us say, the content of the actual standard of living of a selected family at each level. Certainly, in evaluating the material welfare of a community, it is important to know whether the range about the average is wide or narrow; it also has a bearing on people's attitudes. Writing in 1782, eulogistically, of the American scene, the French observer, Crèvecœur, declared: "A pleasing uniformity of decent competence appears throughout our habitations."[9] Today the traveler would more likely be impressed by the range in living conditions.

The significance of a wide range in living conditions may be greater in some communities than in others. This was emphasized recently in an article by J. B. Priestley with reference to economic conditions in Great Britain:

> I have no doubt that your correspondents try to give you a fair account of us, but they may be influenced by values that many of us on this side do not recognize. For instance, although I think steak dinners, silk stockings, new autos and bright lights all have their place in life, I don't give them the high rating that most journalists seem to do, for many other things are much more important. Crisis or no crisis, for my part I am more mentally and spiritually at ease in this post-war Britain than I was in the pre-war Britain. . . . In those days we had grim regions known as "depressed areas" filled with gray-faced, decent men who had not worked for years and who saw no hope in the future. We had hordes of children who were clearly suffering from malnutrition. Conspicuous waste and horrible want existed side by side. If you had the money, you could eat yourself sick in a restaurant and yet be surrounded by people who had not had a good square meal for years. (And this is still true of most European countries.) . . . We have changed most of this. Nobody guzzles, and nobody starves. Both waste and want have vanished. We live in something that is beginning to resemble a civilized society, and not a dogfight around a carcass.[10]

The Minimum Wage Group

Or we might concentrate our attention on the group at about the minimum wage level, those, let us say, who are directly affected by the federal mini-

[9] "Letters from an American Farmer," in Thorp, Curti, and Baker (eds.), *American Issues*, 1941, p. 104.

[10] *New York Times*, August 31, 1947.

mum wage, though the actual minimum is now considerably above the legal minimum in most areas. The United States is predominantly an urban community, and the "average" level of consumption of unskilled factory workers might be considered significant, particularly since considerable attention has been focused on this group in many countries in connection with minimum wage-fixing. In the United States, unskilled factory workers now constitute about 10 percent of the total labor force.

If we center interest here, however, we have to be careful to distinguish between the actual standard of living and the normative standard reflected in minimum wage rates, if they do reflect a considered norm. The size and age composition of the particular family has to be taken into consideration. Moreover, wage rates, particularly if set on an hourly basis, may seem adequate to provide a satisfactory level of consumption but, in fact, the actual income of the family may be affected by unemployment, seasonal work, illness, accident, and so on, and unless provision is made for such contingencies through insurance schemes or otherwise, the standard contemplated for the "average" family may not in fact be realized. This will also result if prices rise faster than minimum wage rates are advanced. The important thing for the family is not what wage-fixing tribunals say they ought to have, but what in fact they do have, which can only be determined by an actual investigation of the living conditions of the families themselves. However, if the normative standard is far above the actual standard it may be a cause of discontent.

The Middle-Class Urban Group

A third possibility in locating a group whose standard of living might be thought of as "the American standard" is to follow the practice adopted by the U. S. Bureau of Labor Statistics in weighting items for the consumer price index. The Bureau selects the "predominant urban group" including about the central one-third of urban families, which comprises the semi-skilled and skilled and lower ranks of the white-collar workers. We have a considerable amount of information as to the expenditures of this group, and some material could be compiled with respect to the extent of the public facilities they enjoy.

In her stimulating book, *Consumption in our Society,* Dr. Elizabeth Hoyt suggests it is this group rather than the lowest-income group that derives most benefit from many of our public services—this would not be true, however, with respect to the use of health clinics, public housing projects and so on, which set a low upper limit on the incomes of families eligible for

these services. This is the group the B.L.S. seems to have had in mind in drawing up the 1947 normative budget, referred to above.

But to focus attention on the standard of living of this central urban group might result in a picture of comparative uniformity which would oversimplify conditions in a community so complex as that of the United States, with its many significant minority groups living under such diverse geographical conditions. Geography is not a major factor in the standard of living of the central urban group, though there is considerable difference in the quality of public facilities in different parts of the country. Geographical distribution is more important for rural families, who include some 30 million persons, and also for the Negro families, including some 11 million persons.

Rural Standards

There is a considerable body of information on the actual standard of living of rural families in different areas. Much material has been collected through the work of economists and sociologists connected with the U. S. Department of Agriculture, and also through the land-grant colleges and universities in the predominantly rural states. It must be remembered that the political power of rural groups in the United States is out of proportion to their numerical strength, so that though, since the turn of the century they have ceased to be a predominant group, they have been able to secure the outlay of considerable public funds for the study and improvement of their conditions. The adoption of the "parity price concept" has introduced a normative element into national agricultural policy, though this is not closely comparable with the declared minimum wage for urban workers; it does not fix an approved minimum for the individual farmer, but aims to maintain the general status of the farm group in relation to the non-farm groups as of some earlier period.

Special Groups

Though there are certain factors distinguishing Negroes as a social group in the American community as a whole, there are marked differences between the actual standard of living of urban Negroes in large Northern cities, and share croppers in the South, and even between the comparatively well-to-do urban Negro and the unskilled Negro wage earner. In all cases non-material factors play an important part and raise problems of a subjective character which emphasize that aspect of the standard of living which has to do with satisfactions derived from consumption and are

qualitative and not quantitative in nature. Material on the Negro standard of living looked at from these various aspects is accumulating but is rather scattered and local in its significance.

In certain areas immigrant groups still show various characteristics in their consumption patterns that differ from their neighbors, but since the restriction of immigration and the slow absorption of immigrant groups, these differences, though of considerable local significance, do not markedly affect the national picture, whether that picture is drawn in terms of the range of standards, the minimum level, or the standard of the predominant urban group.

But whichever group we decide on as being "representative" for our purposes, we are still confronted with great practical difficulties in describing its living standards. Do we take one or more "representative" families from within the group as did Le Play, and describe in detail their actual consumption and so on? This still involves us in arguments as to what is "representative," since families differ in size, circumstance, habits, even within the same general group. Or shall we, following the so-called statistical school, recommend a statistical sample of measurable factors, and get ourselves involved in problems of an "average," which has no living reality?

That is to say, by way of summary in describing the standard of living of a people or a group, we must consider carefully whose standard of living we are in fact describing.

MEASURING THE STANDARD OF LIVING

In this chapter so far, we have been considering the problems involved in the definition of standard of living, and in the selection of the group or groups whose standard of living is to be described. There is another set of questions to be raised in an introductory chapter of this kind. This has to do with techniques for describing or measuring or evaluating the standard of living for particular families, groups, or communities on a comparative basis, whether historically, that is, over a period of time, or geographically, between different areas or countries. In this connection, interest has been centered mainly on the level of consumption, and particularly on those elements in it represented by expenditures.

Sources of Data

Family studies. Various methods have been used for describing the material conditions of life for different people, with some attempt made to indicate the degree of satisfaction enjoyed by them from the consumption of

economic goods. In his pioneer studies last century, Le Play visited a number of European families, lived with them long enough to feel well acquainted with their consumption habits, kept an account of their expenditures and of goods obtained otherwise than through the market, and finally reported generally on what one might refer to as their economic welfare and its effect on their general well-being. Such an intensive study gives an intimate picture of family living that can be obtained in no other way. However, whether the families studied can be regarded as "representative" of any group at a particular time, is another matter.

ACCOUNTS AND SURVEYS. A different method used to obtain data on consumption levels is to get selected families to keep accounts over a considerable period of time, either just of expenditures or of all items going into consumption. This is usually referred to as the family "budget" method—though "budget" should be used to mean a plan for future spending or consumption, not an account of what was done in the past. Keeping accounts for a significant period of time is likely to be a tedious business, so results obtained from this technique are usually limited in number; but if they are complete, they are a useful supplement to material obtained in other ways.

When a large-scale project is undertaken, the method most generally used is the statistical survey of large numbers of people through the questionnaire technique. A questionnaire is either left in the hands of selected families, or delivered by a trained investigator who helps the family fill it out, thus ensuring a larger number of usable returns. However, consumption data are usually not clear in the minds of those who fill in such questionnaires, particularly if they have to remember back for considerable periods of time, so that it is desirable to associate it so far as possible with account-keeping either by a few sample families or for a short check period. This combined technique was the one used in an elaborate survey of incomes and expenditures in the United States in 1935–1936, carried out by a group of cooperating federal agencies. In this survey, information was obtained from 300,000 families at all income levels selected on a sample basis in all parts of the country. In addition to data on incomes and expenditures, quantity data were obtained from a large number of families for certain groups of consumption goods, particularly food and clothing, which proved of great value in wartime planning, as for instance, in rationing.

More limited surveys of somewhat the same character have been made by public and private agencies, for various reasons, among selected groups in the community—trade unionists, foreign-born groups, college students, Ne-

groes, and so on—which, to the extent that their findings are valid, add to our total knowledge of the material basis of family life in this country; similar surveys have also been made in other countries.

PRODUCTION AVERAGES. Another method for arriving at consumption data, to which reference should be made, is that of taking the total figures of production of different consumption goods and services, or the apparent total passing into consumption at the retail level, and, allowing for certain wastes in the distributive process, dividing it up on a per capita basis. The result, of course, is an average which may conceal wide differences between those who have much and those who have little but it has value as a check on other data. It was, for instance, the method used by the Combined Food Board in allocating food supplies among the United States, the United Kingdom, and Canada during World War II. Combined with survey findings showing the distribution of families and family expenditures at different income and consumption levels, and with detailed descriptions of living conditions among selected families, it helps provide source material from which the student can build up a picture of the consumption pattern of various groups in the United States.

HISTORICAL COMPARISONS

How are we to obtain comparative data between the present and the past? Is our level of consumption higher now than it was 50 years ago? What difference has taken place in our consumption pattern? Does it yield us more satisfaction? The problem of describing, measuring, evaluating change in living standards over a period of time has been raised in an acute manner in the last few years in connection with wage policies.

Over a long period of time, changes in living standards can be described in general terms, but are not subject to statistical measurement. In Revolutionary times the predominant group in the little American community of three million people, comparable in significance to the lower middle-class urban worker of today, was the small farmer. Except for the pioneer fringe, farm families enjoyed some of the advantages of an exchange economy and traded at the crossroads store, but for the most part they built their own homes with such help as they could get from their neighbors, produced their flax and wool, wove much of their own material, and were mainly dependent for food on such products as they could raise and preserve on their own land, or secure from hunting and fishing. Educational facilities for this group were few or non-existent and the span of life was probably half what it is today. There are many novels which give us what seems to be a clear

picture of the actual standard of living of the predominant group of the time, but what basis can there be, unless in terms of span of life, for saying that it was 10 or 50 percent lower than that of the predominant urban worker of today, because qualitatively it was so different?

It would also be a mistake to assume that the satisfactions derived from the prevailing level of consumption were 10 or 50 percent lower than they are today, because these are affected by a sense of what is fit and proper for oneself and one's group, and the limit of one's material hopes and ambitions. The Revolutionary farmer certainly did not eat his heart out for an automobile, though he may have cursed when his crude ox- or horse-drawn wagon bogged in the mud. A study of the documentary material of Shays' Rebellion evidences the farmer's concern not so much to accumulate property as such, though that was a factor, but to ensure through the use of political power that he could keep for himself what he produced, that he should have the satisfaction of enjoying the fruits of his own labor without tax or tithe. The urban worker of today, his city apartment furnished with goods having their origin in all parts of the world, certainly cannot enjoy in any direct sense, as did the Revolutionary farmer, the fruits of his own toil and must derive his satisfactions from other sources. Is the change, though obvious, measurable in objective or subjective terms?

THE COST-OF-LIVING OR CONSUMER-PRICE INDEX. During the last 40 years or so efforts have been made by government statisticians and others in different countries to develop a statistical technique for measuring certain factors in change that affect consumption levels in a money exchange economy—namely, the movement of prices of customary products, weighted according to the importance of each product in the consumption pattern, either averaged for the community as a whole or for some selected group within it. This is the so-called "cost-of-living index," recently renamed in the United States, the "consumer-price index."

During World War II, a controversy between the American labor unions and the U. S. Bureau of Labor Statistics with respect to the significance of this index, particularly in connection with wage adjustments, focused considerable attention upon it as a statistical measure. During the controversy, the B.L.S. was at some pains "to see that the index is understood and is used appropriately," and made public some valuable explanatory materials relating to it.[11]

The index really is a price index for goods customarily bought by urban

[11] U. S. Dept. of Labor, "The Cost-of-living Index of the Bureau of Labor Statistics," February 25, 1944.

families of moderate incomes in the larger cities, weighted in accordance with their relative importance as indicated by periodic studies of consumption habits, particularly the extensive study made in 1935–1936. The index does not include certain items such as taxes, which though a small factor in the workingman's budget in normal times, assumed considerable proportions during the war emergency. But by and large, says the Bureau, "It is a good approximation of average price changes for the essentials of family living." It must, the Bureau emphasizes, be accepted for what it is. It measures changes in the prices of particular goods, priced in the same place and weighted on a particular basis. It does not necessarily measure changes in expenditures by particular families which may be influenced by other factors, for example, an increase or decrease in income, moving from one locality to another, or from home-making to war work and so on. Misunderstanding on this point has been one of the factors in the controversy about the index.

For the mass of urban workers, a change in the prices of customary goods is a major factor in their actual standard of living, and under normal circumstances, and assuming that other factors remain constant, a change in the consumer-price index indicates a change in the actual standard of living, though not necessarily of the same magnitude. Even if the income of some families or groups increases as much as or even more than the index, for others this is usually not the case, so there is a shifting in the comparative economic position of different families as well as a change in the consumption pattern, since the prices of different items usually move up or down at different rates. The index is not a measure of such shifts.

Another question with respect to the index as an aid in the measurement of change in consumption levels, has to do not with its general scope, but with whether it accurately measures what it purports to measure, namely, change in the prices of certain commodities and groups of commodities. That is to say, the argument about the validity of the index had to do both with its general significance and its statistical accuracy. This latter question is highly technical, having to do largely with problems of statistical procedure. There is a considerable amount of material explaining the actual construction process of the B.L.S. index, and of other such indexes,[12] the selection of a base year, the sampling of stores and of products, the standards of judgment and so on, that give an index general reliability.

The unions have maintained that under war conditions circumstances were such that customary statistical practices became inadequate, and that the index failed to reflect this change adequately. For instance, quality de-

[12] See National Industrial Conference Board, *Cost of Living in the U. S., 1914–1927*, 1928.

teriorates, particularly in the absence of legal standards, and this deterioration results in a hidden price rise which is not sufficiently reflected in the official index, according to the union's contention. The B.L.S. did adopt a policy of pricing available products as near to the old quality line as possible, but admitted difficulty in taking full account of quality deterioration. Again some goods and some lines of goods were no longer on the market, as for instance durable goods, though statistical adjustments were made in the index to take some account of this fact. Again, it was common knowledge that many products during the war sold above their price ceiling, but can an official index properly reflect black market prices?

The extent of the controversy between the unions and the bureau over the significance of the index can perhaps best be indicated by looking at some of the actual figures. According to the B.L.S. figures, for the period January 1941 to December 1943, there was a rise in retail prices, weighted according to customary spending habits in the larger cities, of some 23.4 percent. This was on a national average basis, and included, for instance, a 30 percent rise in Savannah and a rise of less than 20 percent in Minneapolis. Prices of different groups of items moved upward at different rates. Retail prices for 61 basic foods sampled in 56 cities were estimated to have gone up 40 percent (assuming that restaurant prices went up at the same rate as foods at retail). On the other hand, rents of individual family units (not rooms) in 34 of the larger cities went up only 3 percent (that is, rents for the same kind of houses or apartments in the same city), though "under-the-counter bonuses" were ignored. The rise in price of clothing in the same 34 cities was given as 33.7 percent, and prices of other groups of items went up as indicated in the B.L.S. figures on page 34. These figures did not take account of income and social security taxes, war bonds, or other savings.

In attacking this index, the two labor members of the President's Committee on the Cost of Living, which was appointed to look into the whole matter of wartime living costs, maintained, in a report dated January 25, 1944, that the cost of living rose 43.5 percent during the period covered by the B.L.S. index, and not the mere 23.4 percent shown by the official figures. The report (known as the Thomas-Meany report, from its sponsors, Mr. R. J. Thomas of the C.I.O. and Mr. G. Meany of the A.F.L.) based its figures on unofficial investigations, which they asserted showed a more substantial rise in costs of food, clothing, rent, and so on than the B.L.S. indicated.

The extent of the discrepancy between the two sets of figures roused considerable public interest and some independent investigations. A com-

mittee of the American Statistical Association which was asked by the B.L.S. to examine the statistical basis of the official index, while making some constructive suggestions, substantially agreed with the B.L.S. as to the general accuracy of their figures for price changes of customary commodities bought by average urban workers in the larger cities, and were of the opinion that the charges made in the Thomas-Meany report "rested on a basic misconception of the purposes and limitation of the so-called 'cost-of-living' index, and flagrantly slipshod statistical methods." In December 1945, the Stabilization Director made an allowance of 4.5 points for large cities and 5.0 points for large and small cities combined to "compensate" for the

	In January 1941 This Is the Way a Typical[a] Family Spent $135 a Month for Living Essentials	In December 1943 This Is What the Same Things Cost Them.	Percent Increase in Price
Food	$ 45.50	$ 63.79	40.2
Clothing	14.40	19.25	33.7
Rent	27.50	28.33	3.0
Fuel, electricity, and ice	9.00	9.77	8.6
Housefurnishings	6.00	7.67	27.8
Miscellaneous	32.60	37.79	15.9
Total for goods and services	$135.00	$166.60	23.4

[a] The average central third of urban workers.

failure of the consumers' price index to take full account of quality deterioration, disappearance of cheaper goods and other factors.

The study and publicity given to the consumers' price index, with respect to its use in measuring changes in consumption levels, have drawn attention both to its significance and limitations as a tool of social analysis, in terms of its general scope and statistical reliability. Clearly, in countries where sources of information are inadequate and independent investigations restricted, the value of any such index will be questionable.

Such a consumers' price index, of course, becomes significant only as a measure of consumption, or rather expenditure levels, when it is related to income. It is the wage-price relationship that is significant in measuring "real wages," that is, wages in terms of their purchasing power. This involves working out an index of average wage movements, or wage movements for

particular groups, itself a difficult technical job; the next step is to relate such an index to that of weighted consumer prices. Allowing for the technical difficulties involved, the index of real wages is an important instrument of social analysis.

Geographical Comparisons of Standards of Living

Another area of comparison in standard of living studies that is of considerable importance has to do not with time but with space—how to compare consumption levels or satisfactions in one area with another in the same country or between one country and another, the latter being a matter of increasing importance in the development of international policy.[13] Comparisons of consumption levels in different countries are almost inevitably subject to a larger margin of error than comparisons between different years for the same country.

In the first place, different proportions of consumption goods are produced at home, so that the wage-price factor is less important for some countries than for others. The average size and composition of the family vary between countries, so that any comparison has to be on a per capita basis. Moreover, the government plays a different role in some countries than in others, which means that varying proportions of consumption goods and services (in quantity and kind) are provided directly through socialized activities.

Even where wage-price comparisons have some significance as between highly industrialized countries, statistical techniques vary. When the wartime Combined Food Board, concerned with the allocation of food supplies among the United States, the United Kingdom, and Canada, tried through a special joint committee to obtain reliable estimates of the relative nutritive value of per capita food supplies in these three countries, all of which have well-developed statistical services, it was confronted by serious technical problems. These countries, for example, have different methods for computing the carbohydrate content of food (affecting calorie values), the fat content of meats, and also the assessment of various vitamins and so on; comparisons therefore have to be made with great caution. There are also many other differences of statistical procedure; for example, in the United States and the United Kingdom statistics for food expenditure include, so far as restaurant meals go, only the actual cost of the food in these meals,

[13] See M. K. Bennett, "On measurement of relative national standards of living," *Quarterly Journal of Economics*, February 1937; Colin Clark, *The Conditions of Economic Progress*, 1940; also publications of the I.L.O.

whereas in Canada they include the total cost of the meal Figures for physical quantity of consumption goods per capita, if available, are more significant than attempts at wage price comparisons, but even if these are obtained, it is difficult to take account of quality differences.

The main difficulty, however, arises from the fact that the content of consumption differs between countries, sometimes quite markedly, partly because of relative levels of prosperity, partly because of climatic and other such factors, and partly because of different social customs and values which underlie the satisfactional standard of living[14] Dr E Hoyt, in her illuminating booklet, *Freedom from Want*,[15] suggests that international comparisons be made in terms of a few outstanding factors of universal significance, e g., the nutritive value of the food consumed per capita (in so far as the statistical material is available), the degree of literacy, and the death rate or expectation of life

WORLD NUTRITION LEVELS With respect to food, the United Nations Food and Agriculture Organization, in 1946, made a rough survey of the prewar food supply of 70 countries representing about 90 percent of the world's population, this survey was primarily to get a workable estimate of the average calories available per head of population in each country, at the retail stage or its equivalent (that is without allowing for loss and wastage in preparation and use at home), and the proportion obtained from major food groups In their report[16] they draw attention to the rough character of the estimates finally arrived at, but consider them near enough to the truth for general comparisons, both as between countries and with normative standards They also point out that average figures may conceal wide variations in the consumption of different regional groups, or groups at different economic levels in any country

The estimates indicate that in areas containing over half the world's population, prewar food supplies were sufficient to furnish an average of less than 2250 calories per capita daily; these low-calorie areas included most of Asia, a part of the Middle East, all of Central America, and probably parts of South America and of Africa which were not covered by the survey. Food supplies furnishing an average of more than 2750 calories per capita daily were available in areas containing somewhat less than a third of the world's population; this area included most of the western world, all of North America and much of Europe, Oceania, and the Union of Soviet

[14] See Sidney Gamble, *How Chinese Families Live in Peiping* 1933
[15] Public Affairs Pamphlet No 80, 1943
[16] F A O, *World Food Survey*, July 5, 1946

Socialist Republics, but only three countries in South America. The remaining areas containing about one-sixth of the world's population, had food supplies that were between these high and low levels; these medium-calorie areas included most of southern Europe, three countries in Asia, part of the Middle East, part of Africa, and part of South America.

In making comparisons between these different groups, the F.A.O. draws attention to the fact that many of the low-calorie countries are in the tropics and subtropics, where the food energy requirements are less than in colder countries; moreover the average size of the people is usually smaller; the proportion of children is also usually higher because of the high birth and death rates. But after taking all such factors into account, the estimates must

TABLE 1. Comparison of Prewar Food Consumption in Four Countries (Quantities per Head per Week)

	Denmark	Java	New Zealand	Dominican Republic
Cereals	4 lbs.	5 lbs. 4 oz.	2 lbs. 11 oz.	2 lbs. 14 oz.
Roots, tubers, starchy fruits	4 lbs. 10 oz.	6 lbs. 1 oz.	1 lb. 14 oz.	11 lbs. 2 oz.
Sugar	2 lbs. 5 oz.	3 oz.	2 lbs. 1 oz.	10 oz.
Fats	1 lb. 3 oz.	1½ oz.	14 oz.	3 oz.
Peas, beans	1 oz.	1 lb. 1 oz.	1 oz.	13 oz.
Fruits, vegetables	5 lbs. 1 oz.	2 lbs. 8 oz.	5 lbs. 15 oz.	3 lbs. 15 oz.
Milk	4½ U. S. qts.	negligible	4 U. S. qts.	½ U. S. qt.
Meat	2 lbs. 15 oz.	5 oz.	5 lbs. 15 oz.	1 lb. 4 oz.

be interpreted as representing wide disparities in per capita food consumption.

Furthermore, there is a great variety of dietary patterns between different countries, and the calorie requirements are obtained in different proportions from different food groups, which also is significant in terms of nutritional values. The F.A.O. selected four countries to illustrate differences in national food supplies—New Zealand, Denmark, Java, and the Dominican Republic as shown in Table 1.[17]

OTHER INTERNATIONAL MEASURES. Some figures given by Dr. Hoyt for literacy and also for average expectation of life at birth are as follows: *Literacy* (percentage of population): Netherland East Indies (1939) 3 percent, British India (1930) 10 percent, Brazil (1939) 40 percent, Mexico (1942) 55 percent, Philippines (1935) 65 percent, U.S.S.R. (Europe, 1934) 90 percent, Japan (1935) 99 percent. *Life expectancy*: New Zealand 66 years, U.S.A. 63 years,

[17] *Ibid.*, p. 9.

England 62 years, U.S.S.R. (Europe) 44 years, Egypt 34 years, British India 27 years.[18]

Another approach to the problem of international comparisons was made last century by Dr. Ernst Engel, chief of the Royal Bureau of Statistics of Prussia, who was much concerned with consumption standards and made surveys and utilized other surveys of actual expenditures by families of different sizes. As a result of his observations, he noted that an increase in family income in an industrialized money economy was associated with a declining proportion of expenditures going for food and an increasing proportion for miscellaneous items, health, education, recreation, and so on. He suggested as a result of his studies that the proportion of expenditures going for food was the best single index of the social position of the wage earner. Or it might be said the higher the proportion of expenditures going for miscellaneous items, the higher the consumption level—but this ignores socialized services which might be of great importance in this field.

It might be said that a community in which all or practically all the money income of families with children under 14 or 16 is earned by the father, leaving the mother free to care for the home and the children free to go to school, has a higher general consumption level than one where this is not the case—though of course there may be peculiar local circumstances that would invalidate this comparison. Another important factor is leisure, though as a matter of fact, some people who seem to work little and take time off frequently, are not really enjoying leisure as we understand it, but are suffering from malnutrition and disease which makes it impossible for them to sustain an output of energy. Further, as pointed out above, leisure should not be confused with unemployment, or underemployment of an involuntary kind. True leisure in which people are relieved from material anxieties and can enjoy the fruits of their labor (if not actually, then metaphorically speaking), is one of the most desirable aspects of a rising consumption level.

There have been a number of general studies in the field of international comparisons. We are not here concerned with the kind of study that was made some years ago by the International Labor Office at the request of the Ford Motor Co. What they were interested in finding out was what it would cost a Ford worker in a Berlin plant to buy approximately what he would buy if he were living in Detroit. It was a study of the cost of a particular American consumption pattern in a foreign city. The U. S. Department of State, to cite a somewhat similar case, makes a continuous study of this

[18] P.A.P. No. 80, pp. 10, 11.

same question on behalf of its employees domiciled abroad. They are not expected to live according to native customs, however admirable these customs might be, but according to American customs, in so far as they can be reasonably maintained, and they are given special allowances to make this possible. It is quite a different thing to try to compare, for instance, the consumption level of a transportation worker in an American city and of a Chinese worker, on approximately the same kind of job, in Shanghai, as the Institute of Pacific Relations was interested in doing in the thirties.

To illustrate some of the difficulties that arise in trying to make such comparisons, reference might be made here to a controversy that has developed out of a report in the *New York Times,* December 1947, giving a schedule of Soviet prices of consumer goods with what were said to be comparable U. S. prices. Exception was taken to this comparison by a number of Soviet citizens, and analysts from the Bureau of Labor Statistics and elsewhere were brought into the matter.

The real question was how to establish comparability between price schedules in the two countries, and then interpret it in terms of consumption levels. One approach was to determine the time an average industrial worker must labor to obtain comparable goods. This involved a knowledge of wage schedules, but it was said that wage figures published by the Soviet Union were so few and scattered that an analysis of the distribution of wages paid there was impossible. Another difficulty arose in trying to establish comparability for the goods being priced in the two countries. Moreover, the extent of social services was different, a point emphasized by the Soviet critics.

We have to keep in mind that no description of the standard of living can ever be precise, even if we limit our attention to the actual standard, and for a small group or a single family. Moreover, it is always subject to change, both on a short-time and long-time basis, and in a group there may be a number of changes occurring simultaneously. Some general exploratory work in the field of international comparisons has been done by the International Labor Office, primarily in the interests of the industrial wage earner, and further studies are under way in other agencies of the U. N. Economic and Social Council.

Chapter II

THE HISTORICAL PERSPECTIVE

We pointed out above that consumer economics is a study of economic activity in the light of the end results, the sort of living people make and the satisfactions they derive from it. A consumer point of view toward economic issues reflects the principle that resources should be used in a way that will promote the "best" sort of living for the greatest number of people, or the level of consumption that maximizes satisfactions. Let us now take a historic approach to our subject and inquire into the standard of living at different periods of our history to find out what the results of economic activity were in terms of the material welfare of different families and groups, and also to get some understanding of the significant factors involved in bringing about changed conditions.

The historic approach is of value mainly for the light it throws on current developments and our understanding of them, and with this in mind, the following account has been treated selectively. Our knowledge of the level of consumption, or actual standard of living, of various groups at different periods is in fact very limited, except to the extent it has been revealed by special studies to which we shall give some attention. There is also a significant historical background to the development of normative standards.

Let us look first at the long secular trend and then more closely, at the period from World War I on, a period of crises, of war and depression, whose effect on the level of consumption and normative standards can be examined with the aid of statistical tools. We have to remember in looking back at the last 150 years, during which our population grew from some three million to 140 million and from a small coastal settlement to a vast continental area, that our history has been dominated by the extraordinary process of opening up and settling an extensive domain, fertile for agriculture and rich in minerals. As new areas were settled there was a continuous

shift westward of the center of population, and therefore of the location of farming districts, industries, transportation centers, and so on, which in itself gave a speculative and unstable character not only to land values but other areas of our economic life, with its recurring financial and business crises and their attendant "readjustments." This was different from the business cycles associated with industrialization as such, which became a dominating factor in the twentieth century.

This was also a country of immigration. Immigrants have provided the labor power necessary to take advantage of our natural resources; but the character of the immigrants, particularly after the eighties when an increasing proportion came from southern and eastern Europe, was itself a factor in the exploited poverty of our tenement-house population at the turn of the century. There are special problems of interest to us here in the development and mixing of habits and customs over a new area so large and diverse as that of the United States.

During this whole period of change, there has been an abundant but scrappy and unsystematic contemporary literature—letters, diaries, official reports, stories and books of travel—bearing on the standard of living, mainly of individuals or individual families, into which the student with historical leanings will enjoy delving. There is a picture, more or less clear, of the kind of living the frontiersman had, the slave and his master, the merchant and urban worker. In their *Studies of Family Living* Williams and Zimmerman[1] report on two family account books kept by government employees, one in 1816–1817, the other for the year 1835, and refer to them as the "only complete reports located for the period before the Civil War"; these give actual expenditures for items of family living. The second of these account books has a special interest since it was included in a report from the Secretary of the Treasury to the Senate with respect to a proposed increase in the salaries of government clerks, indicating an appreciation, even at this time, of a relationship between "cost of living" and wage regulation.

By the fifties it was becoming clear that in the North we were expanding our manufactures on a "free enterprise, capitalistic basis," and after the Civil War with the Northern interests in firm control of Congress, we entered upon a period of corporation growth, stimulated by invention and an increasing pool of risk capital, which resulted, gradually, in changing the basis of our economy from rural to urban. An interesting study of certain aspects of the American standard of living in 1860, on the eve of the Civil War, and while our economy was predominantly rural in char-

[1] U. S. Dept. of Agric., Misc. Public. No. 233, 1935, p. 7.

acter, has recently been made by Dr. E. Martin,[2] an economic historian, with a consumer approach to his subject.

THE CONSUMPTION LEVEL IN 1860

Although the economy in 1860 was still predominantly rural, Dr. Martin seems especially interested in urban life at that time and particularly in the circumstances of families living in the larger towns and cities—one-eighth of the population, he points out, then lived in cities of 8000 or more inhabitants, New York being the largest with a population of 805,650. Martin is interested in both the actual standard of living and the satisfactions derived from it. He has done a prodigious amount of research, but is aware of basic difficulties in the way of comparative studies over a long period of time, and uses mainly the descriptive rather than statistical technique in the presentation of his material. He succeeds in painting a vigorous picture, perhaps it would be better to say a series of pictures, of the kind of food people in different income classes ate, the transportation facilities, the condition of the streets, and so on. How did people manage without telephones, radios, electric refrigerators, electric lights, automobiles, hard-surfaced roads, public health services?

His researches indicated to Dr. Martin that expenditure for food took a larger part of the family budget before the Civil War than in 1935–1936. He got the impression that the "ordinary" city family spent close to 50 percent of its income for food and the same could be said of farm families if food consumed on the farm were included in income. Meat consumption per capita was at an all-time high—a result to be expected with meat cheap and fruits and vegetables limited in amount, kind, and seasonality. He points out that pork was the staple meat product, together with poultry and fish (fresh and cured), but every kind of meat now obtainable was to be had then in some part of the country at some seasons, distribution being mainly local due to limited transportation facilities and inadequate refrigeration. However, this limitation was not so serious a matter then as we might think, for the centers of population were serviced largely by the surrounding countryside. The impression Dr. Martin got from his researches was that most livestock was driven on hoof to slaughterhouses set up in the towns, and meat was bought up quickly from large public markets and as quickly consigned to the cook-pot (otherwise it had to be cured or pickled). Probably butchers' shops and meat markets were using ice, and he found some advertisements for domestic refrigerators but these were still in the luxury class,

[2] Edgar W. Martin, *The Standard of Living in 1860*, 1942.

the ice that was used in homes being reserved apparently for iced drinks, etc.

"There are two elements of New York and American life," quotes Dr. Martin from a contemporary source, "which English tourists can never appreciate, nor English readers comprehend. They are ice cream and oysters . . . the ice-creams are the most ubiquitous luxury. They are served in public gardens, in saloons that hold a thousand people, at the confectioners, at the uniform price of sixpence, and generally of an excellent quality and flavor. . . ."[8] Dr. Martin's picture of the New York City milk supply in 1860, gives one an optimistic feeling of progress, particularly with respect to qualitative changes. He quotes estimates that New York City drank about 330,000 quarts of milk a day in 1852. Of this, 100,000 quarts consisted of country milk (some 70,000 coming in over the Harlem Railroad), with 30,000 quarts of adulterants added; 160,000 quarts were "swill" milk, produced in the city by cows maintained at the slaughterhouses and fed on slops and offal, with some 40,000 quarts of adulterants—this city milk, free of any effective regulation, was frequently contaminated.

As to fruits and vegetables, there was already a little commercial canning and some preserving was done at home, but canning of fruit was limited by the short supply of sugar. Root cellars were frequently maintained where possible, and there was some drying of certain foods, but for the most part people depended on local products in season, the extent of the area servicing them being determined by transportation facilities—there were, for instance, such famous institutions as the "pea train" into New York from New Jersey, and the boats bringing some imports of citrus fruits from the Mediterranean (this was before the Florida and California developments), and bananas and other tropical products from the Indies, for the well-to-do. Dr. Martin gives some summary figures of the apparent annual consumption (disappearance) of foodstuffs in the United States at selected periods, in pounds per capita:

	1830–1839	1850–1859	1930–1939
Meats	178.7	183.9	128.6
Lard	13.7	13.2	12.2
Butter		15.1	17.5
Wheat flour	170.0	205.0	158.0
Sugar	13.1	29.7	95.5

[8] *Ibid.*, p. 52.

This is just illustrative of some of the material collected by Dr. Martin with respect to food and food consumption about the middle of the century in various parts of the country and among different income groups.

With reference to housing Dr. Martin emphasizes that it is more difficult to set up criteria for the housing of 1860 (how good was the housing, how does it compare with housing today?) than it is for food. The contrasts between different levels of housing were much greater than for food. He reminds us again that at this time about four-fifths of the people were still living in rural areas. Pioneer conditions prevailed in the South and West with log cabins prominent in the wooded sections, and sod houses and dugouts in the prairie states. In the East these conditions no longer prevailed and substantial country houses were conspicuous on the landscape.

For the most part houses were as well built as they are today—roomier, partly because of larger families, but perhaps less conveniently arranged. In a great port city like New York, immigrants were crowding into miserable tenements, cellars, and attics; some old houses were being subdivided and new ones, cheaply constructed for speculative purposes, were being put up. Water closets were still a luxury and privies, constructed in many cases below the dwelling rooms in cellars and under pavements, gave off a stench that reeks through the pages of select committee reports. In the upper-class neighborhoods, and particularly up the extending Fifth Avenue area, the "brownstone" fronts were a feature of the period, and there were a number of mansions—to house suitably the 25 millionaires reported in New York about this period.

With respect to house equipment, Dr. Martin found that venetian blinds were commonly advertised; there was no indication as to whether or not fly screens could be bought, but certainly if they could almost no one took advantage of them. In view of the fact that slaughterhouses, with little if any supervision, were located in the towns and manure from traveling livestock cluttered the streets, this lack of screens was no doubt a factor in the death and morbidity rates.

By 1860 some of the large centers like Boston, New York, Jersey City, Cleveland, and Detroit had established municipal water systems, providing for the pumping in of water from lakes, rivers, and so on, though not in all cases purified water; elsewhere, wells and rain-water cisterns had to be relied upon. Not only water closets but fixed bathing facilities, therefore, were still restricted to well-to-do homes and the larger hotels—some of the luxury hotels of New York City had private baths attached to a few of their guest rooms, in addition to the hall baths. But from a comparative point of view,

this lack of bathing facilities was perhaps regarded in a different light in 1860 than it is today; that was an era in which cleanliness was not taken too seriously. The whole plumbing industry was comparatively new.

It was an age of experimentation, and by 1860, "more or less practical systems for central heating had been devised and were being advertised, though they were not commonly supplied for residence heating." Heating was still largely a matter of room stoves and fireplaces with the kitchen range playing a major role in family life. It was the eve, also, of the great discovery of the kerosene lamp for general use, and the upper and middle classes were already installing manufactured gas. People were filled with the excitement of progress. In Dr. Martin's opinion, the most marked changes in housing in the last three-quarters of a century have been in the leveling up of the conditions of the low-income groups, largely because of improvements in the water and the sewage systems provided through organized social action.

With respect to clothing, Martin explains it is easier to find out what the fashions of the times were, than to find out what people were actually wearing. However, it is clear that men had already gone drab. But further details in this field we can leave to the historic-minded student. We can also leave the nature and extent of transportation facilities. With respect to public health and the extent and nature of the medical care available, Martin quotes some figures; for example, the expectation of life at birth in Massachusetts was estimated as follows:

	1789	1855	1929
Males	34.5	38.7	58.1
Females	36.5	40.9	61.4

These figures are a story in themselves.

During the period we are considering, "everywhere mosquitoes, flies and other germ harboring pests were regarded with equanimity, screens and disinfectants being used only in the best hospitals." This was a period when diphtheria was still believed not to be communicable, smallpox was still widely prevalent, and vaccination was in an undeveloped state; malaria was taken for granted in the South and West; there were epidemics of typhus and typhoid and at times Asiatic cholera decimated the poverty-stricken tenement-house population of New York, too often preyed upon by quacks and frauds; in the South, dysentery and diarrhea, added to malaria and hookworm, were debilitating factors and there was yellow fever around the Gulf area.

As Dr. Martin points out, there were as yet (1860) no state boards of health, and even where city boards of health existed their functions, powers, and resources were very limited, and it does not appear that the medical profession, to say nothing of the general public, had as yet any clear idea of the relation between housing and public health.

With reference to other public services, Martin discusses the state of education, but he points out that, for the period under review, it is hard to get reliable statistics on the length of school attendance or the quality of schooling. There was a great deal of interest in adult education, in large part privately supported, and public libraries were regarded as one of the way stations on the road to economic independence for the working classes. Dr. Martin quotes a saying of Anthony Trollope concerning the Americans in 1862: "As consumers of literature they are certainly the most conspicuous people on earth."

Martin gives considerable attention to the question of leisure and leisure-time activities as a factor in the standard of living. "From a certain point of view," he writes, "leisure is a residual. Food, clothing and shelter and whatever else may be regarded as 'necessities' must be produced before the economy can afford its workers time for idleness and recreation . . . since additional leisure is to be obtained only at the expense of goods and additional goods only at the expense of leisure, leisure itself must be considered as a 'good.'" This statement is open to question since, up to a certain point, additional leisure may increase productive efficiency. But he is right in emphasizing that the amount of leisure time available must certainly be reckoned in the standard of living.

About 1860 the average working day, apart from farm labor, was probably about 11 hours, six days a week, though there were considerable variations, and the building trades and other skilled occupations, together with federal public works, had established a ten-hour day, at least in the East. The long hours at heavy work account in part, in Dr. Martin's opinion, for the comparatively large consumption of meat.

Probably very few took the luxury of a vacation except the well-to-do, but short excursions, particularly holiday excursions on steamboat or railroad, were popular all over the country. While drawing attention to the lack of leisure for the masses of people, Dr. Martin suggests that the attitude so general today, that "enjoyment and satisfaction are not to be found in work, but only through the use of leisure," was perhaps not so general in 1860. The speed and concentration now required on many jobs does not

encourage the gossipy associations that undoubtedly prevailed in longer but less hurried work days.

However, the lack of leisure certainly had a great effect on the nature of recreational activities and the percentage of expenditures incurred for recreation. Commercial amusements and even organized social life were at best a superficial part of American life in 1860; for nearly all the population there was little time for recreation, though the circus was an established institution and there were theaters and operas and burlesque shows. Americans, from the very beginning, seem to have been great drinkers of hard liquor, whether at bars or in crossroad taverns. "The people of 1860," writes Martin, "led a strenuous physical life, their standard of living was (compared with ours) low, and they had neither time nor opportunity for the sort of recreation they needed. The laboring classes must have felt impelled to escape from the rather brutal sort of existence through an equally brutal sort of indulgence. . . ."

A discussion of the comparative value of leisure brings to the fore again the satisfactional aspect of the standard of living. To a generation unaware of the possibilities of automobile transportation, the "buggy" must have afforded many pleasant occasions; and mealtime at the tavern where the stagecoaches stopped might have had qualities more "desirable" (if we had criteria for determining such values), than the hurry-up snack at the modern counter.

"What an excitement it must have been to travel some 7 or 8 miles on the new horse drawn street railways in New York and all for a nickel. And the immigrants who kept pouring into the eastern ports, could still spice their daily fare, better than anything perhaps they had ever been used to, though poor and unsanitary from our point of view, with the hope of a great future ahead of them in a mobile society." However, to say that people are not conscious of a lack and therefore not unhappy about it, cannot be taken to imply that their welfare and their positive satisfactions would not be greatly increased by adding to their consumption experiences, or "raising" their consumption level.

STATISTICAL STUDIES

Toward the end of the nineteenth century, a growing body of material on various aspects of consumption was prepared by statisticians and others who for one reason or another had a direct interest in this subject. These men were pioneers in the field of statistical studies, particularly of incomes

and expenditures, without the advantage of the hindsight which we have today, and they had to fumble with the construction of appropriate tools for research, as well as with the interpretation of the data they were able to collect. It is well to keep these facts in mind in evaluating their work.

From the seventies until the early nineties was a period of falling prices with, on the whole, a rise in real wages for urban workers, but a rising cost-price ratio for farmers who were in a constant state of protest. However, though the rural population still outnumbered the urban, it was with the latter and particularly with the "working classes" that the statisticians in the newly established government bureaus of labor were mainly concerned.

The statistical studies were much influenced by the work of Carroll D. Wright, a statistician who from 1873 to 1885 was chief of the Massachusetts Bureau of Statistics of Labor; in 1885 he became U. S. Commissioner of Labor. During his early studies of the new social instrument of statistics, he had traveled in Europe and on that and other occasions had become familiar with the work of Le Play, Ernst Engel, and others in this general field. While he was chief of the Massachusetts Bureau, he collected data on the expenditures of 397 wage-earning families in Massachusetts, showing relative expenditures for different groups of items such as food, rent, fuel, etc., and noted as a result that percentage expenditures of urban families in the United States for food were larger than for Europeans with "like income," though it is questionable whether these early studies can be regarded as having much significance. When he took over the job of U. S. Commissioner of Labor, his functions, as outlined by the legislation establishing the U. S. Bureau of Labor, included a comparative study of cost of living among wage earners, here and abroad, as part of a continuing investigation into comparative costs of production in industries subject to United States tariff schedules. Pressure for these studies came primarily from manufacturers protesting against "unfair competition" from abroad.

During the period 1888–1890[4] two large studies of incomes and expenditures were undertaken, the first, of 2490 wage-earning families in North America and 770 in Europe connected with certain industries particularly iron, steel, coal, coke; and the second, of 5284 families (including 965 living in Europe) in which the chief wage earners were employed in the cotton, woolen, and glass industries. Data were collected by the schedule method developed by Engel, that is to say, investigators went into the homes of cooperating families with a prepared questionnaire, and collected information, in the general absence of accounts, by a process of estimation. The

[4] See the 6th and 7th annual reports of U. S. Commissioner of Labor for 1890 and 1891.

information obtained was for the most part in monetary terms, which makes it possible to compare proportionate expenditures on different groups of items, but gives little information on the quantity or quality of goods or services consumed. Some information was obtained on quantities of food, and investigators made comments on home surroundings and size of dwellings and also obtained a certain amount of data on debts and purchasing habits. A separate and more detailed analysis was made of the data from "normal" families, that is families which did not include boarders or lodgers, and had five or less children under 14 years of age. The results of these investigations were reported in terms of averages, as distinct from the individual technique of Le Play; and the average, though not descriptive of any particular family, no doubt gives a reasonably reliable picture of the consumption expenditures and relative importance of 13 different groups of expenditure items, for the families under consideration. It must be remembered that these studies give no indication of the nature or extent of public services as part of the level of consumption.

More significant than these early investigations, was an extensive study made at the turn of the century by the U. S. Bureau of Labor, still under Wright's direction; the results of this study were reported at length in the 18th annual report of the U. S. Commissioner of Labor (for the year 1903). The intervening period between these two series of studies was marked by the depression of the early nineties, followed by a slow but steady upward trend in prices that continued, with an occasional break, up to the First World War. These price changes aroused an increasing interest in the development of a statistical technique for measuring changes in the "cost of living," that is, as explained above, prices weighted on the basis of customary expenditure. The 1903 report therefore included not only the data on family schedules, but also a series of retail prices for a limited number of food staples over a period of years in the kinds of stores patronized by workingmen's families; prices recorded earlier had been wholesale prices, which are not so significant as retail prices for measuring changes in living costs.

The 1903 report was based on schedules collected in the period of 1899–1902 (most of them in 1901) by agents from 25,440 workingmen's families, including 124,108 persons, located in the principal industrial centers of the United States and distributed over 33 states. Included in the cooperating families were wage earners and salaried persons receiving an income of not more than $1200 a year. The result was probably more representative of conditions among the semiskilled and lower middle-class groups than of the unskilled and those at the edge of the poverty line, though in the case

of about 1000 families interviewed, the head of the family was, for one reason or another, unemployed. Of the families investigated many had boarders and lodgers (the average figure for the families was 21 10 percent families with boarders and 2.69 percent with lodgers, but the percentages vary considerably for different sections of the country); other families had dependents living with them.

In order to get a clearer record of conditions for "normal" families, some 11,156 such families (including husband at work, supporting a wife and not more than five children, none over 14 years of age), were selected for more intensive study. The average size of these "normal" families was 3.96 (that of all families including boarders was 4 88), but their income tended to be lower than the average mainly because they did not take in boarders and the children were not at work. Most of the data is statistical, and for the most part in monetary terms, though there is quantitative data on consumption of 20 staple foods for some 1045 selected "normal" families, these families being classified by nativity of the head of the family and by states; the quantitative data on food was necessary to construct the price index for staple foods which the Bureau was planning.

There is some descriptive material of housing conditions but here again most data is in statistical averages It was found, for instance, in New York City that the families (excluding those with boarders and lodgers) had housing which provided about one room per person, which is not crowded according to our present standards.

The expenditure pattern for urban workers in the United States as a whole, based on returns from 25,440 families (averaging 4.88 persons) and with total annual income of $749 50, was as follows: rent (for those families renting) $118.40; fuel $31 06, light, etc. $7 53; clothing $94.99; food $312.92; miscellaneous $145 37. Some 12,816 had savings averaging $120.84 and 4117 were in debt with an average debt of $65.58.

For New York City, returns from 4559 families (averaging 4.85 persons) with average total income of $765 were rent (for families renting) $128.46; fuel $34.06; light $8.42; clothing $99.13; food $331.58; miscellaneous $143 67.

In these investigations, the Bureau was primarily concerned with incomes, expenditures, and prices In his report for 1904, however, the Commissioner of Labor supplemented this material with data on working hours for the year 1903, in a wide range of trades and industries throughout the United States and by specific occupations and sex. Going through this list of trades alphabetically, a few might be selected as fairly representative; for example, average hours per week, 1903: blacksmiths 58.74; bakers, second hands 62.92;

boots and shoes, cutters outsoles, male 57.86; boots and shoes, lasters, machine, male 55.37; boxes, paper 60.00; brick, laborers 61.18; building trades, carpenters 49.46; carpets, loom fixers, male 58.90; cars, steam railroad boilermakers 56.35; dyeing, finishing and printing textiles, male 58.91; harness makers, male 59.22; lithography, engravers, male 48.00; lithography, pressmen 54.12; shipbuilding, riveters, male 58.77; streets and sewers, municipal work, laborers, male 50.00.

While the statisticians, both in Washington and at many of the state capitals, were engaged in these and similar investigations providing a statistical account of expenditures among selected groups in the community, many public-spirited individuals, journalists, social workers, churchmen, and others were becoming concerned with the problem of "what ought to be"—that is, in regard to the normative standard of living. "The civic conscience was not very robust yet," wrote Jacob A. Riis[5] "and required many and protracted naps."

DEVELOPMENT OF NORMATIVE STANDARDS

As noted above, prices were rising, and despite the expanding wealth of the country as a whole, or because of it, the condition of the "urban poor" forced itself on public attention. It was a time when the demand for government intervention increased, both for public regulation of certain areas of consumption, housing, sanitary condition of foods, and so on, and also for the development of public services to provide for the masses more of the consumption goods they were not able to provide for themselves—public health clinics, better schools, more sanitary waste and garbage disposal, more parks and recreation centers.

This movement received a fillip from such events as the cholera and typhus plagues of the nineties which proved no respector of persons or income groups. In New York City, for instance, the close association between housing conditions and health came to be recognized, and a specially constituted Tenement House Committee, whose report led to the Tenement House Law of 1901, condemned the tenements as "infant" slaughterhouses, where one in every five babies died.

A Living Wage

Associated with this line of thinking, was a developing interest in the concept of "adequacy" with respect to living conditions. What was the content of a "decent minimum livelihood"? And since for urban workers

[5] *The Battle of the Slums,* 1902.

the actual goods and services enjoyed depend mainly on wages, the question rose as to what is a "decent minimum wage"? Typical of this new thinking was Father J. A. Ryan's much discussed book *A Living Wage,* published in 1906. Father Ryan, a priest in the Roman Catholic Church, who later became the outstanding liberal Catholic economist, director of the Department of Social Action of the National Catholic Welfare Conference and Professor of Economics at Catholic University in Washington, D. C., had been considerably influenced in his thinking by Professor Richard T. Ely, one of our pioneer economists to emphasize the social aspects of economics. Undoubtedly, he was also influenced by the celebrated encyclical *Rerum Novarum* (1891) by Pope Leo XIII, formulating the position of the church on the doctrine of a minimum and living wage, which had been followed by other statements pertaining to the same problem by church dignitaries in England and elsewhere.

Ryan's thinking reflected the disquiet felt by many members of the church at sight of the bad conditions of living experienced by so many families of industrial workers who found themselves struggling to keep above "the poverty line." These families included many of the newly arriving immigrants, who, during the first decade of the present century, were coming in at the rate of about one million a year. The struggle was made more acute by the rising price level. Moreover, the lavish display on the part of the rich, made more conspicuous by the new industrial products and the apparent misuse of wealth, seemed to emphasize the "hard conditions" of the poor. Was this obviously wide range in living conditions consistent with the tenets of a democratic country?

Father Ryan was concerned about an "ethical minimum." This is not the same thing as an efficiency wage, nor a "just price" for labor. He did not ask, indeed he denied the justice of, an "equal return" for labor. But a "living wage" is of the nature of a right. "To live becomingly," he argued, "men must possess not only those goods that are objectively necessary, but in some measure those that they think are necessary. Indeed, the latter may become more indispensable to decent living than some of the things that are objective and primary, for men will sometimes procure them at the expense of the others." He insists that man must have opportunity "to develop within reason his faculties, physical, intellectual, moral and spiritual." Moreover, the minimum wage should be a family wage. "The laborer has a right to a family living wage because this is the only way in which he can exercise his right to the means of maintaining a family and he has a right to these means because they are an essential condition of normal life." Further, "the family

that it seems reasonable to take as a basis for estimating the proper remuneration of the husband and father is that containing the average number of children found in workingmen's families." After examining, according to his statement, some figures from the U. S. Commissioner of Labor's reports, he came to the conclusion that "it is sufficiently accurate to say that the family that ought to serve as a standard of measurement in the matter of decent remuneration for the adult male laborer is one having 4 or 5 children." It appears from the figures of normal families reported by the Commissioner of Labor in 1903, however, that the actual average family included only two children under 14. Father Ryan also felt that the father's wage should be sufficient to support the family until the children reached the age of 16 (except perhaps in vacations), the welfare of the family and of society requiring that the wife and mother should not engage in any labor outside the household.

After examining the schedules and summaries of the 1903 report and other materials, he came to the conclusion that anything less than $600 per year was not, as of the date of writing, a living wage in any city of America and that this amount was not sufficient in the largest cities. This was not to be considered a fixed sum over the years, since, owing to the development of new wants, a decent livelihood at a given time might be below the standard of decency that would prevail ten years hence; this figure was, of course, independent of price fluctuations. Evidence seemed to show, he reported, that at least 60 percent of the adult male workers in cities of the United States were in 1905 receiving less than this amount.

In asserting the right to a living wage and stating a figure below which a decent livelihood could not be obtained, Father Ryan assumed, of course, that the economy was operating at a level that made this minimum livelihood possible. He did not go into any consideration of "capacity to pay," but like his preceptor, Professor Ely, he did discount economic theories that implied that wages and wage levels are fixed by some kind of "inexorable law" and cannot be modified by public action

The right to a "living wage," as enunciated by Father Ryan, did not involve any particular method for ensuring its payment. But there was developing support in some countries, and among some groups in this country, for the establishment of a legal minimum, so that employers would not be permitted under the law to pay less. This principle of a legal minimum wage had already been adopted by the Wages Boards of Victoria, Australia, as early as 1896 and it was given spectacular official support in the famous "harvester" decision of the Commonwealth Arbitration Court of Australia

in 1907, reached after a limited inquiry into the content of living of a few families at the unskilled level.

In the United States the principle of a minimum wage was approved by the American Federation of Labor.[6] But there was no consistent drive on the part of the unions for a legal minimum; they depended rather on wage contracts between employers and employees, largely due, no doubt, to the fact that the A.F.L. represented, for the most part, the skilled workers and also because it was following a course of economic as distinct from political action.

The drive for a legal minimum in the United States came rather from certain groups of economists,[7] social workers, and groups such as the National Consumers League, concerned about the circumstances under which women, mostly unorganized, were working in industry. The demand for a "legal minimum wage for women" was associated with one for maximum hours of labor for women workers. Minimum wage legislation for women was adopted on a limited basis in Massachusetts in 1912, and this was followed shortly afterward by legislation in Oregon (1913) and other states. The Oregon law attracted considerable national attention because of a long drawn-out Supreme Court case as to its constitutionality. The case was finally decided in 1917 when the law was declared unconstitutional as an invasion of private property rights and the right of private contract. (It was not until the thirties that the principle of a legal minimum wage for women, and subsequently for all workers, was finally accepted by the court.) A feature of the Oregon hearings was an elaborate 800 page brief prepared mainly by the National Consumers League in cooperation with Professor Felix Frankfurter, of the Harvard Law School, in defense of the legislation. This brief included a considerable amount of material illustrative of the actual standard of living of women at the unskilled level in Oregon and elsewhere at this time, and was used during the Supreme Court hearings by Professor Frankfurter, who appeared for the State of Oregon, particularly in reply to assertions by the opposition that there was no connection between wages and health.

The Poverty Line

In addition to this developing interest in the principle of a legal minimum wage to ensure a "minimum-subsistence" level of consumption, increasing attention was also being given to the meaning of "adequacy" at the "poverty

[6] "Living Wage and Its Content," *American Federationist*, April 1898

[7] A. N. Holcombe, "The Legal Minimum Wage in the U. S.," *American Economic Review*, 1912.

level," in connection with relief distributions by charity organizations. Some of the most illuminating material on living conditions among urban families at and above the poverty line at the turn of the century is contained in reports of such organizations, prepared with a view to establishing the level below which a family could properly be regarded as eligible for relief. In the preparation of these reports, considerable attention was given to the concept of poverty, which is always relative to particular times and circumstances. A stimulating influence in the development of these studies was Professor E. T. Devine, for 20 years the Executive Director of the Charity Organization Society of New York.

The most noteworthy investigation was that made for the New York State Conference of Charities and Correction, which in 1906 established a committee to report the essentials and cost of a "normal standard of living" in cities and towns of the state. Later a subsidy received from the Russell Sage Foundation made it possible for the committee to employ investigators under the direction of the committee's secretary, R. C. Chapin. Chapin's report was later published in book form.[8]

No dependent families were included in this survey, so the returns represent a level above what was then regarded as the "relief" line. The final report was based on schedules from 391 families with incomes ranging from $500 to $1000, though a few were above and below these figures; in many cases the wife and children under 16 contributed to the family income. Summarized schedules of expenditures from 224 families getting between $600 and $900 are shown in Table 2.

From quantity data obtained on food purchases, it was estimated that according to the normative standard of nutrition then current, 70 percent of the families getting less than $600 and one-third of those getting between $600 and $800 were underfed. Chapin gives detailed weekly food expenditures of some American-born families in different income groups, and of some immigrant families.[9]

As to housing conditions, rents were rising along with other prices during this decade. The heavy congestion of population in New York doubtless accounted in part for the fact that in that city house rent claimed one quarter of the $600 incomes, "due to the imperative need for some place to make a home and, however wretched, it will not be cheap." The relatively high price for shelter meant that as income increased proportionately more was

[8] R. C. Chapin, *The Standard of Living Among Workingmen's Families in New York City*, 1909.

[9] *Ibid.*, pp. 154–156.

spent on food rather than less, until a higher-income level was reached, contrary to Engel's experience. Some 50 percent of the 318 families with incomes between $600 and $1100, reported more than 1.5 persons per room (regarded by Chapin as a "minimum standard"), overcrowding usually being greater among families which took in boarders and lodgers. It will be recalled that in the United States survey reported in 1903, cooperating families had about one room to a person. Not more than a quarter of the families at any income level below $1100 reported a bathroom or toilet within the apartment, and more than half the families reported dark rooms, that is, rooms without direct access to the outside air and light. According to Chapin, one evidence of a low level of consumption was to be found in the

TABLE 2. Distribution of Expenditures

	$600–699 Av. Income, $650	$700–799 Av., $748	$800–899 Av., $846
Rent	$154	$161	$168
Carfare	11	10	16
Fuel and light	38	37	41
Furniture	6	8	7
Insurance	13	18	18
Food	279	314	341
Meals out	11	22	18
Clothing	83	99	114
Health	14	14	22
Taxes, dues and contributions	8	9	11
Recreation and amusement	3	6	7
Education	5	5	7
Miscellaneous	25	32	41
	$650	$735	$811

high percentage of families (more than one-third) reporting that they gathered their fuel, for the most part wood, from the streets and elsewhere, free of cost. Those using coal usually bought by the bag or bushel. For the most part gas was used for lighting, but poorer families were using kerosene for both lighting and cooking.

After examining the clothing expenditures and reckoning the value of gifts of second-hand clothing, Chapin came to the conclusion that 40 percent of the families were underclothed, and 75 percent of those getting an income of less than $600 were underclothed. On the basis of average expenditures and of details given in typical schedules, and assuming a "high grade of efficiency in making and remaking," a list was prepared of the articles of clothing needed annually by a "normal" family consisting of

father, mother, and three children (girl 10, boy 6, and boy 4). There is no very clear indication of the quality of this clothing

Health expenditures were too irregular for significant averages, but it was found that 40 percent of families at the $600 level got free medical assistance, testifying to the fact that public health services were already developing; only 16 percent of families at $1000 got free service, and much indebtedness resulted from heavy expenditures for sickness Chapin was especially concerned about the almost universal neglect of dental care He came to the conclusion that an income of less than $800 "does not permit expenditures sufficient to care properly for the health of the family"

A majority of the families reported that they had insurance, mainly industrial insurance (usually at the rate of 10 or 25 cents per week for each member of the family) to provide for expenses of the last sickness and burial—families not taking out such insurance (including certain immigrant groups) were usually members of a fraternal organization It was clear, reported Chapin, that such provision "constitutes an essential part of the American standard of living, and that most families will go without many comforts in order to keep up their insurance," even those overcrowded and underfed As he points out, the sum total of these insurance payments was considerable for families on small incomes, amounting in some cases to from $25 to $30 a year

The Chapin report also gives estimates of expenditures on such "sundry" items as furniture, recreation, dues, tobacco, a daily paper, and so on It is this group of items classified under "miscellaneous" or "sundries" that has given most trouble to wage fixing tribunals, since it is the area of expenditure which can be most easily cut or expanded according to one's notion of a "decent" level of consumption, and "just and fair remuneration" We have pointed out that some social scientists consider the percentage of expenditures on these items is indicative of a "high" or 'low" consumption level This seemed to be confirmed by the Chapin data, although the percentage varied considerably with individual families and the strength of the desire "to lay up money" There were extravagant and economical families at all levels, some in debt and some with savings, but according to Chapin, families who made both ends meet at or below the $600 income level were doing so at the expense of food or other essential items

It was the precarious factor in living conditions that specially impressed these early investigators "Almost all wage-earning families in great cities live for a period of about fifteen years in anxiety or on the verge of dependence Illness, accident, death, may precipitate any member of this group into

the ranks of dependents."[10] This was a period before the adoption of workmen's compensation laws, or other social insurance programs.

The final conclusions drawn from the Chapin study were that, as of that time and speaking generally, family income below $700 was "wholly inadequate to maintain a 'proper standard of living' for a family of about five (from two to four children); in the range between $700 and $800, a family could live without charitable aid by exceptional management or in the absence of emergencies; and about $825 should be regarded as the line above which a family could be expected, in most cases, to maintain a fairly proper standard of living, with wise use of the family income."

It was argued that the wage earner's wife could not spend hours bargain hunting, experimenting with new food combinations, making and mending garments. She did not have, and could not be expected to have, the training and ability to do all these things even if she had the time He discounted opinions that excessive expenditures on tobacco and drink were the cause of poverty and maintained that in the main it was the relation between wages and prices that established the poverty line. Chapin pointed out "The natural environment (climate, the free gifts of nature), the social environment, whether urban or rural, the efficiency of government, the opportunities for recreation and education which are provided gratuitously—all these have a marked influence upon the plane of life that men attain Furthermore, the actual comfort enjoyed by a given family depends hardly less upon the amount of its income than upon the wisdom displayed in applying it to the diverse wants which it may be made to meet. The woman who looketh well to the ways of her household is as important a factor in our time as she was in the days of King Lemuel"

A SURPLUS ECONOMY

The concentration of attention by government statisticians and social workers during this period on problems of poverty and on the living conditions of wage earners and low-income groups generally, neglected, of course, the range of living in a developing country, with a rapidly expanding economy. Their reports gave a limited picture of conditions even in the cities and overlooked entirely those prevailing in rural areas. During the decade before the First World War, immigrants, many of them from southern and eastern Europe, were forming a kind of lower social class. Native-born workmen, many of them belonging to the skilled groups and organized

[10] Mrs Mary Simkhovitch (Greenwich House Settlement), "The City Worker's World in America," as quoted in T D Eliot, *American Standards and Planes of Living*, 1931, p 148.

into craft unions, tended to be pushed up, as it were, into the middle class with comparatively high wages Many of them were moving out into the new suburbia, into two story homes. As in most periods of rising prices, employment opportunities were on the whole good and to some extent offset the effect of the price rise; businessmen were making high profits, and the wealthy were lavishly displaying their material possessions. Economists like Professor N. Patten,[11] now took the position that improved conditions for some groups in the community were not necessarily at the expense of others. That is to say, it was possible, with proper use of resources, to raise the general level of consumption, so that the minimum could be established at an "adequate" level without bringing down the consumption level of other classes Under the dynamic conditions of American development, we were passing from a "deficit" to a "surplus" economy A new optimism began to supersede the Malthusian pessimism of an earlier period Patten wrote:

There is a crisis in American home life It should be noted, however, that the crisis is the result of a perfectly normal tendency for the standard of living in a rich, dynamic nation to advance with rapid strides This American standard of living is the marvel of the world During the past twenty years there has been an enormous increase in wealth throughout the country, and in the number of families with an income of more than $5000 a year Among the groups of organized labor the rise in the standard of living has been hardly less marked Many today living in the modern two story house, with its porch and sanitary plumbing, enamel bath tub, running hot and cold water, and steam heat, are enjoying luxuries denied to kings in the Middle Ages Perhaps in no field has there been so much progress in the last fifty years as in that of food supply Hand in hand with an increase in quantity has gone an increase in variety All these have changed the laborer's table from the monotony of stewed meat and bread to one with a well balanced variety The introduction of the sewing machine and other labor saving devices has also liberated much of the housewife's time, and enabled the average man to dress and care for his family in a style before impossible Ready-made clothing, including shoes and hats, enables all classes in this country to dress in a style approximating a uniformity unknown elsewhere or before.

The evidence of our material well being is no less apparent when we consider the vast sums of money that Americans spend on education Today the child in the poorest districts of our large cities has provided for him free educational opportunities with which the old type private school of the well to do classes could not compare. . . . Another evidence of our general prosperity is the amount that Americans spend on amusements Theaters, pleasure parks, nickelet shows,

[11] See *The New Basis of Civilization*, 1910

day excursions, Coney Islands, and Atlantic Cities all bear testimony to the general surplus that is available for such purposes, not to mention the vast sum of money that changes hands each year in Christmas purchases or the enormous expenditure of Americans for travel and culture The inevitable result of this increased demand for commodities of all kinds is for prices to rise.[12]

He attributed the price rise to many factors one of the more important of which, in his opinion, was inadequate capital due, to a large extent, to the new rate of expenditure on consumption goods by families with incomes of $5000, while the group below strained themselves to keep up with this pace —a tendency which Thorstein Veblen had, a decade earlier, criticized in his satirical *Theory of the Leisure Class* (1899). "This constant pressure to keep up appearances, along with a decay of the moral instruction emphasizing the benefits of frugality and saving, has taken from industry the people who formerly were the great source of its capital. Because the day laborer still saves, as is evidenced by the size of his savings-bank account, we assume that all classes above him are likewise saving, when, as a matter of fact, the class above him is no longer saving The new standard of living has cut down on the amount of saving as it has likewise cut down on the number of children per family."[13]

Using illustrative material collected in Philadelphia, Patten maintained that the population could be divided roughly into four classes·

1. The marginal laborers were made up mainly of recent immigrants whose condition had altered little in the past 25 years, except in so far as they had been benefited by municipal improvements
2. The organized laborers whose family incomes ran from $800 to $1200 and who, he believed, had gained immensely comprised the second group. Formerly they were housed in the congested parts of the city but now many were in the outskirts where acres of new two story houses had been built. They were now enjoying better housing, food, clothing, and schools, with other comforts of a growing civilization
3. The salaried class and small proprietors, whose incomes ranged from $1000 to $3000, were in a markedly different position from this former group, suffering both from the rapid rise in the cost of living, and also in many cases from an actual decrease in income Years before they had lived comfortably in the rows of three story houses which now, in large part, had been converted into boarding or apartment houses, and the previous occupants were in many cases reduced to living in a single room of their former homes. Part of the sav-

[12] As adapted by T D Eliot, *op cit*, p 253.
[13] See Eliot, *op cit*, pp 369–370.

ings of this group, instead of being invested in business, was going into life insurance

4 The fourth group comprised the energetic, dominating businessmen, but of their living conditions he has little to say

One factor affecting the family position at different levels of income and contributing to the price rise was, according to Patten, the new status of women Many of the goods formerly made at home—clothes, bread, preserves, and so on—had now to be bought with the money income. "The wife," he says, "no longer contributes to the family income by creating values and with the increased standard of elaborate dressing she is often its chief burden. . . " This attitude met with much criticism, particularly from those who felt that releasing the woman from heavy physical work in the home made it possible for her to take more intelligent care of the family, an important factor in living standards, and also exercise more influence on the direction of public policy which determines to a considerable extent the way in which our economic resources are used It also ignored, of course, the important productive role that still had to be carried on in the home in selecting goods at the market and processing and caring for them in the course of preparation for final use However, the trend toward increased commercial production of consumption goods which was associated with industrialization and urbanization—both of goods that were formerly produced in the home and the vast array of new goods coming on the market —was undoubtedly a factor in the upward trend of prices

He did not think that raising the wages of the lower income classes would contribute much to the accumulation of capital through savings, since it would tend to bring them into a group which was setting itself a high standard of expenditure "It is a new thought," he admits, 'that the higher standard of living has checked saving, and yet the basis for this belief is as well grounded as that the higher standard of living has led to race suicide"[14] He had various suggestions to aid in the accumulation of capital, but we need not consider them now. Patten's views, it should be pointed out, were regarded as unorthodox in his day, but they serve to highlight some important aspects of consumption trends, with which we are concerned here

In advancing his general views with regard to the question whether the economy could really support a higher level of consumption for all or whether an advance by one group could only be at the expense of others, Patten opened up the whole question of what factors determine total output. He took an optimistic view, largely because of his belief in the possibili-

[14] *Ibid*, p 373

ties opened up by developing science and new techniques. The change-over from a "deficit" or "pain" economy to a "surplus" or "pleasure" economy was the basic factor in the modern age, and would bring about far-reaching improvements in living conditions even for the low-income group, which in turn would create more energy to produce more goods.

Another approach to consumption problems in this period is that suggested by Professor Wesley Mitchell's article, "The Backward Art of Spending Money" (1912).[15] Here he emphasized that it is not only the relation between wages and prices that determines the actual standard of living for city workers. Another important factor is the efficiency with which wages are converted into goods and services. "Ignorance of qualities, uncertainty of taste, lack of accounting, carelessness about prices—faults which would ruin a merchant—prevail in our housekeeping. Many of us scarcely know what becomes of our money, though well-schooled citizens of a money economy ought to plan for their outgoes no less carefully than for their incomes."

He pointed out that most of the spending, involving a great variety of goods and services, was done by the housewife who had little, if any, training for so important a job, and little time to learn because of the numerous unspecialized activities involved in home-making. This was the period when Ellen Richards was just beginning to develop her program for home economics training in the schools and other educational institutions, and to promote interest in the American Home Economics Association, established a few years earlier.

In looking back over these various investigations and discussions, theoretical and practical, concerning the level of consumption and other aspects of the standard of living of various groups, before the First World War, it is rather surprising to think how little change has taken place in our techniques of analysis and criteria of evaluation since that time. The "consumer problems" with which we wrestle today were all identified and to a considerable extent explored, in the setting of the times, during this earlier period. Even the international aspect of "cost-of-living" problems was recognized, and proposals were made for an International Commission on the cost of living, in view of the world-wide character of the trend toward rising prices.[16] Why is the consumer point of view not better articulated and more widely accepted than it is today?

[15] See *American Economic Review*, June 1912, pp. 269–281.
[16] See Professor Irving Fisher, *American Economic Review*, 1912, p. 531.

SUMMARY

We have been following through a long secular trend. The nineteenth century was not without its crises and readjustments, its periods of falling prices and of rising prices, the inflation of the Civil War and the deflation of the early nineties, but in the long retrospect it was a period of rapid expansion of population, of area, and of natural resources. We were becoming industrialized and urbanized. The family size was decreasing, an important factor in the improvement of per capita consumption, and at the same time the expectation of life was increasing. Government at all levels was taking a more active part in improving living conditions, particularly of the low-income classes.

From the First World War on, there have been a series of "crises" affecting living conditions which we can observe at closer range. There were the crisis of the First World War and the postwar period, the "boom and bust" of the twenties and thirties, the crisis of the Second World War and the period of postwar adjustment in which we now find ourselves. What changes in consumption patterns and in attitudes toward them do we get in war and depression, in the sharp up and down swings of the business cycle?

Chapter III

THE EFFECT OF CRISIS

THE FIRST WORLD WAR

We frequently forget, looking back on an event, that we have information about it not available at the time. A vast amount of research work was done in connection with the period covered by the First World War during the 20 years following it but, at the time, policies were developed and actions were taken in a crisis atmosphere.

The economy was not involved in war production to anything like the extent it was during the Second World War, but the lessons this experience afforded were carefully studied by a group of economists and others who played a significant role in the development of policies during the latter period; the same kind of issues that confronted us recently were present and identified during the First World War.

Although the war in Europe began in the late summer of 1914, the United States did not become directly involved in it until April 1917. During the intervening period, however, the war had a developing influence on our economy, first because of the large contracts placed here by Great Britain and her allies, and later because of our own belated defense program. Prices began a sharp upward trend late in 1915. After our entrance into the war its impact on our economy was, of course, more direct and impelling and the price rise, with a brief interruption, continued after the armistice (November 1918) until a peak was reached in 1920,[1] the average retail price at that time being more than double what it was at the beginning of the war; this was followed by a downward slide until early 1922, but even then average prices were still well above prewar levels.

Price Trends

As prices rose, there was a great outcry for increased wages and for some control of prices, and certain controls were instituted when we entered the

[1] See T.N.E.C. Hearings, *War and Prices*, Part 21, 1939, pp. 11021 ff.

war, but the government was chary of such action, being of the opinion that the way to increase production was to let prices rise without interference —an opinion which was later shown to be fallacious.[2] The rate of price increase differed for different commodities and different groups of commodities; food prices tended to move up with, but somewhat above, the average, until mid-1920; during the following recession they fell below the

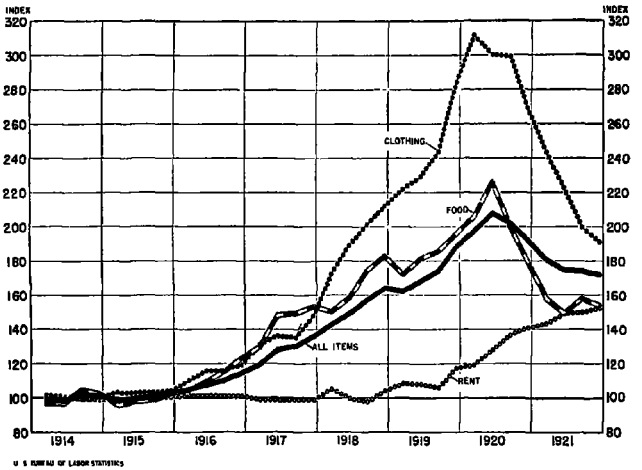


FIG. 1. Cost of Living, 1914–1921. (1914 = 100) (From T.N.E.C., *Hearings*, Part 21, p. 11036.)

average. Textile prices had more than trebled by early 1920 and remained above the average even during the break of 1920–1922; hides and leather went almost as high; building materials lagged below the general average until the spring of 1919 and then soared, and though they fell in 1922, they remained at a much higher level than the general index; rents like building materials stayed fairly stable until the postwar period and then climbed.

However, proper weights should be given to the various items to determine their real significance for consumers. For instance, clothing prices trebled, but since, on the average, clothing expenditures constitute only about 10 to 15 percent of total family expenditures, this was not such a burden as a similar rise in food prices would have been, since food expenditures con-

[2] *Ibid.*, p. 11331.

stitute from about 30 to 40 percent of total expenditures. But for low income families, whose inventories are small, such an unprecedented rise in clothing costs may very well entail a complete change in the percentage distribution of expenditures, money being taken out of the limited food budget, for instance, to pay for clothing—the food budget is usually the one most subject to raid under these circumstances, rent being less flexible, and miscellaneous items already too small to allow for much leeway. Rents acted as a stabilizing factor during the war itself, since they constitute about 20 percent of total family expenditures. This differential rise in prices was itself a factor in changing consumption patterns.

Moreover, as prices soared, due mainly to an increase in volume of money in circulation, there was a shift in the relative economic position of different families and income groups.[8] For some, income increased even more rapidly than prices, particularly in the case of businessmen and farmers; for others, as for instance certain classes of wage earners, income increased but less rapidly than prices, so they suffered some loss in purchasing power; for others, income was more or less stationary. The overall supply of goods and services available for civilian consumption was apparently not decreased to any considerable extent, but on the one hand there was luxury spending and on the other, hardship and discontent.

Cost-of-Living Surveys

As a result of this inflationary pressure, there was a great demand on the part of organized workers for an increase in wages. The government, anxious to minimize interruptions of work, set up the National War Labor Board to focus government policy with respect to labor relations. There was a rather general feeling that wages should go up with the cost of living—an argument which employers used in reverse in 1921. The problem, therefore, as it presented itself at the time, was to determine the extent to which prices, weighted according to the customary pattern of expenditures, had risen; and the focus of interest in standard-of-living questions shifted for a time from "poverty" and "adequacy" to the more immediate and practical subject of statistical measurement—indeed, in many minds, "standard of living" became identical with "cost of living."

One of the difficulties in the way of wage-price adjustment was that the retail-price index was still only in process of development. During World

[8] See special issue of *Annals*, May-June 1920, devoted to a study of war and postwar prices.

War II, as we have pointed out, there was much controversy over the significance and reliability of the index, but in the First World War the emphasis was rather on the necessity for its development. To build such an index, it was necessary not only to get a historical list of retail prices (most price material except that for staple food items being of wholesale prices), but also to prepare weights for those prices according to the customary distribution of family expenditures. The prewar studies of actual expenditures by Chapin and others were available, and during the war there were a number of rapid and limited surveys, followed in 1918–1919 by an elaborate investigation conducted by the U. S. Bureau of Labor Statistics into (a) current expenditures of workingmen's families, and (b) retail prices not only of staple food items but of most foods and other expenditure groups as well.[4]

For the survey into expenditures, schedules were obtained from 12,837 families in all sections of the country, by agents who visited the homes. Instructions to the agents were to secure schedules from wage or low-salaried families with at least a husband, wife, and one dependent child; 75 percent or more of the income was to come from the principal earner; there were to be no boarders and not over three lodgers, and no subrental other than furnished rooms for lodgers; families dependent on any charity were to be excluded and also non-English-speaking families who were here less than five years. In the actual field work, emphasis was put on selecting families of about five persons, so that the final result of 4.9 persons per family appears to be the result of this selection, rather than the actual average in these general income groups, which seems to have been fewer than four persons.

For those interested in getting a picture of the general consumption level of the time, it has to be kept in mind that this survey was designed with a view mainly to developing the cost-of-living index. No account was taken of other factors, for instance, public services of various kinds, or even the extent of home production, or efficiency of family management, and so on. In analyzing some of the results of the study, Dr. Royal Meeker compared percentage expenditures on the major consumption items as shown in the 1903 report and the present study:[5]

[4] *Annals*, January 1919, pp. 110 ff.

[5] *Monthly Labor Review*, July 1920.

A comparative summary of the percentage distribution of expenditures by families at different income levels as revealed by the official surveys of 1891, 1903, and 1918–1919 was prepared in 1933 by Professor R. Lynd for his chapter, "People as Consumers," in *Recent Social Trends*, Vol. II, p. 892.

	1901 11,156 Families	1918–1919 12,096 Families
Food	43.13	38.2
Clothing	12.95	16.6
Rent	18.12	13.4
Fuel	4.57	5.3
Light	1.12	
Furniture	. . .	5.1
Miscellaneous	20.11	21.3
Total	100.00	100.0
Total average expenditure	$617.80	$1434.36

As to whether the decreased proportion spent on food should be taken as indicating an improvement in consumption levels between the two periods, Dr. Meeker was skeptical. He was inclined to attribute it rather to the increased cost of clothing during the war, the war loan campaign, and so on. He indicated that a nutritional analysis of the 1918–1919 food schedules made in a number of Eastern cities revealed that in none of them did the average food value and calorie total reach "the health and decency budget level," though it is not clear on what normative standard this was based.

While the B.L.S. was still engaged in the job of perfecting the cost-of-living (consumer-price) index as a social measuring rod, it became involved in the developing discussion not only of whether wages should rise with the cost of living, but whether the actual content of consumption was adequate for a decent standard of living. It was a further development of the "minimum livelihood–minimum wage" philosophy. The National War Labor Board accepted the principle that "workers are entitled to a standard which will ensure the subsistence of the worker and his family in health and reasonable comfort." However, the emphasis now was less on ethics and more on efficiency. What are the minimum conditions for maximum efficiency?

The 1918–1919 Normative Budget

There was enough knowledge of nutrition to indicate that efficiency was certainly related to food consumption, and it was known also to be related to health conditions and housing, but there was no mathematically established relationship that could be translated into wage scales. Other factors,

such as fatigue, hours of work, working conditions, were also coming under the scrutiny of efficiency engineers. It might be mentioned here in passing that another aspect of the efficiency drive was the support given the movement for prohibition, which involved a direct control of consumption habits.

In December 1919, the B.L.S. prepared a normative standard budget for a family of five (three children under 14), in Washington, D. C., at a level of "health and decency"—it was also called an "efficiency" budget.[6] This was prepared primarily for a Congressional Commission on Reclassification with respect to government employees of the laboring (not clerical) group. "What a family group requires in order to live in simple comfort under American conditions is in process of definition at the present time," it was announced when the budget was in preparation. This was something different from the "poverty-line" concept, discussed in Chapter II as the point below which charitable relief can properly be given.

The budget was defended as being moderate in content. It would provide for the family nourishing food in adequate amounts (3500 calories purchased, to represent approximately 3000 to 3200 calories actually consumed per adult male equivalent). The actual quantity of foods included in the minimum budget was "obtained by averaging the actual amounts of foods used by 280 families selected from the 1918–1919 survey because they averaged in size approximately 3.35 equivalent adult males, and in the neighborhood of 3500 calories of food purchased per man per day, and were able to give in detail the amount of each article of food purchased." The averages taken from these schedules were then examined by dietitians from the standpoint of health, and modified somewhat to conform to nutrition standards. The standard annual quantity of food for the selected family was written out in great detail—it provided, for instance, for 75 lbs. of fresh beef steak, 63 lbs. of roast, 47 lbs. of stew meat, 30 lbs. of fresh pork, and so on.

The clothing standard was also written out in great detail, based on the following requirements:

> The level of health and decency in clothing has been interpreted as a level which not only takes into account the physical needs of warmth, cleanliness and comfort, but also has such regard for appearance and style as will permit the family members to appear in public, and within their necessarily rather narrow social circle, with neatness and self-respect. In other words the clothing standards of the family are intended to provide a fair degree of that mental satisfaction which follows being reasonably well-dressed. But, while admitting the desirability of a more generous wardrobe, an effort has been made to allow those quantities

[6] *Monthly Labor Review*, December 1919.

of clothing consistent with the *minimum* requirement for health and decency, and, where a doubt has existed, to err on the side of conservatism.

The items of clothing and quantities (listed as annual replacements, not the number possessed at any one time), were based on detailed clothing schedules from 850 of the families cooperating in the 1918–1919 survey, modified "as the result of a large number of interviews with families in Washington, and criticisms and suggestions from clothing experts all over the country." It was emphasized that the clothing budget made little provision for style. "No allowance has been made for an afternoon dress of silk, a silk petticoat or silk stockings. Although these articles are doubtless desirable, a wool dress, a suit skirt with a dress waist, a Venetian cloth or sateen petticoat, and lisle or cotton stockings will supply all that is absolutely essential for health and decency."

In drawing up a normative standard for housing for industrial centers, the B.L.S. took the position that a "housing standard based upon health requirements must consider primarily air space, ventilation, lighting, sanitation, privacy, and proper separation of the sexes . . . the standard health-and-decency budget must provide at the very least as many rooms per person as the average family were found to occupy. A housing standard of one room per person, exclusive of bath, has therefore been adopted as the minimum requirement consistent with health and decency." Requirements were written out as to light and heat, sanitation and drainage. Of the families included in the 1918–1919 survey in 20 cities, over four-fifths of those in flats and apartments and over three-fifths of those in individual houses had inside water closets; over one-half of the families in both multiple dwellings and individual houses also had baths. The B.L.S. included a complete bathroom with toilet for each family as an essential minimum requirement in a health and decency budget; that is, the minimum was put at a level higher than that obtained by many families covered in the survey, who were for the most part in the semiskilled or skilled classes.

The B.L.S. also worked out a list of furniture, furnishings, and utensils necessary to equip a five-room home (assuming that all major items were bought at marriage and all that was necessary was to provide for the annual upkeep). Provision was made also for a wide range of miscellaneous items including medical care (based, for lack of other data, on the average expenditure for health of large numbers of families investigated), and life insurance ("it would certainly be inadvisable at this time to advocate a policy of less than $7500 for the head of the family"). Some provision was made for

amusement: "even though the more expensive forms of amusement and recreation, such as summer vacations, are eliminated, some expenditures for this item are absolutely necessary if a family is not to lead a completely isolated life; one daily newspaper should be provided for the workingman's family, and at least one good magazine is indispensable for a proper standard of living." Some expenditures for organizations such as the church and labor unions, "must be regarded as essential to normal living," and a few other items such as stationery, postage, tobacco, etc.

In commenting on this normative budget written out in quantities for the various groups of consumption items, Professor William F. Ogburn, who had been appointed Director of the Cost of Living Department of the National War Labor Board, emphasized the importance of this pioneer effort to express a budget for a "basic efficiency wage" in terms of quantities rather than only in expenditures by expenditure groups, since it could be adapted to any part of the country and priced according to prevailing prices at any time.[7] The normative content of living as elaborated by the B.L.S. for a minimum "health and decency" or "efficiency" level (these two phrases seem to have been used synonymously), did not, it has to be kept in mind, take into account public services—schools, libraries, health clinics, and so on.

The items on the budget having been listed, were then priced at 1919 Washington prices, with the result shown here.

Food		$ 773.93
Clothing		513.72
Husband	$121.16	
Wife	166.46	
Boy 11	96.60	
Girl 5	82.50	
Boy 2	47.00	
Housing, fuel, and light		428.00
Miscellaneous		546.82
Total budget at market prices		$2262.47

It was suggested that with extreme thrift this total might be reduced to $2015.56.

When the items were totaled, everyone was staggered. The prices were, of course, near the peak level, but granted that, the total as a *minimum* was so far above the existing *average* wage, it seemed beyond the capacity of the country to provide the goods and services reflected in these figures as a minimum standard.

[7] *Annals*, January 1919.

In the previous year it was estimated that nearly seven out of every eight wage earners were getting less than $2000, the average wage being $1078, but this included all workers whether they had families or not.

Except with respect to food, and to some extent housing, there were few "scientific criteria" by which to evaluate the budget, but as a matter of fact, practically no one objected to the quantities prescribed, item by item—it was little enough to live on, particularly when viewed as the proposed basis for a legal minimum wage, but the total seemed fantastic.

This issue focused attention on an aspect of the whole question of the standard of living which so far had been given little thought—can we produce enough to provide such a minimum and if so under what conditions? It would avail little to pay higher cash wages if prices were to rise as a result, which would happen unless the additional goods necessary to meet the standard were forthcoming.

The same issue also came to the fore about the same time in Australia as the result of an official recommendation by a royal commission with respect to a proposed minimum standard, which, when translated into figures, was considered by many as beyond the ability of the country to provide. This Australian Commission had in mind, in making its recommendation, a "reasonable standard" for a man, wife, and three children under 14 years of age. However, a few days after presenting the Commission's report, the chairman, A. B. Piddington (later Mr. Justice Piddington), informed the Australian Government that "if the whole of the additional labor cost resulting from the adoption of such a wage were to be passed on to the community (by the employers) the increase in prices would altogether outstrip the purchasing power of employees. . . ."

He then drew attention to a central fallacy in the recommendation. It was assumed that the average family to be supported through the "basic" or minimum wage consisted of five persons, a man, wife, and three children, but as a matter of fact the actual average family dependent on this wage was only a man, two-thirds of a wife, and one child. The price of the actual quantity budget as worked out for each member of the family, if applied to the actual average, instead of the hypothetical average, was not far from the actual current basic wage being paid. Since the average never applies to any particular family, penalizes the large ones and subsidizes the small ones, he finally proposed that the basic wage be left at about its present level and a family endowment system be established to provide children's allowances to ensure to the actual children, not the hypothetical ones, the standard worked out.

This proposal for a family endowment scheme as a part of a minimum-wage system was strongly advocated in the United States by Professor Paul Douglas[8] as the proper way out of the impasse that seemed to have been created by the B.L.S. recommendations, which would in effect "make provision for 48,000,000 fictitious children." "Advocates of the living-wage doctrine, a principle which the author believes to be ethically and economically sound, do their cause a great disservice by tying it up with so fallacious a measuring stick," Douglas declared. However, this solution did not appeal to the American public and the postwar "return to normalcy" led to a shelving of the whole question of a general minimum wage on a "health and decency" or "efficiency" basis.[9]

Another wage issue that emerged sharply during the crisis conditions of war, had to do not so much with a minimum of health and decency, but with "distributive justice," that is to say, with the way output is and should be divided.

PROFIT-PRICE RELATIONSHIP. There was an increasing demand from labor for a reexamination of the whole wage structure, partly as a reaction to the allegedly vast profits being made by businessmen, and the assured high level income for farmers. Profits were much in the public mind during the war years, and various attempts were made to trace their course and estimate the profit-price relationship as well as the wage-price relationship. But it proved very difficult to get the necessary source material for an index of profits, due in part to lack of uniformity in methods of accounting and dealing with reserves, though the income-tax law was leading to an improvement in this regard. From the data available,[10] the iron and steel industry showed a very large increase in the rate of profit during the war, as did the metal industries, and the motor and leather groups. In some industrial groups there were wide variations, but in most cases there were considerable increases exceeding the rise in prices. An excess profits tax was imposed, October 1917.

It must be recognized that an increase in the rate of profits is an almost inevitable result of an extreme inflationary movement, quite apart from any attempt at "profiteering." The unions took the position that part of this excess should be added to their wages, in addition to "cost-of-living" bonuses. With respect to this argument, Dr. Basil M. Manly, former Joint-Chairman of the National War Labor Board, declared: "When engineers,

[8] Paul H. Douglas, *Wages and the Family*, 1925.

[9] See E. B. Woods, "Wages and the Cost of Living," *Annals*, May 1920, p. 135.

[10] See *Annals*, May 1920, p. 152.

machinists, and other highly skilled workmen began to buy Fords, a large section of society at once set up a cry that economic justice had been outraged and a reduction of wages was in order. But society does not seem at all outraged by the great increase during the war of families who maintain half a dozen homes with a retinue of servants and a fleet of motor cars at each home. Our government investigations would be more effective if we were sometimes to leave the homes of the workers and go into the homes of the rich. . . . The budgets of the rich would tell us where to get the money to meet the deficits in certain classes of wage and salary earners' budgets and to provide for a hundred pressing public needs. . . ."[11]

He summarized profit figures of 249 industrial and mining companies presented to the President's Coal Commission by the coal operators in support of their contention that their profits were no more excessive than those of other producers.

Profits of 249 Leading American Corporations

	Amount	Percent on Capital Stock
1914	$ 368,000,000	7.2
1915	663,000,000	12.3
1916	1,420,000,000	24.2
1917	1,337,000,000	21.9
1918	927,000,000	16.1

Dr. Manly explained that in the case of nearly all corporations the amount shown in the table represented the net amount available for dividends after the payment of interest and provision for all taxes, including income and excess profits taxes. In some cases no provision was made for taxes but this was more than offset by the inclusion of excessive reserves for depreciation, taxes, and other items by the majority of corporations. The apparent great drop in volume of profits in 1918 was due to the fact that the figures for that year covered only 182 corporations, as the reports for 67 were not available.

Profits not only kept pace with the cost of living during the war period, but also "doubled and trebled its increase." However, nothing much came of the workers' demand for a share in wartime "prosperity," as distinct from cost-of-living increases.

[11] *Ibid.*, p. 157.

THE REAL-WAGE LEVEL

This brings us to the question of what happened to the real purchasing power of wages during the war. The data available indicate that the decline in average real wages, in terms of hourly *wage rates,* which it was estimated had taken place during the period of rising prices from 1900 to 1914, continued after the outbreak of war, and particularly during 1917–1918; by 1920 they had probably returned to their 1914 level, if not somewhat above it. It is important here to differentiate between *wage rates* and *earnings,* which are determined by rates multiplied by hours worked. This was a period of full employment but, as distinct from World War II, there seems to have been a decline in the average length of the working week, though there was overtime in some industries. In the period 1918–1919, the general observance of the Saturday half-holiday reduced a 48-hour week to 44 hours. Shortening of the working week, it was said, operated to discount the increase in the actual weekly earnings in some occupations by as much as 15 percent. However, the situation with respect to hours was uneven—for instance, the steel strike of 1919 resulted in part from refusal of the companies to cut down the 12-hour day.

With respect to real wages, we have to keep in mind that the war affected the income of different groups of wage earners differently, according to their particular circumstances. One of the spectacular wage increases was that for domestic servants, without any organization or legislative support behind them. A considerable amount of data prepared for the Temporary National Economic Committee in 1939–1941, on the effects of the First World War and its aftermath on different aspects of the economy, related to the wage-price question. Dr. I. Lubin, U. S. Commissioner of Labor Statistics, submitted a series of charts[12] relating to price and wage movements with particular emphasis on the influence of such movements on the consumption level of different groups in the economy, or rather on the content of consumption obtained from commercial channels. The differential price changes for consumption items must also be taken into account here.

The accompanying graphs show the rise in (1) average *hourly* earnings of selected groups (unrelated to prices), and (2) *real annual* earnings of selected groups (i.e. earnings as related to prices). In emphasizing the importance of data on annual earnings, Dr. Lubin said: "It is after all what a man earns per year that determines how he can live . . . factory workers who, on the average, experienced a steady constant increase in

[12] T.N.E.C. Hearings, Part 21, pp. 11021 ff.

weekly wages, from 1915 to 1920, even at the height of their prosperity, when all these so-called silk shirts were being purchased, were only getting 21% more in real goods on the basis of actual weekly earnings, and 17% on the basis of annual earnings," and, as Dr. Lubin pointed out, some of this was due to overtime.

But this again is averaging, and the graphs are likely to be misleading unless it is understood that the starting point in wages or earnings for each industry was not the same for all industries. For instance, the textile indus-

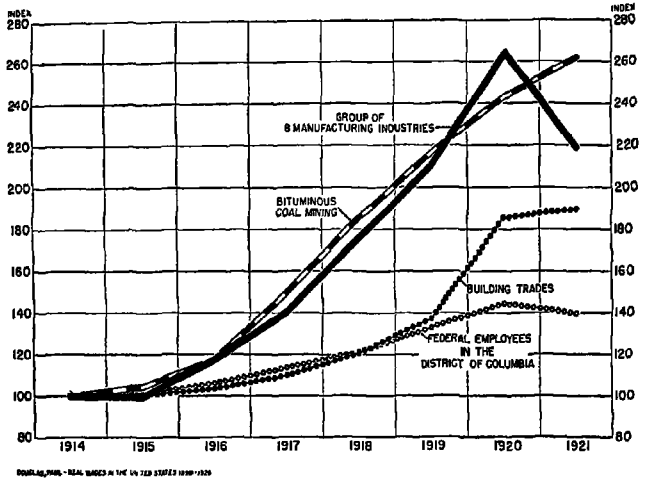


FIG. 2. Average Hourly Earnings, 1914–1921. (1914 = 100) (From T.N.E.C., *Hearings*, Part 21, p. 11038.)

try, which had the greatest percentage rise in wages, started off in 1914 as one of the poorest paid industries. Moreover, these are average figures for the textile industry and do not show the marked differential in wartime wage rates between those areas which were getting large war orders and in which labor shortages developed, and other areas. Before the First World War, Dr. Lubin testified, the difference in the wage rates between Northern and Southern plants was about 37 percent; at the end of war that differential was 60 percent—however, to get the real significance of this growing differential in wage rates in terms of the actual standard of living, we would have to find out whether there was a differential rise in cost of living between North and South (but we don't know). Dr. Lubin gave considerable

attention to the position of the "white-collar" workers under war conditions. He estimated that by 1920 the *real* wages of federal employees in the District of Columbia had fallen by 28 percent, despite the fact that there was a gradual increase in the cash weekly wage; teachers of the country as a whole suffered a decline of about 20 percent up to this period, and it was not until 1921, when the cost of living was coming down and their wages were at last going up, that they broke even and ended up, before the year was out, 6 percent better off, because such salaries, slow to move up, are also slow to

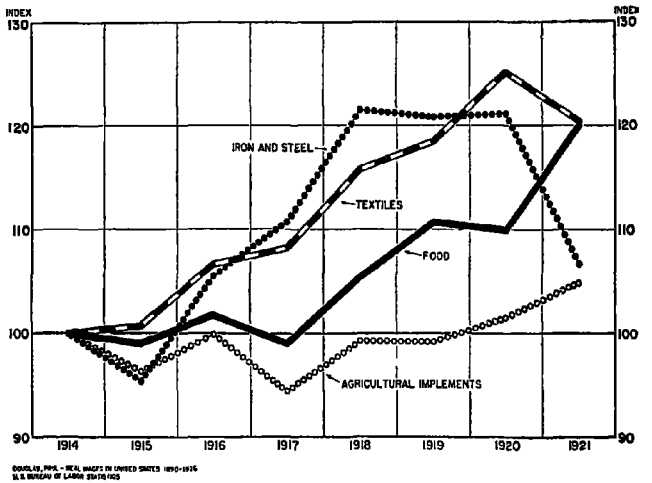


FIG. 3. Real Annual Earnings, Selected Manufacturing Industries, 1914–1921. (1914 = 100) (From T.N.E.C., *Hearings,* Part 21, p. 11048.)

move down again; with the railroad workers, on the other hand, the story was somewhat different since their cash weekly wages caught up with the cost of living, and by 1920 they were in a position to get 11 percent more goods than before, providing the goods were available but that is another matter. Dr. Lubin, of course, was looking back at the war years over an intervening period of boom and bust, with perspectives shifting.

The cost-income ratio for farmers during the war was favorable, but we have to keep in mind that on the farms, as in urban areas, family living conditions are dependent on a complex of factors. Much of the increase in farm income was converted into higher land values, so that those who bought land during and at the end of the war found themselves later on in

a distressed condition; but those who took advantage of the good returns to pay off old debts without contracting new ones were in a better condition to weather the disturbances that followed the war. We do not, however, have much assembled material on the impact of the First World War on farm living conditions; even the B.L.S. survey of family expenditures in 1918–1919 was confined to urban areas. Investigation comes in response to protest, not satisfaction.

Most of the data bearing on the impact of the First World War on living conditions is of the income-price variety. During World War II we talked more of supply. We became very conscious of shortages of particular goods and had the experience of extensive rationing of "essential" products. But during World War I, distribution of supply at the retail level was, speaking generally, on the basis that those who can pay get the goods. As a result, low- and even middle-income families must have resorted to substitutes as prices of particular commodities soared even above the general level, but of this we have only scrappy information.

To some extent the problem of adjusting food habits was eased by a certain amount of official publicity and demonstration on the use of unfamiliar foods. Moreover, there was some increase in community cooperation which is an important factor in the shifting of attitudes, so that the satisfactions derived from the use of goods do not always decline *pari passu* with a decline in the quality and quantity of these goods, for example, in the case of style goods and those whose chief function is display. However, the impact of the First World War was not sufficiently severe to bring about much change in attitudes, and those who had money seem to have had a fine time spending it, despite the liberty bond campaigns.

At the end of the war, the government and others, alarmed by the inflationary spurt, tried to "revive the ancient virtues of thrift and conservation." The Treasury urged savings; economists anticipated disaster and a volume of the *Annals*[13] was devoted to a laudatory study of thrift in all its aspects. But advice to save was not welcome, particularly to those who found themselves unable to get what they regarded as decent housing due to the interruption of home-building during the war, and the sudden demand arising from the return of the servicemen and the establishment of new families. The situation after the First World War was indeed so like a preview of what followed the Second World War, that it gives color to the belief of those who assert that history is "just a repetition of itself." It does raise the question of how far we are able or willing to profit from the

[13] January 1920.

experiences of the past. At any rate, consumer behavior during the inflationary periods of World Wars I and II would make an interesting study for an alert student.

One of the most marked changes in consumption at this period resulted from prohibition. Despite the garish stories of illicit night clubs, signs and countersigns, prohibition undoubtedly resulted in an enormous reduction in liquor consumption although there was a considerable increase in home brewing. There was some substitution of beverages of low alcoholic content, with a great impetus to the soft-drink industry, and the associated soda fountain which had an increasing influence on the consumption habits of the new generation.

We increased our productive power considerably during the war, and there were many who believed that after a short period of reconversion, we were to have a continuing and increasing prosperity. But in a decade we were in the midst of the worst depression in our history—not due to the ravages of nature, drought, flood, or other havoc, but to a breakdown in the organization which the community had built up for making a living. What went wrong? There are many opinions as to this, but that which seems to have most acceptance among economists is that we couldn't adjust ourselves to the conditions of prosperity.

The immediate aftermath of war was one of industrial disturbance, the peak of inflation being followed by a fall in prices (though the general price level remained above that of prewar), and a process of "readjustment." As a result of the downward trend in prices, employers became interested in "adjusting wages to the cost of living," and the National Industrial Conference Board, maintained by business interests, carried out a series of cost of living studies, related to the new price level; this of course did not take account of the increased productive capacity of the country.

The Early Consumer Movement

The general public seems to have become less conscious of its consumer interest, but a widening academic circle gave increasing thought not only to problems of measurement of existing levels of consumption, but to analysis of various aspects of the economy militating against its efficient functioning and the optimum use of resources. There was a renewed interest in the "theory of consumption," as shown by Hazel Kyrk's *Theory of Consumption* (1923). During and after the war the widespread incidence of waste in industry, revealed during the industrial mobilization, had received considerable attention from a committee of the Federated American Engi-

neering Societies, of which Herbert Hoover was president; when Hoover became U. S. Secretary of Commerce, a Division of Simplified Practice was set up in the U. S Department of Commerce to promote a drive on "lost motion and waste"

It had become clear that although technological developments were making it possible to improve the variety and quality of consumer goods, certainly desirable from the consumer point of view, at the same time these very developments were making it increasingly difficult for the consumer to make wise selections. These problems were pointed up by Stuart Chase in his book *The Tragedy of Waste* (1925), and even more in *Your Money's Worth* (1927), in which he collaborated with F. J Schlink, then Assistant Secretary of the Engineering Standards Committee The work of these men and their associates led to the establishment of Consumers' Research Incorporated, the first consumers' testing agency set up to test the quality of consumer goods, with the consumer interest in mind.

However, the twenties was not a period when such pioneers received any considerable popular support or even attention As prices were more or less stabilized, people became more excited about the amazing new products, or new developments in products, that were coming on the market—automobiles, radios, movies, and so on The rapid extension of the system of merchandise and cash credit made it possible for families in the middle- or even lower middle-income groups to buy these new products by providing a technique for pledging future income in payment. Credit does not increase spending power for a family over a period of time, but it enables them to purchase durable goods by diverting a fixed amount from their future income to payment on account Total consumer credit increased by some four billion dollars between 1920 and 1929, families with outstanding commitments were, of course, under a special burden when the depression came.

Meanwhile, an increasing proportion of the national income was being paid out in corporate profits—the percentage rising from 5.6 percent in 1920 to 8.6 percent in 1929, which was a factor in the increasing speculation on the security markets, and the lavish expenditures on luxury items which cast a glamour over the period. Underlying the feverish excitement, however, signs were accumulating that something was going wrong. There was a sudden spurt followed by a decline in the construction industry with vacancies developing while families were still overcrowded and badly housed. Inventories were piling up in the hands of manufacturers and distributors, at an average rate of almost $1 billion a year from 1921 to 1929 and from $2

to $3 billion for 1929.[14] Reports were published by the B.L.S. of increasing numbers of technologically unemployed. An unstable condition developed in foreign trade. We were not experienced in such sign reading, however, and were still proclaiming the approach of an era of endless prosperity when the foundations of decent living collapsed from under us.

THE CRISIS OF DEPRESSION

Before the extraordinary man-made catastrophe of the general depression struck us, however, the farmers, or rather certain groups of them, had been going through a decade of maladjustment. There had been a tremendous expansion of agriculture during the war, but in the postwar years, market demand fell off, particularly for those products on an export basis, such as wheat and cotton. Moreover, farmers who had bought land and equipment at inflationary prices now found themselves heavily burdened with fixed commitments after prices had moved back to lower levels. There was enough complaint to bring the "farm problem" to the fore again.

Farm Consumption Studies

The American Farm Bureau Federation, organized in 1919, was active in presenting the farmer's point of view at state capitals and in Washington, thus strengthening the existing farm lobby. A Bureau of Agricultural Economics (B.A.E.) was set up in the U. S Department of Agriculture in 1923, since it was now apparent that research into methods for increasing farm production had to be supplemented by research into markets for the output. This new interest also was manifest in the programs of the land grant (state agricultural) colleges There was, moreover, a growing concern among sociologists and others as to the fate of the "family farm" in a modern technological economy.

This led to a series of studies of farm living conditions. The first considerable study of consumption on the farms was made in 1922–1924 by the B.A.E. in cooperation with 12 colleges and universities, and the results were written up by E. L. Kirkpatrick of the U. S. Department of Agriculture.[15] This was a survey of the consuming habits of 2886 white farm families in areas selected "to represent average conditions, neither too light nor too dark," so it does not show wide diversity in living conditions within areas. Schedules were secured from 1950 owners, 867 tenants and 69 hired men or managers, the average size of a family being 4.4, and the average number

[14] See Mordecai Ezekial, "Recipe for Catastrophe," *Harper's*, June 1947
[15] *The Farmer's Standard of Living*, Bulletin No 1466

of persons per household 4.8. Investigators were confronted by the problem that always arises in connection with farm studies—the problem of giving a cash value to goods produced on the farm for home use, if a money measurement is to be given to the content of family living. This is true not only of foods but of shelter because the farm is a unit, and a place of production as well as a home.

Considerable attention was given to actual housing conditions; very few farm homes were found to be completely modern, that is, with central heating, lighting systems, running water, and indoor bath and toilet, as shown in the figures given here.

	Completely Modern	Partially Modern	Not Modern
New England	8.8	50.5	40.7
Southern	1.7	14.7	83.6
North Central	8.3	19.1	72.6

The lack of such facilities in the home does, of course, affect the comfort of family living, but these figures are not to be read with the same significance that similar conditions in the city areas would have.

An attempt was made to get quantitative figures of food consumed and the results were analyzed for nutritional value by the B.A.E., which came to the conclusion that even allowing for certain wastes, the average diet of the farm families surveyed (which were, it will be recalled, a "middle-class" group) provided an abundance of most of the nutrients required.

The ways of living of farm families in different areas vary greatly with the type of farming and its demands on the time of the family—"the continual round of duties of the dairy farmer, the seasonal rush of the one-crop areas, the close living in irrigated and trucking areas, the wide distances between cattle and sheep ranches. . . ." There are, of course, many satisfactions in farm life different from those of city life, and perhaps vice versa, which one would have to take into account in considering the satisfactional aspect of the standard of living. For instance, in this study, and even more so in studies made somewhat later in Minnesota and Wisconsin, investment in land is shown to be a great urge among some farming groups, and they prefer in many instances to put much of their income into land rather than into current living, with the result that in some areas the investigator finds "a relatively large accumulation of property with a relatively inexpensive scale of living." It has been suggested that this may be

due in part to the marked irregularity of farm income from year to year "which tends to keep the actual standard of living depressed to the level of the lean years."

Various studies were also made during the twenties of consumption levels among comparatively well-to-do farmers in the dairy regions, of the people in rural slums in the Appalachian and Ozark Mountains, and of the special conditions of Negro tenant farmers. Many, if not most, of these studies were organized under the leadership or with the encouragement of a group of rural sociologists and economists in the U. S. Department of Agriculture. Very little attention was given to the quality of public or community services which differed widely between areas, but on the whole were much poorer per capita in rural than in urban communities, particularly in the South. This was confirmed by subsequent studies of public health facilities and medical care. This was also true of education, though this factor was not brought out in the consumption studies of the twenties.

It has been pointed out that the farmers were loud in their demand for help during the mid-twenties, and these various studies were a result of their claim on public attention. However, this was but a prelude to the general economic collapse that began late in 1929 with a tumble in prices, although the seriousness of this development was not fully realized for two or three years.

Effect of Depression on Consumption Levels

What happens to the standard of living in all its aspects, when such a catastrophe strikes? What is the effect on attitudes and satisfactions as well as on the actual content of consumption? This was a crisis affecting all areas and groups in this country, and indeed throughout the world.

An economic depression is associated with a sudden fall in prices, unemployment, and a loss of profits. The fall in prices is not at the same rate for different commodities and groups of commodities, so there is another shift in price-relations. The price index for consumer goods during this period is illustrated by Table 3.

Varying estimates put the number of people unemployed in the United States by 1933 somewhere around 15 million. Millions of men and women, representing tremendous productive resources in labor power, within a brief period, find themselves unable to "make a living"; they get up in the morning and there is nowhere for them to go to work, unless they can get access to land and equipment for a garden. Unless they have savings or property that can be turned into cash or made the basis of credit, they cannot

even get food except through private or public relief. When they cannot buy, things get worse not only for themselves but for the economy as a whole. As a result of the increasing concentration of control in industry there is a tendency for businessmen, in considerable areas of the economy, to respond to the impact of depression by cutting industrial production rather than by cutting the prices of industrial products and, as a result, a larger share of the burden of depression is borne by wage earners than would otherwise be the case.

The impact of the depression took time to make itself fully felt. Workers in low-income groups who lost their jobs had few savings to fall back on, and since the unemployment insurance system had not yet been established, they had, perforce, soon to resort to outside help. Smaller businessmen and

TABLE 3. B.L.S. Cost-of-Living Index
(1913 = 100)

	All Items	Food	Clothing	Rent	Fuel and Light	House Furnishings	Miscellaneous
Dec. 1929	173.7	167.5	165.6	151.9	184.2	188.4	206.1
1930	163.6	145.9	158.1	146.7	182.2	178.4	206.3
1931	148.4	120.8	139.3	136.6	177.0	156.9	203.1
1932	133.5	102.6	124.7	118.3	166.9	137.5	197.1
1933	134.6	110.0	136.7	104.0	167.3	154.1	193.0
Nov. 1934	137.8	119.1	139.7	102.0	165.4	158.3	192.9

salaried and professional workers who had formerly had considerable incomes and now suddenly found themselves with none, had usually some resources to fall back on—savings, life insurance policies as the basis of loans, jewelry, and other property which could be sold or mortgaged, and so on, but of course these were temporary aids and, unless some change developed, would sooner or later be exhausted. Those with ingenuity and special capacities could sometimes open up new sources of income for their families or could increase home production to a point where it became a considerable factor in consumption. It now becomes clear that in an industrialized money-exchange economy, expenditures are the foundation of the actual standard of living.

Many other people were kept on their jobs part time or full time on lower pay, the fall in income sometimes being greater than that in prices. Others, particularly those in more or less protected positions, kept both their jobs and pay and were now the favored group, with their real purchasing power greatly increased. This shift in group relations is one of the significant factors in the standard-of-living picture in depression, as in war.

The accompanying figures, indicating roughly some of the changes in group relations resulting from shifts in income status, are taken from material prepared by Professor E Hoyt [16]

Purchasing Power (income adjusted to cost of living) of Different Classes of Income Receivers

	1929	1932
Salaries, selected industries	100 0	73 7
Wages, selected industries	100 0	49 5
Dividends	100 0	54 0
Interest	100 0	120 0
Rents and royalties	100 0	56 3
Enterpreneurial income	100 0	68 4

What happens to the consumption pattern of people in different income groups, as real purchasing power diminishes on a falling price level, with the future uncertain? Is the effect different from that which results from a decline of real purchasing power on a rising price level? Also, how do people spend as real purchasing power increases on a falling price level? What is the effect on expenditures of a differential fall in prices of different commodities? We do not know the answers to these questions

An additional factor in the situation was that the income of governments fell off sharply in the early years of the depression, and this led to curtailed public services, education, health, even relief, until the administration under President Roosevelt accepted the necessity of deficit spending, and gradually put into effect the principle first of the "right to eat," and then of the "right to work"

During a depression, a marked disparity is likely to develop between the acceptable standard of living, what a family has become accustomed to or feels is fit and proper for its members to have, and the actual content of living for those who are unemployed or on part time work, or who, for any other reason, suffer a loss in real income The effect will probably be different according to previous status Keeping up appearances, which usually involves an effort to maintain the customary housing standards, is likely to result in a raid on food or other items of consumption not so apparent to the neighbors or even to one's own family—regular visits to the dentist, for instance. The use value of the clothing inventory can usually

[16] *Consumption in Our Society*, 1938, p 175

be extended by extra time and care, except among the low-income groups where there is practically no inventory.

Professor Davis has pointed out, "Marked disparity between standard and content of living often has serious consequences—strains imposed by the severely shrunken content of living in the Great Depression of the 1930's are vivid in our recollections. It may well be that at its worst, people are generally better off in various essentials than in fairly prosperous times fifty years earlier. . . . Even so, the sharp contrast between what they had and what they urgently wanted and felt they had reason to expect was extremely hard to bear."[17] At the same time he recognizes "the substantial gains achieved by those whose real income increases, and who are able, therefore, to buy more or better food, semi durables, consumer-durables, and even housing" In depression, as in war, current standards are readjusted. For those who have to readjust downward, however, there may be no substitute during a depression for the ardent patriotism that makes wartime adjustment less of a psychological burden

On the other hand Professor Hoyt has said

> There is then a significant argument for the value of cycles in purchasing power from the consumers' point of view They keep consumers' choices moving, they give a stimulus to invention and new manufacture both in prosperity and depression though of somewhat different types in each, and they tend to bring about a more rapid survival of the fittest among consumers' wants. Against this must be balanced the lack of physical necessities and the loss of morale that many people especially the unemployed are forced to suffer in times of depression In our last business cycle, the bad side, in the judgment of the author outweighed the good . . nevertheless if we could keep cycles in purchasing power while safeguarding the physical welfare and the morale of all members of society in depression we should do well to keep them Consumers are not mainly logical beings On the whole they learn most rapidly not through reasoning, but through experience, and if change is not too great, it is the chief stimulus to experience. . . .[18]

It would be important to know what was the actual change in per capita consumption of different consumer goods during the worst years of the depression. What, for instance, was the effect on per capita consumption of food in terms of nutritional value? There was probably not much change in the quantity of food consumed, but a considerable amount of substitution of cheaper for more expensive items, a falling off in restaurant meals, and

[17] *American Economic Review*, March 1945.
[18] *Op. cit.*, p. 185.

so on. The position on the farms would be different from what it was in the villages, towns, and cities, but would vary by region and type of farming. Urban families with money to spend could buy more food because of the sharp drop in food prices, as well as most other prices. In many areas those on relief were first given food baskets, but in a number of instances cash relief was soon substituted for it. After the development of the so-called "food stamp plan," additional food was made available for relief recipients from "surplus" farm supplies. Food lunch programs also helped take care of some of the undernourished children. But there must have been hunger and malnutrition among many groups and families in the community. A 1935–1936 National Health Survey suggested this, but whether poor health was due to a continuous rather than a crisis condition is not clear.

What was the effect of depression on housing? Construction fell to a low point, after a short upspurt in the mid-twenties. However much people "needed" new housing according to whatever normative standard might be adopted, many were not in a position to pay for it. Unfortunately from the point of view of consumption standards, construction development expands in boom periods with high prices, which in later times become a burden round people's necks, particularly if they buy on a mortgage basis. One of the crisis aspects of the early days of the depression was the threatened foreclosure of mortgages on many urban and farm homes. On the other hand, families who were able to buy housing at depression prices often got "bargain" rates, particularly when compared with the peak levels of recent years.

When people are in danger of losing their homes, it is not just a question of shelter but of a center for family life, of emotions associated with the hopes and ambitions and savings that went into the original decision. When many people are affected in this way, there is danger of social disturbance, and this was the situation in the early thirties when foreclosures of mortgages added to the distress already created by evictions for non-payment of rent. Foreclosure for a farmer means not only loss of a home but of the means of production, and violence developed at foreclosure proceedings in some rural areas. In others, farmers got together to bid on a property being offered for mortgage sale at a nominal figure, leaving the creditors, in many cases life insurance and other finance agencies, without recourse; nevertheless many properties were taken over before the federal government came to the assistance of those in distress.

In urban areas, as foreclosure proceedings increased, the Roosevelt administration, to protect the small home owners, established an emergency agency, the Home Owners Loan Corporation, to make long-term, low-

interest loans to home owners to refund existing mortgages on a consolidated basis. The H.O.L C. now became a creditor to the extent of some $3 billion and was itself obliged to foreclose on about one-fifth of its loans

Government funds were also made available to pay rentals for relief recipients to protect them from eviction. During the depression housing deteriorated, families doubled up, but at the same time government at all levels came to accept the responsibility as part of an organized relief system to insure that families had some kind of a roof over their heads. Moreover, the principle of public subsidized housing for low-income people was adopted and provisions were made, during the depression and indeed as part of the recovery program, for the construction of low-rent projects in various parts of the country. Encouragement of housing construction, generally, through the Federal Housing Administration, was part of the program to stimulate employment.

One series of emergency measures taken by the federal government was for the protection of people's savings. Before the Roosevelt administration took office, bankruptcy was extending and, as the wave spread, some banks were closing and others were in danger of closing as public confidence waned. Loss of savings, or even threatened loss, is a demoralizing factor in any community. Early in 1933, the government took preventive action and then established a guarantee for savings deposits under certain conditions.

Another problem arose in connection with life insurance policies. The insurance companies themselves, on the whole, proved to be solvent, though various steps taken by the government to protect life insurance funds were important factors in the situation. Many individuals, however, were unable to maintain their policies and the rate of lapse and surrender of policies held by low-income groups was particularly alarming In studying consumption factors we perhaps give too little attention to the satisfactional aspect of savings by the low- and middle-income groups—a point which Chapin emphasized as a result of his studies.

Income and Expenditure Studies

Although there was no general study of the effect of depression on living standards, two government surveys were made in the mid-thirties which have a direct bearing on this question. This might be regarded as a post-depression period in the sense that the acute stages of the crisis were over, the responsibility of the government to preserve a certain minimum level of living was accepted, though millions of people were still either on relief or W.P.A. payrolls.

One survey was conducted by the W.P.A. in an attempt to establish a minimum standard for the purposes of determining wages to be paid on W.P.A. projects, or "work-relief." This survey compares in some respects, therefore, with the Chapin study referred to previously, and was normative in character. The second survey was an ambitious country-wide study by government agencies of the actual distribution of incomes and expenditures by representative families and individuals at various income levels as of 1935–1936.

W P A. BUDGETS. Let us consider first the W P.A. survey. The New Deal administration saw that its main problem was to get people back to work at their regular jobs and the N R A, which functioned flamboyantly from 1933 to 1935, was set up for that purpose. Meanwhile, however, government projects to provide work for the unemployed were hastily organized under the W P A.—projects of considerable range, and many of permanent value despite all the charges of "boondoggling" that were raised at the time. One of the problems that confronted the W P A. was to find a minimum basis of pay for those working on the projects, the unions being, in general, opposed to a rate below the going rate for the same kind of job, and employers being opposed to earnings equivalent to those obtained in private employment. As an aid to arriving at a decision with respect to both relief and work payments, the W.P A. prepared "quantity budgets" (that is, budgets based on itemized lists of consumption goods by quantity) for (a) a basic maintenance, and (b) an emergency standard for a family of four persons (which approximated the statistical average) living under urban conditions. The plan was to have these lists priced in different sections of the country, as a guide to fixing W P A. payments

The W.P.A. budgets, like those of the 1919 B L S survey, were for expenditures, not total consumption and should be thought of as "expenditure" rather than "consumption" budgets. The W P A approach to budget making, of a normative character, was "how little can people be expected to get along on in view of physiological needs and conventional pressures," whereas the B.L.S. had tried to set up a "health and decency" or "efficiency" standard or one that could be regarded as "fair and reasonable." However, as a matter of fact, the actual B.L S. list on a per capita basis (it was prepared, you remember, for a family of five), was not very different from the basic maintenance list of the W.P.A. (for a family of four), and, as Professor E. Hoyt has pointed out in analyzing the W.P.A. list,[19] it proved to be not very different from, but somewhat above, the actual average expenditures of

[19] *Ibid*, p. 321.

unskilled wage earners' families as shown by the 1935–1936 survey, discussed later.[20] The average annual cost of the W.P.A. basic list, priced in 1935, came to about $1261. The W.P.A. report asserted that this list did not, in its opinion, permit families to "enjoy the full fruits of what we have come to call the American Standard of Living."

The W.P.A. then proceeded to draw up an emergency budget by modifying the basic maintenance standard where cuts could be made for a limited period of time, with "least harm to individuals and the social group." This emergency or relief budget was to be regarded as a floor under the W.P.A. wage scale.

This emergency budget admittedly was a "direct concession to conditions produced by the depression, constructed in recognition of the fact that there are circumstances under which families can and do cut costs temporarily without great physical discomfort. Followed over a long period, the practices called for in the emergency budget may prove harmful to both health and morale." The emergency budget for food, for example, provided only for the "restricted diets" prepared by the Bureau of Home Economics to help people tide themselves over a difficult period. Moreover, no allowance was made on the list for unwise selection of food and waste of various kinds, which had to be expected, particularly when some change was called for in consumption habits, though it was suggested that some account should be taken of this factor when pricing the listed items.

With the clothing lists, fewer replacements were provided for (except for children) so on the whole the emergency standard would be shabbier. With respect to housing, families on the emergency standard (or "relief") might be expected to have the same minimum room space (a four- or five-room house or apartment with water and sewer connections), but in older and less convenient houses, perhaps without a tub or shower. An electric iron should be included but not a radio (which is included in the basic list), the living space might be warmed by coal or wood stoves in winter with gas as a supplementary fuel for cooking and light, and electricity for small household appliances.

Replacement of furnishings and household equipment (much of it five-and-ten-cent store material) placed at 10 percent of initial cost in the basic budget, was 6 percent in the emergency. Provision for medical care at the emergency level was put at 90 percent of the basic allowance, itself determined by "lifetime needs of 1000 persons prorated on an annual basis"—

[20] *Ibid.*, p. 322.

though, as a matter of fact, families on relief in some areas received free medical care. Perhaps the most marked difference between the basic and the emergency budget was in respect to costs allowed for recreation. "In the emergency budget recreation costs are necessarily reduced to a minimum, and free resources for the most part must supply these needs—the daily paper for instance should be read at the library and is not provided for in the individual budget; a movie, once a week under the basic budget becomes once a month under the emergency; 10 cents per person for tobacco, candy, gum, beverages etc. each week in the basic budget becomes each month in the emergency."

On the whole, it was estimated that the cost of the basic budget could in an emergency be cut by about 25 to 30 percent.

THE 1935–1936 INCOME-EXPENDITURE SURVEY. Meanwhile preparations were being made for the second survey—a sample study of consumer incomes (money incomes) and consumer purchases in 1935–36. In the previous year, a survey was undertaken by the Bureau of Labor Statistics into the distribution of expenditures of urban wage earners and clerical workers (on whose earnings more than one half of the non-relief families of the country depended for their main support). This survey was undertaken primarily as an aid in revising the B.L.S. cost-of-living index.

In 1935–1936, the larger project involving a survey of the distribution of incomes and expenditures for all income groups in the country was undertaken. This was a cooperative project among the Bureau of Labor Statistics (which collected the urban data), the Bureau of Home Economics (which collected the rural data), the National Resources Committee, and the Central Statistical Board. Data were obtained from some 300,000 families in all income groups, in all occupations and areas. The flow of national income was traced "to farms, villages, and cities, to different geographic regions, occupational groups, to families of different size, and, in the South and in Northern cities, to the white and negro population." Estimates based on these data, were finally presented for 29.4 million families (including nearly 91 percent of the total body of consumers) and about ten million single individuals living alone or as lodgers; inmates of institutions, etc. were excluded.[21]

Estimates of the distribution of incomes and expenditures by all income groups had been made at different times, by different agencies, notably by

[21] See National Resources Committee, *Consumer Incomes in the United States*, August 1938; also *Family Expenditures*.

the Brookings Institute in 1929, but such figures, derived from existing statistical data, were necessarily limited in character; the 1935–1936 study was based on sample questionnaires

The figure that seemed to cause most surprise to people, including market research specialists, was the high concentration of purchasing power in the upper-income groups. Taking family and individual units together as consumer units, for the country as a whole, more than two-thirds (69 percent) received less than $1500 per annum; this included a money estimate for goods produced on the farm for home use For the cities, taken separately, income figures were somewhat higher—in New York City, for instance, two-thirds of the consumer units had incomes below $2000 The "mass market" of which so much had been heard lost much of its assumed importance The highest 5 percent of the consumer units (families and single individuals) for the United States as a whole included those getting $3400 and over; and they received about 27 percent of the aggregate income, almost as much as was available to the lowest 60 percent of consumer units This seemed to support the position of those economists who argued that the main cause of the depression was the limited spending power of the mass of consumers compared to the productive capacity of the economy The distribution of purchasing power among the community obviously affects the content of the standard of living and raises again the point that was emphasized earlier—whose standard of living do we have under consideration when we speak of the "American standard"?

This 1935–1936 study also constitutes the most elaborate of our studies into consumer expenditures, not only for working class groups as in the 1918–1919 BLS study, but for practically all income groups in the community, and not only for urban areas, but for towns, villages and rural areas. It is probable that the sample was rough but nevertheless it gave the most general picture of the content of consumption as derived from family expenditures, available up to that time, though it related to what might be called a "post-depression" period No equally elaborate study has been made since that time.

Quantities were estimated as well as money expenditures for all major items of expenditure. It did not, however, include public services or services provided otherwise than through market channels except that estimates were made of the money value of food produced for home use and of owned homes. Nor do we get any data on the quality of health, the amount of leisure, or the managerial capacity in the home, all of which are part of or help determine the actual standard of living. However, so long as we keep

these limitations in mind, the 1935–1936 survey is an important aid in any standard-of-living study. Much of the material, moreover, proved of great practical value in the war emergency, as a guide in rationing programs. It was known, for example, from the survey, how many pairs of shoes, on the average, each member of the family in the different income groups was in the habit of buying.

An enterprising student could make quantity comparisons of different consumption items for "low income urban groups" between the 1918–1919 and the 1935–1936 study, if there is any significance in a comparison between conditions at the peak of a war period and on a post-depression rise. Comparative data on a quantity basis for staple foods for the same groups could be obtained, with reservations, from the 1901 survey also.

Unfortunately, production data for different consumption items have not been prepared, over considerable periods of time, in a form which would indicate per capita consumption trends (except perhaps for foods), although an increasing amount of work in this field was done during World War II; even when such production data are available they do not indicate the basis on which goods were actually divided among the various income groups. Hence the special value of the 1935–1936 survey.[22]

Summary reports prepared from the 1935–1936 questionnaires are presented in a series of bulletins by the B.L.S. (for urban units) and the B.H.E. (for rural units). The percentage distribution of money value of current family living (that is, expenditures plus money value assigned to such items as owned homes, or home-grown foods, etc.) by consumption groups as food, housing, etc., differ by income groups and major occupational groups and also by area—for instance, as between farm, rural non-farm, small-town, and metropolitan families, between the North and South, and so on. Distribution of expenditures among selected families (white families) in New York City in 1935–1936 is shown in Table 4.

Statistical averages such as result from large scale surveys of course cannot give a realistic picture of living conditions in any particular area or for any particular family—the sort of picture, for instance, that Le Play tried to give of his individual families. We do have a study about this time partly in the Le Play manner, but for a whole town, in the description of living conditions in "Middletown," a small city in Indiana, by Robert and Helen Lynd.

In 1924–1925, the Lynds, with a staff of investigators, made an intimate study of the interests and activities of the people of Middletown, and par-

[22] For a popular summary of the findings of this survey, see P.A.P. No. 18, *How We Spend Our Money.*

ticularly of the living conditions of selected families in the various income and social groups, making a cross section of the community as a whole. The study related to the total level or plane of living, though much attention was given to its material basis; emphasis was also given to the range of consumption levels existing on "both sides of the railroad tracks," and of attitudes towards them. That is to say, they were concerned not only with expenditures, but with the consumption process as a whole and the satisfactions derived from it. This was set in historical perspective, particularly from the year 1890.

TABLE 4. 1935–1936 Survey, New York City

Percentage Distribution of Money Value of Current Family Living, by Major Groups

Income Class	Average Total Money Value of Current Family Living	Food	Home Maintenance	Clothing and Personal Care	Transportation	Medical Care	Contributions and Personal Taxes	Other Items	Percentage of Money Income Saved
$ 500–$ 749	$ 1,085	42.7	38.6	7.0	2.8	1.2	1.6	6.1	....
750– 999	1,120	41.1	40.2	7.4	2.1	1.9	1.1	6.2	....
1,000– 1,249	1,254	39.6	38.4	7.4	3.4	4.1	1.4	5.7	....
1,250– 1,499	1,475	39.3	36.2	8.9	3.5	4.1	1.6	6.4	....
1,500– 1,749	1,692	38.0	34.6	9.3	4.4	4.6	2.4	6.7	....
1,750– 1,999	1,926	35.5	35.5	9.9	5.5	4.2	2.5	6.9	....
2,000– 2,249	2,165	36.7	33.8	10.6	4.5	4.7	2.4	7.3	....
2,250– 2,499	2,342	34.2	33.7	10.9	5.9	4.6	3.1	7.6	2.1
2,500– 2,999	2,707	32.8	32.7	11.6	8.0	4.4	3.6	6.9	2.3
3,000– 3,499	3,191	31.1	31.4	12.5	7.1	4.8	5.4	7.7	1.8
3,500– 3,999	3,594	29.0	31.4	13.9	8.4	4.8	4.9	7.6	4.1
4,000– 4,999	4,367	27.6	34.0	12.3	6.6	4.2	5.9	9.4	3.4
5,000– 7,499	5,650	25.2	33.7	12.3	8.1	4.7	7.8	8.2	4.6
7,500– 9,999	7,951	20.4	36.6	10.8	8.0	5.4	9.6	9.2	7.1
10,000 and over	14,851	18.6	32.3	10.0	7.5	4.2	16.4	11.0	19.4

Ten years later the Lynds returned to Middletown for a follow-up study and found it emerging from the depression; the results of the study are given in *Middletown in Transition,* which students might find interesting as giving flesh and blood to the statistical tables, at any rate, for one area.

SUMMARY

The historical sketch presented in this chapter makes no pretence at being exhaustive. The material presented does, however, open up some of the problems involved in studies of the standard of living, and draws attention to its dynamic character, influenced by increased productivity, by the upsets of war and depression, and long secular trends, all of which affect not only

individual families but group relations and group status. It also draws attention to developing techniques for measuring and analyzing aspects of the standard of living. Historical perspective, however roughly determined, is a stimulating and restraining influence on current social exploration, description, and definition. Our main problem, however, is how to achieve the best sort of living which progressively becomes possible for the people of this country and of the world if we can get ourselves effectively organized for that purpose. Before we go on with our consideration of that fundamental question, however, let us examine some of the factors affecting the standard of living, particularly the level of consumption, which have arisen out of World War II, and provide an immediate background to our present situation.

Chapter IV

IMPACT OF WORLD WAR II: SUPPLY PROGRAMMING

Any generalizations made of the effects of World War II on the consumption level of different groups in the community (to say nothing of individual families) can at best be only exploratory, and limited in character. Nevertheless, to study these effects as best we can is valuable from our point of view, because, under the stress of war, many aspects of civilian consumption became more sharply focused, and we see details in the picture that were formerly overlooked. Moreover, the influence of the war is going to be felt for a long time, and we must understand it if we are to direct the economy into paths that lead to the goal of an optimum level of consumption for all.

The effects of World War II on the civilian economy were more far-reaching than those of World War I. Not only was a much higher percentage of economic activity directly involved in carrying on the war, but controls established were more extensive and direct. The impact of the war was, however, in a sense better anticipated, and more effectively regulated with a view to maintaining a reasonable stability and an equitable distribution of goods in short supply, partly as a result of lessons learned from World War I.

What we are chiefly concerned with is the effect of the war on the physical volume of goods and services passing into the hands of civilian consumers—in terms of quantity, quality, and kind—and on the distribution of this volume among the different groups and consumer units. This has to do with the level of consumption; but we must also keep in mind the other aspects of the standard of living which have been discussed in the preceding chapters.

Some of the immediate questions that come to mind are: What was the effect of the war on the "average" consumption of food, housing, clothing, transportation, medical care, savings, leisure, and so on? Was the range about the average widened or narrowed under war controls in terms of actual

consumption and savings? Did some groups benefit at the expense of others? What effect did the war have on the satisfactions derived from consumption? Do women who spend their leisure at canning centers instead of at bridge parties suffer decline or improvement in their standard of living? As the chairman of the National War Labor Board, Mr. W. H. Davis, once remarked: "People's living under war conditions is disturbed, it is abnormal. You cannot measure it exactly. You have it in your home, I have it in mine."[1] We have to pull out the measurable items, or at any rate those that can be described, from an environment whose total mood was peculiar, subject to quick ups and downs, and soon forgotten.

A Special Combined Committee set up by the Combined Production and Resources Board prepared a report in September 1945, on *The Impact of the War on Civilian Consumption* in the United Kingdom, the United States, and Canada, which presumably contains all the available statistical material up to that time. There is also a series of reports from a Special Joint Committee set up by the Combined Food Board on *Food Consumption Levels* in the same three countries. Before looking into the summary findings of these reports, however, there are certain aspects of the war effort that we should keep in mind.

In the first place, we have to remember that there were a series of more or less differentiated periods during the war years. In 1940 and until late 1941, before the United States became an active participant in the war, the belligerents were placing large orders here and we ourselves were gradually accelerating a defense program. Following the long depression, 1940–1941 was a time of rapidly increasing production both of war and civilian goods. Since we were bringing into operation idle resources of raw materials, capital equipment, and manpower (about one-sixth of our labor force was still unemployed in 1940), war orders could be filled while we were at the same time at peak production for the expanding consumer market, building houses, speeding durable goods off the assembly line, piling up textiles and clothing goods. Incomes were rising, about half the consumer units now having money incomes above $1500 instead of one-third as in 1935–1936. There was a high rate of family spending during this period as compared with 1935–1936 and, in addition, considerable inventories were accumulated by industry, which stood us in good stead in the times to come. Preliminary action was taken to hold down the prices of certain basic materials, but the price trend was already upward. A limited survey of incomes and expenditures among some 3000 families and individual consumer units, made

[1] H R Committee on Banking and Currency, O P A Hearings April–May 1944, p 224.

in 1941–1942 by the B.L.S. and the B.H.E., throws light on the shifts in expenditure patterns already taking place by that date.[2]

The second period, from December 1941 until about mid-1943, was one of extraordinary dislocation and readjustment both of population and industry. Overnight, after Pearl Harbor, our economy changed from a peace to a war basis, which meant both a speeding up and a shift in the use of our total resources, though of course the process of change was progressive through the whole period and the force of its impact spread unequally through existing groups and institutions. Selective service called up millions of men, mostly young, from well-to-do, middle-class, and poor families, and their standard of living changed entirely. There were recent high-school graduates; there were men giving up good jobs to go on army pay; there were their dependents receiving army allotments, many low-income families getting a steady pay check for the first time in their lives, young wives going back to live with their families or trailing their husbands to army camps, and many other types of family situations which suggest an interesting area of social research.

Then there was the dislocation occasioned by the phenomenal development of vast new war industries, at great speed and under intense national feeling of anxiety and anger, which led to the migration of millions of workers from all parts of the country within and between states. Americans are a mobile people; in fact, mobility is looked upon by some students as a factor in the "American standard of living," but this wartime migration involving millions of people was of an unprecedented character, and created peculiar problems in housing, food distribution, medical care, and so on. In some cases families went along with the war workers, which created special difficulties, particularly in newly opened areas without adequate housing and community facilities; in other cases families stayed home only to be confronted by a different set of problems.

Another factor in the situation was the increased percentage of women going to work, either in war industries or to take the place of men in other lines of business—mothers of families, former domestic servants, high-school and college graduates, Negroes from the South—bringing about changes in the living conditions of children of working mothers, of middle-class families who previously had employed help, of young people who for the first time had an independent and for the most part unusually large income. Con-

[2] See U. S. Dept. of Labor, Bulletin No. 822 (Family spending and saving in wartime), and U. S. Dept. of Agric., Misc. Public. No. 520 (Rural family spending and saving in wartime). A special quantitative study of food consumed in one week in the spring of 1942 in all areas is presented in U. S. Dept. of Agric., Misc. Public. No. 550.

siderable changes in living habits were also brought about by the remarkable amount of volunteer work of all kinds done by women in promotion of different aspects of the "home-front" organization, which was at its highest development during this period.

This was a time, also, when people had to adjust themselves to changes necessitated by the supply situation, the unfamiliar institution of rationing, the shortage of gas for private automobiles, the encouragement of victory gardens and home canning; and by the rise of prices, since the price of most commodities was not brought under reasonable control until mid-1942, and for many foods not until nearly a year later. These developments affected different families and groups in different ways, depending to a considerable extent on the degree to which they were sharing in the rapidly rising national income.

The third period, from mid-1943 to the end of the war, was more stable, the first shock of adjustment being over, the peak of internal migration passed, the controls for the civilian economy in more or less effective operation, though the textile shortage became increasingly acute, and we had still to experience the worst phases of waiting in line for meat and cigarettes. By 1944, moreover, we were about at the peak of our wartime productive capacity. We had, as it were, reached a plateau both of emotion and organization, and although the terrain was still in part rugged and unexplored, the worst of the climb from a peace to a war economy was over and it was possible to take stock of the situation. This was a period, therefore, of reports and statistics, and also of increasing interest in plans for reconversion.

We must keep these various periods of the war in mind, because perspective shifts as one goes along, and it is difficult, looking back, to understand the reasons for different phases of programming and the rise and fall of agencies and men.

A major factor in the wartime economy was that our productive power proved so great, despite the withdrawal of some 11 million men for the services, we were able by 1944 to achieve an increase in volume of production of about 55 percent (dollar value doubled).[3] As a result, we were able to meet the demands of war (which took about 43 percent of the total gross product in 1944) without an appreciable reduction in the overall civilian supply. Moreover, of the civilian supply available, a larger proportion than usual went into current consumption (as distinct from private capital formation). These overall figures conceal many changes in the types of goods produced, the disappearance of many lines of durable goods, the substitution of this for

[3] J Frederic Dewhurst and associates, *America's Needs and Resources,* 1947, p 4.

that, the car pools, the falling off in delivery services, and so on. Nevertheless, the impressive magnitude of our total productive effort during the war should be recognized

However, lest we be led into overoptimistic plans for the future, we should keep in mind that the remarkable expansive power of our economy, evidenced during the war, was due in considerable part to the existence of a large pool of idle resources before the war, particularly of man power, both in numbers, and in the use of initiative and organizing capacity, the development of which was restricted by lack of a profitable market. Further, the increased volume of output was in part at the expense of leisure, since in World War II overtime became widespread Another factor was the employment of persons who, according to our normative standards, should not be employed, in the technical meaning of that word—high-school students, mothers of young children, the aged, and others. It also involved a rate of use of raw materials that perhaps should not or could not be maintained Nevertheless, in considering the impact of war on civilian consumption, the overall increase in output is a factor of major importance.

We have to consider not only the nature and extent of available supply, but we need to know also how it was distributed among the consumer units (families and individuals) throughout the country Supply and distribution depended to a considerable extent on government programming and rationing, and on the price at which the goods were sold It was affected also by the size of the disposable income (total income less taxes) which these families and individuals had at their direct command. A further significant factor to keep in mind in studying the impact of war, is the general level of "morale," and its effect on what people regarded as fit and proper for them to have (and to do) in wartime—this was a matter of practical importance, for instance, in the sale of war bonds, in promoting victory gardens, and so on.

PROGRAMMING SUPPLY

Let us take up first the general question of programming supply It is in this field particularly that war experience has increased significantly our understanding of some quantitative and qualitative aspects of the standard of living.

Despite the favorable statistical position with respect to the overall wartime supply for civilians, the impression one would get from popular conversation and newspaper reports was of widespread and continuing shortage. This was partly due, no doubt, to the fact that what we notice is what we do without. Even press headlines on the closing of the race tracks and a mid-

night curfew on night clubs gave people a sense of deprivation even though they had never patronized these amusements; and a 15-minute wait on line for meat or cigarettes, which might no longer be available when one's turn came, intensified the sense of loss and created a psychological environment of scarcity.

Hoarding was one aspect of consumer behavior in wartime that continued unpredictable, and was a constant problem for officials who were trying to hold prices down and regulate the distribution of goods in short supply.

It might be well to ask at this point what we mean by a "shortage." We talk glibly in classrooms of "demand being greater than supply," but what, in terms of commodities, does this really mean? People talked of the wartime "shortage" of meat, of sugar, of baby's underwear, of domestic servants, of liquor, and radios, as though it were all the same sort of thing. Is it?

Consider, for instance, the radio. The declaration of war was followed by a rapid conversion of the durable-goods factories for the production of war materials and no more radios were made for the normal civilian trade; there were some in stock which were available for a time (radios were not rationed), but before long these too were gone from the market. However, radios, if well-cared for, last for a long time.[4]

For families who already had a radio, the real effect of the conversion process was felt only gradually as they needed repairs and found it difficult to get repair parts or competent electricians, though many of them would undoubtedly have bought new radios had they been on the market. For families with rising incomes who were now in a position to buy a radio for the first time, the "shortage" was such as to prevent them from acquiring a product they had so far done without. Much the same comment can be made with respect to vacuum cleaners.[5]

The "shortage" in children's underwear is a somewhat different story. Production of civilian clothing was not stopped as in the case of durable goods, but manufacturers found it more profitable to shift some of their production to different lines, so there was actually a falling off in the quantity of certain lines of goods, particularly low-price or low-profit lines, compared with the years 1935–1939. Even when these goods were available, in some lines (particularly children's clothing, women's house dresses, etc.)

[4] An extensive survey made in April 1944, for the Office of Civilian Requirements, showed that 85 percent of the 46 million radios in consumers hands were still in working order although 28 percent of the households reporting indicated that they had needed some sort of repairs since January 1 of that year

[5] The OCR report on the 1944 survey mentioned in Note 4 showed that 93 percent of the 17,000,000 vacuum cleaners privately owned were still in working order, though 16 percent had needed repairs since the first of the year

stocks were too short to give the reasonable selection through normal channels of distribution which consumers had come to expect. Unlike durable goods, many clothing items are quickly worn out or outgrown; the large increase in number of war babies brought new customers into the market at a time when it was contracting, and no doubt families with rising incomes sought more rapid replacements than formerly. Harassed mothers looking for children's underwear shopped around for what was left of prewar inventories, and such new garments as were produced during the war, picking up one item here and another there, with limited selection at best, and they were often obliged to decide between goods of deteriorated quality or those in the higher-price ranges. Children probably did not do without underwear, thanks to the ingenuity and persistence of mothers, and the shortage was to be measured, in part, in terms of the time and energy and pocketbooks of the women concerned.

With meat the situation was different again. Perhaps the first question that should be asked is: How can we tell whether and to what extent "demand" exceeds "supply" under a system of price control? Is it by the length of the queues? Or by the extent, if it could be determined, of black market operations? We were talking of a shortage of meat for civilians even in 1944 when according to figures of the War Food Administration the per capita civilian consumption increased by 116 percent over the 1935–1939 figures; per capita consumption fell in 1945 but even then equaled prewar figures. Nutritionists asserted that this was ample from the point of view of good diet, so that on an average there was no shortage in terms of basic needs. Prices were more or less under control, so the shortage could not be expressed in rising prices, except for the unknown extent of the black market, and farmers received their inducement to produce not so much through market profits as through government subsidies. Can we measure complaint? It should be noted that averages, in this case, are especially misleading, because in areas dependent on local slaughterhouses there was certainly more meat per capita than in the seaboard cities, which depended on interstate movements from federally inspected slaughterhouses, out of which all requirements for the services had to be met first.

Another factor in the supply situation, to which introductory reference should be made here, was the deterioration in quality of many of the products available on the market, which affected their use-value and caused considerable complaint. This was, in part, the result of substitution of materials as, for instance, buttons and drawstrings for zippers and elastic in clothing, wood and other materials for steel. In part, it was due to a stretch-

ing of existing supplies which resulted in poor coffee, sleazy textiles, inferior dry-cleaning processes, and so on. Here, we should ask (without expecting an answer) to what extent deteriorated quality affected the satisfactions derived from wartime consumption. The quality factor in goods not only influences the level of expenditures (since it usually affects the rate of replacements) and the cost to consumers of time and energy, but also is a factor in pleasure-income, which, though immeasurable, is not unreal.

Attention should also be drawn in a preliminary way to the concept of essentiality with respect to civilian supply; this has to do with the relative importance of different products in the consumption pattern under war conditions. In programming supply when there is a scarcity of raw materials, how is essentiality to be determined?

Supply Control

The War Production Board was vested with sweeping powers to control and stimulate production in aid of the war effort, and special administrators of food, rubber, petroleum, and solid fuel had broad power in their respective fields. The influence of government, with respect to supply, was exercised directly over the large area of goods needed for war materials of all kinds, which, as has been pointed out, came to represent nearly half the total of our expanded production; outside this area, government control was exercised to the extent considered necessary to win the war, which was taken to include maintaining a reasonably stable civilian economy and conserving vital resources. Much civilian production was not directly controlled, although it was subject to a number of restrictions of one kind or another in the use of material, the availability of manpower, and so on. Great difference of opinion developed as to the extent to which civilian economy should be protected from "raids" by the services on basic resources and also on the degree of control to be exercised in the "residual" area, that is, the area of production not directly involved in war needs.

On the one hand, the services tended to take the position that nothing should be allowed to interfere with their program. But the theory that war orders took precedence and the civilian economy took what was left broke down when war orders alone totaled more than the whole available supply of some things.

It then became clear that there was a minimum of civilian supplies (whatever that minimum was), including farm machinery, railroad maintenance materials, and necessary special work clothing which were more important to the war effort than if these resources were diverted to the services. Moreover,

there was the question of how far the level of civilian consumption could be cut without resorting to compulsion of a kind that would be widely resisted. In August 1943, the army agreed to forego delivery of about 50 percent of some of its leading woolen and worsted requirements for the fourth quarter of the year to make more blankets and winter clothing available for civilians, to obviate rationing.

On the other hand, there was opposition from businessmen to proposals for extending government control into the residual area of civilian production in order to maintain certain lines of consumer goods. This point of view was expressed by Mr. Claudius Murchison of the Cotton Textile Institute, in opposing a program drawn up by the W.P B. and O.P.A. to bring low-cost textiles back on the market. He argued that in our system of business, profit is the only way of determining what should be produced for the civilian market. "That is part of the system of business and particularly so when, as I said, there is no established criterion to determine for the manufacturer which thing is the most important. If it were one housewife, she would insist that the most important thing was the type 140 bed sheet, another would insist on a certain type of material for a dress . . . no one can say, in the absence of an essentiality rating, which of these fabrics is the most desirable"[6] One of the difficulties in programming civilian supply was the lack of interest shown in it by the majority of consumers, preoccupied with what seemed the more immediate problems of price control and rationing[7] until the middle of the war when the acute textile shortage forced them to consider whether the raw materials available for civilian production were being used in the best possible way.

These varying conflicts of interest can, however, be better understood if we follow in more detail the policy of the programming agencies responsible for getting out supply. How much and what kind of programming was developed with respect to civilian supply? The public record is, of course, incomplete to date, and the field will offer fruitful lines of research for students for some time to come. This was an area, it will be noted, about which there was much less interest in World War I, and in subsequent researches into that period.

The Programming Agencies

The major programming agencies for the war period, as they were finally developed, were the War Production Board, which had major responsibility

[6] O P A Senate Hearings, 1944, p 1099

[7] See American Home Economics Assoc. *Consumer Education Service*, December 1942, also Persia Campbell, "Programming Civilian Supply," *Journal of Home Economics*, Vol 37, No 1 January 1945

outside the food field, the War Food Administration, the National Housing Agency, the Petroleum Administration for War, and the Solid Fuels Administration, the Office of Defense Transportation, the Maritime Commission, and the War Manpower Commission When conflicts developed among these agencies and with the Office of Price Administration and National War Labor Board, provision was made to have them referred to the Director of the Office of Economic Stabilization (set up October 1942) and from him to a War Mobilization Director, acting under the President These agencies were basically responsible for administrative decisions determining the patterning of national production for war and also for civilian use to the extent that civilian supply was programmed. Action by these agencies was based on requests from different claimants for the supply the armed services through their powerful procurement divisions, lend lease, the allies, and, finally, civilians to the extent to which they were recognized as claimants and organized to present their claims

The job of these agencies was, of course, stupendous and always complicated by the shifting strategic situation One of the problems was to determine the total quantity and quality of supplies on hand and in process of production to meet the various demands of the claimant agencies. As Colonel Bryan Houston, O P A Rationing Administrator, stated in April 1944, at hearings on O P A "The supply agencies have done, I think, a terrific job. They have undertaken a job which was never done before Much of the statistical information which we need and which they now need (to determine what the supply is) was never before gathered in this country. There were no regular procedures, no established methods for bringing that type of information together Each supply agency must divide a short supply between the military and the home front They have had to exercise a good deal more judgment, they are perfecting their information and methods of getting information"[8]

They also had to develop standards of value—in short, a rating of essentiality, to accept this and to turn down that, and the bases of their decisions, at any rate with respect to the civilian economy, are still not always clear, although that does not detract from their importance One of the difficulties, from the consumer point of view, was that civilian claims were not presented through a single channel as, for instance, were the military claims through the military supply services. An attempt was made in 1943 with the Maloney Bill (S. 885) to establish an independent civilian supply administration but it was unsuccessful. Hearings on the bill, however, emphasized some of the basic problems of programming civilian supply.

[8] O P A Senate Hearings, 1944, p 162

One of the results of these hearings was a reorganization of the administrative division in the War Production Board, formerly known as the Office of Civilian Supply and, after the reorganization, as the Office of Civilian Requirements (though in practice, the reorganization added little to its actual power). The function of the O.C.R. was to act as claimant for civilians and civilian agencies (including state and local governments and manufacturers and distributors of civilian goods), in all matters coming up before the W.P.B.

The other major programming agencies also had subordinate departments making recommendations on behalf of civilians, and from time to time interagency committees were set up to get an overall picture of the trends in the civilian economy and make recommendations on the basis of their findings—probably the most significant of these being the Civilian Requirements Policy Committee whose nominal function (not consistently carried out) was to formulate principles for correlating the policies of the various government agencies concerned with the supply of essential goods and services for civilians.

Establishing Civilian Requirements

Some of the general problems facing the civilian claimant agencies in the programming of supply can be illustrated by incidents in the history of the O.C.R. This Office was set up originally in April 1941, as part of the Office of Price Administration and Civilian Supply but was later separated from the O.P.A., and, after the outbreak of war, made administratively subordinate to the new War Production Board. This was a period when the mood of the country was for all-out war production and the services made tremendous demands on our producing capacity.

At this time the O.C.S., under the direction first of Leon Henderson and later of Joseph Wiener, was farther ahead than many of the businessmen who had been brought into different divisions of the W.P.B., in supporting plans for conversion of the durable goods industries to war production. In the opinion of the O.C.S., as explained by Wiener in hearings on the Maloney Bill, the surest approach to achieving a substantial diversion of resources to war without running the risk of damage to the essential civilian economy was through the curtailment of "non-essentials," mainly to conserve strategic materials. At the time a number of economists and other leaders were of the belief that the civilian economy would have to be forced down "to bedrock level if we were to win the war." As the margin left for the civilian economy narrowed, inventories shrank and the rationing system was

extended, the O.C.S. shifted emphasis from locating the non-essentials, to identifying and satisfying "essential consumer demands which should be preserved against the impact of future diversions."

This process of identifying the essential products that must be maintained for consumers in competition with other claimant groups, and particularly the services, was highlighted by the preparation in February 1943, of a so-called "bedrock" report of basic consumer needs made by the O.C.S. at the request of the Stabilization Director who wrote: "It is not, of course, our intention to try to force the civilian economy down to any such level unless that is made necessary by the war. However, the determination of these minimum needs, as distinct from demands or desires, would be valuable to us as a basis for our planning in such matters as rationing, subsidies, the extent to which simplification and standardization might be pushed, and manpower problems which in turn are reflected in wage and price problems." The "bedrock" report, influenced by the W.P.A. emergency budget, attempted "to establish the limits beyond which further cuts in consumption would so impair civilian efficiency and morale as to detract from the war effort." Programming should be determined by "national welfare as distinct from market demands."

The report estimated, by major groups, the percentage of 1941 civilian consumption that would be required to maintain a minimum level below which cuts in consumption would so impair civilian efficiency and morale as to detract from the war effort. For instance, the percentage of 1941 consumption of food estimated as necessary for "essential minimum requirements" was put at 71.8; for beverages, 54.9; drugs and medical supplies, 69.7; cleaning and polishing preparations, 54.4; stationery and writing supplies, 33.2; clothing and accessories, 64.0; floor coverings, 12.8; china, glassware, tableware, utensils, 20.3; recreation 60.3, and so on.[9]

A limited distribution of the report roused considerable alarm, not to any marked extent among consumers, who for the most part were unaware of it, but particularly among wholesalers and retailers who saw themselves left high and dry in the economy if civilian production was allowed to drop appreciably as an overall total. One result was a temporary cutback in military requirements, and an order by the quartermaster corps to release certain reserve stocks, particularly foodstuffs; also the W.P.B. found ways for increasing the supply of some lines of consumer goods as alarm clocks, batteries, closures for canning jars, incandescent lamps, refrigerators, and so on, the lack of which was causing hardships.

[9] For full report, see *Bulletin*, National Retail Dry Goods Association, March 1943, p. 10.

Wiener explained the report, not as an attempt to cut the economy to the bone, but to emphasize, in view of the urgent demands of the services, that there is a basic civilian economy which must be protected if mobilization for war is to be maximized. In thus drawing attention to the problem of identifying and protecting essential civilian demand, "We came," said Wiener (at the hearings on the Maloney Bill), "to a fundamental issue for which I have constantly contended but which I am not at all sure is accepted as national policy. I believe that when an essential civilian demand or requirement, as we term it, has been ascertained by some agency representing the civilian economy, it should be treated equally in the distribution of critical resources with a requirement identified by the Army or Navy as essential for military supply—the alternative is to constantly walk on thin ice with the breakdown of vital portions of our essential civilian economy an ever present threat to total mobilization of our national resources for war."

The O.C.S., as it developed its views,[10] identified the minimum essential level for any product or service as the point "when further reduction would impair civilian health, morale or working efficiency or the national economic structure beyond what is justified by the prospective gain to the war through release of resources"—and this applied to the distribution and service trades as well as to resources necessary to produce the required goods.

It became evident to the O.C.R., shortly after its reorganization in May 1943, that data available from government sources were not an adequate guide to the needs of consumers for goods and services.[11] The existing information was therefore supplemented to a limited extent by data obtained directly from selected consumers with respect to what they believed to be their needs "quantitatively and qualitatively and in order of importance or urgency." This was done through a system of surveys on a sample basis worked out by the Census Bureau, the first formal survey of "consumer supplies and requirements on a national basis" being conducted in November 1943, in 4935 households. In answer to the question, "What are some of the shortages that have bothered you most?" consumers "mentioned most often items of food, particularly those which are rationed. Among the supplies for which the War Production Board is directly responsible, the items mentioned most frequently by consumers included such items as elastic tape, women's girdles, washtubs and sheets. . . ." A series of these surveys were made from time to time and on the basis of the data collected, together

[10] See *C.E.S.*, October 1943, p. 13.
[11] See O.C.R. Report, October 1943–March 1944.

with assembled statistical material, the O.C.R. presented its claims on behalf of civilians before the W.P B.

However, as a subordinate division of the W.P B, the O C.R. was not in a good position to press its views at higher levels of policy and, as mentioned above, it did not have and apparently did not try to get, as did the O P.A. under Chester Bowles, the support of organized groups representing a consumer point of view. More effective pressure on behalf of the civilian economy was exerted by the Truman Committee.

The Truman Committee was a special Senate Committee of ten members set up early in 1941, "to ascertain that the billions of dollars being allocated to the National Defense Program are being efficiently and economically expended so as to obtain a maximum production with a minimum of expense and a minimum of dislocation to the civilian economy" They were continued in office during the war, and their illuminating and oftentimes trenchant reports had a considerable influence on national policy "The civilian economy," they wrote in their first report, "cannot be treated as a separate problem, for a sound, healthy civilian economy is an absolute essential for the successful prosecution of a modern war, especially if it is a protracted war. There are certain minimum and basic needs for the civilian population which must be met in order to keep up morale and the ability to continue producing war materials in the quantities needed."

The Committee was very critical of the O C S in the early days for not pressing more urgently, at the time when conversion of the durable goods industry was at its peak, for the continued production of agricultural machinery and particularly machinery parts, and also parts for the transportation services—basic essentials for the production and distribution of foodstuffs.

The Truman Committee went further than publicizing the importance of a "basic civilian economy." They declared, in their third annual report in March 1944: "The Committee always has believed that civilian production should be permitted at the highest levels consistent with obtaining the war material required for combat action and military training . . Before Pearl Harbor the military failed to proceed quickly enough to convert industry from civilian to war production . . . thereafter it showed too great zeal to curtail the civilian economy to bare necessities . Some procurement officers say there is a patriotic duty to reduce the civilian economy to bare levels of subsistence to bolster the morale of the men in the armed services. . . ." The Committee, however, did not subscribe to this view, but felt that

all productive resources in excess of military requirements and other obligations arising directly out of the war should be utilized to supply civilian requirements, even after basic levels had been met, partly in order to maintain the economic structure in as good working order as possible so as to be able to cope more effectively with the problems of reconversion. These were problems of policy that had to be worked out as we went along through the war years.

As the war continued, its impact was unequal on different areas of civilian supply. Let us first give some attention to food, as the largest item in consumer expenditures, and here we can draw on the reports of the Special Committee of the Combined Food Board.

Programming Food Supply

In peacetime the United States is mainly self-supporting, on an export basis for some items, and dependent on imports only for such products (excluding specialities and luxury items) as sugar, certain fats and vegetable oils, and tropical fruits. Before the war, the United Kingdom produced only about one-third of its food supply, which explains why the British war food program was of necessity very different from our own.

Our civilian food supply, during the various phases of the war, depended on the total food produced (together with some available stocks) and its disposition among the various claimants including the armed forces and our allies, in addition to domestic consumers. The quantity and kind of food produced, that is, the pattern of food production, was determined by historic trends, influenced to a considerable extent by an elaborate system of planning based on the estimated needs of the various claimants in relation to our estimated productive capacity under war circumstances—leaving aside the influence of good growing weather during the first years of the war.

In its publication, *Food Program for 1944*, and in the 1944 report of its Office of Distribution, the War Food Administration explained the basis on which its so-called "production goals" were drawn up.

Requirements were first determined through the machinery of its Allocation and Requirements Committee. On this committee sat, among others, representatives of the armed services who estimated their needs for current use and strategic stockpiles. The services modified their per capita requirements from time to time as a result of changing strategy and conservation measures, and at times food was released to civilians from service stocks, when conditions seemed to warrant it. What the services needed, therefore, was subject to considerable modification, but, as expressed at any particular

time, the Allocation and Requirements Committee seems to have accepted it as presented.

The committee followed a somewhat different policy with respect to civilian needs. The Civilian Food Requirements Branch of the Office of Distribution, of the War Food Administration (which, by the way, had no official channel for consulting representative consumers on these matters), presented the claims of the civilian population on the prospective food supply. In view of the fact that the overall estimated demand always exceeded the potential supply (the maximum which, in view of all the circumstances, the production experts estimated could be produced), some basis for adjustment had to be made, and, with reference to civilian claims, the basis adopted was that of adequate nutrition, as determined by the National Research Council's Food Committee,[12] "modified to some extent to take account of current food habits."

In meeting the needs of other claimants on our food supply, the Allocation and Requirements Committee was integrated with the Combined Food Board which was primarily representative of Great Britain, Canada, and ourselves. The principle on which this board was established, as declared in a joint statement in June 1942, by the President of the United States and the Prime Minister of the United Kingdom, was that as allies in a joint endeavor, we should pool our food resources in the same way we pooled our military effort, the assumption being that we should work toward, not uniform food supplies, but uniform nutritional levels, having in mind the total resources of food available to us and our allies, and taking into account such factors as reverse lend lease (as, for instance, food contributions by Australia and New Zealand to our armed forces in the Pacific). The Combined Food Board set up a committee to get more complete and comparable information on the rates of consumption in these different countries, and the nutritional value of the food consumed, so that the pooling of our combined resources could be more effectively carried out; this committee was responsible for the special reports on food consumption levels referred to above.

Consideration also had to be given to lend lease to countries other than our British allies, including Russia, minor claims of the War Shipping Administration, the Veterans Administration, etc., and the increasing claims on behalf of liberated areas which presented a special problem, not only in terms of President Roosevelt's statement that decent people will not want them to starve, but in the larger terms of the need of the whole world for

[12] See below, p. 318.

an orderly peace. The final estimates of food needs were made on an allocated basis, in the light of advice from the W.F.A.'s Supply Estimates Committee on the production situation.

The accompanying figures give the percentage allocation of specified food products from July 1944 to June 1945.

Product	Military and War Services	Lend Lease and Other Shipments	U S. Civilians	Special Reserve	Total
Meats	20.8	11 3	67.9	—	100
Butter	15 8	4.6	79.6	—	100
Cheese	14 5	24.0	61.5	—	100
Evaporated milk	32.3	21 3	46.4	—	100
Canned vegetables	30 1	3 9	63.3	2.7	100
Dehydrated vegetables	72.1	23 6	4.3	—	100
Canned fruit juice (excluding citrus)	48 2	6.1	45.7	—	100
Citrus fruit (fresh and processed)	12 3	4 4	83 3	—	100

The outcome of this deliberation was that, each year, the United States War Food Administration established production goals for American farmers, for all major agricultural products. The administrative machinery set up to stimulate farmers to achieve these goals operated under the provisions of the Agricultural Adjustment Act of 1938. Tentative plans were submitted to regional and local conferences and then bolstered by price support programs of one kind or another, and later by direct subsidies which made it possible to offer special financial inducements to farmers while maintaining relatively stable retail prices.

The general public were, speaking generally, unaware of the far-reaching nature of our food programming, which was all-embracing, covering the total supply, military and civilian, as distinct from most other areas of the economy. We might ask whether through this cooperative effort we did in fact optimize the use of our agricultural resources.

Fortunately, during the war we were favored for the most part by good agricultural weather. Moreover, we entered the war with very large stocks of feed grain, so that through 1943 we could plan an expansion of livestock beyond the numbers warranted by our current feed production and this

was a factor in the large meat supplies, particularly pork supplies, in 1944. By the early part of 1944 these stocks had for the most part been used up, so we had to get back to a relationship between livestock and feed on a current production basis, which in part explains the drop in the 1945 meat supply compared with 1944 figures.

A leading question to be settled in programming food supplies is the relative importance of different products. Here again we face the notion of essentiality. In setting a pattern of food production guided by needs, rather than by profits (which can be assured if necessary by government action), and having in mind all the various claimants on the food produced, one of the decisions to be made related to the alternative uses of grains—should they be a direct source of food for people, or fed to livestock for a meat-eating population.

In its *Food Program for 1944,* the W.F.A. explained that a larger population can be supported on a grain-eating than on a meat-eating basis: "Theoretically," the report states, "the nutritive value of our food production could be increased 25 to 30% with the resources now allocated to agriculture, if we supplied to our armed forces, our civilians and our allies only the minimum quantity of livestock products that nutritionists consider necessary for physical well-being. With a changed pattern of production, we could feed more people, though several years would be required to make the shift. For example, skim milk fed to hogs returns only $\frac{1}{10}$ as much protein in edible form as does skim milk used directly as human food." By 1944 the W.F.A. was moving slightly in this direction in its planning.

That is to say, to maximize our resources for adequate nutrition, it is of course possible to use different combinations of food from those to which we are accustomed, or in different proportions, or to change the nutritive value of some of our popular foods, as in the enrichment of bread, if people can be induced to use them effectively. In this connection it must be remembered that food programming in terms of nutrition has to be developed with some regard (but how much?) to eating habits. Experience has shown that people can be induced to change their eating habits voluntarily, particularly under the pressures of war, though it is a slow and difficult process. Maximizing the production of food that people won't eat is not good use of resources. Moreover, any significant change in the pattern of food supply is bound to affect certain lines of trade—for instance, a shift from meat to other foods may mean the closing of some butcher shops, and may considerably affect the business of the meat processors, who could be

counted on to exert pressure to prevent such a step. All these factors have to be kept in mind in planning a food supply program, and undoubtedly were kept in mind by the W.F.A. and had some influence on our food policy.

Farm lobbyists (with the exception of the Farmers Union), argued that we failed to maximize production during the war period because of the effects of price control, or at any rate of control at a level which it was said limited the efforts of farmers and processors to get out supply. As explained below, in order to stabilize food prices, a program of "support payments" and subsidies was adopted under which considerable sums were paid to farmers as incentives to carry out the production plan, so that prices as such ceased to be a determining factor in supply.

We have to keep in mind, in this connection, that much of the food supply is processed by highly organized industries, some of which have from time to time been under indictment for monopolistic practices. These industries form a powerful segment of the so-called "food lobby," which is in fact a series of lobbies, and one should always be careful to distinguish between the point of view of farmers or of different farm commodity groups, and that of the various food industries. However, with the exception noted above, all seem to have been at one in pressing for rising prices instead of the support program (while retaining the latter as a floor under postwar prices). It is certain that a continued rise in food prices during the war would have had a devastating effect on the level of consumption and on the war effort as a whole.

As part of the production plan, mention should be made here of the stimulus given to the development of millions of victory gardens which added freshness and variety to the diet. The nutritional quality of the food supply was also improved by the compulsory enrichment of bread and margarine.

Whatever the answer to the question whether or not we maximized food production, the output was spectacular, considering the fact that farm production cannot be expanded so readily as industrial production. Moreover, equipment and labor were hard to get. Production goals were not always met but, on the average, food supply was increased during the period of 1943–1945 by one-third above the 1935–1939 level. For some products of special importance under war conditions the increase was much greater. A conspicuous example was the output of vegetable oils from domestically-grown soybeans, flaxseed, cottonseed, and peanuts, expansion of which was encouraged by high incentive payments after a large percentage of the world supply of such oils came under the control of the Japanese. Increase

in production of livestock was also above the general average and there was a marked expansion in dairy products.

As a result, we were able to allocate about one-quarter of the available supply to the needs of our armed forces and our allies, and at the same time have enough left to "provide the highest civilian per capita food consumption in the nation's history." The figures shown in Table 5 were prepared by a Special Joint Committee of the Combined Food Board and give the estimated supplies moving into United States civilian consumption in pounds per capita per year, by food groups, prewar, 1941, 1944, and 1945.

TABLE 5. Estimated Supplies Moving into U. S. Civilian Consumption in Pounds per Capita per Year by Food Groups

Product	Prewar	1941	1944	1945
Milk and Milk Products (excluding butter)	55.2	59.2	67.5	71.8
Meat	134.1	151.4	162.1	143.2
Poultry, game, and fish	25.6	27.9	25.9	27.2
Eggs and egg products	34.7	36.1	40.2	44.3
Fats and oils	44.7	47.7	42.4	39.9
Sugars and syrups	106.8	114.3	102.7	87.6
Potatoes and sweet potatoes	144.7	138.9	141.2	140.4
Pulses and nuts	14.9	15.4	16.7	15.2
Tomatoes and citrus fruits (fresh fruit equivalent)	100.3	119.8	141.8	140.5
Other fruits and fruit products (fresh fruit equivalent)	164.1	170.1	158.8	151.3
Leafy, green and yellow vegetables	101.6	103.5	123.7	133.9
Other vegetables (fresh equivalent)	81.8	85.5	96.3	98.2
Grain products	198.8	197.0	205.0	204.6
Beverages	19.1	21.1	19.9	20.4

In evaluating these figures it has to be kept in mind that the prewar level (1935–1936) was a post-depression period and many millions were unemployed even in 1940; thus it is not a high plateau from which to take bearings. From the statistics it will be noted that the United States per capita supply in 1945 (which on the whole showed some falling off from the peak of 1944) was greater than the prewar level in all significant products, except fats and oils, sugar and syrups, which had been on an import basis before the war.

These figures, as the Special Committee of the Combined Food Board emphasized, are national averages and should not be taken to represent the actual supply received by each individual consumer. This represents the total supply available for final distribution to civilian consumers; how this supply was actually distributed among individual families depended to some

extent on controls exercised through rationing, on prices, and on other factors, which we shall consider later. It might be pointed out here, however, that the Special Committee was of the opinion that "rationing, larger earnings and controlled prices have led to a more uniform distribution of supplies among the civilian population than was the case before the war."

Programming the wartime food supply did not stop with production. To ensure that the food produced found its way into the channels agreed upon in the Allocation Committee, various measures of controlled distribution were instituted. These measures, generally speaking, were embodied in War Food Orders which took various forms. There were restriction orders, such as the turkey order issued in July 1943, and again in 1944, prohibiting the sale, purchase, or processing of live or dressed turkeys except on government account, until the quantities needed for servicemen's Thanksgiving, Christmas, and New Year's Day dinners were obtained. There were set-aside orders, such as the one requiring that a certain percentage of different meats slaughtered in federally inspected slaughterhouses be set aside for sale to government agencies, and this affected particularly the better cuts. There were orders aimed at minimizing waste and maximizing usefulness, such as the order prohibiting the consignment system of bread sales, and the order providing for the enrichment of bread, and so on. In addition to the controls established through such orders, direct purchases were made in the open market by government agencies on behalf of the services and other foreign commitments. Government buying was to some extent planned so that it would fit in best with civilian needs; for instance, butter purchases were concentrated during the butter producing season.

Although such steps were taken to ensure that the food produced should be allocated among the various major claimants on the basis agreed upon in advance, subject to quarterly adjustments necessitated by changing conditions, the distribution of supplies for civilians was left so far as possible in the hands of the trade, but at times special measures were taken to direct the flow, into different areas, or for different uses, or to ensure storage of adequate amounts to tide over seasons of decreased production. The most significant of these controls was rationing, which we shall discuss later.

The Housing Program

In the case of housing, wartime consumption was affected by many factors different from those affecting food. When we entered the war, there was already a housing "shortage" in the sense that the existing supply was regarded as inadequate to provide a separate housing unit of "satisfactory"

quality for each family wanting one. Much of the existing supply was considered inadequate by sociologists and others concerned with housing conditions—that is say, on a normative basis. For many years, not only had new housing construction failed to replace substandard units, it had not even kept pace with the increase in the number of families.

When the higher incomes of the defense period made it possible for those who had "doubled up" to look for their own homes, and for others who had delayed marriage to plan on "setting up house," the "shortage" became more apparent. During 1941 there was an increase in housing construction by private concerns, and some activity in the low-rent housing field by public housing agencies, but when war broke out all building, private and public was stopped, except such as could secure priorities from the W.P.B. as being essential to the war program, and this came to mean only such projects as were directly authorized for in-migrant war workers, that is, war workers moving from one area to another.

This epic migration of labor to war-industry centers was one of the spectacular aspects of home-front activity; it had been noticeable even during the defense program in 1940, but at that time it appeared to be a stepping up of existing population trends, influenced by the existence of a large pool of unemployed in different areas of the country and the comparatively high rate of pay obtained in defense industries. Between April 1940, and November 1943, net civilian migration from one region to another within the United States amounted to about 6.5 million persons. This migration flowed into an area, chiefly urban in nature, having a population in 1940 of nearly 60 million persons. As a net result of in-migration and other factors, this area showed a civilian population increase of about 8 percent. Various estimates were made of around 5 million workers[13] for the number of migrants moving within and between states to shipyards, aircraft plants, powder mills, tank arsenals, and so on—these figures were based on a series of data, including a comparison between the 1940 census figures and the total of No. 4 ration books distributed, and also on a sample census taken by the U. S. Census Bureau in the spring of 1944 in a number of war-industry centers. In their fascinating report, *War Housing in the U. S.*, April 1945, the National Housing Agency stated: "There may be some question about the exact nature and size of that migration but at least 4,000,000 migrating war workers and their families—9,000,000 people in all—had to be housed." But as they also pointed out, this overall figure obscured the acute problems in busy war centers such as Detroit, San Francisco, Baltimore, Seattle, San

[13] "Rolling Tide of War Migrants," *New York Times Magazine*, May 21, 1944.

Diego, Norfolk, and others where the migrants concentrated. Nevada, a mining state, gained 20 percent in population even while meeting the demands of the draft; California as a whole gained 14 percent, with a half-million in and around San Francisco Bay, and another half-million around Los Angeles. Even when a state as a whole lost population, as in New York, war housing was needed in some centers. In some cases, as at the shipyards at Van Port, Oregon, a whole city was built on waste land, and the same was true of the secretly developed atomic bomb center at Oak Ridge, Tennessee. The problem reached its most acute stage in the early months after Pearl Harbor, when mushrooming war industries made peak demands on man power, but in many cases were unable to hold their workers because of the intolerable living conditions.

Even had there been no shortage of critical materials, now closely controlled by the W.P.B., the situation would have been difficult to relieve, because of the uncertain future of many of these areas. This caused hesitancy among private builders and also among the local authorities concerned, who were unwilling to take the responsibility of burdening their permanent residents with the costs of extended facilities such as water and sewerage mains, lighting, streets, schools, hospitals, and so on, for new developments that might before long be deserted; but without these facilities housing as such would be of little use. And who under these circumstances would sink capital into retail centers—grocery stores, restaurants, laundries, and so on to meet the essential needs of war workers? Obviously, not private concerns without some public guarantees against possible future loss when war industries closed down or reconverted to the former peacetime scale of civilian production. There was also considerable local concern about the effect of wartime housing on postwar real estate values.

Stories began to circulate of workers hiring "hot" beds on the "shift system," of sleeping in their automobiles, or in railway stations, or wherever they could find space, and of course if they brought their families along, the problem was just so much worse. The appearance of "minority" groups, particularly Negroes, and of unattached women among the in-migrants made the situation even more complicated. It was clear that something must be done on a much larger scale than heretofore, if the war program was not to be impeded. Authority to handle the problem of in-migrant housing was thereupon centered in a National Housing Agency, which had sufficient status to present its claims in the highest wartime councils, with the administrator reporting regularly to Congress on the overall program; the N.H.A. was also able to utilize the full housing resources of private enter-

prise and the government to carry out its emergency job. As claimant agency for housing before the War Production Board, the N.H.A. controlled the limited flow of materials for all civilian housing construction, whether by private entrepreneurs, or directly by government or on government contract.

Through the support of the Federal Housing Administration which was given extended powers to insure private building loans, private capital was encouraged to build or convert in line with the general program, though for the most part builders operating on this basis would only carry on projects in areas where there was a reasonable chance of permanence, despite the fact that the F.H.A. assumed most of the risk (up to 90 percent or even more).

In areas where it seemed likely that construction would be of a temporary character it had, generally speaking, to be undertaken directly or on contract by the N.H.A. acting through the Federal Public Housing Authority, usually in cooperation with local authorities. The N.H.A. had to take the rap for errors in calculation which occurred at times as a result of building in advance for workers according to estimates prepared by various agencies which later were changed because of shifts in strategy or some other reason. Part of this temporary government housing, which Congress directed should be removed within two years after the war, consisted of dormitories for single workers, and some family units; also included were 35,000 trailers which were moved from community to community to meet particular crises as they arose.

Before any construction program (private or public) secured the approval of the W.P.B., necessary before priorities could be issued under the controlled materials plan, the W.P.B. had to be convinced that it was essential for the war effort. Because of the great pressure from army and navy procurement offices, and the failure of some officials to recognize the basic importance of decent housing conditions for war workers, delays and difficulties of many kinds were strewn along the path of the N.H.A.

One of the first points that had to be established was that in the area under consideration no housing facilities were available at that time. From the beginning of the war program, and even earlier, "Share Your Home" campaigns were carried on by local agencies, public and private, with federal support, in order to induce families in crowded areas to make spare rooms available to war workers. In many of these areas, as early as 1940 and 1941, Home Registration Offices had been established to get listings of available rooms and family quarters, and existing buildings suitable for conversion into rooms and apartments. From many of these Home Registration Offices,

War Housing Centers were developed with the cooperation of regional offices of the N.H.A.; these centers came to be set up in about 1000 counties throughout the country. Through these activities it was estimated that about 1.9 million accommodations were found in existing dwellings which meant housing for about three million people. But compulsory billeting was not resorted to in this country as it was, at times, in the United Kingdom. Voluntary effort of this kind, however, was not adequate to meet the need, particularly in newly developed areas, and construction of new housing became necessary. Altogether a construction program was authorized calling for about 1.84 million war housing units (including about a quarter of a million conversions), involving an investment of some $6.3 billion. Of this amount more than $4 billion was provided through private capital, mostly with loans from banks, and loan associations protected by F.H.A. insurance. The remaining $2.3 billion came from public funds, mostly for temporary structures. War housing construction standards for buildings of various types under this overall program were worked out between the W.P.B. and the N.H.A. late in the fall of 1942; for example, a house was limited in cost to $6000 and to a rental basis of $50 per month plus utilities.

However, it was one thing to authorize a program and another to get it carried out under wartime conditions, though it eventually was completed. One of the main difficulties continued to be the lack of coordination, if not cooperation, between the housing authorities and the local agencies, public and private, responsible for developing the necessary facilities, which had to be ready by the time the houses were built, if the latter were to serve their purpose. The Federal Works Agency had funds provided under the Lanham Act of 1940 which could be made available for such necessary public works, providing the strategic material was released, but in some cases difficulties involving private property rights and other problems developed with local governments. Also provision for transportation services (involving the Office of Defense Transportation), fuel oil for heating (through the Solid Fuels Administration), retail facilities and supplies and so on, had to be arranged.

To cope with many of these problems and bring about better coordination of the whole program, the President's Committee for Congested Production Areas was set up by Executive Order in April 1943. As the P.C.C.P.A. pointed out in its interesting final report,[14] there are no established criteria for "congestion." Certain standards have been established for overcrowding, based on general health needs; but the point of overcrowding or congestion at which labor moves away from an area, or becomes less efficient, or resorts

[14] Report of President's Committee for Congested Production Areas, 1944.

to absenteeism, is more difficult to determine. The committee finally designated 15 congested areas in which to carry on its functions, though it actually worked in 18.

The committee represented various agencies concerned with the war housing program It secured an experienced director, and a small but able staff of "trouble shooters," who spent much of their time in the field, bridging the gap between federal, state, and local authorities, looking for bottlenecks, stimulating local action, cutting through red tape; they also had to coordinate policies of different federal agencies in the local areas who were concerned with the program, and to help secure the release of critical supplies. This was not a planning committee, and it did not assume any of the essential functions of the N H A as such.

This experience in wartime programming, even in a limited field, and despite the temporary character of one third of the construction, has had a much wider and more lasting influence than might at first appear. For one thing, considerable thought and research were given to the development of prefabrication and new types of construction that would be both durable and pleasant, as well as cheap Even more important in the view of Philip M. Klutznick, then F P H Commissioner,[15] was the experience of public agencies and private business in working together on a coordinated program. "In building homes for in-migrant war workers we have operated under the concept that an over-all approach to the housing problem is essential, with private capital doing its share in its appropriate sphere and with publicly financed housing being provided in the area which could not otherwise be served. . . . Those in public and private housing must shoot at the target of better housing for America, not at each other Their energies must not be expended in civil war when every ounce of effort must be mustered toward the constructive conquest of America's housing problem."

The war housing program as a whole was spectacular, full of local color and incident, and of sufficient magnitude to alleviate some of the worst conditions in congested areas, but of course, it did not compensate for the prohibition on new construction for the general public As a result, the general housing situation deteriorated as families continued to increase in numbers. By January 1945, the cumulative shortage had reached a point "where it will require more than 1 million houses a year for the next 10 years to replace the substandard units and to meet new needs"

Most families continued to live in the same locality they were in before the war, and for them the wartime housing problem consisted of making

[15] "Public Housing Charts its Course," *Survey Graphic*, January 1945

the prewar supply go around and of keeping it in as good repair as possible, though only minor repairs were allowable and even these were difficult in view of the general shortage of labor and material. Most families at one time or another found themselves struggling with the plumbing or the furnace or other particular problems, whether they owned their own homes or were on a rental basis. Speaking generally, there was a deterioration in the quality of housing under these conditions.

Families with increased war incomes tried to secure better living quarters for themselves, and others who, for one reason or another, were forced to move had to "double up" or make the best of what they could find in the "substandard" vacancy fringe. One aspect of wartime housing it would be interesting to explore is that of hotel accommodation, but concerning this there is at present only scattered information except with respect to room charges which were generally put under O.P.A. ceilings.

For the most part, O.P.A. controls, established over rents in all areas declared to be defense rental areas, were effective in keeping rents from rising substantially above the 1942 level. This was an important factor in the pattern of expenditures during the war, with a decline in the proportion spent on housing.

Closely associated with the tightening situation in housing, was the "shortage" of fuel oil, coal, and wood, which made the heating of dwellings a problem of varying intensity in different areas. In the early months of 1943, for some groups and areas, including the Northeast region, it became a matter of great inconvenience and discomfort and even at times a health hazard. It affected the use value of the existing housing supply and forced many families into all kinds of makeshift arrangements, particularly during the severe winter of 1944–1945. This will be discussed further in connection with rationing.

The Clothing Program

Not much was heard of clothing as a wartime problem until early 1943 but by the following year, according to Mr. Donald Nelson, then W.P.B. chairman, clothing supply had become a dominant problem in the consumer field, not only to the W.P.B. as the responsible programming agency, but also to the O.P.A. in its effort to hold prices reasonably stable. "We have just one big area of consumer goods today that is giving us a great deal of concern, on which O.P.A. and ourselves are working together to solve. That is the textile situation."[16] An indication of the importance that clothing had as-

[16] O.P.A. Senate Hearings, April–May 1944.

sumed in public discussion is the fact that the great part of the Senate Hearings on O.P.A. in the spring of 1944 was devoted to its consideration.

One of the difficulties in the clothing situation was the lack of information on available supply, to which reference was made above. The statistical evidence on supply at any level was very spotty or nonexistent. The Federal Reserve Board had a production index of men's clothing, but this was not a specially troublesome area except for a few lines of goods. Little was known of textile inventories in the "pipe line" (on the way to the retail markets), and nothing, until sample checks were made, of retail stocks, though from time to time estimates of inventory changes for clothing stores and department stores were made.

A special statistical difficulty was caused by the widespread depreciation in quality. In *Current Business,* February 1945, the U. S. Department of Commerce, speaking generally for the non-food supply, but with special reference to clothing, said: "Evaluation of the volume of goods moving through retail channels is difficult under conditions which prevailed in 1944, since quality shifts, substitutions and upgrading of merchandise was widely prevalent. How to measure volume or quantities under such circumstances presents extreme difficulties." One of the first jobs of the agencies concerned was to assemble workable data on supply.

It seems clear, however, that we entered the war with a good supply of textiles in all stages of production and distribution, with generous apparel inventories. As a result of increased employment opportunities in 1940 and 1941, some of the ravages of the depression on the family clothing supply were repaired. One had an impression even during the first months of the war, of a continuous buying spree, particularly in women's and children's apparel and household furnishings.

By 1943–1944, it was widely believed that clothing supply had fallen approximately to or below prewar levels, but according to the C.P.R.B. report, the annual *volume* of per capita consumer purchases of clothing at this time was substantially above the 1939 level and probably higher even than in 1941. As pointed out earlier the problem lay largely in the deterioration in quality, and the shift from low-price, low-profit lines to higher-price, higher-profit lines, in an effort to spread the thin supply of textile materials farther, and "to beat the O.P.A."

Production of textile materials increased greatly, compared with 1939–1940, but not enough to meet continuing military demands and those of the civilian market, particularly after 1943 when the rate of increase declined at a time when prewar inventories were exhausted. The difficulty was due

largely to the man-power situation at the mills. There was no lack of raw cotton, though wool available for civilians was limited as a result of Japanese advances in the South Pacific, and much of the synthetic fiber was taken up by the services "Manpower is our limiting factor today in practically all production,"[17] said W P B chairman, Donald Nelson, in April 1944.

During 1943 the War Manpower Commission decreed textiles an essential industry for the production of essential consumer goods, which protected some workers from the draft; but the difficulty lay deeper, in an historically low-wage-scale industry In a series of hearings before the National War Labor Board, and before the Senate Subcommittee on Health and Education,[18] a great body of evidence was assembled as to the effect of sub-standard wages on textile production capacity, particularly at a time when labor was in great demand elsewhere A large labor force is required for clothing production both in the manufacture of the fabric and the construction of the garments, and it was reported that the cotton-rayon textile industry lost about 78,900 workers from December 1942 to August 1944, or 16 percent of the total In the spring of 1944, the War Manpower Commission had established a 48-hour workweek in the cotton textile industry, with time-and-a-half pay for the eight hours in excess of the basic 40. Wage increases were allowed by the National War Labor Board, but the loss in labor supply continued.

From time to time, conservation orders of various types were issued, limiting the amount and kind of material that could be used in different classes of apparel, and limiting changes in style, both to conserve materials, and also to safeguard closet inventories from becoming old-fashioned. Men, for instance, had to forego their trouser cuffs, the second pair of pants, and certain other items on the "non essential" list.

The only positive attempt to safeguard the supply of any particular types of items in the civilian clothing field before 1943 was through O P.A. price control regulations, which restricted retailers from handling higher-price lines than they had carried in the 1942 base period; this was to insure the production of low-price lines in customary proportions. This proved unsuccessful, partly because it became increasingly difficult for sellers of low-price lines to obtain supplies. As a matter of fact, the O P.A., in another pricing area, had to some extent encouraged the shift by such action as establishing disproportionately higher markups for converters who added

[17] O P A Senate Hearings, 1944

[18] Hearings before Subcommittee of Committee on Education and Labor, U S Senate, 78th Congress, 2nd session, with respect to 65 cent minimum wage, November 1944

finish to their products, as a result of which many sleazy fabrics were over-finished; a little extra finish or trim was enough to take garments out of one controlled price category, and place them in a higher one. As prewar inventories were used up, the shift became increasingly apparent.[19] There was a tendency also to restrict production of types of garments which normally returned low per unit profits, particularly children's clothing, women's housedresses, work clothes, sheetings, and so on.

One factor in the situation that helped arouse consumer groups to more articulate demands for positive programming to safeguard essential goods was the extravagant advertising and display of luxury items. The apparent plenty of expensive garments, widely advertised and elegantly displayed was a constant irritant, particularly to those whose incomes had not risen proportionately to prices, and to all those who hunted, sometimes in vain, for certain utility goods which almost disappeared from the market.

In January 1945, Professor Dora Lewis, President of the American Home Economics Association, declared "The Association has long been urging W.P.B. and O.P.A. to join forces to handle a problem which is obviously too complicated for either to solve alone—we have been deeply concerned at the profusion of luxury goods on the market at a time when home makers could not find desperately needed baby clothes, children's underwear, work-shirts and housedresses." The American Association of University Women expressed similar concern. The Consumers Advisory Committee of the O.P.A., set up by the O.P.A. to advise it on the consumer viewpoint, urged the O.P.A. to bring pressure on the W.P.B. for positive programming in this field, but did not get much publicity for its views. Families who buy low-price garments usually have only limited closet reserves, so they are particularly affected by the disappearance of these items from the market—it might be pointed out in passing that when they look for "low-price" items they want durable not shoddy goods.

The W.P.B. was very hesitant about programming supply in the civilian field, except in a negative or restrictive sense, and was opposed to following the British practice of developing utility garments on the basis of definite specifications, though the O.C.R. admitted, in the spring of 1944, that "The deterioration in quality of certain articles has been accelerated to a point which is actually wasteful of raw materials and manpower."

In an attempt to obviate rationing, government agencies stimulated an intensive campaign for clothing conservation on a broad scale during 1943.

[19] In the April 1945 issue of *Consumer Education Service*, production records of 2340 manufacturers were given illustrating the shift of production from low to higher-price lines.

Civilian Defense Offices all over the country, supported by private organizations, emphasized the importance of the slogan "make it do or do without." Classes were organized to help women cut down their old clothes for their children, remodel garments, and so on, and, even more important, an attempt was made to change consumption values to the point where keeping up with the Jones' meant thrift and patches. Swap shops were set up in some areas to facilitate the exchange of clothing. Nevertheless, protests from labor and consumer groups increased, and it became clear that the rise in clothing costs was affecting the whole stabilization program.

The clothing situation focused attention perhaps more than any other civilian supply problem on the whole question of the relative importance of the claims of military and civilian needs on available productive power, and the responsibility of the W.P.B. to ensure an adequate supply of essential consumer goods which in turn raised the problems inherent in any attempt to draw up a list of essential items.

The O.C.R. carried out a number of sample surveys to obtain "good information from which the production of the really essential textile and clothing items can be programmed on a fairly accurate quantitative basis." They used this data in preparing working plans for a positive program to ensure the production of certain "essential" items, which called for an increase of some 638 million linear yards of woven cloth, mostly cotton, for 1944, in excess of the apparent residuum available for civilian supply.

The W.P.B., however, proved very reluctant to exercise its powers to direct the textile industry to channel its civilian production, or any portion of it, into approved lines, particularly in view of the bitter opposition of the trade which was doing very well under existing circumstances, and took the position, as pointed out above, that profits were the proper gauge of consumer demand and of the relative desirability of different products and lines of products. But by the end of 1943, and during the early part of 1944, the problem had become so great that the W.P.B. put into effect a limited program by issuing a series of directives to textile manufacturers in certain lines to produce stated quantities of listed items of work clothing (including work gloves), certain classes of children's apparel and diapers, and women's housedresses. The necessary yardage was allocated specifically for this purpose and standards of material and workmanship established. These items were to be made to approved quality specifications as to type, construction, and weight, and in most cases were to be sold at dollar-and-cent ceilings.

This programming technique was worked out only for this limited list of "low-end essential items of a staple nature." The W.P.B. did not fix the

prices of these articles. This was a matter for the O.P.A. If manufacturers objected to the prices, they had to enter an appeal with that agency. There developed a running argument between the trade and the O.P.A. as to the proper basis for pricing the listed items, though W.P.B. chairman, Donald Nelson, declared: "If there is no alternative except to increase the price to get the production, I have never found an instance where O.P.A., once the facts were all assembled, would not move in the right direction." And he went on to say: "I do not believe if you would increase the price you would get much more production."

But for one reason or another, the program was curtailed. Donald Montgomery, Consumer Counsel for the United Auto Workers union, after referring to the very large profits being made in the textile industry as a whole, accused manufacturers, in April 1944, of a sit-down strike in the field of essential production and suggested that the W.P.B. was too much under the influence of manufacturers, in excusing them from carrying out its directives in full. W.P.B. Chairman Nelson maintained, however, that the trade was cooperating, but was confronted by serious and growing man-power difficulties.

In reply to an inquiry as to the results of these directives in terms of increased market supplies, the O.C.R. wrote on August 4, 1945: "It is not possible for us at this time to state the measurable results of the directives issued by W.P.B. in 1944. Many of these directives carry what is known as automatic priority ratings for which the manufacturer did not have to apply directly to W.P.B. for the amount of products to be manufactured."

By the end of 1944, according to B.L.S. figures, clothing prices had risen 17 percent since the hold-the-line order of April 1943, whereas the general cost-of-living index was up only 2 percent and, as noted above, this probably understated the true rise in clothing prices, because of the difficulty in estimating the extent of quality deterioration and the effect of the shift in price lines.

"Generally," said O.P.A. chairman, Chester Bowles, "we have controlled rents and food well, clothing has been our greatest problem." It was becoming clear that wages would have to be increased if the price level kept rising.

Finally, early in 1945, the W.P.B. was brought into working agreement with the O.P.A. on a joint program designed to channel the greater part of the civilian textile supply into the production of approved items listed as essential for the wartime civilian economy. The joint program was embodied in the W.P.B. order, M 388, and the O.P.A.'s Maximum Average Price Plan

(M A P.). Under pressure from the trade, which was bitterly opposed, the original plan was considerably modified in detail as weeks of discussion and negotiation went by, but its principal points provided for the setting up of priorities on materials (cotton, wool, rayon) for the production of a broad list of essential articles up to about 80 percent of the material available (the figure differing somewhat for different materials). For articles to come within the program, they not only had to be on the essential list but had to be below a stated price ceiling, the ceiling being fixed at a level high enough to characterize the plan as one ensuring a supply of medium rather than low-cost goods; the orders, however, provided for very little quality control over the listed articles.

Articles not on the list, or produced to sell above the "cut-off" price, could only be made from the small percentage of "free" material, so although the order was not prohibitive in form, its intent was clearly to limit the output of high-price and luxury goods, which led to an immediate outcry of "rumination" from the trade The O.P.A.'s pricing policy (M.A.P.) for this programmed supply was also criticized as confiscatory. Many of the articles were to be marked for price by the manufacturers at approved dollar-and-cent ceilings which provided a fixed markup for retailers; and other articles were to be priced by retailers at cost plus a fixed margin, in line with a separate but associated O P A order The program, in the opinion of the O P A , would give the industry satisfactory overall profits, and at the same time would lead to a rollback in retail clothing costs of from 6 to 7 percent.

This new program was more far-reaching than the limited directives of 1944 which the industry had previously opposed but now supported as the lesser of two evils; meanwhile, they appealed to Congress for relief from the "confiscatory and unworkable" W P B-O P.A. plan. The Congressional hearings that followed, though for the most part limited to testimony from opponents of the plan, brought out some points of general consumer interest, particularly with respect to production-price relationships, and also the basis for determining essentiality—the manufacturers of women's rayon slacks, for example, pressed for an answer to the question why their product had been left off the essential list. As a correspondent for the *New York Times* remarked,[20] in asking why women's brassières had been included in the list, but not panties: "To render a decision calling one garment essential and another a luxury demands the wisdom of Solomon, Merlin and Dr. I. Q. So far most of W.P.B.'s conclusions seem right by the standards of common

[20] Walter H Waggoner, July 22, 1945

sense. Some, however, puzzle and bewilder." One of the difficulties, of course, is that consumer opinion is itself so amorphous.

The program was subject to a further series of delays and amendments, but was finally put into limited operation, and the new price-marked garments were expected in the stores about the time the war was over. The orders were gradually revoked in line with the general decontrol program.

One area of the clothing field that calls for special comment is footwear. The O.C.R. was the responsible claimant for civilian shoes, the most important rationed commodity in which it had a direct interest. The difficulty here was a decrease in supply of leather for civilian goods, since military and allied demands more than offset the limited increase in production, and such leather as was left for civilians was of poorer quality, since the services took the better grades. The short supply was controlled through a rationing system at the consumer level, and certain restrictions were imposed directly on the types of shoes produced, certain fancy lines being eliminated and others "frozen" by age and sex groups. Some restrictions were put on shifts in price lines but this order had to be modified because when rationing was instituted consumers, fearful of wasting their ration coupons on merchandise of poor quality, made a run on the higher-priced lines in the belief, often mistaken, that a higher-priced shoe is a longer wearing one. Here as in many other cases the ignorance of consumers as buying agents was very marked and emphasized the need for developing methods of quality identification.

One of the results of the shoe supply situation was to increase the demand for shoe repairs and therefore to raise the question of proper allocation of available leather between new shoe production and shoe repairs (leather for footwear also had to compete with leather for other civilian purposes). The increased practice of using repaired shoes must have kept in use considerable quantities of worn shoes that in our rather wasteful prewar habits were too readily discarded.

One feature of the shoe situation was a considerable increase in 1944 sales of fabric shoes and slippers of all kinds, particularly for women. Since ration coupons were interchangeable among members of a family, purchase of such substitutes by women made it possible to buy more shoes for children, particularly important during a period when sneakers were difficult to obtain. Efforts by public and private agencies to improve the situation with respect to footwear led to development of various substitutes for leather, particularly sole leather, and for the treatment of sole leather to improve its wearing qualities. Pressure was also brought to bear on the Office of Rubber

Development, responsible for the early stages of the synthetic rubber program, to release rubber for a limited supply of tennis shoes and sneakers which normally constitute a significant part of the supply of shoes for young people.

Miscellaneous Items

In a study of this kind, we can only try to draw attention to some of the factors which influenced the supply of various items during the war. There were minor areas of "short" civilian supply, not in themselves representing a significant percentage of consumer expenditures, but having some effect on our comfort and convenience, such as cleansing tissues, toilet paper, wrapping paper, soap, and so on. The area of shortage included all rubber products, camera films, phonograph records, cigarettes, liquor, and gasoline. The limited supply of some of these products for civilian use was "programmed," that is, formally restricted or "protected"; of others it just came from the residual not wanted by the services. In some cases it was formally, in others informally, rationed and for the rest it was a case of catch as catch can.

We should give a little more attention to the situation with respect to durable goods, because this came to have a rather unexpected effect on the general stabilization program. Reference has already been made to the limitation of production of durable goods for civilians at the outbreak of war. Some production was suspended, as in the case of automobiles, vacuum cleaners, radios; in other cases it was strictly limited, as were stoves, which were put on a priority basis. In this field it became necessary to develop essentiality ratings and to direct into the most essential civilian uses the limited critical materials which remained after the services had made their claims upon the total supply.

Some attempts were made by the W.P.B. to standardize the types of a number of durable articles whose production was permitted on a limited scale—the so-called "victory models"—including baby carriages, bicycles, gas ranges, in which critical materials were replaced, so far as use-value permitted, by wood and other products until these products themselves became scarce. Some of these models met with considerable resistance from consumers who turned to attic inventories and the second-hand market for prewar stocks, the value of which had not formerly been fully appreciated. One thing we realized as a result of war experience, was the enormous waste of use-value that results from our practice of discarding durable goods long before they are fully, or even to a reasonable degree, "consumed."

A further point to be considered in connection with the contraction of the durable goods market was that, since it formed the basis of the vast instalment credit structure, its contraction led to a rapid decrease in instalment financing. The postwar period has brought on a rapid extension of the instalment system again, and undoubtedly very great persuasion will be used to induce consumers to buy replacements of durable goods as often as possible. From the point of view of maximizing our resources, and therefore our consumption level, the waste involved in the premature discarding of useful goods should be given much more careful consideration than it has in the past.

As explained above, the O.C.R. acted as claimant, not only for the ultimate consumer, but for the civilian economy as a whole, including the state and local governments and the distributive and service trades. The greater part of the pressure brought to bear on the O.C.R. to assert the essential character of civilian claims came from these groups—theatres needed vacuum tubes, publishers needed paper stock, laundries and restaurants wanted equipment of various kinds, local governments wanted fire hose, and hospital supplies, and so on.

Many of these demands from all civilian sources were for durable goods or repair parts, and in all cases programs had to be worked out and their essentiality rating established before being submitted to the top allocation committee under the controlled materials plan. Even in 1944, when materials were more readily available, except for lumber and paper, these civilian claims had hard sledding, because of the growing shortage of labor, and the fear felt by the armed services, that any extra call on labor, even in areas where there appeared to be an available supply, would have a limiting, even if indirect, effect, on man power for war industries. Moreover, the "essentiality" of certain civilian claims was not generally accepted in many quarters and there were those who still felt that for the sake of maintaining the morale of the fighting men, the civilian economy should be brought to "bedrock" level—this being one of the basic differences in opinion which forced Mr. Donald Nelson out of the chairmanship of the W.P.B., in favor of a navy man. The military reverses experienced at the end of 1944, though temporary, had a further restricting influence on civilian claims, particularly in the durable goods fields, so that even increases in small items were sparse and spotty, and these items disappeared as soon as they came on the market.

As a result of this supply situation consumer expenditures on durable goods during the war period fell off sharply. It was feared by many that the money thus saved would be spent on other classes of goods, increasing the

buying pressure on them and creating a still greater black market problem. There was a more than proportionate increase in certain limited lines of expenditure, for example, jewelry, toilet articles, high prices being paid often for goods of poor quality, but this, after all, constitutes a small percentage of total expenditures. According to the U. S. Department of Commerce figures, most of the money which would normally have been spent on durable goods (if expenditures followed the patterns of the past, allowing for the increase in money income) was added to what became a vast savings fund, the possible disposition of which in the postwar years became a cause of considerable anxiety to those hoping for the maintenance of a stable postwar economy.

Services

Another aspect of the impact of war on civilian supply about which, however, we have little statistical data, is that of its effect on services, those provided by both private enterprise and by public agencies. The whole subject of services in the consumption pattern should indeed get more attention than it customarily receives. Supply was affected both by the lack of man power and materials, and also by the increased number of people wanting these services—the laundry and dry-cleaning services, for instance, lost workers, found it hard to get equipment or repair parts for equipment and good cleaning materials at a time when, because more women were going into industry or other jobs, more of them needed the help of these services. This was true also of shoe repairing, restaurant equipment, plumbing and heating repairs, repairs to electric appliances, and so on.

A significant effect on the consumption habits of many middle-class families was brought about by the swift change in status of domestic servants. As in the First World War, they needed neither organization nor legislative support to send wages up until they doubled, or even more than doubled their previous level; this was true of all categories of service in and around the home.

Transportation

One field in which a decrease in services had a considerable effect on consumer habits and the time and energy expended by consumers was that of transportation, both for goods and persons.

Private driving was restricted both by controls on new cars, which were unobtainable after the early part of 1942 without a certificate of need, and on the use of tires and gasoline for existing cars by rationing, according to a category of need. This restriction on automobile driving increased the load

of the public carriers, thus adding to the staggering burden of war shipments and the movement of military personnel. According to the C.P.R.B. report, the average passenger load for railroads in the United States more than doubled, and inter-city bus travel more than trebled between 1939 and 1943.

Passenger travel on public carriers was not formally rationed, though we seemed to be coming close to it in 1945 when various restrictions were imposed; for instance, sleeping cars were removed from trains traveling less than 450 miles, and an intensive propaganda campaign was carried on to induce people to vacation at home. One of the main difficulties was that the railroads had to carry this load at a time when basic materials for repairs and replacements were hard to obtain, even when the W.P.B. was convinced of their necessity. Auxiliary facilities (trucks, buses, cabs, cars) were limited by the shortage of rubber and gasoline, and shipping for civilian purposes was greatly reduced. During World War I, the government took over the railroads directly. In World War II, the Office of Defense Transportation (O.D.T.) was set up to facilitate coordination among the railroads and establish any necessary controls, but it did not take over operation.[21] The Association of American Railroads worked with the O.D.T., under whose supervision they were enabled to carry out many pooling arrangements which in normal times would have been characterized as monopolistic.

The O.D.T. also had supervisory control over trucks, buses, and taxicabs which were required to have certificates of war necessity for operation. O.D.T. regulations aimed to maximize their usefulness and at the same time conserve essential materials. Some suggestions were made for regionalizing the movement of freight but, except to some extent in trucking, not much was done along these lines, and fruits and vegetables from California, Texas, and Florida continued to move into Eastern markets even at the peak of the war effort.

Consumers were more immediately aware of the restrictions placed by the O.D.T. on retail delivery services, both with respect to frequency of delivery and size of packages carried—most home deliveries, for instance, were put on the "every-second-day" basis, and shoppers had to carry small packages themselves, a chore made more disagreeable by the shortage of paper containers of all kinds, particularly after 1943.

Health and Education

The C.P.R.B. report also gave some attention to the effect of war on the quantity and quality of services, public and private, in the fields both of

[21] See J. B. Eastman, "Public Administration of Transportation Under War Conditions," *American Economic Review Supplement*, March 1944, pp. 86–88.

health and education. Civilian health services were affected directly by the withdrawal of doctors for war work, the number of doctors per 10,000 civilian population in 1940 being estimated at 11.1 and in 1944 at 8.1. The number of dentists was estimated to have declined from 5.27 in 1940 to 4.28 in 1944. But the number of hospital beds for civilian use seems to have increased in the same period from 83.1 per 10,000 population to 91.3.

In the field of education one important effect of the war was to bring about a decrease in the percentage of pupils between 5 and 17 enrolled in all schools from 94.3 in 1940–1941 to 90.1 in 1943–1944, the drop being due, no doubt, to the number of older children leaving school for work. There was also a loss of teachers though there seems to have been no appreciable change in the ratio of pupils to teachers. What effect the war had on the quality and content of education is something for research. According to the C.P.R.B. report: "There is evidence that the quality of the teaching staff deteriorated during the war in the United States. In the fall of 1944 some 20 percent of the teachers in public schools were new in their positions, compared with 17 percent in 1942 and an estimated 10 percent in 1940. Further, reports covering more than a thousand school systems showed an increase in the number of emergency teacher certificates (certificates indicating less than the amount of training required for regular certificates). These increased from 4.7 thousand teachers in 1941 to 68.0 thousand, or about 8 percent of the teaching staff, in the fall of 1944. The number of persons being trained for teaching decreased noticeably during the war. In 1944–45 e.g. teachers' colleges (4-year degree-granting institutions) enrolled only about 15 percent as many men and about 70 percent as many women as in 1939–40."

The C.P.R.B. report did not go into the question of the effect of war on the public libraries or indeed on library services in general. They estimated an increase of 20 to 25 percent in expenditures (valued at prewar prices) on reading matter, newspapers, magazines, and books. They pointed out, however, that this did not take into account changes in quality or amount of reading per unit purchased—for example, it was estimated that the amount of paper used in the average book or magazine in the United States fell by about a quarter between 1939 and 1944, due in part to controls established over its use. One interesting feature of this area of consumption was the rapid expansion of the "pocket edition" book, available through a great variety of new outlets; and also the great expansion in book-of-the-month-clubs and other such services whose printing of selected books in special editions has become an important feature of the publishing industry.

We have been looking at some of the factors affecting the supply of con-

sumer goods in wartime. But it is not enough to get the supply out at the point of production; it must move through marketing channels within reach of consumers in all parts of the country. The distribution of consumer goods was affected by a series of controls, particularly rationing, price, and wage controls to which we shall now turn our attention.

Chapter V

RATIONING, PRICE AND INCOME CONTROLS

RATIONING

It was the policy of government to leave the distribution of civilian goods and services unregulated so far as possible, with the available supply flowing through normal channels of trade. In 1943, the O.C.R. was given the job of helping to straighten out tangles in the marketing system, particularly with a view to getting equitable distribution between different areas and different classes of retail outlets, and also to facilitating the solution of particular problems, such as those which arose, for instance, from the difficulty experienced in getting adequate materials for packaging products. The relatively high level maintained for civilian supply was no doubt a major reason for the generally limited character of wartime control by government over the complex marketing system.

The most extensive controls in distribution were exercised in connection with the relatively few "essential" commodities that were brought under the rationing system in order to ensure that everyone got a fair share of them in accordance with his needs—assuming he was in a position to pay for them. Rationing was a new experience for American consumers, and on the whole worked well. Authority for it was exercised under the second War Powers Act.

The Principle of Rationing

Rationing did not guarantee a share of the rationed product to those who held the necessary coupons—they also had to have money to pay the price—but it did prevent people with money from obtaining more than a "fair" share, and was a factor in keeping goods in short supply moving into all parts of the country where they were needed, instead of being grabbed up at the source. In most cases, distributors were required to turn in the

coupons from their customers before obtaining further supplies, and so could not stock up inventories in excess of their "ration-power."

Rationing, as we experienced it, was based on the principle of "fairness" rather than "equality" as such, a "fair" share being determined by the supply available for distribution and the established need of the individual or institution, determined either by the essentiality of their services to the community, or by the policy of preserving, so far as possible, customary business practices and relationships. The program was not perfectionist, and it was hoped only to ensure as equitable a distribution as possible without being unduly burdensome to the administration and to business—for instance, patrons of restaurants, hotels, and so on were not required to surrender coupons for rationed foods served to them, and so those in a position to afford such service had an advantage over families who could not do so. By and large, however, the general feeling undoubtedly was that rationing was reasonably well planned and administered in view of all the circumstances.

In addition to a number of foods (particularly sugar, coffee, fats, meats, and processed fruits and vegetables), products rationed for at least part of the war period included rubber tires and tubes, certain classes of rubber footwear, automobiles, bicycles, typewriters, heating stoves, gasoline and fuel oil, and shoes.

The authority to determine whether or not a commodity or group of commodities should be rationed to consumers, was vested in the programming agencies, who were primarily responsible for getting out the supply and allocating it among the different claimants. Once the decision was made to institute rationing, its administration was turned over to the O.P.A. which had to plan a system to divide up the available civilian supply as fairly as possible, in view of the nature of the product and the demand for it, and put the plan into effective operation. Thus the administration of all rationing programs came to be centralized in a single agency, instead of being carried out for different products by the different programming authorities. This was to the advantage of consumers, though at times the division of authority between a programming agency and the O.P.A. caused some administrative friction. Rationing of tires was begun before the O.P.A. was reorganized under the Price Control Act, and separate local rationing boards were set up to administer the tire-rationing program, but these were later brought under O.P.A. control. No attempt was made here, as was made in England, to attach groups of consumers to a particular store for rationed goods.

Not all commodities in short supply were rationed, and it was a problem

for the programming agencies to decide what and when to ration, proper "timing" being an important matter in itself. Train travel was not rationed, though according to the O.D.T. we came close to it in 1945; nor was clothing, except footwear, though for a time consumer groups demanded it; nor coal or fluid milk, though in both cases certain distributive controls had to be established; nor cigarettes or liquor, though block-long queues attested to the fact that they were in "short supply." Generally speaking, a product in "short supply" was brought under rationing if it were in general demand, of an "essential" character, and in sufficient supply so that it could be rationed on some reasonable basis providing the difficulties of administration did not offset the expected advantages. We noted above that one of the difficulties was to find out what supply actually was available, a matter that had first to be determined before any further action could be taken.

Techniques of Rationing

The ration schedule was as follows: 1942, January, tires and tubes; February, automobiles; March, typewriters; May, sugar and gasoline; July, bicycles; October, rubber footwear and fuel oil; November, coffee; December, heating stoves; 1943, February, shoes; March, processed foods, meats, and fats. Various rationing techniques were adopted for different products and groups of products. The first developed was so-called "certificate rationing" for tires, and later for stoves and certain other durable goods. Under this system the rationed items were made available only to persons who obtained a certificate of need, issued on the basis of some prearranged formula; this of course involved setting up priority ratings.

More complicated than this was the differential system of certificates or coupons used in the case of gasoline and fuel oil. Gasoline was first rationed in the East because of shortage due to transportation difficulties; but after the Baruch report on the rubber situation, it was rationed on a nation-wide basis to help conserve rubber. This, however, created a serious problem, since various categories of need had to be established. Gasoline rationing was designed to permit all motor vehicle owners some gasoline, the quantity being apportioned in accordance with their contribution to the war effort.

A minimum quantity was made available to the so-called "A" card-holders who used their cars primarily for pleasure and convenience, and for whom cars were not essential in carrying on their work, though for many who lived in suburban areas the car had become an established part of consumption habits. It was important, in the opinion of the O.D.T. that these "A" cars should get a minimum amount of gasoline to keep them in working

order, since they formed a kind of reserve pool, left in the hands of civilians, but available at call if some sudden emergency should arise, for example, the necessity for a mass evacuation. So though for a time "pleasure" driving, somewhat vaguely defined, was ruled out, "A" cars were always part of the transportation picture, even when they were on a minimum allowance.

At the other end of the scale were the "C" card-holders, essential workers who needed their cars to carry on their work, for example, doctors, farmers, war workers who had no other convenient means of transportation and who got all the gas they needed for this purpose. In some areas the problem of getting war workers to their places of work was acute. Car pools were a part answer, but commercial vehicles of various kinds had also to be kept in operation, the degree of essentiality in this case being determined mainly by the O.D.T. in cooperation with the O.C.R. Car owners did not always understand the rubber conservation aspect of gas rationing, and there was a considerable amount of black market dealing in gas coupons. "Our most violent headache of all," said Colonel Houston, O.P.A. Ration Administrator, "is the question of gasoline."

Differential coupon rationing was also applied to fuel oil. The important thing in distributing the available supply of fuel oil (not in itself a fixed quantity) was to keep oil-heated homes livable, and a complicated formula was worked out based on size of house and previous use, with modifications in the case of young children, the aged, and sick.

The uniform coupon method of rationing was adopted, in the first instance, for sugar, which is a standardized product, easily identified, without any ready substitute and divisible into small parts. This method has the appearance of simplicity. One might imagine that the O.P.A. took the figures of available supply, divided them by the population, and issued coupons on that basis, everyone getting an equal share of the decreased supply allocated to civilian use. But there are many claimants on the civilian sugar supply. Sugar is used for commercial canning, for soft drinks, for candy, for ice cream, for a great variety of food, in commercial bakeries, hotels, and restaurants, as well as in domestic kitchens and on the dining table.

In allocating civilian supply among the various civilian claimants, the O.P.A. for the most part accepted the principle that all existing interests should be recognized, and no attempt should be made, through controls, to modify the basic industrial structure or established relationships, as they existed before the war. It has been charged, however, that industrial claimants, being more powerful politically than the ultimate consumers, did, in

fact, get more than their prewar proportions of the available sugar supply, to the disadvantage of housewives wanting direct use of sugar. Limitation on supply in the household of course increased the demand for products of commercial bakeries, giving the latter an argument in favor of increased proportions.

A special difficulty arose when consumers were encouraged to increase home canning to offset the decrease in civilian supply of canned goods, and arrangements were made for the issuance of special sugar stamps for canning, though these could not always be honored. An important aspect of rationing, as we learned during the war, is that the supply should be adequate to meet ration claims, or else the claims should be reduced, and to some extent this was done. Some flexibility can be given the coupon rationing system by changing the period during which each coupon is valid.

Coffee was also rationed on the uniform coupon basis, except that in this case age differentials were introduced, and coupons were not issued to children. In the case of coffee, as with sugar, there are different groups of commercial and institutional claimants, though the commercial uses of coffee are not so extensive as is the case with sugar.

Shoes, too, were distributed on a uniform coupon basis, coupons being interchangeable within a family.

Another and more complicated technique of rationing was the so-called "point" system, adapted from the British. Before point rationing was introduced for processed fruits and vegetables, meats and fats, in the spring of 1943, it was preceded by an intensive educational campaign, through all means of communication. This procedure was contrary to the general feeling of ration administrators that rationing should be introduced so far as possible without warning to avoid a wave of buying that might deplete supply to the point where it could no longer be effectively rationed. However, in this particular case, the necessity for printing and distributing some 135 million complex ration books (book No. 4) itself precluded secrecy; and there was the necessity for giving the public some advance instruction in the use of such a complex system.

Under the point system meats, cheese, canned milk, butter, and other fats were grouped together, and another grouping was made for processed fruits and vegetables, with so many overall points made available for each group per month or whatever the ration period was declared to be. Each unit product, e.g., cut of meat, type and size of canned fruit, etc., had a separate point value, so that if the supply for the particular unit product

changed independently of the general average, its point value could be raised or lowered to meet the situation. This system of interchangeable points within groups of commodities proved useful where there was a wide variety of products more or less readily substituted for each other, so that to ration one, would probably lead to a run on another. It also gave an opportunity for people with differing habits and tastes to exercise their choice more effectively within the rationed group. Point rationing called for better management on the part of consumers than many of them could exercise. If the period of validity for coupons for a particular group of products was one month and the coupons were used up before the month, that meant no more items in the group could be bought until the new series of coupons became valid; there was no borrowing on points. This did not, of course, mean starvation, since large supplies of foods remained free, notably fresh fruits and vegetables, cereal and bread products of all kinds, but poor management, in addition to the basic rationing program, could lead to significant changes in the consumption pattern, particularly for families who could not afford to eat out.

On the other hand, families who did not use up their coupons until the end of a ration period, made "last-minute" rushes to stores before the expiration date in such a number as to upset calculations of supply on hand, as well as dislocating the hard-pressed distributive system. As a result, a tendency developed to suspend termination dates for coupons. But this also had its difficulties, since some people began hoarding coupons for special occasions, particularly for the Christmas season, again upsetting calculations. Toward the end of 1944, the O.P.A. canceled outstanding coupons, a move which many people regarded as a breach of trust, but which was defended by the O.P.A. as necessary to ensure that future supplies would be equitably divided without having to reduce the rations of the majority at a time when existing stocks in many lines were low.

Effect on Consumption

This new complexity in shopping for food brought about a number of changes in shopping habits and also in consumption patterns. There was a noticeable increase in the number of men buying in the food stores, particularly on week ends. There was a concentration of interest on ration points and general disregard of prices, especially after the spring of 1943, when fairly effective control was held over food prices, except in the case of meat during 1945. With the lifting of rationing and price control, consumer

attention again turned back to prices, which were moving steeply upward.

The National Research Council, through its Food Committee, made a number of studies of changing food habits during the war, though a considerable field of research in connection with this subject remains unexplored. Consumer behavior, particularly with respect to hoarding in advance of rationing, became a matter of public importance. The extraordinary reaction of consumers to the meat situation in 1945, with queues on the one hand and black market activities on the other, emphasized the customary importance of meat in the American diet, particularly since, at the time, there was an ample supply of other foods available to insure adequate nutrition.

During the period of rationing, officials, both of the programming agencies and of the O.P.A., watched supplies of all "essential" products closely, whether they were on the rationed lists or not, since a turn of events might at any time have made a modification or an extension of the system necessary. Modifications were made as necessary—for example, for a time tokens were issued along with red and blue coupons under the point rationing system to facilitate point "change."

Rationing extended back from the retailing level into the whole distributive system, retailers surrendering ration coupons to wholesalers and wholesalers to suppliers as they took over supplies. As a matter of fact, except in the case of small retailers, coupons did not pass directly but were deposited in the banks under a special system of ration banking, the banks being paid for the services by the government; traders then drew checks against their coupon deposits in the same way they drew money checks against their financial reserves. Difficulty experienced in counting and checking on coupon deposits led to a considerable amount of illicit trading, the O.P.A. taking action in a number of cases, but it is difficult to say how extensive was the fraud; the banks certainly were not, for the most part, happy about the whole experience, and modifications were made from time to time.

However, despite the problems that arose continuously, the O.P.A. asserted, with justification, that "Consumers have fared well under rationing. Within the limits of their income, they have been able to buy enough food to maintain a healthful diet, enough fuel to heat their homes, enough gasoline for essential use of their cars, and enough of other rationed products to meet their needs. At a time when we are embarked on the greatest military venture in our history and war production is at an all-time peak—at a time when most of the people of the world fall far short of adequate food, clothing and housing—it is a tremendous achievement."[1]

[1] *O.P.A. Information Leaflet for Schools and Colleges,* July 1944.

Rationing Administration

One interesting aspect of the rationing system was the method of administration. As an experiment in applied democracy, this was one of the most successful of the administrative controls. The O.P.A., as explained above, was the actual rationing agency, though it could not act until authorized by the appropriate programming authority. It was decentralized in administration through regional and district offices which were staffed by paid officials, down to the level of the local price and rationing boards set up in each community. These boards were the actual point of contact between the agency and the general public. They consisted of volunteer members drawn from the local community, who exercised a certain amount of discretion in applying the law to any particular case. At the peak of activity, 5500 of these boards were in existence. They later came to handle some aspects of price enforcement as well as the rationing program, but they were primarily concerned with the latter.

These boards were assisted in their duties by both paid and volunteer staffs. The public did not always realize the essentially democratic character of rationing administration as it made its impact on the individual. In an O.P.A. information leaflet released in April 1945, it was pointed out that "Three out of every four persons regularly employed by O.P.A. are unpaid, more than 109,000 board members and an additional 88,000 volunteer assistants, serving as committees of neighbors to aid their fellows on problems of price and rationing. . . ." One of the functions of each board, through its information department, was to give the local community a better understanding of the total O.P.A. program by a variety of educational techniques —this was work at the grassroots which received little publicity but was undoubtedly an important factor in securing public cooperation, particularly in some areas; a number of boards, however, showed no interest in developing a public relations program.

Another development in administrative policy that should be noted at this point was the setting up, at federal, regional, and district headquarters, of committees representing the business, labor, and consumer points of view. It was the function of these committees to provide a two-way channel of communication between the administration and their respective "constituents," and to advise with the O.P.A. officials on matters of public policy with respect to price control and rationing. These committees were organized by special staff advisers—for instance, the Consumer Adviser brought together the Consumer Committee and had an opportunity to act not only

as liaison officer, but as a center within the administration, through which consumer opinion could be focused on the day-by-day activities of the O.P.A.

Consumer Reactions

During the war, techniques of rationing and problems of administration loomed large in public consciousness. In retrospect, however, interest centers more in the underlying philosophy, in consumer behavior in the crisis, in the applied democracy in administrative procedure. The psychological effect of dividing up short supplies on a basis generally regarded as fair, was important, even though low-income people were not always able to take full advantage of their coupons. Even with rationing there was at times a feverish reaction to special periods of shortage as in the case of meat, particularly in 1945, as mentioned above. With respect to goods in short supply that were not rationed, developments were such that they indicate serious home-front disturbances would no doubt have occurred without the rationing system.

When people feel acutely conscious of the needs of their own particular family, of the strains resulting from sudden and involuntary changes in a consumption pattern, they tend to lose sight of the public significance of their acts. Cigarette queues seem for the most part to have been orderly, with considerable "under-the-counter" activity; in the case of stockings, however, toward the end of the war stores able to secure a supply used various techniques of distribution in an effort to avoid the disturbances that developed on a number of occasions when large crowds of people tried to reach the distributing counters. Rationing had a quieting effect on the home front, and proper recognition should be given to the vast effort that went into its administration, which on the whole was well carried out, despite constant opposition and friction from within and outside the programming agencies and the O.P.A., and difficulties experienced in obtaining enforcement against racketeers. All consumer groups supported rationing.

PRICE CONTROL

Increasingly, as the war progressed, our total productive effort was integrated to achieve victory as soon as possible without bringing about any fundamental changes in the economy. In setting our production goals, we had in mind the specific though shifting military estimates of war needs, and, on behalf of civilians, a rather vague but clearing notion of "essentiality," clearer with respect to food than other items, but with a growing sense

of the importance of maintaining as high a level of consumption as possible, as a basic factor in civilian morale.

Of this developing program, supply was the core; but it was to be maximized in an environment of stabilized price and income relationships, to avoid, if possible, some of the drastic dislocation that followed World War I. In fact, during the war the general public gave much more attention to price control and rationing than to the more basic problems of getting out supply.

Much of the post-mortem analysis of the effects of World War I on the civilian economy was along the lines of price, and price dislocations. Some of the economists and administrators who were active in the investigations of the Temporary National Economic Committee in 1939–1941, in which considerable attention was given to price problems during World War I, were influential in government circles in the early period of World War II and put into practice some of the lessons they had learned, particularly the importance of controlling inflationary tendencies inherent in a war situation. To the layman, who had been conditioned during the depression years to thinking favorably of public policy directed towards a rising price level, this shift in emphasis must have been rather confusing until he grasped the significance of the much publicized "inflationary gap."

This gap was the difference between the total disposable income in consumer hands (that is, income after taxes) and the value of the available supply of consumer goods at "normal" prices.[2] In wartime, with active employment and more income in the hands of families, purchasing power rises. But much of this employment is in war industries and does not, therefore, increase the available supply of civilian goods; as a result, the purchasing power in consumer hands comes to be greatly in excess of available goods at current prices. If this total purchasing power is brought into the market, there will be a great upward pressure on prices which will rise rapidly unless the situation is brought under control. To achieve full stability, the gap between purchasing power and the current value of available supply must be closed. This can be done either by increasing supply or decreasing purchasing power, or both.

The Stabilization Program

In view of the supply situation, emphasis was put on the necessity for limiting purchasing power, with the support of rationing and price control.

[2] See John M. Clark, *How to Check Inflation*, 1942.

Purchasing power was to be limited, in the first place, by wage and income controls and consumer credit restrictions. Any surplus still remaining (in terms of the inflationary gap) must be siphoned off by taxes, loans to the government, voluntary or compulsory, and savings. If the disposable income left in the hands of consumers was thus limited so that it was equivalent to the value of available goods at current prices, then there would be no upward pressure on price and theoretically price control, as such, would be largely unnecessary, though, because of war conditions, the pressure on different commodities might be unequal, and those in "short" supply would have to be protected. Further, to the extent that taxes and loans out of income gave the government sufficient revenue to meet its obligations, it would not have to resort to bank credit financing, which is itself an inflationary force.

"Stability" became the significant word, and the civilian goal came often to be thought of in terms of stable price relationships rather than of an "acceptable standard of living," to which stable price relationships would be an important contributing factor, but not the end in itself.

All these various controls were formally adopted by the government as part of its "hold-the-line" (that is, the price line) policy. They were to be operated simultaneously so as to reenforce each other. The President announced the overall seven-point anti-inflation program in April 1942, no reference being made to the important supply factor as such. The seven-point program called for price ceilings, rationing, farm price stabilization, wage stabilization, the reduction of credit purchases, heavy taxation, and the purchase of war bonds. During the war, however, taxation and borrowing were not increased to an amount sufficient to finance the war program and as a result the government resorted to bank credit[3] which is, in its effect, practically equivalent to printing-press financing, except that the banks are paid to handle it. The government, therefore, was trying to maintain price stability under circumstances that were inherently inflationary. It is surprising that the controls proved to be as effective as they were during the actual war years, in view of these circumstances, and the pressure of various groups hoping to profit by rising prices. An important factor in this situation was the willingness of the public to save rather than spend the surplus, so that the dreaded inflationary gap never grew to any significant size.

It will be noted that price control as such was only one of the factors in the anti-inflation, "stabilizing" program of the government, and this has to

[3] See below, p. 586.

be kept in mind when we come to consider the effects of price control, in its narrower sense, on wartime prices. In the various Congressional hearings on the Price Control Act, the price index was always introduced as evidence of the general success of the price control system as such, although, it must be clear from the above discussion, this, though no doubt an important, was by no means the only factor determining wartime price movements. We must not confuse the price control system with the general price stabilization program of which it was only a part. Price control, as such, played an important role in the wartime experience of the general public. Let us look first at the system in operation.

The Price Control System

During 1940 and 1941 while the defense program was accumulating speed, certain administrative controls over price were established on a selective basis, particularly for such strategic materials as copper, lead, zinc, aluminum, iron, and steel, and later on machine tools. Efforts were also made to get voluntary agreements for price stabilization over a wider area. But before the end of 1941, general wholesale prices had risen over 17 percent compared with 1935–1939, and the retail-price index was up by 12 percent.

Already in July 1941, the President had urged Congress to enact legislation authorizing overall price ceilings, but at the time there was no general public sense of urgency, and powerful groups were opposed to the extension of controls which might further "New Dealize" the economy, or affect their private interests adversely. "We know more about the mechanics of inflation, and about available remedies, than we did twenty-five years ago," wrote Professor J. M. Clark, "but we shall have to make better use of our knowledge than we have done so far if we are to make a much better record."[4] Price control was, as noted above, only part of the remedy, and the general prescription was not yet worked out. Moreover, Professor Clark, himself, supported the thesis that, "An increase in some prices is necessary to mobilize our resources for war in the most efficient way. . . . Some increase in price is often needed to bring out the largest possible supply, for example of lumber. But in general a fairly moderate increase is all that does any real good." The question was, how much was enough?

During the fall and early winter of 1941, as the international situation became more tense, there were intermittent Congressional hearings and debates

[4] *Op. cit.*

on the proposed Emergency Price Control Bill, but it was not finally passed until January 20, 1942, nearly two months after Pearl Harbor.

It is important to note the extent of the opposition to this bill, because the effective carrying out of a great national program depends on the underlying support it receives. Part of the opposition came from those who felt that price control was a scheme for profit control, just at a time when, following the lean years of depression, they saw a chance of making real money. Others argued that wages would have to be stabilized before prices could be fixed, but labor representatives objected to the inclusion of wage-control provisions, particularly since there were no specific arrangements for profit control; wage-control provisions were not included at this stage, though wage stabilization was part of the overall administration plan.

The farm groups objected to controls over food prices, which had been at low levels during the thirties, and they were powerful enough to have a clause inserted prohibiting ceilings on food prices until and unless they reflected 110 percent of parity,[5] or a level fixed by alternative formulae as set out in the act. There was also some dispute among administrative groups as to whether it would be better to try to hold down a selected group of basic prices, or to have overall price control.

As finally passed, the Act of January 1942 empowered the administration to fix overall prices, with certain limitations, for commodities and services, and also rents within declared defense areas. The O.P.A. at once took steps to bring the price level under control, but the exclusion of many farm products until their prices reflected 110 percent of parity resulted in a rapid rise in food prices during the summer of 1942. Meanwhile, the "Little Steel" Formula, limiting wage increases to 15 percent of the January 1941 level, had been adopted as the basis of wage controls, on the assumption that the cost of living would now be held steady. If food prices continued to rise, this formula would have to be revised, and the whole stabilization program would be threatened.

The President, therefore, exerted his vast wartime authority to induce Congress to pass an amending act—the so-called Stabilization Act, passed October 2, 1942—which empowered the O.P.A. *inter alia,* to set ceilings on food prices at parity, instead of 110 percent of parity. It also extended the President's power to stabilize wages and other factors in the economy. Immediately thereafter, the Office of Economic Stabilization was set up, with the far-reaching function of keeping the total economy in balance on a stabilized basis. But it was not until the President issued his historic "hold-

[5] See below, p. 492.

the-line order," of April 1943, that the general food price level came under fairly effective control.

The two acts of January and October 1942, formed the statutory basis of price control, and despite certain limitations, were generally considered by O.P.A. officials as sufficiently broad in scope to enable them to carry out their functions effectively if their powers could be freely exercised. Both acts were set to expire June 30, 1944, and during April and May of that year (1944) very extensive hearings were held by both the Senate and the House Committee on Banking and Currency, at which a valuable body of evidence was presented on the principles and practices of wartime price control, with arguments for and against it, so that every aspect of the legislation and its administration was well explored. Price control was extended through the Stabilization Extension Act, 1944, and on an annual basis until 1946 when, for a brief period, legislative controls lapsed; when they were reimposed it was on a less effective basis, so that from mid-1946 until the controls were gradually lifted by the end of the year (except for rent and a few other items), the O.P.A. was struggling to carry on its responsibilities against a tide of decontrol.

As the act came up for extension each year there were additional hearings and debates, so there is a vast amount of material, both general and specific, on the developing program. In addition, there was a constant stream of publicity, official and unofficial, and occasional local investigations. The total experience of price control will provide a happy hunting ground for students for a long time to come, and we propose here only to draw attention to some of the more significant aspects. O.P.A. jurisdiction, it should be pointed out, extended only to civilian supply, contracts for the services being separately negotiated.

EXTENT OF PRICE CONTROL. The first impression one gets from all this material is of the vast size of the job undertaken. The number of commodities subject to price control, ignoring grades and variations, was nearly 6000. Taking account of innumerable grades, styles, and specifications, as well as of price differences between sellers and geographic areas, the O.P.A. had some eight million prices to administer. The products subject to price control were said to have a value of at least $125 billion a year.[6] The greater part of civilian expenditures during the war—one estimate puts it at 85 percent of the total—went for goods and services under price control.

Prices had to be set "with an eye to supply problems, and in proper relation to costs, earnings, business and marketing practices and a host of related

[6] Deputy Administrator James F. Brownlee, O.P.A. Senate Hearings, 1944.

factors. Especially important is the fact that every price and every change in price affects directly or indirectly many other prices. The Nation's price structure is a vast cobweb; touch any part of it and the whole fabric is affected."[7]

There was considerable discussion in the administration as to the extent to which the broad powers under the act should be used. There were some who still felt that it would be better to limit control to a comparatively few basic products easily regulated, than to attempt the vast job of general regulation. But those who believed in general regulation carried the day. Experience proved its necessity, except perhaps in a few cases, to prevent the diversion of essential raw materials and man power into areas and products which, though less essential, might under war conditions be able to command high prices and produce large profits.

James F. Brownlee, Deputy Administrator in charge of pricing, illustrated this point as follows: "In 1943 watermelons were exempt from price control. Approximately 142,000 acres were planted. The price obtained for the crop was 87 per cent higher than in 1942 and 195 per cent of parity. In 1944, consequently, farmers planned to plant some 220,000 acres, an increase of 55 per cent over 1943. Naturally, this increase would be at the expense of other types of food products and would involve diversion of land, labor, fertilizer, farm equipment, gasoline and transportation in order to make possible a high level of production for this so-called luxury item."[8]

Also involved was a decision as to what commodities should be regarded as "luxuries." "This decision is no easy matter and often involves a highly arbitrary use of personal judgment," Brownlee continued. "I would not care to be responsible for such arbitrary judgment in decisions of this character. Nor would I care to maintain controls on the man who is supplying a commodity which the nation really needs, while telling the seller of a luxury that he is free to charge and make as much as the traffic will bear."

When the question of exemption of a product from price control was brought up, the decision, in Brownlee's opinion, should be made on the basis of two major factors: (1) will exemption impair effective price control; and (2) will such exemption result in diversion of essential man power and essential materials from production more necessary for the total war effort.

The general tendency on the part of the O.P.A. was to extend the area of control, whenever legally or administratively possible, both by types of products and stages of developments. At first many sales of agricultural com-

[7] *Ibid.*
[8] *Ibid.*

modities by the farmer were exempted from control, regulation beginning only at some later stage; but as in the case of the much discussed live-cattle ceilings, the tendency was to extend control backward to the source. "Our experience," said Brownlee, "emphatically is that in most cases control cannot be effective and cannot be fair unless it is applied at all levels of production and distribution."

TECHNIQUES OF CONTROL. There was considerable development and change in the techniques of control through the war years. The O.P.A. had been set up before the war as part of the defense machinery, and was reorganized after the passage of the Emergency Price Control Act, January 1942, to carry out its new statutory powers. Prices were at this time threatening to get out of hand, and Leon Henderson, then O.P.A. Administrator, adopted as a temporary policy the so-called "general freeze" technique, embodied in the General Maximum Price Regulation (G.M.P.R.).

As of May 1942 for products, and June for services (except personal services), all prices were frozen at the level they were in March 1942, except for those products and services statutorily or administratively exempted, and excluding rents, which were controlled separately. This meant that each store and each class of commodity had its separate ceiling. Lists of all these ceiling prices were to be posted in each store within a certain period of time as a guide to consumers (and the enforcement officers), and the account books of each store were to be available for inspection when called for.

This posting of prices was not always well enforced and consumers discovered that their memories were entirely unreliable as to the prices that prevailed in March. Moreover, the G.M.P.R. could not withstand the pressures that were soon brought to bear upon it at a number of points and, as a result, the March ceiling was gradually replaced for one product or group of products after another, by so-called formula pricing, though the G.M.P.R. was retained for some product groups up to the end of the war.

Formula pricing was based, for the most part, on the principle of costs plus customary markups all along the line and the result, as under the G.M.P.R., was differential pricing in each store. This still left consumers at a loss to know what were the legal ceilings in any particular store, and even in cases where prices were posted, as required, it was not feasible for a busy housewife to examine them in detail for each item purchased, so there was a general feeling of uncertainty as to whether ceiling prices were or were not being observed. In many instances, particularly in the early months, the shift to formula pricing meant a price increase, as in the case of food products, such as canned fruits and vegetables.

The difficulty experienced in checking on ceilings under both the G.M.P.R. and formula pricing, was one of the main reasons for the change from the "cost-plus-markup" to the "dollar-and-cent" basis, which was worked out in the spring of 1943 for a number of products, mostly food and a few household items, customarily bought in grocery and meat stores; it was also used for a few "low-end" textiles.

Some of these dollar-and-cent ceilings were set at the national office, though prices differed by geographic zones as did the price of meats; others were set up at regional offices on a community basis, and came to be known generally as community prices. These prices were calculated on the basis of average costs, with an allowed wholesale and retail markup. Retail stores were divided into four categories according to volume of business and type of ownership. For the most part, small independents constituted Classes 1 and 2, chain stores Class 3, and super markets, large department store units and so on, Class 4. Dollar-and-cent ceilings were differentiated by class of store, customary average differentials being preserved, though in a number of cases the same price was fixed for Class 1 and 2 stores, and another price for Class 3 and 4 stores. "Slightly lower ceilings are set for larger volume stores," it was explained, "not only because their costs are lower, but also because they do not extend the traditional services of the smaller stores." There was a considerable amount of opposition from the independents to this publicizing of a differential price between their products and those of the chains, even though such a differential was generally known to prevail.

As a result of dollar-and-cent pricing, prices for the same product in the same class of store were uniform within an area, so that price lists could be distributed to consumers, though as a matter of fact, because of opposition from the trade, the distribution of these price lists was very limited.

Dollar-and-cent ceilings were widely publicized when they were introduced for butter and particularly meats in the spring of 1943, about the same time that a subsidy program made it possible to "roll back" prices for these products, in an attempt to reestablish the September 1942 levels, as called for in the Stabilization Act of October 1942. The subsidies were paid to processors to enable them to maintain existing farm prices. Another significant feature with respect to the new dollar-and-cent ceilings for meat was that not only were cuts standardized but quality grading[9] was also established on a compulsory basis, so that the ceilings were attached to particular cuts and grades of meat (except for pork, which had standardized cuts but not grades). Compulsory grades for meat were maintained by order

[9] See below, p. 261.

of the Stabilization Director after Congress prohibited the O.P.A. from establishing quality grades for most products.

Community (that is, dollar-and-cent) pricing was a tremendous program, and subject to delays and revisions, but in Brownlee's opinion, it was "a vital instrument in stabilizing the cost of living." This brings us to a consideration of the pricing standards developed by the O.P.A.

Pricing Standards

The intention of the October 1942 Act was that prices should be held at the September 1942 level, or rolled back to that level. Under the original Price Control Act, however, it was required that prices fixed by the O.P.A. be fair and equitable, and great pressure was brought on the agency by interested groups to raise prices because of alleged increases in costs. "We increase prices," said O.P.A. Administrator, Chester Bowles, at the 1944 hearings, "only when necessary to keep our ceilings generally fair and equitable, or when necessary to aid in securing adequate production of essential goods." The O.P.A. position was further elucidated when Brownlee explained that the various O.P.A. commodity divisions acted with the advice of industry advisory committees, and "tried to strike a reasonable compromise between the conflicting claims of quick action and fully reasonable action."

By the spring of 1944, when this testimony was given, maximum prices had been established for nearly all commodities, so that price decisions were now for the most part made in response to requests for an increase in the ceiling. The O.P.A. took the position that under the provision requiring "fair and equitable" pricing, prices would have to be increased whenever the returns to the industry as a whole fell below what it earned in a representative period in peacetime; so long as general profits to the industry (as distinct from the individual producer) were maintained at or above the prewar level, prices were not raised. This "industry earnings standard" was considered and its principle approved by the Emergency Court of Appeals in the Gillespie case, decided August 1944.[10] Adjustments were made for individual sellers under peculiar circumstances—it might for instance be thought desirable to give some special assistance to a company producing a low-price line of goods so that consumers would not be forced to turn to higher-price lines. There was considerable pressure from industry to have the word "generally" deleted from the phrase "generally fair and equitable," in order to secure prices that would guarantee a profit to each producer, but

[10] *Gillespie-Rogers-Pyatt Co.* v. *Bowles* 144 F. (2d) 361.

this was opposed by Brownlee (himself a businessman) and his responsible associates as being unrealistic and contrary to the general experience of industry in peacetime in which some individual enterprises are always operating at a loss or just break even.[11]

Pressure was also put on the O.P.A. to increase prices whenever costs (for example, wages) were increased, but this was resisted unless the increased costs reduced profits below the prewar level—many costs, it was contended, could be absorbed by industry without reducing profits, particularly in a sellers market. "In my judgment," said Mr. Brownlee, "no single proposition would, if accepted, more completely undermine price control. . . ."

The primary standard in pricing was this overall industry earnings standard. A secondary standard was the so-called product standard. Industry representatives contended that ceiling prices should be set at a level to yield a profit on each particular product, whereas the O.P.A. position, generally speaking, was that if an industry were producing a number of products, and the overall profit position were equal to prewar or above, then the ceiling price for a particular product was to be regarded as fair, so long as it did not result in out-of-pocket loss for any producer except the highest cost fringe. Brownlee declared, "Business men do not expect to make money on every line or product always. Indeed it is sometimes impossible without resorting to pretty theoretical or arbitrary cost accounting methods to tell how much if any profit is being made on a particular product." Some modifications were made at times in the case of single-product companies and also under the W.P.B.-O.P.A. textile programs for essential garments (explained above), where many low-price lines had disappeared altogether from the market; the argument here was that it was better to have the cheaper products back at a slightly higher price than for consumers to be forced to buy in the high-price ranges.

Special legislative provisions controlled the O.P.A. policy with respect to agricultural prices. Under the original act, as noted above, ceilings could not be set on food prices until they reached 110 percent of parity or certain alternative formulae; in October 1942 this was reduced to parity for farm prices, but retail food prices had also to include a margin that was "generally fair and equitable" for processors and distributors. Continuous pressure was brought by farmers and the food industry on the O.P.A. to raise the prices of food products, usually on the argument of rising costs, though Brownlee maintained that the agricultural price provisions of the act were eminently

[11] See Brownlee's testimony before Senate Banking and Currency Committee March 1945.

fair to farmers and ceiling prices set in accordance with them did not hamper attainment of farm production goals. If it could be shown that a particular retail price set did impede maximum production, O.P.A. officials were prepared to raise it if necessary, at the instance of the programming agency. But, since this was a most inflationary kind of pricing, they preferred the alternative policy of direct subsidies to the farmers from the Treasury, instead of increased prices at the retail market to be paid by all people as consumers. They pointed out that only a small proportion of any increase in retail price flowed back to the farmers to become effective as an incentive to production.

Subsidies were used to reduce the price of butter, peanut butter, and meats and to prevent increases in the prices of a number of other foods. These included canned fruits and vegetables, apples, dried beans, potatoes, prunes, raisins, vegetable oils, truck crops, milk, flour, Cheddar cheese, peanuts, soybeans, and sugar. Altogether, from 1941 to 1945, some $1.3 billion were paid directly to farmers in food production subsidies; total payments to farmers by government during this period amounted to $3.53 billion. In the cotton industry, special concessions (obtained through the so-called Bankhead Amendment) resulted in abnormal profits for textile manufacturers at the expense of ultimate consumers.

Effect on Profits

The O.P.A. was accused of using its powers to control profits, but profit statements for the war years were used by O.P.A. officials to disprove this charge. At the 1944 hearings, Chester Bowles declared that profits rose from $5.3 billion in 1939 to about $23 billion in 1943. Additional figures indicating extraordinary profits before and after taxes for major industries were reported at all subsequent hearings. In connection with the debate on profits, it has to be remembered that during the war profit figures, like those on the cost of living, were the subject of endless controversy.

The emphasis on profits brought a protest from other quarters—namely labor and consumer groups. They maintained that "fair and equitable" prices should have been interpreted in such a way as to lead to a decrease in prices, on the initiative of the O.P.A., when profits rose above a reasonable figure. Chester Bowles said:

> I dislike profiteering in war as much as Mr. Murray (C.I.O.) does . . . but the problem of wartime profits has to be considered in the perspective of the job assigned to this agency; large dollar profits do not necessarily mean excessive

prices and it is excessive prices which are our concern. . . . A substantial part of these profits are derived from contracts for finished military items most of which by agreement with the War and Navy Dept. are not under ceilings, but, as you know, are subject to renegotiation. . . . Congress has given us no such mandate and no such profit yardstick. On the contrary we have been explicitly warned that the control of profits as such is not our province. Moreover, even if we were instructed to do so the tailoring of each individual price to meet a fixed standard of fairness, in terms of profits, would be an utterly impossible task.[12]

In short the O.P.A.'s task, as its policy making officials saw it, was to maintain existing price levels as far as possible, consistent with the requirement that its pricing be "fair and equitable"; its interpretation of this phrase provided the specific standards by which it modified prices upward under pressure from producers and distributors. The O.P.A. also increased prices in some instances when the supply agencies "showed it to be necessary in securing adequate production of essential goods."

Effect on Production

Considerable criticism was voiced from time to time to the effect that the wartime price control policy was having a limiting effect on production. To what extent do rising prices call out increased supplies? An interesting discussion on this subject took place before the T.N.E.C. in December 1939 with respect to World War I: "Probably the most interesting or significant fact shown in the hearings was that shown by Dr. Thorp in his chart comparing prices with production. His chart shows clearly that prices soon reach a level where they do not stimulate production. During the (first) World War, for example, the economy never again reached the levels of production attained in 1916. In short all that the price boom of 1917–20 accomplished was a multiplication of the burdens and the cost of war on the backs of the post-war generations. . . . It is obvious that only with price balance, is full production possible. . . ."[13]

At the O.P.A. Hearings of 1944, Representative Patman asked Donald Nelson, then W.P.B. Chairman, whether price control had retarded production, to which Mr. Nelson replied, "It is my opinion, sir, that price control has not retarded production importantly. It will always be a factor, of course." And he went on to agree with Mr. Patman that since price control is calculated to stabilize production it is an incentive to produce, because along with stability there is some security for the future. "I believe," said

[12] *Ibid.*
[13] T.N.E.C. Hearings, No. 21, December 1939, p. 11331.

Mr. Nelson, "that had we had runaway prices such as we had during the last war, production would have been hurt far more than it has been hurt by price control."

In 1945, Mr. Bowles castigated the meat packing industry and the American Meat Institute for publicity designed to create the impression that the meat shortage was due to pricing policies, and that unless some change was made we would be facing a famine He pointed out that "the profits before taxes of packing companies representing almost three quarters of the industry's volume increased from $24 million to $162 million between 1936–39 and 1944, or by almost seven times. For a larger sample, profits, even *after taxes* for 1943 were nearly two and a half times those for 1936–39." He went on: "The natural result of the institute's ill-considered action was newspaper headlines of famine. The facts do not justify the scare stories. . . . Certainly civilian meat will be shorter than at any time during the war, but that arises from the extraordinary needs of the war effort. Moreover, and this is the vital point, the shortage would not be relieved in any degree by higher returns to packers." It should be remembered, of course, as pointed out above, that large subsidies were paid to food processors or producers as production incentives, so food prices were not a true indicator of returns to those groups.

Since consumers are vitally interested in supply, this question of under what conditions it can be maximized in an economy which is still on a private enterprise basis, but operating under government controls, is of utmost importance. When, as during World War II, about half the production was on advance order for government account, on what, in effect, was a cost-plus basis, and the rest was subject to controls of one sort or another, including price control, the price system could no longer be considered the device which guided the activities of businessmen, nor could profit be considered such a device except within the overall limits of the controlled materials plan. In such a mixed plan-profit system, have we sufficiently explored the factors underlying supply? The effect of O.P.A. pricing was, of course, dependent on the extent to which ceiling prices were enforced.

Enforcement

When price control was first instituted, some consumer groups proffered their services to help in securing community cooperation or compliance, as was done in Canada, but the offer was not welcomed by the administration, partly from fear of further antagonizing business, which had shown over the past few years a marked distaste (if that is the appropriate term) for

the developing consumer movement. However, by 1943 it was recognized by the O.P.A. that greater community cooperation would be necessary if the price-control program was to be effectively enforced.

Moreover, the growing hostility of the inflationary bloc in Congress to O.P.A., made O.P.A. leaders more interested in organized public support from whatever quarter it might come. Chester Bowles, administrator from November 8, 1943 to February 25, 1946, an experienced market research and advertising man, was peculiarly interested in rousing public opinion behind price control, and responded to pressure for the setting up of the Consumer Advisory Committee together with the Labor and Industry Advisory Committees referred to above, not only at Washington, but also at the regional and district levels. O.P.A. appropriations were inadequate for effective enforcement without general cooperation and the help of volunteers to check on compliance. There were only 3000 paid enforcement agents at the peak of activity throughout the country; in New York City, for example, the O.P.A. had only 100 investigators for an area that included 183,000 retail and 75,000 wholesale establishments and 13 million consumers.

In 1943, a plan was developed to set up within each local price and rationing board, a "price panel" of volunteer members. The proposed volunteer price panels were to carry out educational work among both retailers and consumers, to receive complaints of non-compliance and check on them, and, in the event that they seemed to be substantiated, to endeavor "through conference" to bring about voluntary compliance as part of a general "cooperation on the home front." Should these measures fail, the complaints with supplementary evidence were to be sent on to the district offices for enforcement action. The price panels were not to be regarded as part of the formal enforcement machinery, except in so far as the development of community cooperation might be considered as an essential part of the enforcement program; in some cases, however, price panel members seem to have been given, or to have assumed, somewhat greater authority.

The original plan was to have these price panel volunteers recruited through the Office of Civilian Defense, but in some areas, particularly in New York City, there was considerable opposition from some O.C.D. officials, and a campaign characterizing the price panel plan as "snooping" was carried on in some quarters. In other areas price panels worked effectively, particularly in carrying on an educational campaign, which was very much needed, since the general public were surprisingly ill-informed both as to the general purposes and specific activities of the O.P.A., though they soon got used to the actual techniques of handling ration coupons.

One of the strange aspects of this wartime experience was the consumer reaction to the retailers. Instead of being unduly aggressive, as was feared by members of the administration in the early days of O.P.A., consumers proved to be fearful of antagonizing the retailer who came to be regarded as the source of their supplies. Except in a few places where consumer opinion was well organized, individual consumers gave each other very little support in matters of compliance, the general attitude being, apparently, that it was not nice—or not expedient—to make a fuss, even in support of the law. This attitude made the compliance activities of price panel members —including store visits—all the more important. By the early part of 1945, there were over 30,000 price panel members and over 40,000 price panel assistants. In February 1945, Mr. Bowles, in explaining the work of the panels said there had been an average of some 450,000 calls on retail stores each month; also each month some 30,000 consumer complaints were investigated and several thousand compliance hearings held in the local boards.

It should be pointed out that provision was made in the Price Control Act, by which consumers could take the initiative in suing retailers who overcharged them, with the possibility of getting triple damages, and a few consumers did take such action. For the most part, however, enforcement was left to the O.P.A. officials, supported, in New York State, by special state and city legislation which facilitated cooperation in enforcement among the three levels of government.

Apart from the question of organization and personnel, there were technical difficulties in the way of enforcing price ceilings, one of which was the lack of quality standards. There is an inherent weakness in any attempt to maintain maximum prices for goods, the quality of which can not be readily identified or described. Price control is obviously easier for some products than for others. Rents, for instance, can be easily determined, and the particular accommodation to which a rental is applied is relatively constant. For certain foods, standards of quality had been worked out before the war and were customary in the trade; in a few instances definite quality grades had been established and carried through to the retail level, but only on a voluntary basis.

After food products were brought under price ceilings, there appeared on the market a great many canned products under new brand names, of which people never heard before, and which, being "new" products, had to have special ceilings (and usually "higher" ceilings) fixed for them. The appearance of these "fly-by-night" brands was "an obviously evasive practice which can only be explained as an attempt to secure higher prices than the

seller is entitled to under the regulation." The practice crippled enforcement. Grade labeling was also necessary if dollar-and-cent ceilings were to be effectively established, since such a program required specific descriptions of the articles so priced to ensure identification.

The original Price Control Act gave the O.P.A. broad authority to prevent circumvention and evasion of price regulations, and to regulate and prohibit practices which were found to be the equivalent of price increases. In the early days of price control, O.P.A. officials, under this authority, developed quality standards for some products, and took over standards well established in the trade for some other products, as a basis for description of products to which ceiling prices could be attached. In some cases they went further and fixed ceiling prices by quality grades as in the case of hosiery. They then ordered that the 1943 pack of canned goods should carry grade labels using the letters A B.C. for the different grades.

But this attempt to establish grade labeling as an essential part of the price control program, evoked immediate and bitter opposition from many of the canners and associated groups, as well as hosiery manufacturers.[14] Nationwide publicity characterized the O P A. order as an attempt to eliminate or restrict the use of trade or brand names, and O P A. officials responsible for it as "subversive of the American system." Opponents of the order succeeded in securing a Congressional resolution authorizing an investigation of the O P.A. standards program; Congressional hearings[15] were held, at which considerable testimony was given by opponents of the measure, and finally Congress prohibited the O P A.[16] from requiring grade labeling and even limited its use of standards except under specified circumstances; this prohibition was later incorporated into the O P.A. extension acts. Grade labeling for meats, however, was continued under specific orders from the Office of Economic Stabilization as being indispensable for effective price control of that product. Dollar-and-cent ceilings for other products had to be listed by brand names and weights—free advertising!

The lack of effective quality identification of textile products created special problems in that field, as noted above.

As was said on different occasions by O.P.A. officials, there was no magic about enforcement of price ceilings. It depended primarily on the degree of

[14] Melville J Ulmer, *Monthly Labor Review*, November 1942, pp 903–912

[15] Brand Names and Newsprint, Hearings before a sub committee (the so-called Boren committee) of the Committee on Interstate and Foreign Commerce, H R, 87th Congress Part I, May and June 1943, Part II, June 1943

[16] A rider to the Commodity Credit Corporation Appropriation Act July 1943. See *Industrial Standardization*, July 1943

cooperation from the public, that is, on voluntary compliance both on the part of consumers and of the trade As to the behavior of consumers, opinions differ considerably. During 1944–1945, when it was not always possible to get the limited supply of some products for which coupons were held, the character of consumer behavior often appeared undisciplined, despite efforts by various agencies, public and private, to assist in adjusting consumption habits to the supply situation; and there is no doubt that many consumers were glad to pay more than ceiling prices in order to get goods in short supply. There were also many producers and distributors who wanted price control for others but not for themselves, and various practices, such as tie-in sales, were devised to defeat O P A objectives, both in rationing and price control. According to Chester Bowles, O P A figures on March 15, 1945, indicated that 12 percent of the items in food stores were sold at above-ceiling prices. It is impossible to estimate the extent of the black market, if by that is meant the sale of goods above legal ceilings and, for products that were rationed, sale in excess of coupon values A sample survey of the public to get their experiences in this connection would be interesting. Most people had their minds set on getting customary goods in short supply and if they had enough money to pay, looked on price as a secondary matter, and for the most part, except in areas where there was organized consumer activity, had no idea what the ceiling price was.

In his statement before the Senate Banking and Currency Committee, February 27, 1945, Chester Bowles declared

> Pressures to violate OPA regulation have never been more intense With growing shortages of materials and goods and steadily increasing purchasing power, all of the forces which make price control and rationing necessary, make enforcement more difficult Nevertheless, our enforcement efforts during the past year have made steady progress Our enforcement organization, although too small for the huge responsibilities it is called upon to meet, has established in my opinion, a remarkable record in wiping out many black markets and in checking others The gasoline black market, for instance, although still troublesome, has diminished considerably since I last reported to you a year ago. Black markets in fruits and vegetables have been checked A hard hitting enforcement program is now in operation in the meat and restaurant fields We have taken steps to check violations of our rent regulations, particularly in war crowded areas Our enforcement program would not be possible without the strong support of the general public and most business groups I am glad to say that this support has grown substantially during the current year through compliance drives, particularly in the food field . . .

As pointed out at the beginning of this chapter, price control was only one factor in price stabilization. In a letter to the President, April 7, 1945, on the eve of the second anniversary of the "hold-the-line" order, the heads of the Office of Economic Stabilization, the Office of Price Administration, the War Food Administration, and the War Labor Board, referred to the fact that "notwithstanding the intense and accumulating strains of the greatest war production effort in history, the nation's cost-of-living index today stands little more than two percent above its level of two years ago when the "hold-the-line" order was issued." They emphasized that this two-year period of relative price and wage stability had also been a period of record industrial and farm production. Relative stabilization had been achieved despite intense inflationary pressures in considerable part because of the cooperation of the public in "saving the surplus," about 25 percent of disposable income having been saved in the last two-and-a-half years, which to them was a remarkable achievement. They admitted, however, that it was not clear which groups of people had done the saving, a matter of considerable importance in looking ahead to the postwar period.

In the report of the Secretary of the Treasury for the fiscal year ending June 30, 1944, it was stated that "while the removal of purchasing power from the market by wartime taxes and savings campaigns have contributed greatly to the success of the direct controls, the direct controls at the same time have facilitated and strengthened the effectiveness of the taxation and savings programs. In short, the wartime level of taxes, the war loans and other savings campaigns and the direct controls have formed an interrelated program, each part of which has been essential to the whole."

RENT CONTROL

Before leaving the general subject of price control, we must give some consideration to rent control, an area of price control which was not abandoned at the end of the war, though its survival was secured only by the continuing efforts of those who realized the importance to consumers, in the circumstances of the times, and particularly in view of the acute housing shortage, of holding rents reasonably steady.

In the rental field, the situation was somewhat different from that in the general field of price control. The Emergency Price Control Act of 1942 empowered the O.P.A. to fix rents in areas declared by it to be defense rental areas; the O.P.A. gradually expanded its operations in this field and by 1945 was administering rent control in 427 such areas, covering more than 92 million persons and more than 13 million dwelling units, each area

being administered by an area rent director. The technique of control was to freeze rents as of some determined date in each area, and, except under special circumstances, these rentals were maintained throughout the war, the rent index being almost completely stable during that period. According to the O.P.A., this stability was attained without "any real evidences of hardship on the part of those affected by the program."

As indicated above, rent ceilings were based on actual rentals prevailing as of a certain date, these rentals having been determined by agreement between landlord and tenant. Rents were registered and it was relatively easy for the special rent control offices established by the O.P.A. to carry out this provision of price control legislation, though there were constant appeals by landlords for permission to raise rents, usually on the grounds of rising costs. After the interregnum in the summer of 1946, when for a brief period there was no price control legislation, further applications for increases were made and granted, but always on an individual basis. Of 343,590 applications for rent increases in the Eastern district (from New York to Maryland) from the inception of the program to November 1946, 165,151 were approved. The major grounds on which increases were granted, as stated by the O.P.A.[17] were: substantial capital improvements on property, as distinguished from ordinary maintenance and repair; important increases in services or furnishings; substantial increases in the occupancy of particular apartments, and substantial rises in operating costs.

A group of real estate companies from New York took a case to the United States Emergency Court of Appeals on the grounds that the basis for rent controls was inequitable and "doomed this vast (rental) industry to operations yielding grossly inadequate returns on investment over an indefinite period of time, thus impairing its ability to respond to postwar needs and destroying all incentive"; and they asked an increase of 10 percent in rents fixed for their properties. The Emergency Court denied the request on the grounds that the act did not require that rents be high enough to assure an "adequate fixed return on the investment" made by the property owner; the criterion to be used was "whether the net return of the rental housing industry is at the level enjoyed in the most recent period in which rents had not been influenced by defense activities." The landlords appealed the decision to the Supreme Court which, however, refused to review the case.[18]

The O.P.A. maintained that the landlords had more profitable operations

[17] See *New York Times*, January 7, 1947.
[18] *Ibid.*

during the rent control period than before, partly because their properties were nearly all 100 percent rented; they were not required to resort to frequent redecorations as a sales device, and though the O.P.A. required a proper level of maintenance and repair (if rental was not to be lowered), there was, it was generally admitted, a considerable deterioration in the quality of rental housing and services formerly rendered. There was also considerable black market activity in the form of tips to superintendents and agents, and in other ways, but though much has been said on the subject of "key money," it is difficult to get any reliable data. A further point should be noted in connection with the comparative stability of rentals during the war period, namely that this had an important influence on the price index as a whole, since rents average somewhere around 20 percent of total expenditures by working-class families.

Rent control was continued after general price controls were withdrawn but with some modification. The importance of postwar rent control, however, can only be properly understood in terms of the general housing situation which will be discussed more fully below.

INCOME DISTRIBUTION

We have paid some attention to the available supply for civilians during wartime, and the price at which it was sold. What we have to ask now is: "Who bought it?" That is to say, how were expenditures distributed among the different families and groups in the population?

Expenditures, we should remind ourselves again, are not identical with consumption, but in an industrialized society such as ours, they are a basic factor in the consumption level. It is, therefore, important to know what changes took place in the distribution of wartime income and expenditures compared with those revealed, for example, in the 1935–1936 study. Unfortunately, apart from the limited survey made by the B.L.S. in 1942, referred to above, and an even more limited one in 1944, no general study was made in this field during the war. Such a study would have helped toward an understanding of the general impact of the war on the material conditions of living but Congress consistently refused to make the necessary funds available.

Some statistical data were compiled by the C.P.R.B. for its report, *Impact of War;* some material was collected by the unions in connection with their drive for wage adjustment—notably by the unions in the steel and textile industries; and some became available through various wage and cost-of-

living hearings. But as a whole the data are scrappy, compiled from various sources, and open to a variety of interpretations. The actual experiences of individual workers in the wartime period were very diverse.

Spendable Income

Expenditures are themselves determined by the amount of disposable or spendable income available (that is, income less taxes)[19] and the way it is used (that is, whether it is spent or saved). Spendable income can also at any one time be increased by savings accumulated from the past, and by credit, whether cash or merchandise credit.

Before looking at the figures for spendable income, we have to note that the composition of the civilian population changed slightly and was somewhat reduced during the war years, with the withdrawal of large numbers of men and some women into the services, and the reduction in immigration, offset to some extent by a higher birth rate—so there was a falling off in demand for men's suits and a scramble for diapers. There was a change in the nature of the labor force, many of those previously unemployed now being absorbed; also many housewives, high-school students, and elderly people were attracted to jobs of all kinds; large numbers of farm and rural workers came into the towns, and everyone was working harder and longer hours and, on the whole, at higher-paid work. World War II called for a much higher degree of mobilization on all fronts than had World War I and this of course affected the volume of income payments.

The national income paid out to individuals increased very rapidly, in monetary terms, during the defense period and the early years of the war. Even by the early months of 1942 the B.L.S. reported (on the basis of their survey) that whereas two-thirds of the families were getting less than $1500 in 1935–1936, now only half were below that figure. Prices were going up, so this increase did not represent a proportionate gain in real income; many people were not getting any increase at all but, on the whole, people seemed better off and as yet the bitterness of war had hardly made itself felt.

The national income paid out to individuals continued to increase through the war and immediate postwar period, the Department of Commerce index for income payments, based on 1935–1939 as 100, rising to about 255 at the end of 1946—the index being based on wages and salaries, net income of unincorporated businesses (including farms), dividends and interest, net

[19] During the war, the B.L.S. at times interpreted disposable income to mean income less taxes *and* bond payments.

rents, and other types of individual incomes. Income payments to individuals in 1946 were nearly $164 billion, almost 2 percent above the 1945 total. A large factor in this continued postwar increase was the upward trend in agricultural income which offset some decline in wages and salaries.

The most rapid advance in *spendable* income, however, seems to have occurred during 1941, as the defense program got under way, and before the steep upward trend in taxes went into effect. After 1941–1942, individual income became subject to an increasing rate of tax, particularly federal income tax, both in order to raise revenue and also to siphon off purchasing power as part of the stabilization program; various excise and other taxes were also imposed. The wartime Secretary of the Treasury, Mr. Henry Morgenthau, wanted to pay half the cost of the war from taxes. This proved politically impossible, but, on the average, about 41 percent of the cost of the war was met on a current basis. In 1944–1945, the federal government was recovering tax receipts at an annual rate of about $45 billion and state and local governments about $9 billion, or about 25 to 30 percent of the total national income.[20]

In his report for the fiscal year ending June 1944, by which time the war program was in full operation, Morgenthau declared: "By channelling billions of dollars of spending power into the Treasury, wartime taxes are buttressing the program of economic stabilization. Civilian demands are thereby made more controllable and the strain is eased on direct controls, such as priorities, rationing, wage ceilings, and price ceilings. High taxes on war profits and on large incomes, moreover, have helped to gain popular acceptance of the stabilization program. The eightfold increase in tax yields has been accomplished in successive stages, thus minimizing the shock to the economic system. . . ."

By 1943 not only was the income-tax rate sharply increased for the upper income brackets, but it also reached down for the first time to the average wage earners' pay check. Collection of taxes from the new classes of tax payers among the low wage and salary earners was facilitated by the establishment of a system of regular deductions from the pay check by employers of the approximate amount of tax, so that individuals were relieved of the necessity of saving up to meet their tax payments. The amount of tax liability varied both with the level of income and also with the number of dependents, so that it is unrealistic to speak of an "average rate of tax." As pointed out by the B.L.S. in 1944, "A married worker with two children who earns $47.00 will be liable for about $2.00 a week for taxes; a worker without

[20] See *Statement of Budget Director*, August 3, 1944.

dependents on a $47.00 wage will have a tax deduction of nearly $8.00 a week."[21]

In addition to income-tax deductions, a percentage was also taken from the pay check to meet social security payments for those covered by that system, but these were not significantly changed during the war period.

In emphasizing the difference between gross income, spendable income, and "real income," with reference particularly to the economic position of wage earners, the B.L.S. said, in October 1944:

> The net pay checks of factory workers leave very little extra to spend in spite of the sharp rise in gross weekly pay. A married worker with average factory pay may have $7.00 a week more than he had four years ago after taxes, bonds, and higher prices are figured. A worker without dependents will have a surplus of only $2.00 or $3.00 under the same circumstances. These results will surprise anyone who sees only the averages of weekly earnings as published by the U. S. Bureau of Labor Statistics. Average weekly earnings represent gross earnings, before any pay check deductions are taken out. They are not intended by the Bureau to measure the spendable earnings of these workers.[22]

Savings

The spendable income in individual hands was not however, all spent; at all times there are certain savings by individual families and by income classes above a certain level of income, but during the war the rate of savings increased at a much greater rate than income payments. This was partly due to the bond drives. The Treasury developed a diversity of bond offerings for different classes of investors with great emphasis on the non-negotiable sale of so-called Series E bonds to individuals in all income classes. In addition to special periodic war-loan drives, supported by volunteer collectors, in the spring of 1942 the Treasury opened a campaign for regular voluntary deductions of 10 percent from the paycheck for war bonds, and by the end of 1943 nearly three-quarters of the wage earners had arranged for such deductions, which averaged 9 percent of the gross pay of those participating.

The success of the war-bond campaign, which was supported by union leaders and all volunteer civilian agencies, put an end to talk of compulsory savings as a necessary part of the stabilization program. Payroll deductions for war bonds were continued throughout the war. There was some objection that the pressure put on low-income families to buy bonds was an undue

[21] Bulletin No. 769, and supplementary statement.
[22] *Ibid.*

burden on many who found it necessary to cash in their bonds to meet current needs; however, the Treasury reported that in March 1945, 83 percent of all Series E bonds which had been sold were still outstanding. By the end of the war some 85 million people held war bonds, a testimony to the patriotic response of people in all classes, and also to the impulse to save from current income as a protection against the uncertainties of the postwar period; the short supply of durable goods on the market was also a factor in the situation.

Bonds were only one form of savings. Increase in total savings was evident as early as 1941 and the first quarter of 1942, as indicated by the B.L.S. study of that period, which showed that average urban savings were 70 percent higher than in the preceding year. From 1941–1942 until June 1944, accumulated savings in the highly liquid form of cash, deposits, and United States Government Securities showed an increase of nearly 100 percent.[23] Figures for total savings by individuals (including unincorporated businesses) depended, of course, on what was included in savings. If life insurance policies, investment in housing, paying off old debts, etc. were counted as savings, then the total aggregated about $100 billion by September 1944, of which about $22 billion was in insurance, housing and for debt liquidation, another $38 billion in U. S. War Bonds, and other government securities, and about $43 billion in the form of currency and bank deposits.

The rate of savings was in excess of what might have been expected from the increased volume of income payments by about the proportion that would have been spent on durable goods had these been available and past trends continued, so that fears about the inflationary gap proved to be largely illusory and, in fact, in 1944 the Federal Reserve Board announced that it did not exist. The highly liquid volume of savings, however, remained a potential source of inflationary pressure, and was the subject of much speculation with respect to postwar plans. Presumably, the abnormal war savings were spent during 1946 as people adjusted to "reconversion," since the President announced in January 1947 that the volume of savings was back at the prewar level.

During the war there was considerable difference of opinion as to how these savings, characterized by the budget director in 1944[24] as "extraordinary," were distributed by income groups. There were those who maintained that much of it was held by wage earners (some of this was wishful thinking by those who opposed further wage "adjustment," or by those who

[23] See S.E.C. Release, September 21, 1944.
[24] *Review of 1945 Budget*, August 3, 1944.

hoped for a mass market at the end of the war), and others were inclined to think that most of it was held by the high-income groups.

In 1946, a survey made by the Bureau of Agricultural Economics for the Federal Reserve Board indicated that of the total savings at that time, estimated at about $81 billion, 10 percent of the nation's families at the highest-income level held 60 percent; the next 10 percent held 17 percent; that is to say, the top 20 percent of the income groups held 77 percent of the savings; 50 percent held the remainder; 30 percent had no savings at all. As to the amount of savings, it was estimated that each family in the top 30 percent held at least $1100, and most of them more than that amount; each family in the next 30 percent had between $200 and $650; the next 10 percent held from $50 to $200 and, as pointed out above, the rest had none at all. As a result of the survey, the Federal Reserve Board concluded that the liquid assets held by the majority of the people could not be considered a reserve fund large enough to cushion a marked decline in income.

As pointed out above, spending power is determined by the amount of disposable income, together with any accumulated savings plus available credit. In its efforts first to control strategic materials and later to carry out the general stabilization program, the government, through the Federal Reserve Board, restricted consumer credit, the first regulations issued in September 1941 being considerably tightened as the war program developed; more attention will be given below to the question of consumer credit.

The accompanying chart gives some summary figures of the volume of income payments, disposable income (only taxes deducted), and savings for selected years, in billions of dollars.[25]

Year	Income Payments to Individuals	Disposable Income	Savings of Individuals
1929	85.1	82.5	3.7
1933	46.6	45.2	−1.2
1939	72.6	70.2	2.7
1941	95.3	92.0	9.8
1944	164.9	146.0	35.6
1946	177.2	158.4	14.8

Income Distribution by Major Groups

Another approach to the question of wartime spending power in the hands of the community can be made through estimates of the amount of

[25] See *Federal Reserve Bulletin*, January 1948, p. 101.

income distributed through various major occupational groups—chiefly to investors through corporation profits; to farmers through higher agricultural prices, subsidies and incentive payments; to wage and salary earners; and to various subdivisions within these groups. The volume of business profits and the proportion of national income going to corporations was a controversial issue throughout the war. One point that made for considerable difference in the statistical basis of argument was whether corporation profits should be reckoned before or after taxes, the excess-profits tax being steeply graded during the war. For instance, an editorial in the *New York Times,* April 1944, in challenging testimony presented by the steel unions to the effect that the percentage of national income going to corporations had risen from 8 percent to 13 percent between 1939 and 1943, while the percentage going to labor declined from 65.7 percent to 59.3 percent, charged the unions with "statistical manipulation," partly because no account had been taken of corporation taxes in estimating corporate income. In presenting figures from the U. S. Department of Commerce, after allowance was made for corporate taxes (but not for taxes on wages and salaries), the statistical picture appeared quite different, with the proportion of national income going to wages and salaries increasing from 62.4 percent to 69.0 percent. In such a battle of statistics, reflecting the pull and tug of different groups in the economy, the layman was often at a loss to know what the significant facts really were. The rate of profits during the war years as reported by the President, January 1948, is shown in Tables 6 and 7.

Within the group of corporate business there was, of course, great disparity in returns to individual industries and individual companies. Further, as was pointed out in Allen's article in 1944,[28] high profit rates did not necessarily mean any considerable increase in dividends to equity stockholders, or not porportionately to corporation profits, even net profits. In some cases profits were not shown as large as they should have been because some of them were absorbed in the form of unusual costs. A considerable amount of the increase in corporate income went in the form of bonuses to management, and to "those in a position to benefit from liberal expense accounts, deductible costs—free parties, free travelling, free accommodation, and so on." When wage and salary controls went into effect, persons with salaries of $5,000 or more were not legally permitted to receive any increase without special authorization while they retained the same position, and various forms of compensation other than direct salary increases were made to those in executive positions. President Roosevelt had proposed that a top ceiling of

[28] Fred L. Allen, "Who's getting the money?" *Harper's,* June 1944.

$25,000 be put on spendable income, but that proposal was not acceptable to Congress.

The average income of farm operators rose rapidly during the early war

TABLE 6. Profits Before and After Taxes, All Private Corporations, 1929–1947
(Billions of dollars)

Year or Quarter	Corporate Profits Before Taxes	Corporate Tax liability[a]	Corporate Profits After Taxes		
			Total	Dividend Payments	Undistributed Profits
1929	9.8	1.4	8.4	5.8	2.6
1933	.2	.5	—.4	2.1	—2.4
1937	6.2	1.5	4.7	4.7	[b]
1939	6.5	1.5	5.0	3.8	1.2
1940	9.3	2.9	6.4	4.0	2.4
1941	17.2	7.8	9.4	4.5	4.9
1942	21.1	11.7	9.4	4.3	5.1
1943	24.5	14.2	10.4	4.5	5.9
1944	23.8	13.9	9.9	4.7	5.2
1945	20.2	11.3	8.9	4.8	4.2
1946	21.1	8.6	12.5	5.6	6.9
1947[c]	28.0	11.1	16.9	6.6	10.3

[a] Federal and state corporate income and excess-profits taxes.
[b] Minus 8 million dollars.
[c] Estimates based on incomplete data.

TABLE 7. Profits After Taxes,[a] 629 Large Private Industrial Corporations, 1939–1947
(Millions of dollars)

Year or Quarter	Total	Iron and steel	Machinery	Automobiles	Other transportation equipment	Nonferrous metals and products	Other durable goods	Food, beverages, and tobacco	Oil producing and refining	Industrial chemicals	Other nondurables	Miscellaneous services
Number of companies	629	47	69	15	68	77	75	49	45	30	80	74
1939	1,465	146	115	223	102	119	70	151	98	186	134	122
1940	1,818	278	158	242	173	133	88	148	112	194	160	132
1941	2,163	325	193	274	227	153	113	159	174	207	187	152
1942	1,769	226	159	209	182	138	90	151	152	164	136	161
1943	1,800	204	165	201	180	128	83	162	186	170	149	171
1944	1,896	194	174	222	190	115	88	175	220	187	147	184
1945	1,925	188	163	243	169	108	88	199	223	187	154	203
1946	2,545	283	171	130	127	136	165	356	281	273	302	321

[a] Federal and state income and excess-profits taxes.

period through increases in farm prices, and later through subsidy and incentive payments of various kinds, until controls were removed at the end of the war; the large commercial farmers, of course, did better proportionately than those more nearly on a subsistence basis. Government policy,

in effect, put a floor under farm income as an incentive to farm production for the market. The inflationary effects of increased income in the hands of farmers may be quite different from an increase in the hands of urban producers, partly because of the tendency of farmers to save at lower-income levels. Farmers also invest a larger proportion of their savings in real estate, particularly land, which gets translated into higher land prices with long-time effects on the economy. Farm income will be discussed at greater length below in connection with agricultural policy.

With respect to wages and salaries, government policy, as the war program developed, was to keep a ceiling over payments. Since wage and salary policy affected more people, and more data are available with respect to it, more attention is usually given to the economic status of the great mass of employees than to that of the entrepreneurial groups.

Wage Policy

Wage stabilization was part of the general anti-inflation drive as enunciated in the seven-point program of April 1942. Immediately after Pearl Harbor, with the nation in a state of grave emergency, labor leaders had given the President a no-strike pledge in support of a policy of maximum mobilization, and in return for a promise that their collective bargaining rights would be protected and an equitable settlement made of their wage claims. As a matter of fact, since the demand for labor was increasing, wage rates for factory workers were being raised on a voluntary basis, so that by the early summer of 1942, some two-thirds or a little more had had rate increases exceeding 15 percent over the January 1, 1941 level.[27]

LITTLE STEEL FORMULA. Meanwhile, the National War Labor Board had been set up early in 1942 to deal with labor disputes in the light of the no-strike pledge, with jurisdiction over workers totaling some 27 or 28 million persons—this was exclusive of certain government employees and farm laborers. In seeking a policy to guide it in the settlement of disputes involving wage claims which would be in line with the seven-point stabilization program, the Board, in July 1942, devised the so-called "Little Steel" Formula, providing for and limiting wage increases in cases of dispute to a maximum of 15 percent above the rates of January 1, 1941, a figure which, according to the B.L.S. estimates, about equaled the general rise in the "cost of living" up to that time. This seemed to indicate that movements in wage rates would be tied to the cost of living; since "cost of living" was to be held stable for the future, wage rates also would be held stable. The formula,

[27] Chairman Davis, O.P.A. Hearings, H.R., 1944.

according to Chairman Davis, was criticized by employers and others at the time as being inflationary, "though later it was talked of by some groups the way you talk of the U. S. flag." The authority of the board at this time was limited to cases coming before it in dispute and did not affect actions by employers if they made voluntary increases in rates.

It must be understood that this formula applied only to wage rates, that is, the basic hourly rate paid for a particular type of job; it did not apply to earnings. Basic hourly wage rates are not to be confused with average hourly earnings. During World War II, earnings increased more than proportionately to average rate increases for a number of reasons. Highest rates were paid in such industries as the durable goods industries, shipping, and so on, now fully mobilized for war orders, and there was a rapid shift of men from the low-paid to these higher paying industries. The Fair Labor Standards Act, still operative, provided for a workweek of 40 hours with time and a half for overtime; since overtime in many industries now became the rule rather than the exception, this led to a considerable increase in earnings. Further, men worked more days a week and more weeks a year; skilled workers found themselves being upgraded rapidly to higher-paying jobs in their own industry, partly because of the competitive labor situation; various incentive systems resulting in pay increases were established on a wide scale; and for these and other reasons, earnings increased much more rapidly than the increase in rates, a development that was accepted by the board as coming within the stabilization program. Voluntary rate increases also continued.

This increase in purchasing power was part of the inflationary pressure which gave the administration great concern during the summer of 1942, and finally led to the urgent demand by the President, in the following September, for further Congressional action in support of general stabilization. The result was the October 1942 Stabilization Act, which, *inter alia,* directed the President to stabilize wages and prices at the levels of September 15, 1942, except when adjustments were necessary to aid in the effective prosecution of the war or to correct gross inequities. Under this extended authority the N.W.L.B. was given control over all wage increases, not only those in dispute.

The board made it known that, save in a few exceptional cases, increases would hereafter only be allowed in rates which had not yet been raised to the level established under the Little Steel Formula, which it accepted as the basis for determining the existence of gross inequities; or where rates were proved to be "substandard." There was now, generally speaking, no way in which the unions could get an increase in wage rates except under the terms

of the Little Steel Formula—which, by this time, had been applied in most cases—or in circumstances where they could satisfy the board that their rates were substandard. The unions were not prepared to accept this policy.

The Little Steel Formula provided only for an increase in rates 15 percent above the January 1941 level, though the B.L.S. figures indicated a rise of 23.4 percent in the cost of living from January 1941 to November 1943, and, as noted above, these figures were regarded by labor representatives as a "gross underestimate." Mr. Murray even went so far as to speak of "deceit" practiced "with reference to the compilation of figures by the B.L.S.," a charge which resulted in the very careful explanation (referred to above) of the nature and significance—and also limitation—of the index, by the Acting Commissioner of Labor Statistics. The outcome was a lively battle of the indexes, significant here for its bearing on wage policy. Since the Little Steel Formula had been originally tied to cost of living, it might be argued that it should still be so tied, at least up to the level established by the official, that is, the B.L.S., index, but this was not accepted by the board. The public was very much confused not only by the arguments as to the extent of the rise in the cost of living, but by the difference between the stabilized wage rates and increased earnings.

SUBSTANDARD WAGES. The other basis for increasing rates announced by the board had to do with substandard conditions existing in particular industries or branches of industry. The question here, of course, turned on the meaning of "substandard." In cases in dispute, the board came to follow what they called the "bracket system." Through investigation they found out what was regarded as a "sound and tested" basic rate in a community, or a given area, for different types of jobs and if any particular industry had a rate markedly lower than this, they were prepared to raise it to the general level, with, of course, additions to maintain differentials for skill.

With respect to voluntary action by an employer, the board followed a somewhat different course. It authorized the regional boards in their discretion to approve voluntary agreements between employers and unions for an increase in basic rates up to 50 cents an hour (10 cents above the national minimum established by the Fair Labor Standards Act), without referring the matter to the national office, and this included proportionate increases for skill. The 50-cent minimum was an "arbitrary figure" and was not adopted by all regional offices, but it came to be looked upon as the line below which wages were to be considered substandard, and in November 1944, employers were allowed to increase wages to 50 cents an hour without obtaining approval even from the regional N.W.L.B. offices.

However, it was not until the unions and some other organizations carried out a series of expenditure surveys, that the concept of "substandard" with respect to wartime living conditions took clearer shape in people's minds. Considerable publicity was given this whole question at hearings, held in January and February 1944 by the Senate Subcommittee on Wartime Health and Education, on the condition of the "fixed-income groups," who suffered as a result of the increase in the cost of living. The committee's report, submitted by the chairman, Senator Claude Pepper, declared: "Some 20 million Americans have not enjoyed rises in income commensurate with the most conservative estimate of the cost of living increase. Moreover, we found that before the war a large proportion of these people had substandard or below-subsistence-level incomes." The low-income groups suffered proportionately more from the increase in cost of living than others because of the marked deterioration in, and even disappearance of, many low-cost items.

At hearings on the position of the fixed-income groups (filling 1542 pages of report and testimony) a considerable amount of evidence was presented by union members and others who were not in these groups but who were very much concerned with having the whole concept of "substandard living" clarified. Labor, generally, was trying to find some basis for changing the stabilization yardstick. The United States Steel Workers Union, for instance, submitted a report on a survey conducted among 1500 of their members, itemizing expenditures for food, clothing, and so on. Some testimony was also presented by government employees, particularly municipal employees, on the content of their actual standard of living under war conditions.

This type of evidence made a considerable impression on those who heard it; actual household accounts have a reality that an index, however accurate for its purpose, lacks. There were two factors to be considered: the actual content of material living, and its cost at different periods of time, as has been noted above. In the opinion of the unions, the N.W.L.B. too often confused these two factors. "Cost-of-living" increases to compensate for the rising price level did nothing to improve substandard living conditions, except prevent them from becoming more substandard. Now that the government's policy for general stabilization of prices was more or less fixed, the unions gave more emphasis to the importance of defining a minimum level of consumption in concrete terms, and then determining the cost of the goods necessary to maintain this defined level, at any particular time. The union leaders continued their attack on the B.L.S. index as having doubtful validity as a factor in wage regulation under war conditions, and at the same time gave more attention to "the family budget" as the proper

basis for "minimum-wage determination," in which they showed increasing interest in arguments before the N.W.L.B. panels.

The Senate Subcommittee on Wartime Health and Education, influenced by this testimony, included in its recommendations a suggestion to the effect that the N.W.L.B. should "cease applying the Little Steel formula to substandard wages and salaries, and that a sound, simple, and expeditious procedure for raising such wages and salaries be developed within the War Labor Board." As a concrete proposal the committee suggested the removal of all controls from incomes of $200 or less per month for heads of families, and $150 or less per month for unmarried persons—though they did not explain how marital status could, under our system, be made the basis of wage differentials. The committee, in effect, defined a "substandard family income" as anything less than $50 a week, in April 1944.

In the following August, Senator Pepper followed up this report by introducing into the Senate a concurrent resolution establishing a straight time hourly rate of 65 cents an hour as the minimum below which the N.W.L.B. should consider any wage substandard. If this were agreed to, it would in effect supersede the national minimum of 40 cents established under the Fair Labor Standards Act and would affect directly some 11 million workers; there would also be some effect on differentials for skill. The Senate Subcommittee on Wartime Health and Education held hearings[28] on the resolution at a time, it might be noted, when there were a number of cases before the N.W.L.B. involving an interpretation of "substandard" wages, and these hearings helped further to focus public attention on the questions involved.

A feature of the hearings was the presentation by the Textile Workers Unions of a summary of testimony prepared by them in support of their claim, then before the N.W.L.B., for a 60-cent-an-hour minimum wage for all employees in the industry, which they declared was in line with the declared policy of the board "to eliminate substandard conditions of labor." The employers characterized this demand as an unwarranted attack on the Little Steel Formula, which by now had acquired an aura of conservatism.

Because of the growing shortage in textile products, considerable public interest developed in the condition of the textile workers, numbering some half-million persons, the majority of them now in Southern states, and most of the others in New England. About half the workers were women, many of them married and working with their husbands to provide the family income, since wages were both low and irregular, earnings being among

[28] See Hearings before a Subcommittee of the Committee on Education and Labor, U. S. Senate, 78th Congress, 2nd Session, November 1944, on substandard wages.

the lowest in American industry. Workers in the Southern mills, many of them the "uneducated offspring of depressed areas," were for the most part unorganized until 1937 when the Textile Workers Union was formed. The union was now taking a leading role in the development of opinion with respect to the determination of what constituted "substandard wages," whether or not such wages had been increased under the Little Steel Formula. After making an income-expenditures survey among their members[29] and drawing attention to the effect of hidden hunger on efficiency, they analyzed a variety of budgets as representing in concrete form an acceptable minimum level, and finally advanced as the "minimal of minima," a budget which approximated the W.P.A. emergency or relief budget of 1936, the "minimal nature" of which, they contended, could not be disputed.

In pricing the items that went to make up this minimum-wage budget, the T.W.U., though it obtained prices in both credit and "cash-and-carry" stores, gave greater weight to small independent stores than did the B.L.S. in its pricing, on the grounds that low-income workers whose jobs are insecure have to shop in stores where they can get credit in periods of unemployment, even though their prices are higher. The T.W.U. was also criticized for giving somewhat undue weight to New England stores where prices were, on the whole, higher than in the South. However, as the Bureau of Labor Statistics admitted, the goods priced for the T.W.U. budget were of lower-price lines than those included in the B.L.S. index. Having priced their budget items, the T.W.U. added a shopping allowance of 17 percent additional to the food bill to compensate for poor buying habits, waste, and so on, since, they argued, some leeway must be given if the nutritional values provided for, theoretically, in the budget were in fact to be obtained, particularly at low-income levels; a sum was also added for payment of withholding and social security taxes. The total came to $33.69 per week.

There was a considerable amount of argument about the items to be included in a minimum budget, as well as of pricing techniques, so that now to the battle of the indexes, was added a battle of the budgets. There was no gainsaying the low level of consumption, from an American standpoint, provided for in the W.P.A. budget, but it was, nevertheless, $9.30 per week higher than the average textile worker's earnings, and in the South practically all workers received less than the budget total. However, the W.P.A. budget provided for a family of four, with the father the sole income earner, whereas in the textile industry there were a considerable number of unmarried workers, and family income was frequently augmented by the

[29] T.W.U., *Half a Million Forgotten People*, 1944.

wife's earnings. The union position, in speaking to these points was, with respect to the first,[30] that we have to provide for the normal and usual situation, which is sooner or later marriage: "In some European countries, where there is a little less economic leeway, they have met the situation by family allowances. . . . We have not done that in this country except in relief cases; so long as we talk about a wage system, we expect that single persons will marry and that the wage will be needed for support." With respect to supplementary earnings by the wife, the C.I.O. stand was that a wage earner "who is the head of a family should earn sufficient to maintain that family at a decent standard of living, and that it should not be necessary for the mother or the children to work in order to save the family from sinking into substandard living."

CAPACITY TO PAY. Into this debate Chairman Davis of the N.W.L.B. brought another line of argument. Could the economy, he asked, sustain the minimum standard of living represented by the proposed basic wage of 65 cents an hour?

"You cannot wish 65 cents an hour out of the air, you know. You have got to earn it. . . . You cannot get something like 50 percent increase in the standard of living without an increased purchasing power and that means . . . a production of goods at prices so that the wages you pay will buy one-and-a-half times as much as they buy today. That is the problem before the American people."

He was arguing that an increase in real purchasing power cannot be brought about through legislation, but the unions were not prepared to accept this position. One factor emphasized by the unions, in pressing for the adoption of the 65-cent minimum, was the allegedly "terrifyingly large profits being extracted out of the present war effort of all the people."[31] As noted above, various estimates of corporation profits were being given at this time. Philip Murray (C.I.O.) used figures indicating that profits had more than doubled.

Students of social relations have to keep in mind the fact that current estimates of these proportions are subject to considerable revision and totals never seem to tally. What is important is not the actual figure but its general magnitude and the effect it has on attitudes and behavior at any particular time. The public display of lavish expenditures by those who, it was widely believed, belonged to a new crop of war millionaires had a considerable effect on the union position during this period. Men do not stop to consider how little would be available on the average to everyone if all the

[30] See testimony by Broadus Mitchell, Hearings on Substandard Wages, *op. cit.*, p. 183.
[31] *Ibid.*

alleged profits were equally divided; extravagant display suggests that perhaps after all an increase in real purchasing power for the masses can be brought about through legislation.

The proposed 65-cent minimum wage did not get the approval of Congress, but the discussions attendant on its consideration had some influence on public thinking and in February 1945, the N.W.L.B. raised the basic wage rate for textile workers to 55 cents an hour, both as being fair and equitable, and also necessary to raise wages above the sub-standard level; a general increase of 5 cents an hour for those above the new minimum was allowed to maintain customary differentials—this decision was subject to the approval of the O.P.A. and the O.E.S. if price increases were involved. This was about the time the W.P.B.-O.P.A. clothing orders were issued, designed to bring more low- and medium-priced garments on the market, with a view to rolling back clothing prices and therefore the general cost of living.

Shortly afterwards the N.W.L.B. increased from 50 to 55 cents an hour the level up to which regional boards might, in their discretion, approve voluntary applications by employers for wage increases; by this action the board, in effect, now fixed at 55 cents the dividing line between what they considered substandard pay and that affording a "decent standard of living" in wartime. This decision was expected to affect more than four million workers, including those in the lumber industry, and also many in the service trades, such as employees in shops, department stores, and laundries.

THE FIXED-INCOME GROUP. Another group in the community to whose living conditions attention was drawn during the war and particularly in 1944, was the so-called "fixed-income group." This is a vague and heterogeneous group; narrowly defined it includes those who are living on pensions, annuities, interest, and allotments of various kinds which do not change with the price level, so that their living conditions get the full impact of rising prices. The group is also taken to include the so-called "white-collar classes," such as public employees, whose salaries are fixed by legislation and slow to move, and who, as pointed out above, were not under the jurisdiction of the N.L.W.B. There are also those in offices, banks and other financial institutions, stores, and so on, who are either unorganized, or only recently organized into unions, and whose income has usually been slower to move upward in an inflationary period than that of workers in industry, or at least certain classes of industry.

It is well to keep in mind the distinction between those whose incomes are in fact fixed (or part of whose incomes are fixed) and who can be counted as firm supporters of a "sound money" policy, and those who,

through appropriate action, political or economic, may be able to get income adjustments. One of the surprising developments of the war period (and even more in the postwar), was the slowly accumulating determination of the teachers to organize in strength for increases in salary, usually on a "cost-of-living" basis, but with some emphasis also on what should be a "proper" minimum wage for the teaching profession.

At Senate hearings held in December 1944, on the position of the "fixed-income groups,"[82] the chairman, Senator Claude Pepper, deplored the fact that there was no central agency, in or out of government, able to tell the committee how "extensive and how acute" this problem of the fixed-income groups was. Estimates ranged from 10 to more than 20 million. The Pepper Subcommittee used the figure 15 million as a working basis, "for lack of a better one." Included in this group were the so-called white-collar salaried employees, pensioners, and annuitants. Another large group of fixed-income persons were the wives and dependents of servicemen who were living on government allowances. The health and security of these millions were said to be affected by the position in which they now found themselves. There were also more than five million government employees (exclusive of teachers) employed before the war at all levels of government; these were now steadily losing ground, though the relative change in position for different groups varied.

In one of its fact sheets, the O.P.A., after pointing out that one of the purposes of the price control legislation was "to protect persons with relatively fixed and limited income . . . from undue impairment of their standard of living," presented income estimates for selected groups as follows:

Type of Income	No. of Persons Receiving Payment	Average Monthly Payment per Payee
Public assistance	2,808,000	$ 28
Old-age insurance	731,000	19
Military allotments	5,868,000	56
Veteran pensions	952,000	39
Railroad retirement payments	162,000	66
Civil service pensions	76,000	82
Government salaries*	5,093,000	136

*Include federal, state, local government and public education salaries; exclude military pay and wages in arsenals, navy yards, etc.

[82] Subcommittee on Wartime Health and Education, established by Senate Res. 74 of the 78th Congress, 1st interim report.

In some cases, the O.P.A. pointed out, this income did not represent the total income of the person receiving it, but there were no data on this total. The number of persons shown here included only wage and salary recipients—many of them had dependents who must be supported on these incomes. This group was said to constitute at the minimum a quarter of the total population of the United States.

The Senate Subcommittee was of the opinion that "some 20 million Americans have not enjoyed rises in income commensurate with the most conservative estimate of cost-of-living increases. Moreover we found that before the war a large proportion of these people had substandard or below subsistence level incomes." They especially recommended to state, county, and municipal governments that they increase the basic salaries of their low-paid workers, particularly the salaries of teachers. However, action in this direction was very slow and sporadic during the war years.

WORKING CONDITIONS. Though the trend of wage-price relationships is a matter of basic importance in considering the impact of war on the actual standard of living of wage earners, there are other factors that should not be overlooked. Was there, for instance, any significant change in working conditions—hours of work, factory standards, lunch programs, health and welfare funds, and so on?

One important factor in the wartime situation was a widespread extension of overtime work, involving in many cases the three-shift system. Average hours of work are difficult to estimate, but they probably totaled about 43 in 1940 for the entire labor force (slightly below 42 hours for non-agricultural workers, and below 53 in agriculture); in 1944 the average had risen to about 46.7.[83] Overtime not only affects the pattern of consumption but disrupts family life and customary associations with friends and neighbors. For those workers who were covered by the Fair Labor Standards Act, work in excess of a 40-hour week was paid for at time-and-a-half. But increased earnings at the expense of leisure are not necessarily an indication of a rising level of consumption (even apart from price changes) and may have an adverse effect on the level of living, broadly interpreted.

Since wage rates were stabilized, many employers took measures to hold their workers and increase production incentives through improvements in factory conditions. There was even some experimentation with color harmony in production rooms, stimulating or restful music, traveling food wagons during rest periods, and so on. Some industrial plants, particularly those in new areas where facilities were poor, made a feature of a free or subsidized

[83] J. F. Dewhurst and associates, *America's Needs and Resources*, 1947, Chap 2.

cafeteria at the factory site, and experts from the U. S. Department of Agriculture were assigned to cooperate in this development.

Some companies, as for instance, the Kaiser plants on the Pacific Coast, developed an overall voluntary system of prepaid medical care. Others made provision for paid vacations, sickness and retirement pay, or had different plans for putting a floor under income, or under certain areas of consumption. Surveys have indicated that workers, at least in some industries, place considerable importance on adequate and sanitary rest rooms, and in some cases, special attention was given to improvement along these lines. Some companies, particularly in the distribution and service trades, regularly gave their employees discounts on goods purchased directly or else facilitated cooperative buying pools of various kinds, which were especially important during the war with respect to goods in short supply.

On the other hand, conditions of work in some of the newly developed war industries, and particularly conditions of living outside the actual plant, were very bad, so crude in fact as to affect efficiency, lead to absenteeism, and actual migration, as was indicated above in connection with the problem of war housing.

As a result of these varying circumstances, there is no clear impression in one's mind as to whether or not working conditions changed during the war—and in what way.

So-called welfare developments have at times been eyed suspiciously by unions as an attempt to sidetrack collective bargaining, but during the war, with wage rates more or less stabilized, the unions pressed for improvements along these lines. Studies of the economy from a consumer point of view have given scant attention to "living conditions" on the job, though half a worker's waking life is spent there. It is possible that improved working conditions may be in lieu of increased wages or shorter hours, in which case the consumption level of the family will suffer either directly through loss of income or indirectly through loss of the worker's leisure time. On the other hand, if improved working conditions lead to increased efficiency, the result may be a general rise in the consumption level. The quality of life on the job has undoubtedly improved in many ways over the years, with the development of factory supervision, efficiency standards, etc., despite the pressure of mass production techniques, but the effect of war on this trend is not clear.

The Housewives

In considering the effects of war on the position of income earners, we have ignored the housewife, whose efforts receive no stipulated financial

return and are not recorded in statistical figures, but nevertheless are more significant from a production point of view than most of us usually recognize, or at any rate openly acknowledge.

High-pressure propaganda was brought to bear on the housewife during the war years from various private and public agencies, including the Civilian Defense Organization, to get her to spend "wisely" in line with the stabilization program, to manage her ration coupons efficiently, to adjust the food habits of the family to the shifting nature of supply and the developing science of nutrition, to conserve domestic inventories both of consumer capital and consumption goods, to can food and make over clothing, and generally to increase home production so far as possible in order to maintain the actual standard of living, if not to improve it, and particularly to develop an attitude of mind that would help to maintain a high level of civilian morale.

Though standing in line never became the universal experience here that it did in Europe, it was something with which most people became familiar at one time or another. Carrying of packages did become a general experience, and in many instances was a considerable burden, offset to some extent by satisfaction that there were goods to be carried. In many middle-class homes the housewife had to do without customary service at a time when new mechanical aids were unobtainable, so that she frequently became involved in a continued round of household activities, in addition to home-front duties outside the home. The nature and significance of these home-front duties offer an interesting subject for research.

THE POSTWAR PROBLEM

We have a considerable amount of data bearing on the impact of war on the level of consumption in the United States, but it is no use pretending that the final picture is clear; the canvas is tremendous, and many of the details blurred. However, it is certain that because of the tremendous capacity for production shown by our economy when fully mobilized, and the various controls instituted—though there was considerable change in the pattern of consumption and consumers could not always buy in accordance with their customary scale of preferences—speaking generally, the consumption level for most people was well maintained, and for many there was considerable improvement over prewar conditions.

At the end of the war controls were rapidly lifted. It was argued by those who urged such a course that removal of controls would lead to a rapid increase in supply of consumer goods that would in itself act to hold down prices. But this did not turn out to be so—as was foreseen by representatives

of consumer groups and others who supported the O.P.A. In the first place, we were apparently operating at about the peak of our productive capacity under existing circumstances, so that a further rise in price could not call forth further effort. Moreover, demand continued at an unexpectedly high level. There was some falling off in government demand but not as much as was hoped for under peacetime conditions because effective peace was not, in fact, established. Moreover, demand from overseas, bolstered by American gifts and loans, was urgent. A significant factor was the competitive situation at home—particularly competition between demand for replacement and expansion of capital goods and for consumer goods. By November 1947 the B.L.S. index of consumer prices was as shown by the figures in Table 8.

TABLE 8. B.L.S. Consumers' Price Index for Moderate-Income Families in Large Cities (1935–1939 average = 100)

Year or Month	All Items	Food	Apparel	Rent	Fuel, Electricity and Ice	House Furnishings	Miscellaneous
1929	122.5	132.5	115.3	141.4	112.5	111.7	104.6
1933[a]	92.4	84.1	87.9	100.7	100.0	84.2	98.4
1939	99.4	95.2	100.5	104.3	99.0	101.3	100.7
1940	100.2	96.6	101.7	104.6	99.7	100.5	101.1
1941	105.2	105.5	106.3	106.2	102.2	107.3	104.0
1942	116.5	123.9	124.2	108.5	105.4	122.2	110.9
1943	123.6	138.0	129.7	108.0	107.7	125.6	115.8
1944	125.5	136.1	138.8	108.2	109.8	136.4	121.3
1945	128.4	139.1	145.9	108.3	110.3	145.8	124.1
1946	139.3	159.6	160.2	108.6	112.4	159.2	128.8
November 1947	164.9	202.7	190.2	115.2	126.9	188.9	143.0

[a] A comparison of these figures with those given above, p. 84, will show the different results obtained when the base year is changed from 1913 to 1935–1939.

In November 1947, the President called Congress into special session, with a request for power to reestablish stabilization controls in view of the general economic situation and the proposed European recovery program, approval for which was also being sought. That nothing effective was done then or during the succeeding months to check the alarming postwar inflationary trend is evidenced by the fact that by June 1948 the consumers' price index for all items had risen to 171.7, nearly 30 percent higher than in June 1946. Continued increases in food prices had brought the food price index to 214.1, 47 percent above the June 1946 figure. What to do about the continuing trend, with the underlying threat of a subsequent deflationary collapse was a leading issue during the 1948 election campaign. All relevant data should be analyzed from the point of view of the consumer interest and a

solution found that will lead to the goal of maximizing consumer satisfactions. This calls for the development of a well-considered consumer program hammered out by those who are conscious of the consumer function, and can be said to represent a consumer point of view; and it calls for a well-organized consumer movement able to bring such a point of view to bear effectively on public policy.

The underlying question is: "How can we achieve an optimum level of consumption?" This assumes that we are agreed on what is an optimum level. We must then proceed to consider how, by individual action on the part of the consumer or by group action with respect to the economy as a whole, we can achieve this goal, if it is attainable by means which are acceptable to us.

Let us direct our attention first to the role of the individual consumer, limiting it, however, for practical reasons, to the role of the consumer at the market, and the problems attendant upon its exercise.

Section II

CONSUMERS AT THE MARKET

Chapter VI

CONSUMER CHOICE

An analysis of the economy from the functional point of view must start with the consumer, since it is only with final consumption that the whole economic process takes on significance. In our consumer studies in general economics courses, however, we usually concentrate our attention not on consumption as such but on the point in the economy, namely the market, where goods and services pass from the production into the consumption process, into the hands of the consumer who consumes them directly or prepares them for final use. Study and appraisal of the use made by consumers of the resources that pass into their hands is usually made in courses on home economics. This division of labor, though convenient, is artificial, and should not lead us to overlook the basic fact that what we are all concerned with are the final satisfactions of consumption. However, though it is important to keep this in mind, there are many problems affecting consumers at the market which call for study from the consumer point of view. In the following pages much of our attention will be focused on the market.

In the United States there are more than 140 million people who have to be provided with consumption goods. In 1940, somewhat over 48 percent of the population ten years of age and over were included in the category of those "gainfully employed,"—the busy housewives are not among the group. Nearly all "make a living" through the operation of a money exchange economy, highly industrialized, in which the greater part of civilian production is organized by private entrepreneurs, within a framework of law, social practice, and institutional arrangement which canalizes but does not direct this productive activity. There is a considerable area of production for civilians which, even in normal times, is undertaken directly by government or at any rate is initiated by government, particularly in the field of services, as education, sanitation, and so on. Most of these services are not

obtained through regular market processes, and are not paid for directly, or indeed even indirectly in many cases, in the proportion in which they are used by individuals and families. Also the individual consumer has very little say in their selection. Home production is also of significant proportions in some areas.

But though the exceptions are important, most of the goods and services that pass into the consumption process, at any rate under urban conditions, are obtained through the market in a complex system which involves, first a money return for labor, and then an exchange of this money for consumption goods. Despite the complexity, the essential nature of the exchange should not be lost sight of.

THE SPENDING OR BUYING FUNCTION

An important part of the consumer function in such an economy is to use the exchange power which comes to the individual or the family from the productive process as effectively as possible at the market, taking into account the total resources available to them. These resources include their capacity to utilize to full advantage the goods and services that pass from all sources into the consumption process. As pointed out above, the consumption process includes the total history of such goods and services from the time they pass into the hands of consumers until the final act of consumption, and may involve a considerable amount of productive activity by the consumers themselves. As a matter of fact, a number of goods bought at the market are of the nature of consumer capital goods, for example, a sewing machine, or work bench, or kitchen stove. Their value as resources will depend on the extent to which they are used for increasing productivity in the home, for improving the useful, aesthetic, or appetizing quality of market purchases, and therefore the enjoyment finally derived from consumption.

We usually speak of the consumer function at the market as a "spending" function if we have our eye on the money passing over the counter, or a "buying" function if our attention is on the goods and services passing back into the market basket. Through wise "spending" or "buying" at the market, consumers can improve the level of consumption of their own families, within the limits of the existing economic system. Judging how well they carry out this function involves an appraisal of their behavior in the light of their total family circumstances.

That is to say, efficiency at the market is to be measured not only by the accumulation of goods and services in exchange for time, energy, and money

expended, but by the capacity of the family to utilize these goods and services, which in turn will be affected by standards of value reflecting what the family or individual members of the family believe will be most conducive to their enjoyment. In criticizing the market practices of individual consumers, we sometimes forget that they may be motivated by sets of values different from those which we ourselves find to be good.

Distribution of Consumer Units

In studying the consumer role at the market, we have to remember that much of the spending is done by or for the family as a unit. The population has been classified on the basis of what have come to be spoken of as consumer units, each family counting as one unit, as well as individuals living alone or as lodgers. In 1940, for instance, there were about 42 million consumer units, including some 31.3 million families of two or more persons, which comprised most of the population, and some 10 7 million people who were living alone or as lodgers. There were in addition about 1.7 million people living in institutions of various kinds, but these are not included among the consumer units. As the average size of family gets smaller, the number of family units per 1000 population increases, which has an important effect, for instance, on housing requirements

We shall be chiefly concerned here with the family unit. Unlike production, consumption is still carried on largely on a family basis. Though various members of a family may do a considerable amount of their own spending, and even consuming, independently, nevertheless the home provides a common center which has a determining influence on the pattern of expenditures for individual members and the family as a whole

But it is not enough to think of the family only as a unit. Families differ by age and composition, and, for comparative purposes, it is necessary to express expenditures in per capita figures and frequently even on a "per-adult-male" basis, as, for instance, in studies of nutrition In 1940, the average size of the family (exclusive of boarders, servants, guests, etc.) was about 3.5; the long secular trend is downward, though this downward trend was interrupted during the war. Statistics indicate that the average size of the family unit tends to increase by income classes, no doubt partly because some of the family units at the low income level are newly married, or elderly people on pensions, and so on. The birth rate itself tends to decrease as the level of income rises. It is, on the average, higher in rural than in urban areas.

In connection with their study on the City Worker's Budget (1947), the B.L.S. made tentative estimates indicating that, on the average, the dollar cost of goods and services for a family of two persons is about 65 percent of the cost for a family of four; for a family of three persons, about 84 percent; for a family of five, about 115 percent. But the composition of any one family is continually changing and as it changes, so does the distribution of expenditures. As each baby arrives, family needs change; as the children reach school age, another and new set of circumstances develops; then gradually the children leave home and finally the parents are alone again. This is a general pattern, with all kinds of variations for particular families.

One significant change in family circumstances is the increasing number of people who live to be over 60. As the relative number of children declines and that of the aged increases, what effect will this have on the pattern of expenditures? In 1944, the estimated age distribution of the population by percentage of total population was as follows: for the age class 0–14, 25.5 percent; 15–29, 26.4 percent; 30–44, 21.6 percent; 45–59, 16.1 percent; 60–74, 8.4 percent; 75 and over, 2.0 percent.

Another important factor in spending is geographical distribution. It makes a difference whether the family lives in the North or South, in New England or on the West Coast. It also makes a difference whether they live on a farm, or in a rural or urban area, or in one of the rapidly expanding suburbs. In urban areas, for instance, because of the smaller size of the average family compared to farm families, the percentage of family units in any given population total is higher than in rural areas, which means, for one thing, a demand for more housing units, per 1000 population, and all that goes with setting up house. Further, spending by rural consumers for any given cash income differs from that of urbanites because, as a rule, more food is produced at home, the basis of housing costs is different, and frequently recreation and other such expenditures are of a different character. Dr. Frederic Dewhurst[1] has prepared estimates of the distribution of consumer units (including families, single individuals living alone, and lodgers) by type of community in 1940, and the probable distribution in 1950 as shown on the following page (in millions).

These figures do not show the number of persons living under these different conditions, however, since they do not give the total number living in families. In 1940, the percentage distribution of total population according to the classifications, urban, rural farm, and rural non-farm, were 56.5, 22.9, and 20.6, respectively.

[1] *America's Needs and Resources*, 1947.

Type of Community and of Consumer Unit	1940	1950
Urban		
Total	25.4	30.0
Families of 2 persons or more	18.3	21.8
One-person households	2.3	2.9
Lodgers	4.8	5.3
Rural farm		
Total	8.2	7.9
Families of 2 persons or more	6.7	6.1
One-person households	0.4	0.5
Lodgers	1.1	1.3
Rural non-farm		
Total	8.3	10.0
Families of 2 persons or more	6.4	7.6
One-person households	0.8	1.0
Lodgers	1.1	1.4

Distribution of Income

A basic factor in expenditures is the distribution of disposable income among families of different size, occupation, and geographic location. As pointed out earlier, disposable income is obtained by deducting taxes from the figures of income distribution to individuals. At any one time the spending power of an individual family may be greater than its disposable income, since it can be increased from accumulated savings or from borrowing. Borrowed money, however, has to be paid back, usually at interest, so that the total volume of expenditures by the family over a period of time will be diminished rather than increased, unless the borrowed money actually leads to an increased income.

On the other hand, the family may choose not to exercise its full spending power, but save; as noted above, this proved to be a very important factor in the stabilization program during the war years. Despite these qualifications, the size of disposable income at any one time, and over a period of time, is of primary importance in a study of expenditures.

Another point to be noted here is that though a change in tax policy may result in a change in size of disposable income for any family, such a change

in policy, if it results in an increase or decrease in customary services by government, may have a direct influence on a family's expenditure pattern out of proportion to the change in tax burden. For instance, if a system of general health insurance were adopted, the tax burden on any particular family would increase, but this might be more than offset by benefits received and result in an increase of disposable income available for other areas of consumption.

The pattern of income distribution among different income and occupational groups is also significant in a study of expenditures. A large percentage of national income in the hands of a comparatively few families will result in an entirely different set of expenditures for the country as a whole than if it were distributed more evenly among many families, and for a number of reasons. Moreover, since the rate of savings increases as income rises (though not necessarily proportionately), a wide range of income classes probably means a higher percentage of total income than would otherwise, goes to savings. That is to say, if total disposable income were more evenly divided, the total volume of savings might be less—but this is a matter of speculation and controversy.

When the findings of the 1935–1936 income-expenditure survey were revealed, the high concentration of spending power in the hands of a relatively small percentage of consumer units was discouraging to those who were looking for a "mass market" for their goods. Increased taxes on high-level incomes, will affect the expenditure pattern unless the additional sum is taken out of savings. The total effect will be all the greater if the additional tax funds are used to provide goods or services for lower-income classes who previously were buying them out of income.

Any change in the distribution of income between different occupational groups, as between farmers and others, or between dividends and wages, will also affect the character of total expenditures. It has to be kept in mind that the situation is dynamic and not static, whether in terms of the individual family or any particular group in the community, or an average of the whole.

The volume of consumer expenditures in 1939 was $67.5 billion; in 1944, $110.4 billion; in 1946, $143.7 billion. This represents income payments to individuals less taxes and savings, and plus credit.

Of recent years, the Federal Reserve Board has arranged for a series of limited surveys as a basis of estimates of the distribution of income, savings, purchases of durable goods, and so on. Certain financial data obtained in the 1946 and 1947 surveys have been tabulated to show the percentage of "spend-

ing" (or "consumer") units, and also the percentage of family units at post-war income levels. These levels are, of course, much higher than at the time of the 1935–1936 survey. Summary figures are shown in Table 9.[2]

If the income level rises because of an inflationary process, that is to say, if more "money" flows into circulation than is represented by goods and services, with a resultant rise in the price level, then, as we saw during the war, the relationship between groups and also between products, changes. The income of some groups and families may rise faster than the price level, so that they will be in a position to increase their overall purchases of goods and services; others will not be so fortunate. Moreover, if the price of one group of products rises more than another, the percentage expenditures by

TABLE 9. Distribution of Spending Units and Family Units by Size of Income, 1946 and 1945 (in percent)

Annual Money Income Before Taxes	Spending Units		Family Units	
	1946	1945	1946	1945
Under $1000	17	20	15	18
$1000– 1999	23	27	20	22
2000– 2999	25	23	22	22
3000– 3999	17	15	18	17
4000– 4999	8	7	10	9
5000– 7499	6	5	9	8
7500– 7499	4	3	6	4
All income groups	100	100	100	100
Median income[a]	$2300	$2020	$2600	$2400

[a] The median amount is that of the middle unit when all units are ranked by size of income.

product groups is likely to change—this happened, for instance, during the war when the rent level was held down but clothing prices rose out of proportion to the average price level. The "money problem" illustrates again the interrelationship between political action and economic conditions. Students should not jump to the conclusion that a larger volume of disposable income, or a larger volume of expenditures will necessarily mean more goods and services passing into the consumption process.

Family Inventories

Another factor in expenditures, or what one might call the spending position of the family, is the character and size of the inventory of durable and semidurable goods. Some of these goods, as mentioned above, are more properly classified as consumer capital goods than as consumption goods, though the distinction is not always clear. Apart from the ownership of

[2] See *Federal Reserve Bulletin*, June, July, and August 1947.

homes, very little was known until recent years of the ownership and distribution of durable and semidurable goods in the hands of consumers. Since the mid-thirties, however, an increasing amount of research has been done in this field, by private and public agencies, for various reasons.

In the 1941–1942 income-expenditure survey, the B.L.S. and the B.H E obtained some material on the ownership of various classes of durable goods by different income classes, and by cities, rural non-farm, and rural farm areas. In terms of the 1941–1942 income level, the B L.S. said: "It is probable that non-farm families—urban and rural—that had incomes in excess of $3000 in 1941 had most of the household equipment they needed. The potential new demand, particularly if prices are maintained at reasonable levels, will be found in the tremendous number of families with incomes of $3000 or less." If true, this would mean that for families of $3000 or over, expenditures for such goods would be limited to replacements, and presumably that families below that income level would buy on the basis of instalment credit of one sort or another.

More recently, an elaborate estimate of the total value of durable goods (those estimated to have a life span of three or more years) and semidurable goods (with an estimated life span of six months to three years) in consumer hands in 1940 was made for the Retail Credit Institute of America.[3] In a preface to the study the Executive Director of the R.C.I A. said "Both the measurement and the concept upon which it rests—that of consumer plant and equipment comparable in its economic function to business plant and equipment—make possible a new and fuller understanding of the bases upon which the American standard of living rests. . . ." The data suggested, in the opinion of the authors, that 10 percent of the national wealth took the form of these inventories in the hands of consumers; if housing were added, about one third of the country's wealth was in their hands, and its care and maintenance was their direct responsibility. Our interest here, however, is in the effect ownership and distribution of durable goods has on the expenditure patterns. There is some evidence that an increasing proportion of certain classes of durable goods may be retained in business hands and made available for consumer use as part of the rent, or on a separate rental basis, as, for instance, the new "launderettes." Such a development would influence consumer expenditures on durables to the extent the new service is used by those who would otherwise have bought these goods

[3] Reavis Cox and Ralph F Breyer, *Economic Implications of Consumer Plant and Equipment*, p. 18

themselves; otherwise it would involve an additional current expense, but with a saving of energy.

EXPENDITURE PATTERNS

We can now ask how people spend their income. Or rather, how much do they save and in what form do they save it; how much do they spend, and what do they spend it on? Such questions can only be answered with respect to a particular time, since the use of income changes with changing circumstances.

It is important that students become familiar with the problems involved in collecting material of this kind from consumers and in classifying it; and also that they come to realize differences in local conditions. This can best be done by preparing accounts of the expenditures of one's own family, and of as many more as can be induced to cooperate.

A considerable amount of historical material given above has a bearing on this question.[4] Table 10 shows the distribution of expenditures in 1935–36,

TABLE 10. Share of Each Division of Nation's Consumer Units in Aggregate Disbursement 1935–1936—Urban and Rural Combined

	Aggregate Disbursements (Millions)	Percentage of Aggregate Spent by: Upper Half	Lower Half	Highest Quarter $1715 and Up	Second Quarter $1070—$1715	Third Quarter $635—$1070	Lowest Quarter Under $635
Food	$16,865	66.8	33.2	40.1	26.7	20.5	12.7
Housing	9,506	71.4	28.6	47.1	24.3	17.5	11.1
Household operations	5,285	74.6	25.4	50.5	24.1	16.4	9.0
Clothing	5,261	76.9	23.1	53.5	23.4	15.4	7.7
Automobile (and operation)	3,781	87.0	13.0	65.2	21.8	9.6	3.4
Medical care	2,205	77.1	22.9	53.5	23.6	14.7	8.2
Recreation	1,643	83.9	16.1	61.6	22.3	11.8	4.3
Furnishings	1,422	81.4	18.6	55.6	25.8	13.6	5.0
Personal care	1,032	72.1	27.9	46.8	25.3	17.6	10.3
Tobacco	966	72.2	27.8	44.4	27.8	18.7	9.1
Transportation (not auto)	884	69.8	30.2	46.2	23.6	18.4	11.8
Reading	551	71.2	28.8	45.0	26.2	18.5	10.3
Education	506	87.1	12.9	69.7	17.4	9.3	3.6
Other items	307	78.2	21.8	53.4	24.8	15.0	6.8
All consumption items	$50,214	73.1	26.9	48.3	24.8	17.1	9.8
Gifts	2,178	87.4	12.6	70.7	16.7	9.2	3.4
Personal taxes	889						
Savings and deficit	5,978	124.5	−24.5	121.2	3.3	−7.6	−16.9
All Items	$59,259	79.0	21.0	56.8	22.2	14.2	6.8

[4] See p. 94.

on a national basis, by consumer units, divided first by the upper and the lower half of consumer units according to income brackets, and then by quartiles. Attention should be drawn to the fact that, in this table, distribution of expenditures is given by consumer units, including both families and individuals living alone or as lodgers; also no account is taken of differences in size of family at different income levels.

From the point of view of the salesman, it will be seen from Table 10 that for all commodities the upper half of the consumer units classified by income is much more important than the lower half, and the upper quarter than any of the others. Though, generally speaking, the proportion of a family's income spent on food decreases as income rises, nevertheless the total volume of food purchases made by the upper-income groups is greater than that by the lower-income groups—though some of this volume may be accounted for by expensive dining out and so on, and does not necessarily imply a better level of nutrition among the well-to-do families than among some of those with less income. It will be noted also that there is some expenditure even by families in the lowest quarter on all commodity groups, including recreation, reading, and so on.

From other data obtained in the 1935–1936 study, it was shown that "average" savings by income classes did not emerge until the second highest quarter of income classes was reached. In New York City, there were no average savings among white families until the family income reached the $2250–2499 bracket; in fact, many of them were living on a deficit basis.

Factors Affecting Expenditures

Let us now ask, why consumers spend their money the way they do. Why do they save as they save, buy as they buy? We have already drawn attention to certain significant factors, for example, size and geographical distribution of consumer units and income distribution. We shall now make a somewhat different approach to the subject.

There was a time when some business forecasters and economists, particularly prominent in the 1920's, took a highly mechanistic view of the nature and rate of consumer expenditures, at least by large commodity groups. The principal determinant of the volume of expenditures was said to be the level of national income, consumer response being automatic. Investigators who shared this point of view talked in terms of the trends indicated by their statistical charts. With given data on national income and supply, they constructed, with great precision, elaborate demand-price curves—for instance, such material prepared for agricultural products formed the basis

of the price-forecasting that was used in the agricultural outlook service in the 1920's. That is to say, both the volume of saving and spending for any given income total was considered predictable—the overall volume of spending being put at about 90 percent of disposable income.

The depression upset some of these calculations, and a new group of forecasters and economists gave emphasis to the uncertainty in consumer behavior at the market. In his book, *High Level Consumption* (1935), W. H. Lough argued that output per capita had increased to a point where consumers were no longer tied to staple items of consumption but could now exercise choice among a wide variety of products both within and among different classes of consumer goods.

Interest turned, therefore, to the "shifting and incalculable factor in consumer behavior, particularly as the level of consumption rises and an increasing variety of goods are available for selection." A sudden shift in fashion from hats to scarfs, which nearly ruined the millinery industry, provided a good illustration of the unpredictability of consumer expenditure, at least in certain lines, which necessitated, or was said to necessitate, the development of high-pressure selling techniques by a producer who wanted to retain or open up a market.

Granted, it was said that, on the average, a certain percentage of income at different income levels was spent for food, what a producer wanted to know was whether consumers would buy the particular line of food in which he was interested, and his particular brand. The opinion of a psychologist now became important, as interest centered more on problems of behavior and on the possibility of inducing consumers to buy what a producer wanted them to buy. There was an increasing interest in consumer choice and the factors that underlie choice-making.

"FREEDOM OF CHOICE." There is a great deal of literature on the subject of consumer choice. Much of it relates to so-called "freedom of choice," though this is an ambiguous phrase since there is no choice without freedom. It is usually interpreted to mean lack of legal restraint on the way income is spent for goods on the market. In our economy, in peacetime, there are, as a matter of fact, very few restrictions imposed by government on consumer action at the market; that is, on the way people use their spending power. The era of sumptuary laws based on status is over. There are a few cases in which the sale of goods is restricted to certain classes of consumers—for instance, certain drugs can only be bought by those having a doctor's prescription, liquor cannot be bought by children, and so on. There are certain controls on the use of particular items which may be said to affect their

sales to some extent. During the war, the exercise of choice was restrained by rationing; consumers could not spend their money on rationed goods in excess of their coupons.

Restraints on the exercise of buying power at the market are not to be confused with the kind of control we get, in some instances, on production at the source or on the movement of goods through channels of distribution, which is designed to keep certain goods or classes of goods off the market altogether. This is an important question for consumers, to which we shall return later. But it is not a factor in consumer choice in the limited meaning we are giving the phrase here.

Sometimes "freedom of choice" is used to mean freedom from any "formal controls," formal controls being taken to include those exercised by parents over children or those exercised over any consumer or consumer group by persons having power to affect behavior at the market. But such an interpretation would lead us on gradually to consider all the various influences affecting market decisions, including teachers, friends, advertisers, and so on, until "free choice" disappeared in the process.

Professor Leland Gordon suggests that consumer choice is only "free" when it is rational,[5] but such a limitation would probably leave us with nothing in the area of choice for discussion. If people are influenced to buy by advertising appeals, we can only assume that they choose to be so influenced; otherwise we would get into hopeless arguments about what they want as distinct from what they "really" want. But to say that people buy what they want, is not the same thing as saying they would want the same things if they were better informed about products on the market, or more critical of their own scale of preferences in terms of its function to produce satisfactions, or more "rational" with respect to values. What sort of things would consumers want if they were "rational"? The distinction to make is not between what consumers want and what they really want, but between what they want and what they would want under different circumstances.

We shall use consumer choice here in the sense that consumers are free to select among goods offered on the market, to the extent that they are not subject to external compulsion and within the limits of their spending power. The latter limitation is of course a controlling factor. In this connection Professor Gordon has well said that "the theoretical assumption that consumers are free to choose what they want and how much is clearly an economic fiction." The factors that determine the contents of the pocketbook set a limit on consumer action at the market.

[5] *Economics for Consumers*, 2nd ed., 1944, pp. 51–64.

WANTS AND NEEDS. Within these limits, what are the factors determining the way the consumer exercises choice? These are usually expressed in terms of "wants" or "needs" Consumers buy goods, it is said, because they "want" or "need" them

There is considerable confusion as to the difference in meaning between these terms. Needs are sometimes used to refer to some basic physiological requirements of food, shelter, and so on, and wants are used to refer to those goods and services in which one can indulge after "needs" are met. This distinction however is highly artificial. How does one establish the physiological minimum which represents needs as distinct from wants? Are "cultural" as distinct from "physiological" needs to be recognized or are these in the category of wants? Are there "social" or "psychological" needs to be recognized? Does a working girl "need" or only "want" a party dress? The New York State Department of Labor, in listing the content of a "minimum standard of living" as a basis for fixing a minimum wage in New York State, included clothing suitable for social occasions, remarking that if this was not included, girls would take money allotted for food and spend it on what to them seemed more important Can it be said their "need" for what they regard as suitable clothing is more urgent than their need of nutritive food?

Puritanical influence still affects in some ways our notions of necessities and luxuries—the difference between what was necessary for physiological existence in a stern environment and what was for "enjoyment," and therefore conducive to a waste of effort and even moral sin The distinction between "necessities" and "luxuries" has been recognized in public policy, whether or not the distinction made is valid—for instance, the "luxury" tax on women's pocketbooks is assailed by some groups as a tax on necessities; the "luxury" tax on cigarettes and theaters has also been attacked on the same grounds This leads us back to a definition of wants and needs.

As we shall use the term here, "wants" are the motivating factors that lead consumers to buy certain goods rather than others. "Needs" imply normative standards by which wants can be evaluated in terms of certain ends—these standards, however established, will in all cases be measures of value, rather than the motivating factors themselves. The notion of "essentiality," which was important in war programming, as discussed above, might relate either to wants (in terms of their urgency) or to needs (as established normatively) It might be said that consumers do not always need what they want according to whatever standards of judgment are adopted—as, for instance, when children buy "too much" candy. On the

other hand they do not always want what they need, when, for instance, they reject whole wheat bread.

The standards established may be individualistic—that is, established by the individual consumer as a guide to conduct—or they may be socially recognized or even legally adopted. They may be established in terms of "efficiency," or "health," or other such limited objectives or ends. The most desirable thing, of course, is to get people to want what they need, assuming the criteria on which needs are based are valid—but who is to determine this?

This was a point emphasized by the special committee on food habits, set up during the war by the National Research Council. From their knowledge of folkways on the one hand, and of the nutritive value of foods on the other, members of the committee tried to find the "most effective ways and means of adjusting habits to needs, of getting people to wish what they need"; and also to establish the new habits on a permanent basis. They were confronted by the problem of getting people to accept new foods, or to prepare foods differently or to alter their meal patterns, with a view generally to improving health, and in some areas to overcoming specific deficiency diseases—for example, pellagra in the South, which practically disappeared as incomes increased during the war, and more adequate and varied supplies of food came within the reach of the masses and were accepted by them.

With respect to food, certain scientific criteria of need have already been set up for a "health and decency" standard, but of course the standard itself is likely to be a shifting one. Moreover, it cannot take account of the appetizing quality added to food by the good cook, which makes a family want to take advantage of the nutritive values within their reach. Nutritionists are becoming increasingly interested in all aspects of the problem of getting people to want what they need in the way of food. Other illustrations will occur to young people whose parents and teachers have been trying to get them to want what they need, or at any rate what their parents and teachers think they need.

In the areas of consumption other than food, criteria of need are not well established. Some health and housing experts have been working on the joint problem of criteria for housing based on health needs—how many cubic feet of air does the individual need, and so on—but this is still in the early exploratory stages. Criteria for appraisal cannot be set up until the function of consumer goods is agreed upon—what is the function of clothing? What do we "need" by way of clothing? Various lists have been made for items

of clothing "needed" at a minimum level, as explained above. By what standard do we judge when we are "adequately" or "well" clothed? Can we, in short, establish general criteria of need for consumer goods at any one time? This calls first for an agreement as to ends. The concept of needs, as distinct from wants, obviously opens up problems of far-reaching importance, which we shall not further explore here.

In our system of free enterprise it is only when a need becomes a want that it affects the market The role of government in the economy has, however, been influenced by the recognition of needs—children need more food, so the government establishes a free-lunch program; low-income families need better housing, so the government develops housing projects, and so on. Since we are concerned here primarily with the consumer at the market, we shall keep our attention on wants as the determining factor in choice. However, having said this, we have to recognize that much family buying is determined by what some members of the family think other members need, rather than what they want; but we can explain even this in terms of wants as motivating factors at the market by saying that parents want to buy what they believe their children need.

THE PROBLEM OF SCARCITY. The basic problem of choice comes from the fact that our material wants exceed our means for satisfying them. It is interesting to speculate on how much a family would consume if everything were made free to its members If by some magic there were so much of everything that everyone could have all he wanted of goods and services, there would still, of course, be the problem of choice in the alternative uses of time and energy, which remain limited, and of consumptive capacity. Satiety would become the determining factor, not spending power.

There are some who take the position that wants are insatiable—wants, that is, for goods and services involving the use of economic resources, not necessarily in one particular area of consumption, but at any rate for consumption as a whole It is clear that the more we have of certain things, the less we enjoy them—for instance, the more bread we have, the less we want it. This is spoken of as *diminishing returns* from consumption, though it does not apply under all circumstances, or only after a certain level of consumption has been reached, for instance, the more "education" some people have, the more they want, though even here the point of diminishing returns might some day be reached.

If wants are insatiable, then we shall always have a problem of scarcity. This seems to ignore the limitations of human nature. Dr. Hoyt has pointed out that at a certain income level, admittedly a high one, savings seem to

become automatic; that is to say, they are not consciously put aside as part of deferred spending, or even for calculated investment, but are a residual left after families have spent all that they want to spend, because, presumably, they have consumed all that they want to consume.

However, it is clear that for most people the problem is still one of scarcity. They do not have the means to satisfy all their wants; for our community as a whole, with the present set of social values, not enough goods and services are obtainable, even when our productive capacity is "fully" utilized under existing conditions, as seems to be the case at present. We cannot produce enough to satisfy our wants, including our group wants for armed strength, and aid to Europe. We cannot close the gap between the acceptable or desired standard and the actual standard of living. The ascetic philosophy of finding happiness through material simplicity is not one that appeals to Americans

As a result, when consumers go to the market they must choose between this and that, or between so much of this and so much of that. In a family it is frequently a question of selecting a particular member who is to get something he or she wants or that the parents think is needed—if Mary gets a new jacket this month, John will have to wait until next month for his shoes.

THE SCALE OF PREFFRENCES Consumers are forced, therefore, to establish a hierarchy of wants, those that present themselves with the greatest urgency being the ones that get satisfied, within the limits of spending power, providing the means for satisfying them can be obtained through the market. We are concerned here only with those wants that become sufficiently urgent to find expression through expenditures. This is what constitutes *effective demand.*

By some more or less confused process, a scale of preferences is set up among wants or degrees of wants, but since there are always more than can be satisfied, some at the lower end of the scale will be below the line of effective demand, though always jockeying, as it were, for a position above it. That is to say, there is nothing static about any particular scale of preferences, or rather about the scale of preferences at any one time. Some wants below the line will get above it, others will fall below—a possibility which advertisers of new products will take advantage of, if there is no increase in real purchasing power. The scale of preferences is flexible; it may also be uncertain, causing the wavering in choice that afflicts so many of us at the market, the "impulse" buying, the indecision between the short- and

long-run advantage. However, in the end, decisions are made: either the money is saved or spent.

We can only assume that the pattern of expenditures reflects the pattern of wants under the conditions of our economy. If our attitudes were to change so that we could eliminate certain wants without diminishing our satisfactions, that would be equivalent, as Professor Boulding has pointed out, to an increase in productive resources—if, for instance, young people instead of spending considerable sums on Saturday-evening entertainment were to discover equal pleasure in an evening at home, the total satisfactions to be obtained from their present spending power would obviously be increased.

In this connection we have to keep in mind that decisions to "save" are just as much part of the pattern of consumption as decisions to "spend," at any rate for most families for whom savings are only a form of deferred spending, either to meet an unknown emergency or for some specific purpose, as sending a child to college or buying a house. If other provisions were made to meet unexpected hazards, as, for instance, through national health insurance or other extension of the social security system, what effect could this be expected to have on savings and therefore on expenditures?

The setting up of a scale of preferences which calls for so much of this and so much of that results, to use technical language, in *marginal utility* values for particular products. This has to do with the quantity of any particular product which the consumer will buy, in view of the fact that if more is bought of that product less can be bought of another—there is just not enough money for everything. If a boy has only $3 to spend on socks and ties, he may decide that in view of all the circumstances he will buy three pairs of socks and two ties, though he would like to have four pairs of socks and three ties; in this case the third pair of socks will represent the point of marginal utility for socks, considering his limited spending power. It implies a balancing of wants. This is a concept that applies throughout the economy whenever an allocation of economic resources has to be made. If I get more income, or if prices fall, or goods become available from other sources (for example, government), marginal utility values for me may change; new wants will find expression at the market.

A much discussed problem among economists is, how would a 50 percent increase in purchasing power (that is, a 50 percent increase in income, prices remaining at current levels) affect the scale of preferences and the general structure of wants as they find expression through the market? There has

been considerable interest in what is called "income elasticity," that is, the effect on purchases of a change up or down in income (which, of course, should be expressed in terms of real spending power). As a family moves up the "income scale," does it spend its money income in the same way as families do who have been at the new level for a long time? What happens to expenditures as per capita income declines? Is the result different if the income of the whole group falls off? This question also came up in our discussion of the effect of the depression on consumption levels.

INCOME ELASTICITY. The U. S. Department of Commerce has made various exploratory studies in this field. In a study classifying consumer expenditures by income elasticity,[6] during the unstable period from 1929 to 1940, an interesting attempt was made to measure the sensitivity of 174 items of consumer expenditure to changes in disposable consumer income—those items that rose or fell less than 8 percent with a 10 percent rise or fall in disposable income were classified as insensitive, those that changed more than 8 percent but less than 12 percent as somewhat sensitive, and those changing more than 12 percent as sensitive. During the period studied, two-fifths of total consumption expenditures consisted of insensitive items, a slightly larger proportion of somewhat sensitive, and less than a fifth of sensitive items. Though the demand for food (that is, the quantity of food that will be bought at any given price level) is more stable than the demand for durable goods as income falls, this is not true of all foods nor of all durable goods—people will eat more carbohydrate foods and will cut down on restaurant meals; they will wait for their new vacuum cleaner but perhaps not for smaller kitchen utensils. They will cut down considerably on the theaters, but not so much on the movies.

However, studies of income elasticity during such a period are complicated by the fact that prices are changed for some products and lines of products more than others.

"Price elasticity" has also been the subject of study and discussion. What is the effect on demand for any product or group of products as the price goes up or down, both when the general price level is rising or falling and when it is stable? As Dr. Nourse has put it: "Rich people have relatively inelastic demand schedules for all but superluxuries; poor people have elastic demand schedules for all but stark necessities." As prices rise, people in the lower- and middle-income classes whose income does not rise proportionately have to shift to substitutes, or drop certain items from their buying, and the gap between the actual and the acceptable standard of living widens—a

[6] Louis J. Paradiso, *Survey of Current Business*, January 1945.

development which is resisted as far as possible through economic or political action.

Choice can only be exercised with respect to supply available. In our economy, production of most goods is undertaken in advance of final order and is based on an estimate of consumer behavior as it affects profits. For the individual consumer, however, it is not only a question of production but of marketing; that is to say, the goods or services must be available without undue expenditure of time and energy. For some things a trip to the city will be undertaken; for other things, or under special circumstances, choice will be limited to what is in stock at the local store. Time and energy condition wants as well as buying power. They are part of the pattern of wants.

Indeed, underlying the whole structure of wants, there is a pattern of behavior which influences choice, and determines, to a greater or lesser extent, why we want some things more than others, so that we buy these and not those; this is true for the individual family, and for the community as a whole, and affects the use to which available resources are put. What we want at the market as reflected in what we buy, is a question that can be answered statistically, if we take the trouble to assemble available data. But why we want what we want is more elusive.

The factors underlying wants, and determining the scale of preferences according to which wants find expression, within the limits of purchasing power and available supply, are an important field of consumer interest, areas of which have been explored, mainly by market research and advertising agencies. There has, in fact, developed a considerable institutional activity, the purpose of which is to try to find ways of determining consumer preferences through surveys of various kinds, with respect to particular products or buying practices generally. Then the next step is to try to translate the results obtained, "the confused and confusing consumer responses, into accurate, usable specifications for the manufacturer and advertising man." In such studies there is at times a tendency to exaggerate the importance of method to the point of losing sight of the basic problem of arriving at some understanding of the motivating factors in consumer behavior, about which, in fact, we know very little. Perhaps the easiest approach for students is to start off by examining their own experiences.

We have been talking of choice as though the consumer were continuously aware of the choice-making process, but shopping would become an unbearable experience if conscious decisions on the distribution of money income had to be made for each item day by day. The fact is, as noted above,

every community develops a pattern of expenditures, based on a pattern of consumption, which despite the shifts that take place within it, is nevertheless fairly stable over considerable periods of time, bolstered by relationships, institutions, and social attitudes

BALANCE OF EXPENDITURES. Each community has a pattern of consumption, each group within it and each family; this pattern of consumption underlies the pattern of expenditures, and affects the scale of economic wants at any one time, though as a matter of fact we become so habituated to certain things that we hardly think of ourselves as "wanting" them However individualistic consumers may be, they do not break very far from the consumption patterns of the group or of the community of which they are a part. Clothing, for instance, is an area of consumption in which a person can show considerable individuality but an American woman, however individualistic, wears a dress, as is customary in America, not an Indian sari or a Japanese kimono.

The pattern of consumption and the pattern of expenditures change over the years as we have seen above; new things are added, old ones discarded, but at any one time the basic pattern is fairly clear Moreover, it reflects a certain balance between different items of consumption. This is a point which Dr Davis has well emphasized, a certain percentage of our total resources goes into food, into housing, clothing, recreation, and so on, and a certain percentage of consumer expenditures at different income levels or in different geographical areas goes into these items This percentage changes from time to time, and in times of crisis may change considerably, due to various causes, as we noted above, but nevertheless the concept of balance is useful.[7]

In an appraisal of consumption we might criticize the food consumed as being inadequate nutritionally, but to improve its nutritional value significantly might mean taking resources from housing or other items, the overall result of which might be less desirable, assuming our criteria of judgment are valid. Of course it might be possible to improve the nutritional level by changing the content of food consumed, without taking resources from other areas, and by increased efficiency actually improve other areas of consumption. Indeed, one of the reasons for consumer education is to help people examine the content of their consumption, and reevaluate their scale of preferences, so that by making a shift they can bring about an increase in their total satisfactions. However, at any one time, the pattern of con-

[7] See Dewhurst, *op cit*, p 81

sumption presents a balance between the various elements of which it is composed, and this in turn determines the pattern of expenditures

UNDERLYING DRIVES What we need to inquire into, therefore, is how these particular patterns get established, and how they are or can be changed In pursuing such an inquiry, some attempts have been made to reach back into the basic "drives" or "interests" of man, usually from the approach of psychology or cultural anthropology Dr. Hoyt, a pioneer in this field of exploration, classifies these drives or interests into two main groups, the primary and the secondary, "according to the degree of intensity of their diffusion in culture"[8]

In the primary group, found universally among men and even among animals, Dr Hoyt includes (1) those interests which she calls the sensory or physiological, as, for instance, the drive for food and drink, for warmth and shelter, for sex and the exercise of the body, and (2) those interests which are social, which lead us to want to be with our fellows, to gain their approval, to be one with the group.

In the secondary group, Dr Hoyt goes on to list the intellectual, which makes men want to experiment, to explore; the technological, which gives form to the ideas and experiences developed under the drive of intelligence and leads to the application of science to life, the aesthetic, which seeks the satisfactions of rhythm, form, order, and color, and finally the "empathetic," which Dr Hoyt explains as 'the name we give to the interest which arises from the human being's sense of the relationship of his ego to the cosmos"

Various other classifications of basic interests or drives might be, and indeed have been, made, but without attempting any precision in a field still being explored, we can accept the fact that there are such forces and ask why under different conditions and in different countries they are canalized in different ways, forming, on the economic level, for the community as a whole and particular groups within it, the characteristic pattern of consumption.

It might be pointed out, in passing, that under normal circumstances, in a modern economy, the very force of these basic drives seems to be moderated as their expression is conventionalized Most Americans, for instance, are not aware of a "drive for food," as the kind of force it is said to be in postwar Europe, or indeed as our own prisoners of war experienced it in many areas, with our customary three meals a day, we eat because we have an appetite and the food tastes good, without any acute sense of hunger.

[8] *Consumption in Our Society*, 1938, pp 16 ff

In "normal times," shopping for food becomes something of a routine matter, absorbing time, energy, and exchange power, but not requiring any conscious choice-making of a basic character—usually it is a matter of peas or beans, pot roast or pork, day by day or two or three times a week. Each day's food amounts to a relatively small figure, so that we tend to forget that in total it represents so large a part of our expenditures.

It would be a long and controversial undertaking to explore the reasons why the basic drives of people in different communities find satisfaction as they do in particular patterns of consumption. Historically, man has used his energy, accumulating knowledge, and developing powers of organization on the resources available in the natural environment in which he finds himself. But we use only the resources we know how to handle and that serve our ends. One community uses some foods and ignores others available to it; another community will make a different selection. The past keeps hold of us, particularly when vested interests, whose authority, prestige, or material prosperity are dependent on the status quo, use their influence to strengthen the power of custom—the medicine men in primitive tribes, or organized building interests who are fighting prefabrication today. On the other hand, the continuity of patterns of consumption, and of living generally, is an important stabilizing factor in any community; it conserves time and energy and the harrowing necessity of continually making new decisions. It makes possible production in advance of sale, on a private profit basis.

But the pattern is always in process of change, the rate of change differing from one period to another, from one community to another, from one family to another, depending on many circumstances. Any significant change in the environment will bring about changes in consumption of both a primary and a secondary character. Consider, for instance, the influence of such a development as central heating in colder climates, or modern air conditioning in the tropics. Central heating has had a considerable effect on consumption habits. It has led to a marked change in clothing, heavy underwear and multitudinous garments being gradually laid aside. It has brought about changes in food consumption, since warm houses reduce the need for "heating" foods. It has diminished the importance of the kitchen as a gathering place, and so on.

INFLUENCE OF SCIENCE AND INVENTION. Applied science is one of the most potent causes of change in consumption patterns. We have to remember that it is not the invention itself, but the invention as applied, which, from the point of view of changing consumption patterns, is the important thing;

indeed, some inventions that seem likely to be important never come into wide use at all They will not be used if we don't come to want them. But that still leaves us with the question of why we come to want some things and not others.

Application of an invention of great significance is usually a slow process, its influence gradually widening, so that we are hardly aware at any one time of the changes that are taking place, though the time lag differs for different processes and products and is likely to be accelerated by war or crisis As Professor Ogburn has recently pointed out, some inventions have not only one use but many.

For instance, there are hundreds of different uses of the photo electric cell, the so called electric eye New uses of this small electronic tube are announced almost every month Some of its uses are to count those who enter a museum, to determine the winner of a dog race, to measure the amount of smoke that comes from chimneys in a city, for the enforcement of smoke ordinances, to turn on automatically the lights at dusk, to pick out the defective cans in a series going by on a belt, to sort objects by size, shape, or color, to open for a waitress the door into the dining room, to turn on water, to level an elevator with the floor, to distinguish shades of color too fine for the human eye, and to warn people of the entrance of a burglar If many new inventions are widely used, then, of course, there will be many changes in our habits [9]

Some of these inventions affect the production process and their influence on consumption habits will be indirect, in other cases the influence is direct Professor Ogburn goes on to point out that when an invention comes into wide use, "the social effect is often more than merely the arithmetical sum of the individual habit changes" He says further

The development of television will have considerable influence on the family by providing a theatre in the home and a schoolroom for the observation and study of current events Because of this latter effect there will be a derivative influence on schools in their classes in civics, and also an influence on political institutions and parties, especially in selecting candidates for election on the basis of their physical appearance But this derivative influence on political parties will be slight, much less than the influence on the way the members of the family spend their time In turn, still further influences will be felt by the tailor, the barber, the dietitian, and the followers of other occupations affecting the appearance of individuals These influences in turn will be still weaker

Further, there is an "intermeshing of inventions," that is, an interaction from a number of different influences developing about the same time. In

[9] *Annals*, January 1947, p 82.

the development of suburbs, for instance, the automobile and the electric railway were important influences; the telephone, motion picture, and chain store also had their effect, but the relative importance of the different factors cannot be determined.

It is commonly believed that in some cases patents that might be significant from a consumer point of view are kept out of production by those in a position to control them, for business reasons. This no doubt is true to some extent. However, it might be desirable to control the rate at which a new invention is applied, if such application is likely to lead to a fundamental change in the income status of different groups, or in group relations, at any rate until such time as provision has been made to equalize, or distribute, the burden of change.

Population trends are also a factor in bringing about changes in consumption and expenditure patterns. Historically, migration of people under the pressure of famine, war, etc., has resulted in the molding of customs into new forms under new environmental conditions. In the United States we have had a continuing experience of the melting pot, and the shifting of population still goes on within the country—the movement from rural to urban areas, accelerated during the war, of Negroes from Southern farms to Northern cities, of metropolitan populations to the suburbs and so on.

Population trends other than the actual movement of people are also significant—the decline in the birth rate has, for instance, been one of the important factors in raising the per capita level of consumption, particularly since it has been associated with a remarkable decline in the death rate of babies and young children.

There are other factors operating on a long-time basis which students can list and analyze for their effect on consumption patterns, and therefore, in an exchange economy, on expenditure patterns. A change in the production pattern, for example, will itself be significant. With reference to the influence of advertising on consumption habits, it has been said that advertising may hasten or retard general trends but cannot successfully go against them. Instead of concentrating on trying "to get consumers to want what business wants them to want," a smart advertiser will study the lines of trend in the consumption pattern, and be first to offer consumers what they do or will want as these trends develop—to the extent, of course, that their development can be foreseen. Knowledge of individual habits and attitudes will suggest how far the individual family can be persuaded to modify its expenditures within the general framework.

The factors making for change are not only of a material character.

Change in our sense of values, of what is worth while in life, of what our consumption "needs" are, compatible with our considered way of life, may have an immediate effect on the use of our time, energy, knowledge, and organizational ability, in the production and use of consumption goods. We had some experience of this during the war when many women both in war industries and in "home front organizations" had to rearrange their way of life and therefore their shopping habits.

EMULATION One of the factors influencing individual choice at any one time is the desire most of us experience to be like those we admire—the factor of emulation The important question here is, what sort of people do we admire—who are our leaders in consumption, or for that matter, in any other area of living? Guiding our behavior by models rather than by considered ends established for ourselves seems to be part of our everyday experience Generally speaking the "model" technique is much more effective than an "appeal to reason" A movie star, a sports hero, a Western crooner, can, within the limits of the general trend of the times, affect our buying habits, they can raise the level of our desired standard of living and widen the gap between it and what we actually experience, which may result only in unrest, or, on the other hand, in an increase in total output and in a redistribution of income

A real difficulty is likely to arise when we model our behavior closely on others with a view to reaching and maintaining a higher social status—what is popularly known as "keeping up with the Joneses" It depends, of course, on who the Joneses are, and what the permanent effect will be on the family concerned—whether, for instance, to keep up with them means getting into debt that is going to be difficult to repay Under our present set of social values, the phrase usually implies a conspicuous display of spending power—and becomes associated with what has come to be known as "conspicuous consumption," or as Thorstein Veblen said, conspicuous waste" "Waste" of course implies judgment according to some accepted criteria.

Veblen's writings are critical of "pecuniary emulation," and the effect it has had on our expenditure patterns, and indeed our whole way of life The thesis that success in life is to be measured by the accumulation of material wealth, calls for a display of wealth as a mark of success To wear a costly hat, to give a spectacular party, to have a grand mansion—or at any rate a fine parlor—because they win social recognition and approval, becomes an urgent want, which may throw the normal structure of wants of any family out of balance.

The majority of families, of course, are not in a position to spend their

income for such conspicuous display, but the effort to achieve status through the market affects spending at all levels of income and is a factor influencing consumer wants that calls for appraisal in terms of "needs." It is interesting to speculate on what change in spending habits would follow from a greater equality in the distribution of income. While community values are such that social status is determined, or at any rate influenced, by expenditures, there is not much likelihood that the attitude of the individual family will change. Students might analyze their family expenditures with a view to estimating the influence of the display factor.

In the process of change, whether in things or values, there are factors holding us back and speeding us on, which should be analyzed from the point of view of consumer welfare. Professor Gordon (in *Economics for Consumers*), for instance, pays considerable attention to various customary practices involving considerable expenditures which he suggests are out of proportion to the enjoyment derived from them under present circumstances.

CUSTOMARY PRACTICES. To what extent are family expenditures affected by particular customary practices? Customary practices with a religious significance have a particularly strong hold over our wants—as for example various religious dietary practices. Large sums are frequently spent by families of modest means on weddings and also on funerals. Burial expenses have increased considerably since the development of embalming; the ceremonial practices attendant on burials, including floral arrangements, constitute a heavy financial burden on many bereaved dependents. Indeed, as we shall explain below in connection with life insurance policies, many of the so-called industrial policies taken out by families in low-income groups are absorbed entirely by burial expenses.

We might examine many customary practices and ask whether the use of resources involved in maintaining them promotes the most desirable ends. Is the exchange of gifts at Christmas, with the attendant Christmas "rush" and frayed nerves, a customary practice that we should maintain if we have our minds set on a rational apportionment of resources among different areas of consumption—particularly the exchange of greeting cards, the total business of which, according to Professor Gordon, reached a manufacturer's sale volume of $43 million in 1940? How about the wearing of academic gowns at graduation? The diamond ring for an engagement? These illustrations will suffice to point the argument.

FASHION. On the other hand, old customs do give way to new. Chinese women no longer bind their feet, requiring expenditures on binding material and small shoes; American women for a time gave up binding their

waists, though there seems to be a part-way shift back to it. The fashion cycle as a factor in expenditures has received considerable attention, particularly from business interests which suffer or gain from it. Whereas style reflects a long-time trend, as, for instance, long-trousered suits for American men, fashion is a recurring movement within the broader field of style, which reflects current ways of doing things, current likes and dislikes as a ripple on the river of consumption which, however, may take on considerable proportions. Who starts a new fashion? Why does one new mode, rather than another, become the fashion? These questions are always difficult to answer.[10]

In 1947 this became a particularly engrossing subject because of the controversy over the announced change by fashion stylists toward longer and fuller skirts. Here is a case where the industry (and in the United States, at any rate, the garment industry and the unions work in close association) is obviously trying to promote marked fashion changes in order to maintain or expand its operations, regardless of the total effect on the consumer budget. Some of our fashion-minded consumers are going along with the proposals, excited no doubt by something new and the opportunity for display, but others are opposing them, partly to protect their existing inventories.

The trade rejoinder has been that in a year or two these ladies who are now expressing their opposition must wear the new fashions or nothing, since the stores will carry nothing else—that is to say, supply will be determined not by expressed consumer preference (assuming there are a considerable number in opposition) but by production plans. The controversy has taken on an international significance; French designers, for instance, have been trying to persuade the English to adopt the longer skirt and the English government has brought out some of its leading propagandists to resist any extreme development because of the necessity of conserving material and protecting the use-value of existing garments. We must await the future for the outcome of such a fashion contest.

Up to the present time the outstanding area of consumption subject to fashion changes has been dress, but now we have a profession called "consumer engineering," the business of which seems to be to promote fashion changes in other areas with a view to speeding up replacement of goods which have not yet lost their use-value, and so extend and hasten the process of obsolescence. New cars, new furniture—we have even been told to get ready to change our houses, as the fashion shifts from one architectural design to another, though in view of the present housing shortage this

[10] See Paul Nystrom, *Economics of Fashion*, 1928.

seems somewhat remote. It is true of course that replaced goods often have a second-hand value and can be passed on to people who could not afford them new, but such "hand-me-downs" are often not suitable to the needs of low-income people (as, for instance, many houses). So long as the masses of consumers do not have purchasing power to buy the goods which our economy can produce, selling emphasis inevitably will be on the replacement market of the upper-income groups, and the factors, like fashion, that stimulate such a market.

The trouble with any effort to break away from sheep-like behavior, is that individuality does not lend itself to the requirements of a mass production technique. This technique has made possible a remarkable increase in consumption goods available at a price that has brought many of them within reach of the masses of people Perhaps this is an area in which, as leisure increases, home production can give to the standardized product an aspect of uniqueness that the individual consumer seems to find satisfying

ADVERTISING. Pressures are constantly being brought to bear on consumers to modify their expenditure habits, or to maintain them. There is propaganda of all kinds from all the social institutions and agencies to whose influence people are exposed as they pass from childhood to adult life and through maturity to old age. Of special significance is that class of propaganda, advertising, which is directed by businessmen for the purpose of promoting the sale of their particular goods and services.

Advertising relies chiefly for its appeal first on attracting the attention and then on stirring the emotions of consumers If students will collect a considerable number of advertisements from all media and analyze them from the point of view of their appeal, they will find themselves classifying a whole range of emotions—love of family shines from the eyes of the father standing by the little crib with a life insurance policy in his hand; there is hope for Cinderella in the glamorous visions that rise from the cosmetic tube; ambition accompanies the encyclopedia into the home; fear springs from the body odor that wafts across the lettered page; there is sex and the desire for social approval, and hero worship. This is where the psychologist has to be brought to the aid of consumers, as he has been brought to the aid of business, so they can see themselves dissected, and prepare some defenses against their own emotional reactions.

Advertising has been criticized on the grounds that it encourages a false set of values, stimulating wants that are not to the best interests of consumers The result in some cases has been positively harmful, particularly with respect to some drug advertisements. An outstanding example of this latter

type of criticism was a statement made by the U. S. Surgeon General at a meeting held in 1946 by the Food and Drug Division of the American Bar Association of New York. He particularly attacked drug advertising on the radio, because of the fear psychology created and the general emphasis on patent medicines as the road to health His criticism was directed less toward actual misrepresentation than to the constant preoccupation with alleged therapeutic devices and drugs, diverting the attention of those who need medical care from seeking that care, and stimulating an exaggerated interest, among listeners, in the patent medicine field. Other criticisms have been made from time to time on the same general grounds, particularly of recent years against advertising for weight-reducing remedies using thyroid extract, which may, as claimed, bring about weight reduction, but at the cost of the health of the unfortunate user.

We shall return to the subject of advertising later in connection with the problem of quality selection. We might here raise the question, however, as to the criteria by which to judge advertising from a consumer point of view. What is "good" advertising? From a businessman's point of view, advertising is good when it is "successful," that is to say, when it attracts the attention of the consumer, rouses interest, and finally leads to a sale. From a consumer point of view, advertising is good only when it presents in an attractive manner information about a product or service which will help the consumer to make a wise choice, whether to buy or not to buy, taking into consideration all circumstances affecting the consumption level and the scale of values which determines the degree of satisfaction to be derived from any given consumption pattern.

To what extent are consumers influenced in their buying by a rational balancing of alternatives? Or we might ask how far education influences our scale of preferences. For some years now nutritionists have put considerable effort into spreading information on nutrition, that is, the health-giving values in food. But, considering how fundamental to our whole way of life is the consumer interest, it is surprising that in the past so little attention has been given, in our educational system, to preparing children for their consumer function—or in our adult educational work for that matter—except for those who are specializing in the field of home economics, usually with vocational objectives. One of the aims of consumer education, as such, is to arouse consumers to a sense of the importance of their task in spending the family income, and to help them bring their expressed wants into harmony with their considered needs, within the limits of their resources.

THE FAMILY BUDGET. A practical approach to the problems of choice

from the point of view of the individual family can be made by starting off with a budget study, or budget analysis. A budget is an overall plan of expenditures for the future. The account book or expenditure study is a record of the past. How has the family spent its money income? The budget looks ahead. How do they propose to spend their future income?

There is a considerable body of literature on problems of budgeting as encountered by the individual family. Some of this literature is written in terms of the significance of budgeting as an aid to the family in using their money income to the best possible advantage in view of their overall resources and objectives; some has to do mainly with techniques.

Since the welfare of all members of the family is affected by the efficiency with which income is spent, they should all, so far as possible, cooperate in working out the budget. Difficulties often arise in a family from lack of understanding about the way in which money is spent and of the underlying purposes that determine expenditure decisions.

The process of making a budget will in itself bring a better knowledge of the total resources of the family and of ways in which they can be more effectively utilized. The composition of the budget will be influenced by both long-time and short-time goals. "The long-time goals of the family are the heart of the entire plan. . . . They determine the 'set of the sail' for the family ship."[11]

In planning expenditures, not only the size but the regularity of income is an important factor. Families on a regular income which is maintained during periods of sickness, and not liable to be cut off by unemployment, can budget easier than those whose income is liable to interruption from any one of a number of causes, or which is irregular by the nature of its source, as, for instance, when it is derived from commissions on sales.

Moreover some expenditures are more or less fixed for considerable periods of time. Housing expenditures, for instance, are usually determined for at least months ahead. Clothing expenditures have a seasonal aspect. There are ceremonial occasions that call for special consideration. On the other hand, the food item in the budget is likely to come under consideration at every meal. By looking at the pattern of expenditures as a whole, it may be possible to bring about a difference in balance that will lead to greater overall satisfaction.

In a recent monthly letter devoted to the subject of family budgets, the Royal Bank of Canada emphasizes[12] that a budget is essentially a matter of

[11] Home Economics Association, *Consumer Education Service*, February 1945.
[12] December 1947.

planning, not of bookkeeping. It is a guide to spending, and should not be looked upon as an inflexible pattern into which every penny of expenditure has to be fitted. They advise the family not to "get into the habit of staying home at night, trying to find a missing 23 cents." There is always some money that disappears. Nor does it mean that an unbudgeted trip to the movies can never be made "for fear of upsetting the petty cash." Planning expenditures, they say, will bring about more intelligent use of income: (1) the necessities will be provided for because they will be considered first, thus removing a possible source of worry; (2) purchases will be made more wisely because they are foreseen; advantage can be taken of seasonal reduction in prices, and time is available to search for the particular article wanted; (3) what you purchase, for example in the way of furnishings or clothing, will fit together better because planned together; (4) leaks will be uncovered and can be plugged; (5) the budget will lead to establishment of a better standard of living by tying all parts together which are now loose, and building a program. Budgeting is meant not to be a burden but an aid to the family in spending its income to best advantage.

Such an overall plan for handling the family income will be modified by actual experience at the market as well as by changing conditions affecting the family circumstances. Whether the members of the family sit around the table on a Saturday evening to apportion the family income, as described in *Mama's Bank Account,* or whether it is distributed haphazardly in response to pulls and tugs within the family group, the decisions will reflect the peculiar characteristics and values of the particular family. The income may be regular or irregular; there may be debts or savings; the composition of the family will be a factor both as to size and age, and this will change with the years; the place of residence will affect the whole way of living—an apartment in the city, a house in the suburbs, a farm in one area or another. Some families are burdened with sickness, and some are radiant with expectations. Some prefer to spend on the present and some to build for the future; some will put their savings into sporting equipment and others into "burial insurance." In all cases, however, planning the pattern of expenditures will help the family appraise the scale of preferences established for their wants, in the light of their immediate and long-run objectives.

Having examined in this cursory way some of the factors underlying the structure of wants that determines consumer behavior at any one time, let us now go with the consumer to the market, to become acquainted with some of the problems surrounding the act of exchange by which goods and

move from the production into the consumption process. We shall first, certain general problems affecting the selection of goods and with respect to price, quality, and cash or credit payment. We shall on to consider problems confronting the consumer in the purchase of d list of goods and services, food, housing, medical care, and life e.

Chapter VII

SHOPPING FOR PRICE ADVANTAGE

The characteristics of the individual who actually does the shopping will be of greater or less importance, at the market, according to the participation of the family as a whole in actual expenditure decisions, as distinct from budget-making. Some discretion, however, must always be left to the consumer-buyer, because there are usually various alternatives available for selection that would fit in with the general plan. Some expenditures are actually decided on a group basis—the purchase of a new house, for instance, is usually undertaken after much family discussion; so also are plans for a vacation, or even buying through a mail-order catalogue.

It is frequently said that about 80 percent of the family spending is done by the housewives, but there seems to be no authoritative data to support this particular figure. It has to be remembered that probably only from 60 to 65 percent of total expenditures are made at retail stores. In some specialized retail lines men seem to do more spending than women, as, for instance, in hardware; in some areas children probably do a larger percentage of the buying than is generally recognized; there is a mixed assemblage in restaurants and at the soda fountains ordering prepared foods and drinks. Generally speaking, women probably do most of the buying at the stores, but it would make quite an interesting local study to determine how much of the buying is done by different members of the family and what products they buy.

Many housewives make a social occasion of their marketing, glad of a break in the daily routine; others fit it in as a necessary chore between a number of household activities. The conditions under which marketing is done and how wants are actually expressed at the market will, of course, have an influence on what is bought and the value of the exchange from a consumer point of view. The character and competence of the actual consumer-buyer are therefore of concern to those interested in improving

the level of consumption and the satisfactions derived from it. They are also of concern to the retailers who, *inter alia,* package and display with a view to stimulating "impulse" buying by women, and put the men's department close to the street or provide a separate exit because men are supposed to be easily bored or embarrassed when on a shopping expedition.

It has to be kept in mind that to educate the consumer-buyer to be more efficient at the market will not raise the consumption level of the family unless the family accepts what has been bought—for instance, careful selection of food for nutritive values will not improve family nutrition if it is left on the plates. Hence the importance of making all members of the family "consumer-conscious."

The job of the consumer-buyer (to whom we shall now for the sake of convenience refer as the consumer) is to make the best buy at the market, the point, as stated above, where goods and services pass out of commercial production into the consumption process. It is quite an exciting event when you come to think about it. This is where the money that has been worked so hard for is to be exchanged into goods for family use; it can be frittered away so easily. But what is the "best buy"?

THE BEST PRICE BUY

We have first to recognize the fact that in shopping we are "spending" not only money, that is, exchanging money for goods, but also time and energy and, one might add, temper, all valuable resources in themselves, so that to save on money at the expense of these other factors might be a poor choice. In business, considerable attention is given to training for salesmanship, but nothing comparable is available in training for "buymanship," except in the limited field of home economics, so for the most part we must learn our "buymanship" at the market on the costly trial-and-error basis.

The "best buy" we shall define as the most appropriate quantity of a product of suitable quality, at the lowest price under the best conditions of sale from the consumer point of view. Such a definition, on examination, proves very vague but at any rate it directs attention to some of the most important factors in a good buy. In view of all the circumstances of the family, it may be best to make no purchase at all of the particular product under consideration. The best buy is always relevant and must be judged accordingly. But assuming a purchase is to be made, quantity is a factor to be considered.

Things have changed from the time when there were sacks of loose produce around the general store. Bulk purchase of a product, if it is still

available in bulk, may bring a reduction in unit price, but if facilities for storage at home are inadequate, or if the product spoils or becomes distasteful, the price reduction does not represent a gain. On the other hand, low-income families frequently buy in very small quantities on a hand-to-mouth basis, partly for lack of ready cash and partly from habit, and this may be a most extravagant practice.

Quantity should be figured in terms not of what is actually bought but of what can be put to use. In buying food with an eye to price advantage, for instance, it has to be kept in mind that there is more waste in some kinds of food than others; a product which at first appears cheaper than an alternative buy, may turn out in the end to be more expensive—for instance, it has been estimated that there is a 14 percent waste in lamb chops, 7 percent in round steak, and so on.

With respect to quality, we get into the habit of saying we want the "best quality" but, in view of the necessity of choosing between this and that, the best quality at a higher price is not necessarily so good a buy as a poorer quality at a lower price, providing the product is functionally satisfactory, that is, useful for the purpose for which it is bought, as will be explained more fully below.

In shopping for price advantage, the best buy generally is the lowest price for a given quantity and quality, but this may not be the case at any particular time or under all circumstances; for instance, it may be better for a particular family, all things considered, if the shopping is done by telephone, even though the price is higher than it would be by direct buying.

Moreover, in considering what constitutes the best buy, we should not overlook the conditions of sale. "Shopping" is part of the consumption process, each phase of which should yield its satisfactions no less than in the actual use of goods. One of the aspects of the modern economy that calls for criticism is that people get so worried and irritated at the market; it ought to be more fun.

The best buy, let us say in summary, is always a relative matter, and must be appraised by the consumer in the light of the particular family circumstances.

In considering the problems that confront the consumer in trying to make the best buy at the market, let us first consider that of price. Let us look into some of the experiences encountered in shopping for price advantages. In this, for the time being, we shall ignore questions of quality, though, as a matter of fact, price and quality are inseparable factors in any commercial product. In centering our interest for the time being on price, we shall not

concern ourselves in this chapter with general problems of price policy as they are handled by businessmen, nor as they are influenced by government action, except with respect to particular results which confront the consumer in making selections at the market We shall not, for instance, discuss the general problems that arise in an inflationary economy, that is, when the amount of money available for spending, and actually spent, exceeds the volume of goods and services at current prices, so that the general price level rises. But we are concerned here with the fact that unless income rises proportionately to prices, consumers have to change their buying habits and perhaps even shift the whole balance of their expenditure pattern and therefore of their scale of preferences, and this involves many problems for any family, particularly if their relative position shifts for the worse in comparison with other families in their neighborhood or social group.

Moreover, as we noted above, when the general price level rises, prices for different goods usually rise at different rates, so that the consumer is confronted with a different set of choices, and various substitutes might offer unexpected price advantages if the family is prepared to make use of them. In these circumstances, the importance of flexibility in selecting among alternatives becomes all the greater The consumer at the market has, therefore, to keep an eye on the particular price tag, as well as on the general price level.

The Price Tag

In this chapter we shall center our interest on the price tag, which "in its black and white simplicity" often belies the real complexity of the price structure on which it is based. It is an offer to sell at a stipulated price; there is, for the most part, very little direct bargaining at the retail level. That is to say, in our economy we have adopted the one-price system for most products at retail, on a take-it or leave-it basis, as distinct from the constant higgling or haggling of the Oriental market

The one-price system is not so rigid as might at first appear; if goods "do not move," that is are not sold at the original offer, then they will be marked down. Moreover, there are still certain lines of goods that are frequently not price-tagged at all, particularly in independent stores; this applies chiefly to fresh fruits and vegetables or meats. Even if products are price-tagged, the consumer may find the retailer willing to sell at a lower price. But most consumers in our modern economy have little experience in price bargaining and indeed, in some areas or by some groups, it is coming to be looked upon as poor taste to question the integrity of the price

tag, as it presents itself at any one time—this applied even during the war and was one of the problems encountered in price enforcement.

For most products at retail, under "normal" conditions, the price is fairly stable over a considerable period of time, regardless of fluctuation in wholesale and basic material prices There is a price structure for any particular line of goods—this includes the price of basic materials that go into the product, and the price at which the finished product sells as it passes from one distributive stage to another In the long run, the final price of a product will bear a definite relationship to the general price structure, but not on a day-to-day basis

In some cases, for instance in the "five and tens," the price structure is determined by the retail price which is more or less fixed, so that the quality of the product is determined by the retail price at which it customarily sells This applies not only to variety store goods Various classes of consumer goods sell by price lines—$5 95 dresses, for instance, to which consumers become accustomed, so that the tendency on the part of manufacturers, if costs increase, is to maintain the price structure but to cut quality.

The function of price is to sell goods, and, in pricing at retail, consumer habits and attitudes are taken into account as well as the actual cost of production and distribution—for example, $2 95 seems much cheaper than $3 00 and consumers who would buy at the first figure might resist the second, though, as a matter of fact, if they were to think it over, the nickel would be of little consequence Price becomes a habit in itself. Or again, the tendency among some of us to consider price a guide to quality leads to overpricing of some products, snob appeal might also be a factor in such a situation This has to be taken into account in shopping for price advantages

The consumer must not only keep an eye on the price tag of each particular product before buying, but on the range of products under consideration, since a drop or an increase in the price of one may change the order of importance of items on the shopping list, or make it possible to shift preferences—if we can "pick up" socks cheaply at a clearance sale, there may be enough money left over for a sweater, also on sale Such decisions usually have to be made on the spot, so the consumer-buyer must have discretion to modify the budget plans as circumstances indicate.

Much is said in consumer education handbooks of the importance of "shopping around," if consumers have the time and energy. One advantage of the practice is that it gives a basis for comparing prices, both of the same type of product in different stores and also of substitute products. Take,

for instance, the following range of prices taken from a market price list, compiled, by the New York City Department of Markets, from a spot check made on the same day at a number of independent and chain stores in leading shopping centers of the metropolitan area.

Vegetables and Fruit			Meat and Fish		
Asparagus	17–23	cents lb.	Porterhouse steak	65–89	cents lb.
Beans, snap	13–29	" "	Chopped beef	35–49	" "
Broccoli	20–45	" "	Pork loin	49–65	" "
Onions, yellow	5–10	" "	Calves liver	80–$1.25	" "
Peas, green	17–25	" "	Broilers and fryers	39–53	" "
Grapefruit	5–10	" "	Codfish steaks	25–45	" "
Lemons	10–17	" "	Flounder, fillet	40–69	" "
Strawberries	25–49	" "	Mackerel, Boston	15–35	" "

Broccoli, for instance, is marked as one of the particularly good purchases and could be had in some stores at 20 cents and in others at 45. If you get two pounds in the 20-cent store, you save enough to get two pints of strawberries at 25 cents, though you may have to go elsewhere to get strawberries at that price. You can pay $1.25 a pound for calves liver for the baby, or get it at 80 cents—if you can find the stores selling at that price. Indeed, the range in price for most products is considerable, so much so in fact that it makes one wonder about the significance of a food price index based on averages. These prices of course do not disclose the quality factors of the product. The high-price products may be of better quality but not necessarily so.

Price Differentials Between Stores

There are recognized price differentials for many products (if not "fair-traded"), between different classes of stores—recognized, for instance, by the O.P.A. in its price regulations. As pointed out above, in its community pricing, the O.P.A. fixed lowest prices for supermarkets, somewhat higher (in some cases) for chains, and highest for the smaller independents. The price of a product at retail, it has to be remembered, includes the cost of the services rendered as part of the sale. An independent serving a local neighborhood, for instance, will take telephone orders, make deliveries, give credit, cash checks, "put something under the counter" in periods of shortage, exchange gossip (which takes time), as well as provide counter service—all of which adds to the cost, and therefore has to be covered by the price of the particular product, or of the products as a whole. Contrast

this with the great impersonal supermarket of the cash-and-carry variety, with long rows of packaged products prepared for self-service, the line of baskets coming up to the checking counters—and the element of service in price becomes apparent Why do different people buy in one type of store rather than another? Is selection determined by income level, by service standards, by convenience, by the availability of products? Some independents are much more conveniently located than the nearest chain or supermarket, and time and energy may be worth paying for; or they may stock a particular line or brand of product for which there is only a limited demand, but those who want it are willing to pay for the conditions under which it is made available; there may be any number of other reasons.

The same type of difference is seen between department stores catering to different income groups, or, within such stores, between the carpeted second floor and the plain and crowded basement If consumers shop in the comfort of easy chairs with cultivated sales personnel to attend their wishes, then part of their expenditures are absorbed in these extra services rather than in the actual goods that are brought into the home. An element of prestige is also a factor. There is, for instance, the greatest diversity in the price of cosmetics between a variety store and a Fifth Avenue salon, though, to the experts, there is very little difference in the actual use-value of the products sold in these different places Some stores have acquired social status, and their name tag on a product is coveted by those who feel they improve (or maintain) their status through their shopping habits On the other hand, others take advantage of "outlet" stores or basement departments in order to extend their buying power, particularly if they can judge quality without assistance.

A saving on price may also be had by shopping for certain items at a cooperative store—the price tag may not differ from that in other stores but if the cooperative is successful it may be in a position at the end of the year to give its members a refund on purchase money in a substantial amount; this is apart from any quality advantage members may gain by "Shopping the Cooperative Way."

Part of the price differential between stores is the result of different service conditions, but part also, at least in certain instances, is the result of greater efficiency in distribution The competent consumer will, therefore, shop around to locate the efficient store where the greatest price advantage can be obtained, unless it is offset by disadvantages that also have to be taken into account. One of the difficulties experienced by families in the low-income group is that because of their fear of unemployment or sickness, which may

leave them from time to time without income, they feel they must do all or at least part of their shopping at the neighborhood independents where they can get credit when it is needed, even though everything they buy costs them more.

In shopping for price advantages, then, we have to keep in mind that there may be price differentials for the same product, or same general line or class of product in different stores, reflecting either conditions of sale or efficiency of operation; part of the function of the consumer is to decide where to shop. "Comparison shopping" may also lead the consumer to special sales, and we should give some attention to the significance of sales from a consumer point of view. What, for instance, is involved in shopping the sales?

Shopping the Sales

What is a sale? This is an area in which rascals operate as well as honest men, so it is important for consumers to resist impulse buying until they have considered all factors in the situation A genuine sale might be said to take place when goods are sold, for whatever reason, below the price at which they have been selling on the regular market, or might be expected to sell under "normal" conditions; but obviously this is a very vague definition A sale might be said to take place when a particular product or a line of products or even all goods in a store are sold "below cost," but here we have to agree on the meaning of "cost" Is it the true purchase price to the retailer (which might be below the invoice price because of discounts or allowances of different kinds), or the purchase price plus the cost of retailing the particular product (whatever basis of allocating total overhead to particular products is adopted)? To the retailer, of course, it is better to move the goods even below purchase price than to take a total loss on them

But an advertised sale does not necessarily mean that goods are being sold below purchase price, or, even if they are, that they are a "good buy." To the consumer "sale price" implies a "cheap price," but "cheap compared to what" is not always clear. Moreover, is a product on sale to be considered a bargain if the consumer has no satisfactory use for it? The effect of a sale on consumer purchases will depend to some extent on the degree of price elasticity with respect to the particular product. This will be affected by the character of the individual consumer Some consumers have an impulse to buy (and some actually buy, within the limits of their resources) anything that looks "cheap," whether they can use it or not. The "bargain hunters" are

more deliberate in their selection. Other consumers are afraid to buy products on sale, fearing that cheapness may indicate poor quality.

There are a great variety of so-called "sales"—"dollar days, one-cent sales, semi-annual furniture sales, annual white goods sales, Saturday specials,"[1] and so on. In the midst of all this price juggling there are many perplexed consumers who ask: "When shall I buy? Shall I wait for bargains or buy at regular prices?"

Some sales are recognized seasonal events; these include pre-inventory and end-of-season sales, particularly sales of style goods, when retailers try to dispose of their stock—the peak of sales in the women's coat and suit industry, for instance, comes between March and May, when there are usually reductions below previous price levels in all price lines. We also get end-of-season sales in such products as canned foods, as efforts are made to clear storage space for the new season's product when it begins to flow into the channels of distribution.

The question, "Does it pay to buy at such sales?" can only be answered by, "*It depends.*" It *is not only a matter of percentage "markdowns."* Seasonal clothing usually has to be stored for a number of months with some risk of deterioration, for instance from moths, so that there may be expense involved in caring for the article, which will offset to a greater or lesser extent any saving made on the sale. There is also the risk that dress goods will lose their fashion appeal—one of the reasons, of course, that retailers want to dispose of them. For children's clothing, allowance always has to be made for the unpredictable factor of growth, but if there is talent in the family to alter garments to size, this may not be a deterrent.

In some cases, advantage is taken of the end-of-season sales to move into consumer hands goods that have deteriorated in quality, or that have been made for this special occasion, and are not in fact marked-down goods. If the general price level is moving lower, then stocking up on last season's products, even though their quality is unaffected, may prove to be a poor buy; on the other hand, if the price level is moving upward it may be a good buy. Confidence in the forecasting of prices will be a factor in the consumer's decision.[2]

End-of-season sales should not be confused with normal seasonal variations in price due to a changing supply or demand situation, though, as a matter of fact, on analysis the difference is not very clear. If consumers have

[1] See Dr. Margaret Reid, *Consumers and the Market*, 3rd ed., 1942.
[2] See Sidney Margolius, *How to Buy More for Your Money*, 1947.

adequate storage space and use coal for fuel, it is a good buy to get a stock in during the summer when prices are lower, as a rule, than during the peak of the demand season in the winter. Such a practice also helps maintain regularity of employment in the coal industry. But whether the price differential is great enough to make it worth while to give up present use of funds for other purposes, will depend on the situation of the individual family.

During the summer, the best buy in fruits and vegetables is to get those products that are at the height of their season. Retailers, particularly some of the large chains, will often run "specials" at this time because the supply is moving to market so fast an effort has to be made to get it into the consumption process as rapidly as possible to prevent spoilage. Such low prices are a normal response to the supply situation. It is this seasonal factor in production, particularly of fresh foodstuffs, that makes a flexible diet desirable, providing the overall nutritional values are maintained. It is true that the development of transportation and refrigeration has made it possible to get the same fresh fruits and vegetables almost all the year around, but grapes in winter are a burden on the pocketbook, as are citrus fruits in summer. By shopping for seasonal "specials" considerable savings can usually be made, though whether this "top-of-the-season" pricing is to be included in sales will depend on the definition of the latter. This situation is changing to some extent with new forms of food processing, particularly quick freezing, which is making it possible to store hitherto perishable products other than by canning. Continued developments in the processing of fruit juices also is taking some of the "seasonality" out of citrus prices.

Dr. Reid has pointed out[8] that some seasonal sales, particularly in furniture, were started in especially dull buying seasons in order to regularize production and distributive processes, the chief purpose at first being to sell odds and ends and slow-moving lines which were not finding a ready market; but later on special lines of furniture were manufactured for some of these "sales" and were displayed along with other items, the prices of which had actually been "marked down," to attract business. Under these circumstances, the price on the specially manufactured goods might be high enough to return a profit adequate to make up for any loss on the decoys. There may, therefore, be some real "bargains" at such sales but, on the other hand, unless the consumer is familiar with quality or the functional characteristics of the products sold, and even with comparative prices, the result may be a poor buy. The bargains offer an opportunity for advertising

[8] *Op. cit.*, p. 461.

campaigns and help to create an atmosphere of mob psychology as people crowd into a store in response to the ads.

Impulse buying is largely relied upon to increase the volume of business at special sales, but from the consumer point of view the result, though it may sometimes improve the consumption level, in other cases may cause an undesirable shifting in the scale of preferences. It has to be kept in mind that frequently goods bought at advertised "sales," do not carry the returned goods privilege.

LOSS LEADERS. A different situation is found when there is a temporary markdown on particular products with a view, not to moving seasonal gluts but to attracting customers to the store. This "leader" merchandising, or practice of using so-called "loss leaders" as a sales promotional device, particularly by the chains, has roused opposition from organizations of independents which, in a large number of states, has resulted in some restrictive legislation.

As mentioned above in discussing a definition of sales, much of the controversy revolves around the use of the term "costs." "Loss leader" is sometimes used to refer to sales of products below invoice or even true purchase price, and at other times it is used when a product is sold below the usual markup added by retailers. Sometimes the word "leader" is used when the price is below the usual markup, and "loss leader" when it is below invoice price, but there is no uniformity in terminology. Some of the state laws prohibit the sale of merchandise at less than a certain percentage, usually 6 percent above invoice price, with exceptions for "damaged goods," "closing out stock," or "sales to meet competition."

In a report prepared by the Federal Trade Commission, *Chain Store Leaders and Loss Leaders* (1932),[4] it was pointed out that though leaders were frequently thought of as being associated with advertised brands, nevertheless bulk goods and various kinds of unbranded merchandise were frequently used as well, especially by certain kinds of chains—in many cases, however, part if not all of the loss was carried by the manufacturers, in one way or another. The Federal Trade Commission's report was limited to chains, though leader merchandising was also used by certain other classes of stores. The Commission pointed out that the loss leader was used at times in place of advertising, particularly by the variety chains, a representative of which explained that it was the only available method of advertising open to them. The F.T.C. material is out of date now, but as of the time they wrote, it appeared that the proportion of leaders and loss leaders and

[4] Senate Document No. 51, 72nd Congress, 1st Session.

"specials" to total sales, varied widely with different chain organizations—one large grocery and meat chain reported that specials made up about 4 75 percent of the *advertised* items. The study indicated that foi the stores reporting the use of loss leaders, the amount of sales of all branded goods without net profit was apparently only a small fraction of the reported amount of sales of the chains or stores in question.

The actual extent of loss-leader merchandising, and its significance from the consumer point of view is difficult to determine In states which prohibit sales below invoice cost or even sales below a customary markup, the practice is presumably not extensive, even though policing is difficult. Generally speaking, the extent of the practice can only be determined from data obtained from merchants, since clearly individual consumers cannot find out if "specials" are offered below invoice piice, though by shopping around they can determine whether they are below prices charged elsewhere. Shopping from one store to another for specials might not prove a profitable experience, if time is important, but this is a mattei for individual decision

Another promotional device is the one-day sale, held from time to time by particular stores, when a wide range of merchandise or a number of items may be marked down, but not necessarily below cost. This usually has no relation to seasonal factors It may be a way of passing on a share of the profits to consumers. Sometimes, through the cooperation of the business community of a particular area, all the stores on Main Street will conduct a one-day sale simultaneously and may even go to considerable expense to have extra transportation facilities made available in an effort to reach out into a wider marketing area. Consumer experience at such "sales" is varied. It is obvious, of course, that a business is not going to continue over any long period of time, unless it makes a satisfactory "profit," so that if goods are sold below a "fair price" on such occasions, it is with a view to making more by increasing the number of customers or by marking goods higher at other times than would be necessary if these promotional costs did not have to be met. These one-day sales are usually arranged by the retailers, though they may have the support of the manufacturers from whom they obtain the goods.

COMBINATION SALES. Another type of so-called "price concession" is the "combination sale," or "penny sale," in which two products are sold for the price of one, or little more than the price of one. The products may be identical, or distinct but functionally related, as for example, Mickey Mouse bowls with prepared cereals. The retailers may cooperate in these sales with the manufacturers, or the manufacturers may carry whatever loss is involved.

In discussing the combination sale, Professor Phillips has said: "The combination has that universal appeal of something for nothing. Further the value offered by the combination may appear to be greater because it is made up of the known value, plus the value, which may be exaggerated, of an unknown: for example, a pipe with two packages of smoking tobacco, the pipe being the blind item."[5] The offer of free goods is similar to a combination offer, but it is limited to distributors, in contrast to a combination offer which goes through to consumers.

One of the prominent drug store chains[6] has made a feature of the combination sale, though other companies have also utilized it as part of their promotional techniques It provides copy for advertising, and also a means by which manufacturers or retailers can pass on to consumers a share in larger-than-normal profits without reducing the customary price for a product. Some businessmen prefer to maintain, for a considerable period of time, a basic price to which consumers have become accustomed, making what amounts to a price concession by indirect means when the competitive situation or other circumstances favor some reduction in price. They argue that if the basic price is reduced, consumers will resist any return to the old level, whereas an indirect price cut can be terminated with less difficulty. Moreover it reduces the danger of a price war. This is also a factor in the practice of so-called "premium sales," "coupon sales," free offers, lotteries, and so on, though this is an area in which there may be considerable fraud and misrepresentation.

THE PREMIUM OFFER The premium offer is an old merchandising technique. It may be made by a retailer or manufacturer, or by both acting in cooperation. It may take a variety of forms. The consumer may pay the full cost, plus the expense of handling and shipping, though this may be below the "normal" retail price of the premium product, if it is available at retail. The largest volume of premiums today is said to be of this "self-liquidating" kind, the amount paid varying from 10 cents to about $1.25, usually forwarded by mail.

The premium may take the form of a price discount on the published price of a product. It may be what amounts to a price concession for those who meet certain conditions; the so called "free" offers by various "book clubs" to "give away" during a year an "introductory" book and two book "dividends" to those who contract to buy four books from a selected list, is essentially an offer of seven books for the stated price of four. In this case the

[5] Charles F Phillips (Ed), *Marketing by Manufacturers*, 1946, p 288
[6] See *Rexall-United Drug Co*, v *F T C*, Docket 5465, October 15, 1946

concession is discriminatory against those who cannot or do not want to buy as many as four books in the limited range of offerings. An actual price reduction on each book would give wider consumer choice. However, in the case of books a reduction in a publisher's list price cannot always be made, since the policy of resale price maintenance applies widely in the book industry, as explained below; this policy, supported by the retailers, has to a considerable extent boomeranged against them.

Some premiums are actually of the "give-away" type, costs being included under general promotional costs for the manufacturer or retailer. In some cases manufacturers may give away a product which is likely to promote increased purchases of another—as, for instance, was done by the Standard Oil Co. in giving away oil lamps in China, to increase the sale of oil.

Premium offers may be made to arouse interest in a new product, or to attract new customers to a store. Frequently the objective is to get customers to make repeat sales—that is, to build up a regular trade for a product or a store, and in this case the premium is given when a certain number of coupons have been collected to indicate continued patronage. A variation of the coupon technique is to give a customer a card or sheet on which purchases are marked in one way or another.

Here again is the appeal of "something for nothing," which is believed by many to have a pull greater than would an equivalent direct price reduction. From the point of view of a particular manufacturer or retailer, however, the competitive value of premiums tends to be lost as they become common to a trade.

Premiums are used by a number of reputable firms, though "overuse or abuse" led to considerable criticism during the twenties and thirties, and eventually to a falling off of the practice. However, there now seems to be a considerable revival of interest in it as a sales technique; according to some estimates, the declared value of premiums will run close to $1 billion in 1948, or almost twice the prewar high. There has been a marked increase in premium offers over the radio. One aspect of this practice which is becoming more widespread is the appeal that is being made to junior members of the family as a way of influencing family purchases. Premium offers over the radio are said, in some cases, to elicit millions of responses, particularly if they are addressed to children.

Techniques used in these premium offers take many forms; one of the most usual is the coupon system. Coupons are distributed at a store, or by mail, or by door-to-door distribution, or by publication in newspapers or periodicals, or on the packaged product itself. When the coupon is used or

returned as directed, the consumer gets whatever prize or price concession is being offered—unless the offer is phony. A somewhat novel development in coupon distribution is the "twofer" system for some Broadway plays; seats are made available at a cheaper price without cutting the nominal rate by distributing what, in effect, are coupons through various clubs, industrial organizations, and so on; presented at the box office, these entitle the holders to a seat at half-price plus the federal tax.

The Federal Trade Commission, which has authority to control unfair trade practices and fraud and misrepresentation in the advertising and sale of goods in interstate commerce, looks upon premium offers as a legitimate form of sales promotion, providing there is no element of fraud or misrepresentation. It has investigated a number of complaints with respect to premiums, and has issued certain cease and desist orders as a result.[7] The commission objects to the use of the word "free" in connection with premium offers of any kind, if the offer requires the purchase of something else, though, as a matter of fact, many companies continue to use this appeal.[8] Use of the word "free" in such cases is undoubtedly misleading because, even when the conditions are stated, they are usually put in such terms as to make it difficult for a consumer to grasp them, whatever medium of advertising is used. Publishers have been assailed by retail houses for permitting book clubs through bonuses and introductory offers to undersell them, in violation, they argue, of the Robinson-Patman Act.[9]

Premium selling has from time to time met with much opposition from trade associations partly on the grounds of unfair competition, and also from fear lest the shadier aspects of the business lead to more stringent federal regulation. The Better Business Bureau, a voluntary organization maintained by businessmen, which tries to restrain the operation of racketeering elements, has prepared a pamphlet warning consumers generally that the claimed valuation for many (though not necessarily all) of the goods to be obtained through coupon offers or at a reduced price, is often fictitious and the goods misrepresented. "Sometimes," says the Better Business Bureau, "they are just plain junk, particularly in the case of jewelry."[10] They also warn consumers against certain specific coupon offers—they point out, for instance, that some coupons are distributed which offer the fortunate recipient a "free" permanent wave, but if the holder tries to cash in the free cou-

[7] See William C. Steffy *et al.*, F.T.C. Docket 3238, 1939.

[8] See statement by representative of Book-of-the-Month Club, *New York Times*, May 13, 1947.

[9] See below, p. 466.

[10] *Facts You Should Know about Schemes*, 1946.

pon she finds that the offer covers only the permanent waving, and for the necessary preliminary shampoo and the subsequent setting of the hair, she is charged a price more than adequate to cover the job

There has been a limited amount of state legislation affecting premium offers

BUYING WHOLESALE. Many other types of price appeal are made to the bargain hunters. For instance, there is the "get-it-wholesale" appeal. "Wholesale offers" seem to be rather common in the furniture business, but they are to be found in various other commodity lines also. This also calls for a warning from the Better Business Bureau, which declares that "claims of 'wholesale' prices at retail are usually wholesale bunk It is impracticable to maintain a policy of selling retail at wholesale prices." Some consumers may have access to legitimate wholesale houses, but for others the advantages offered should be carefully examined in advance of purchase, since they may not be genuine. This is shown by action taken in certain cases by the F.T C.[11] On the other hand, it must be expected that retailers and retail organizations will protest against even an honest attempt at direct selling by wholesalers, which may be to the advantage of consumers The National Retail Furniture Association has, in fact, tried to get state legislation passed in different states prohibiting direct selling

A distinction should be made between wholesalers "selling retail," and the discount houses[12] The latter sell at retail but cut costs by carrying only sample stocks, selling through catalogues, occupying low-rent premises, usually upstairs, selling for cash only and minimizing advertising and other promotional expenses Though it is important for consumers to be wary in buying from discount houses, the wise buyer can save money on certain lines, particularly if a group get together to pool their purchases.

In the furniture business a definite racket has developed in connection with so-called "stuffed flat sales" Dealers in furs, furniture, jewelry, and so on, posing as private parties in private residences, operate what are known as stuffed flats and try to sell these articles on the representation that they are being disposed of cheaply, preliminary to the owners moving out.

There are various other types of special sales—bankrupt sales, fire sales, selling out sales, special auction sales—which may or may not be honest in motivation, but in all cases are presented as offering a price bargain of some kind to consumers. In a number of states there is legislation controlling the announcement of such sales and in some cases requiring that a license be

[11] See J C Field & Co and four subsidiaries, F T C Order 3747, July 23, 1943
[12] See Margolius, *op cit*

obtained before certain sales such as a "selling-out" sale can be announced—such provisions are aimed at checking fictitious sales.[18]

It is apparent from these few illustrations that to make the "best buy" from the angle of price, consumers should be wary of special offers until they have taken time to look into them, but of course the individual consumer is not often in a position to make a satisfactory investigation.

We have been discussing the merchandising device of the sale and price concession and the problem confronting the consumer of deciding whether these afford opportunities for a good buy. A different kind of situation found in the price field results from the efforts of certain groups of businessmen to put a floor under prices as a means of preventing, or at any rate discouraging, the use of the bargain sale or "leader" policy as a competitive factor in distribution. This is the so-called "resale price maintenance" or "fair trade" system.

"FAIR-TRADED" PRODUCTS. Attempts were made through the N.R.A. codes to put a floor under prices and, with the failure of that system, various other plans were developed to achieve the same results. In a number of states—now totaling 45, including all except Missouri, Texas, Vermont, and the District of Columbia—acts have been passed at various times mainly during the thirties permitting manufacturers to fix uniform retail prices for their branded products, or a minimum price below which they may not be sold, regardless of the type of outlet through which they pass. Under these "fair trade" laws, manufacturers are permitted to bring an action for damages against any retailer who sells their branded products, which are put under resale price contracts, at a price below the figure set, though in some cases a certain percent leeway is allowed.

In order to legalize the movement of "fair-traded" products across state lines the Miller-Tydings amendment, modifying the federal anti-trust act, was passed in August 1937, despite vigorous opposition from the administration—it became law only because it was attached as a rider to an important appropriations bill for the District of Columbia. It legalizes private contracts whose object is to require all dealers to sell at not less than the resale price stipulated by contract without reference to their individual selling costs or selling policies. So there is no price competition between dealers with respect to products that are "fair-traded," or, at any rate, competition exists only above the minimum set.

As authorized in most states and under the shelter of the Miller-Tydings Act, a manufacturer can require all distributors to maintain the retail price

[18] W.P.A., "Marketing Laws Survey," *State Price Control Legislation*, Vol. 2, 1940.

set for his product, or not to sell below the minimum fixed, once he obtains a contract with any one distributor. This is a system of price-fixing by businessmen under the authority of the law, but without any public control over the price set. In some instances, resale price contracts are made with the retailer, not by the manufacturer of the branded merchandise, but by the wholesaler who handles it; there is some question as to the legality of these wholesaler-retailer contracts but the situation differs in the different states.

Originally it seems that the proposal for resale price maintenance came from a few manufacturers who wanted to protect their equity in branded merchandise, particularly against "price-cutting" by the large chains, and also to protect themselves against the bargaining power of the chains by bolstering the position of the independents. However, the final drive for the legislation, which came during the depression period, seems to have been made not by the manufacturers but by some of the independent retailers, particularly the independent druggists, organized through the National Association of Retail Druggists, with support from booksellers, certain groups of grocers, and so on.

In 1942, Professor F. E. Clark[14] estimated that probably about 5 to 15 percent of the total volume of retail trade was involved. However, the practice has been increasing. During the drive for lower prices in 1946–1947, it became clear that, to a considerable extent, the determination of prices had been taken out of the hands of the retailer through resale pricing. The influence of this practice has become significant enough at any rate to lead the federal government to undertake a broad survey of "fair trade" laws. The survey is being made of 200 manufacturers of drugs, electrical appliances, household furnishings, apparel items, and miscellaneous consumer goods. Until the results of the survey are available, the most recent data are those included in a special study made by the Federal Trade Commission,[15] based largely on material obtained in 1939 or earlier.

In their final report, the F.T.C. stated that, as of the date of their study, resale price maintenance had very little application in the food trade outside Ohio, and even in that state not many grocery manufacturers used the system. Groceries is a field in which the chain stores and other distributors have developed a number of private brands, so they would be in a position to undercut "fair-traded" manufacturers' brands if prices for the latter were held above a competitive level. Moreover, it is relatively difficult to maintain

[14] See Clark and Clark, *Principles of Marketing*, 1942.
[15] Federal Trade Commission, *Resale Price Maintenance*, December 13, 1945.

fixed prices for food products at retail because of the instability of farm prices, though this is done in some cases.

Resale pricing was reported to be more extensive in the hardware trade, but chiefly in "sporting goods and trade-marked or branded specialities." Some successful efforts were made to get contracts in the radio and household electrical appliance field, but there is a major difficulty in enforcement here, due to the fact that the trade-in price of old units is hard to control and offers an avenue of escape from a fixed retail price.

There appear to be a number of resale price contracts in the liquor business, though the large number of brands in existence and the practice of some distillers of switching labels on a certain type of beverage in order to gain consumer acceptance in certain localities make it difficult to estimate the extent to which resale price maintenance is applied in the alcoholic liquor trade in the United States generally. Moreover, the effectiveness of private price-fixing is checked by a number of factors peculiar to the industry—for instance, in a number of states, the only retail distribution is through state or county-operated stores. In New York State, however, the State Liquor Authority, in September 1947, provided for mandatory contracts in the sale of liquor and wine (excluding beer and cider)—that is to say, fixing of retail prices of branded products by the distillers is now required under state authority. We shall discuss below the bearing of such acts on the principle and practice of a competitive economy—here we are concerned with the immediate problems of the consumer shopping for price advantages.

In the tobacco trade there have been few resale price contracts, except in the case of cigars; in this branch of the industry, representing about 15 percent of leaf tobacco manufactures, the system has apparently been widely adopted. Since much of the drive for the legislation came from the National Association of Retail Druggists and its affiliated state and local associations, it is not surprising to find that price contracts are made for a considerable percentage of drug products, including toilet articles, cosmetics, and patent remedies. Retail druggists are well organized and have apparently exerted considerable pressure, directly or indirectly, on manufacturers of commodities sold in drug stores to adopt price maintenance by promoting the sale of goods under contract, keeping others under counters and so on. Resale price maintenance is also a feature of certain areas of the book and stationery business.

In some cases, uniform or minimum prices for branded products are maintained by retailers even without formal contracts if supply sources make

it clear that they expect the retailers to keep to a list price. Referring to uniform pricing in some areas of the electrical field, the *New York Times* on April 11, 1947, quoted a spokesman for a large retail organization as saying, "Any move to cut list prices is considered unethical by the reputable retailer."

What the consumer is concerned about, or should be concerned about, is the actual effect of these private price agreements on prices and supply. When New York State passed the Feld-Crawford Act, providing for price maintenance agreements in that state, Macy's of New York vigorously opposed the system, and for a time made a display of its own private brand of products, priced on a competitive basis, and the prices of branded products under contract—and the difference was very marked. But since then the vigor of the opposition seems to have subsided.

A Dun and Bradstreet survey made in 1938[16] of prices of 50 fast-selling, nationally known products showed the results given here.

Commodity	Lowest and Highest Before Feld-Crawford	Lowest and Highest Since Feld-Crawford
Gem blades, single edge	19–21	27
Gillette blades (10's)	31–34	37
Squibb's dental cream	23–26	33
Lavoris (medium)	29–37	39
Vitalis (medium)	57–63	79
Mistol (2 oz.)	34–39	49
Griffin All White (large)	12–15	19
Sloan's Liniment (small)	21–24	29
Lysol disinfectant (medium)	33–39	43

In its 1945 report, the F.T.C. tried to estimate the effect of price maintenance on price and volume of sale up to 1939, their conclusions being based on studies made in price-maintenance and non-price-maintenance areas. Generally, the effect seemed to have been to raise the price of "fair-

[16] *Dun's Review*, July 1938.

traded" products to a greater or less extent in the chains and other cash and-carry stores to conform with the new uniform price, even when there was a downward trend of price for the same branded goods in areas in which there were no such contracts.

In nearly all cases, independents who supported price maintenance reported that they had lowered their prices as a result of the new development. This may have been true in some cases where their prices were far out of line with the new contract price, but the commission threw doubt on the statements of many of the independents, particularly the independent druggists, by pointing out that for the most part they had no records or inadequate records of past prices, and moreover they had been advised by their associations to return data favorable to the maintenance of the resale price system. The total "effect therefore fell most heavily upon those consumers who from necessity or personal choice patronize minimum-service stores." In many cases, however, the chains seem to have increased the relative vigor with which they pushed the sales of branded products not under contract, including private brands.

The Department of Justice took the position, according to the F.T.C. report, that the actual effects of resale price maintenance "have been those which are to be expected from private price fixing conspiracies unregulated by public authority, whether or not they enjoy the sanction of law."

Renewed opposition by administration forces to resale pricing has brought out protests from those groups, including the American Fair Trade Council, which are supporting the system and which threaten to fight off any attempt to modify or abolish it.

From the point of view of the individual consumer looking for the best buy, it is important to know which products are under contract, since, obviously, it is waste of time shopping around for products that are uniformly priced, regardless of the nature of the outlet, and also it is important to know which products are competitively priced. It would be desirable to have a survey made of the extent of price maintenance in different localities today, with the price-fixed articles listed and compared in price with private branded articles selling in competition, if such could be found. The position taken by consumer groups has been that it is unreasonable that dealers whose costs are low, either because of reduced service or of greater efficiency, should be denied the use of price appeal, and that the consumer should not receive the price advantage which results.

It should be noted here that higher prices under resale pricing do not necessarily lead to a falling off in sales. In their confusion as to quality,

consumers will pay considerably more for a well known brand under the assumption (not always well-founded) that it represents better quality.

There are many other price situations to which the attention of consumers should be called, though it is not practicable to do more than illustrate two or three of them here It is more important that consumers be alert to the problems involved in shopping for price advantages, so that they will be in a position to make a wise decision in any price situation in which they find themselves. One practice to which attention might be drawn here, however, is that followed by some companies in offering several models of their product, for example, an economy, or standard, or de luxe model Conventional price strategy "is to use the middle quality model as the competitive model, priced to meet competition and on a close margin . . . The lower quality model may also be on a very close margin. . . . The higher quality model is used to trade up prospects and is priced on a more liberal margin . . . in fact it may be relied upon to produce most of the profit, though in some cases there may be close pricing on this also"[17] Consumers may get a considerable price advantage by buying the model that has been competitively priced (on a low margin) if it is otherwise satisfactory This is also emphasized by Sidney Margolius in *How to Buy More for Your Money* (1947). He points out that, in this respect, the "art of buying" is to stick to the medium-priced lines particularly in a period of rising prices.

TRADE-INS. Another type of price situation develops in connection with "trade-ins," which can frequently be used as a bargaining factor In making an offer on a trade-in, a dealer may have in mind the price which he expects to get for it on the resale market, but other considerations are sometimes more important. This is one way, for instance, that flexibility can be given to the price of a product under resale contract, or sold on a list basis and that may result in a "price concession," that is, a price above the resale value. High "trade-in" prices may also be used as a promotional appeal, any loss on resale, if there is such a resale, being charged off against promo tional costs, whether by the dealer or the manufacturer. Because of a natural trading instinct in people there may be more of a sales appeal in higher trade-in margins than in reduced prices for the new products, and at the same time such a policy may protect the dealer against a charge of "price-cutting" by his competitors.

There are certain unethical practices to be found in this as in other fields, notably the practice of "bushing" a customer; that is, a dealer offers a much higher than the usual trade-in to hold the customer's attention and interest,

[17] See Phillips (ed.), *op. cit.*

but the offer is later repudiated by the management, or for one reason or another the customer is induced to turn in his product, usually an automobile, at a lower price than that first offered.

PRICING OF EXTRAS AND REPLACEMENTS. Reference might also be made to a pricing practice that involves the separate pricing of extras or high prices for replacement or spare parts, so that what the consumer takes to be the final price for a product may turn out to be something quite different. Some of the extras that are separately priced may be essential to complete use of the main product, so that their price can properly be said to constitute an integral part of the original price; other extras such as a radio or clock or special upholstery for an automobile are on a different basis. "The special pricing of extras permits a lower advertised price, so that the buyer is only gradually inched up to a full realization of the price of the whole package. As an offset is the fact that some buyers will more readily buy the larger assortment of extras when they are all lumped together in a package."[18] In some cases a considerable part of the profit may come out of the extras.

Pricing of replacement parts is a somewhat different problem, since such parts may have to be kept on hand for many years even after the original model has been changed, but it is a service which customers expect as part of the original terms of sale. In many cases the product will lose its value if the replacement parts are not obtainable, and the customer may be forced into a position of paying a high price for repairs or parts in order to protect the original investment. This is a matter, therefore, about which there should be a clear understanding at the time of sale. Also what servicing is to be expected and on what terms, and whether a "guarantee" that a product will be kept in operation for a given period of time without cost, can and will be carried out on terms that are reasonable to the consumer.

A report of a field trip made some years ago to a number of repair shops in different parts of the country[19] told how 304 radio shops were asked to fix a radio in which nothing was wrong except a loose wire or tube. More than half the shops tried to cheat the customer by charging for repairs they merely pretended to make. Such an experience emphasizes the necessity for the consumer in shopping at the market to be alert in the matter of where real price advantages lie, but this involves a knowledge of trading practices and of quality characteristics of a product that most of us do not have, and without specialized training find hard to get. It may, however, have a con-

[18] *Ibid.*, p. 293.

[19] See Roger W. Riis and John Petria, "The Repairman Will Get You if You Don't Watch Out," *Readers Digest*, 1942; also P.A.P. No. 109.

siderable effect on the satisfactional value to be obtained from market expenditures, both in terms of the individual product and of the consumption level as a whole

WEIGHTS AND MEASURES

We may often be confused as to where the price advantage really lies in comparison shopping but we usually give more attention to price than we do to weight, though, as a matter of fact, short weighting may be as significant as high pricing, in terms of getting the most for your money Because of the opportunities for fraud in this field, most state or local governments have established some measure of control over the weighing or measuring devices in use, to ensure their accuracy, though unless the consumer is alert, short weight or measure may be given, despite the accuracy of the devices

Government control usually takes the form of inspection of devices and the placing of a seal (hence the use of the term "sealers" to signify weights and measures officials) on those found in good order During the La Guardia administration in New York City, defective scales in large numbers were dumped into the sea under the glare of widespread publicity Gasoline, grease, and oil pumps will also be inspected by an active department with adequate appropriations, but, unfortunately, appropriations for such activity receive little consumer support and are usually inadequate for an effective service, particularly in some states and areas Cooperation with local sealers has not to date been given much attention by consumer groups One area in which considerable difficulty has been experienced in controlling fraud is that of fuel oil and coal deliveries, particularly in checking on deliveries to the home

Regulation in the field of weights and measures has traditionally been a local function, but the Federal Bureau of Standards, which is responsible under the Constitution for establishing the basic unit of weight and measure, has of recent years taken the initiative, in cooperation with the National Association of Weights and Measures officials, in drafting legislation for uniform state action, which would establish a more effective system of control Direct action by the federal government has also been taken under the provisions of the Food and Drug Act to require that canned and packaged foods, drugs, and cosmetics moving in interstate commerce shall be clearly marked as to their weight or liquid content, which of course is an essential item of information if consumers are to figure out comparative price values between products of different weight or liquid content. If students will count the number of different size cans on the shelves of the

neighborhood stores, then check the prices per unit of content they will discover how difficult it is, even with this information, to work out the arithmetic in view of the large variety of sizes on the market.

During the war, as a conservation measure, can sizes with some exceptions were reduced to three, but variety has returned with "normalcy." There have been proposals from time to time in Congress to standardize and limit can sizes for the peacetime trade but without much result. It should be pointed out here that a small change in can size, not perceptible to the consumer, is one way of effecting a concealed price rise. There has been some standardization in shipping containers for farm produce, mainly at the instance of the farmers—for example, under the Small Containers Act of 1916, the Department of Agriculture has reduced the number of sizes of various containers like berry boxes, and under the Standard Containers Act of 1928 there has been a limitation on the number of different sizes of hampers, round store baskets, etc, which do protect consumers to some extent from being misled by the use of undersized containers, odd shapes, and so on.

The Food and Drug Administration is empowered to protect consumers also against food, drugs, and cosmetics packed so as to suggest that their contents are greater than they actually are, even though the proper weight or measure is stamped on them. There are many dramatic stories of fraud in the annual reports of weights and measures officials, and warnings in publications of the Better Business Bureau against particular practices.

In 1939, in supporting the Sauthoff bill to provide for standardization of container sizes, Dr Hazel Kyrk declared before the National Conference on Weights and Measures

> Deception is not the only ground for objection to the present miscellany of containers in which goods are packed Another is the obstruction it offers to the making of those price comparisons that are essential, not only for individual economy in the narrow sense, but for the proper functioning of our individualistic economy in the broader sense If the buyer is to get the most for her money, she must make price comparisons and select the article of given quality at the lowest price at which it is offered. I will say nothing of her ability to determine quality; that is another problem Quantity, however, she must know in order that she may make price comparisons in a standard unit of measurement, per ounce, pound, pint whatever is appropriate But to what extent will this happen, can this happen, in the case of those articles offered in a multiplicity of odd-sized containers? . . .
>
> No market is a truly competitive market where buyers cannot or do not make

price comparisons—between dealers, between various brands, and between the branded and the unbranded, if such there be. Among the specifications for a "free-enterprise" society that really has the economic advantages it is supposed to have, is informed buyers, zealously seeking the lowest price for a given quality and best quality at a given price. The market that withholds information, gives misinformation, attempts to deceive, makes price comparisons difficult, is not a market according to the ideal plan.

It has, therefore, long been my opinion that one of the next steps in the regulation of weights and measures is legislation designed to eliminate the slack-filled and the deceptively shaped and constructed package, to reduce the present multiplicity of sizes to the minimum made necessary by the different uses and different users of the product and finally to substitute for the odd sizes, in so far as the nature of the product permits, those sizes that are easily calculable multiples or fractional parts of the unit of measurement appropriate for each commodity. . . . Plain and conspicuous marking, although essential, would not of course reduce the effort or the time-cost of making price comparisons. In any discussion involving the buyer in the retail market, it is also well to be realistic. This buyer is far different from the buyer for resale or manufacture. Buying by the consumer is but one of many activities and responsibilities. The consumer buys not one commodity or related group of commodities but a wide variety of diverse character, some only infrequently. The buying is in small quantities. The question is not only what could consumer buyers do, but what are they likely to do, and what are the economic consequences of what they will do.

Moreover, if it is granted that the multiplicity of sizes and the odd sizes are an inconvenience, time consuming, mistake promoting, why may we not rid the market of them? We do not set traps for ourselves or try to make life more difficult than it need be. One question that should be asked about every market practice is does it make buying an easier process? Does it reduce or increase mistakes? What are we to say of a market situation in which the buyer must use time and energy in avoiding deception, in discovering the concealed price change? Rather, I would say, let us make the market as mistake-proof, deception-proof, even fool-proof, as possible.[20]

In presenting to the same conference the report of a special committee favoring a general standardization of the quantities of all packaged goods, Alex Pisciotta, Director of the Bureau of Weights and Measures, New York City, pointed out:

Sale by package is now the usual thing. Competition is very keen in this class of business and has resulted in unfair practices and in all sorts of odd-sized, misleading, and deceptive packages. . . . Honest, ethical dealers, packers, and dis-

[20] See National Bureau of Standards, U. S. Dept. of Commerce, Misc. Publication No. 165, 1940.

tributors are forced, in order to meet competition, to follow the lead of their competitors and adopt practices which they know to be irregular and which, in many cases, lead to conditions which are not to the best interests of the majority of the producers themselves. . . . It is apparent that canners, packers, distributors, and others rely on the old policy of *caveat emptor* or Let the buyer beware. In other words, the consumer purchases at his own risk and is bound to protect himself as best he can against fraud and deception.[21]

[21] *Ibid.*, p. 779.

Chapter VIII

SHOPPING FOR QUALITY

Price and quality, though for the sake of convenience they can be considered in different chapters of a book, are actually inseparable in the selection process that goes on at the market. Whether from the consumer point of view goods are "worth the price asked," will depend in part on the quality. The problem for consumers is to be able to measure the quality of a product in relation to its price and then to decide if, in view of all the circumstances, it would be a good buy. They need to know whether the product will serve the purpose for which it is intended, both in performance and durability, before they can compare it with competing products on a price basis. They also need to know how to take care of it if they buy it, so as to maximize its use value.

This "problem of quality" is becoming increasingly important as we move into a period of new, synthetic products with which consumers have had little experience and the properties of which they do not understand. Moreover, there is an increasing tendency away from bulk retailing toward canned and packaged products; even some fresh fruits and vegetables are being packaged, making it more difficult to examine them before purchase. Unless consumers have adequate guides to quality factors, they will more than ever have to fall back on the costly trial-and-error method of selection, and indeed without some assurance of uniformity of product, nothing much is to be gained even from experience of this sort.

Another factor in the situation is the decline in price competition, with increasing emphasis, for competitive selling, on various product characteristics, frequently of minor importance from the point of view of use value, so that the tendency is to distract consumer attention from the basic to the superficial aspects of quality and even at times to concentrate it on the package rather than on the product itself. In our economy, the quality of goods coming on the market will be determined finally by the profit to

private entrepreneurs. Certain controls are exercised by government, but for the most part, in practice, they are of a negative character. They keep those goods off the market which are deleterious to "health, safety, and morals," but throw the major responsibility for quality selection on the consumer.

WHAT IS QUALITY?

Before going further, let us ask what quality is. The concept of quality applies, of course, not only to goods and services bought at the market, but to those produced and prepared in the home, and those provided on a group basis or by government—indeed to all elements of consumption. "We had a fair meal"; "that is a nice suit"; "she goes to a good school"; "this is bad housing"—all express quality factors.

When we speak of "value," we usually have price in mind; we are thinking of exchange value, what a product will fetch on the market under the usual conditions of sale, which may include trained service personnel, or self-service, cash or credit, or so on. Price is a function of exchange value; quality determines the use value. What the relation is between exchange and use value is a subject of considerable theoretical discussion, but consumers are familiar with the frequently heard assertion that "price is no guide to quality."

Not much attention, in fact, has been paid by the theoretical economists to the concept of quality as such; in discussing price they tend to assume that quality is uniform or that products of different quality are different products.

Quality, let us say, is the element (or elements) in a product or service which determines its value in use. The concept of quality relates to function. A broom is to sweep the floor, and a good broom is one that will, with customary usage, sweep the floor well. It might be possible, of course, by changing the technique of handling the broom, to get a better job done with the same product, in which case, without any change in its character we would tend to think of it as a better broom. When it has ceased to be useful for sweeping the floor, it might make a wonderful horse for the baby; that is, its use value is increased as its function is changed—indeed one of the tests of good home management is to find new uses for old things, a fact that was brought effectively to our attention during World War II.

Before we can analyze the quality of a product, therefore, we must be clear as to the function or functions it is expected to perform. It may have one particular function, or it may be multi-functional. Indeed, when a product can be used for various purposes according to the needs and

ingenuity of a particular family, appraisal of its quality factors becomes a highly individualized matter. The phrase "it is expected to perform," used above, raises the further question, "expected by whom?" As we have already noted, goods bought at the market are for the most part produced in anticipation of sale. Many new products have to be brought to the attention of consumers and their functions explained, and in this process, expectation on the part of the consumer may be roused beyond what can reasonably be achieved through use of the product; in this way confusion is created as to the nature of the function itself. If a consumer finds herself unmarried after application of a glamorizing cream advertised always in the setting of a bridal procession, the cream is "no good," though as a matter of fact, if advertised only as a cleansing cream, it might have proven itself to be satisfactory.

This question of function is likely to be confused with the different but associated question of what performance can reasonably be expected of a product in relation to its function. Much of the dissatisfaction that arises from purchase of many new products, remarkable in themselves, is due to the exaggerated performance claims made concerning them. One of the main difficulties in quality evaluation, therefore, assuming the function is understood, is lack of standards for expectation in use. How long should a "good" pair of boy's school pants be expected to last?

In analyzing quality, therefore, we must be clear as to expected performance as well as function before we can evaluate product quality, though expected performance is itself to be determined only after product analysis and experience in use have given some reasonable basis for judgment. What we are concerned about here is to clarify the meaning of "function," and to point out that it should not be confused with "performance," that is to say, the way the function is carried out. The function of the boy's pants is to clothe him, and their performance in use will be determined by how well and how long they last on this job.

Judgment on quality is of course always relative. Is "good" quality to be measured in terms of the actual or potential? For instance, Professor R. Lynd[1] once drew attention to the fact that vacuum tubes for radios could, with existing techniques and with a very small increase in price, be made to last longer than those in the best radios then available—to the disadvantage of the replacement market. In these circumstances, could any of the existing radios properly be designated as being of "good" quality?

[1] See Report of the President's Research Committee on Social Trends, *Recent Social Trends in the United States*, Vol. II, 1933, p. 857.

Or again we might ask whether we want the best possible quality of product, even if it is within our means, if it is "too good" for the use to which it is to be put, particularly, for instance, in the case of style goods, or goods subject to continuing improvement in design. Why put material with years of use value in it into a garment that will be out of style in a season or two, that is, if the function of the garment is what one might call short-term coverage—having in view the fact that there is usually considerable waste in the "making-over" process? Or would it be better to go back to the attitudes of our forbears and make durability of fabric rather than shifting style the basic characteristic of garment quality?

In this connection, reference might be made to the influence of the idea of "perfectibility"—the pervasive belief in "progress"—on our notions of quality. This point was well put by the visiting French sociologist, De Tocqueville, more than one hundred years ago:

> I accost an American sailor, and I inquire why the ships of his country are built so as to last but for a short time; he answers without hesitation that the art of navigation is every day making such rapid progress that the finest vessel would become almost useless if it lasted beyond a certain number of years. In these words, which fell accidentally and on a particular subject from a man of rude attainments, I recognize a general and systematic idea upon which a great people directs all its concerns. Aristocratic nations are naturally too apt to narrow the scope of human perfectibility: democratic nations to expand it beyond compass.[2]

Functionally considered, a product or service usually has a number of characteristics which together go to determine its quality. The Department of Agriculture,[3] for instance, in analyzing canned fruits for the purpose of quality rating, takes into consideration size, appearance, uniformity, degree of maturity, flavor, color, freedom from defects, and status of syrup or liquor. Any one of these identified characteristics may be evaluated separately, but if the quality of the product is to be rated as a whole, the various characteristics must be given weight according to what is considered their relative importance, a subject that is at times in dispute. In a special study on standards,[4] a Committee of the National Education Association has drawn attention to the lack of agreement on weighting and its importance in quality determination—with respect to a vacuum cleaner, for example, they point out that one listing might emphasize durability with little regard to convenience in use, while another listing might reverse the emphasis. At

[2] See Thorp, Curti, and Baker, *American Issues*, 1941, pp. 208 ff.
[3] U. S. Dept. of Agric., Misc. Publication No. 598, April 1946.
[4] *Using Standards and Labels*, Unit No. 6. 1945.

the annual safety award dinner, 1947, Major General Leslie Groves said much of the blame for home accidents can be attributed to women "who worry more about how an household item will look rather than whether it is safe or not. . . ."[5]

Though the quality evaluation of individual product characteristics may be useful as a guide to buying, particularly if these are "concealed" characteristics which cannot easily be determined by inspection, we have to keep in mind the fact that it is the product as a whole that is put to use For instance, color is a characteristic of great importance in women's dress, and consumers must know the degree of color-fastness under different conditions of use and care (washing, sun, perspiration, etc), but if the dress shrinks, or fits like a sack, color-fastness alone does not make it a "good" dress, and indeed ceases to have any significance if the garment falls apart

One of the difficulties in the way of effective buying by consumers is that the characteristics of consumer goods that are significant in quality determination are not well understood; indeed, consumers are usually very vague on the subject—and here we are talking only of identifying and listing the characteristics, not of the further process of evaluating them, quality-wise. This is, of course, particularly true with respect to many of the new products coming on the market, and of old products prepared and merchandised in new ways, but it applies even to those that are common in our daily experience. Take a loaf of bread, for instance, and ask what the factors are, by order of importance, that determine its quality.

Without some knowledge of basic quality characteristics and their functional significance, intelligent selection is impossible, quite apart from the additional complication of selecting among a number of items at varying prices. Since consumers usually find themselves in a position of wanting to buy more things than they have money to pay for, the difficulty experienced in relating quality to price further complicates the "shopping" problem.

It is especially important that consumers should interest themselves in the question of identifying and weighting product characteristics, since they are in the best position to judge use value. Product analysis is of course a continuing process for producers and distributors, but they are primarily concerned with saleability, the factors that promote sales and lend themselves more readily to advertising and display—but these may not be the most important factors from a functional point of view.

Moreover, with the development of packaged and branded products, producers have tended more and more to protect their market through product

[5] *New York Times*, April 9, 1947.

differentiation, emphasizing the points in the product which differ from those of a competitor in the same line of goods even though all essential elements are identical, so that goods which are intended to serve the same, or approximately the same, function and to produce the same, or approximately the same, satisfactions, are made to appear highly differentiated. Sales talk on an item for instance may be concentrated on a new gadget, as, for instance, a thumb rest on an iron, rather than on the effectiveness of the heating element and its thermostatic control.

Some product analysis from a consumer point of view is made by the consumer cooperatives and consumer testing agencies, particularly the Consumers Research and the Consumers Union, though decision in these instances is usually made by experts and only to a limited extent becomes part of the consumer educational process Recognition of the importance of greater consumer participation in the identification of quality factors has recently been shown by the American Home Economics Association, which has organized an interesting project designed to make consumers more "product conscious," and to inform producers as to the quality characteristics of a selected number of products which consumers consider of most importance.

The first exploratory study in this "Consumers Speak" project was made in connection with housedresses by 11,577 women meeting in 750 groups in 22 widely scattered states.[6] "By discussion, women formulated a list of characteristics they considered essential with some additional features they considered desirable for even the lowest priced housedress, if it is to be worth the time, labor, materials, and money invested in it." They then listed additional characteristics they believed important for a medium-price dress, and those desirable in a high price dress. When the list was completed, each woman voted as to whether or not the characteristics were essential, important, or "desirable" for dresses in each price range.

The characteristics which the majority of women thought were essential in low-price housedresses included color-fastness to washing, sun, and perspiration (this characteristic also carried most weight in overall evaluation), shrinkage control (most favoring control so that the fabric would not shrink more than 1 percent), type of weave, as "well-balanced" or "firm" weave (with many favoring the yarn count 80 x 80 typical of many prewar housedress percales), with listings for design associated with fit and size,

[6] See *Journal of Home Economics*, November 1946 The project was sponsored by the A H E A through its Consumer Interests Committee and similar committees in the affiliated state home economics associations See also *Consumer Education Service*, November, 1947

workmanship (with detailed specifications as to seams, etc.), and so on. Not much attention was given, however, to the relative importance of these factors. The group preferred that manufacturers use the money now spent on frail trimmings to improve these other characteristics considered more important—indeed, most of the women were opposed to trim for housedresses as being unsuited to their function. A number of other products are going through the same process of analysis, but considering the vast range of consumer goods, the project is clearly only in its initial stages.

The project has, however, already gained publicity for the fact that if goods are to be of greatest service in use, the point of view of those who use them is most important; the quality factors that are made the basis of production and marketing policy should be those that are most significant from a functional point of view.

To identify quality characteristics and determine their relative importance for consumer use is a job in itself. Such identification and weighting must then be followed by a process of evaluation or quality appraisal. Is the product, or the product characteristic good or bad, suitable or unsuitable? How does it rate with other products in the same line? This brings us to the subject of performance standards and the process by which they are to be worked out. So far, we have been concerned with the meaning of quality and the factors that go to determine it—questions primarily of definition. Standards are primarily a matter of measurement.

DEVELOPMENT OF QUALITY STANDARDS

Product standards are widely used in commercial transactions, and these commercial standards are, of course, of importance to consumers because they affect the quality of goods coming on to the market. But the amount of effective work that has been done in developing such standards for consumer goods for over-the-counter use has not been great. It would perhaps be true to say that it is in fact very small. Let us first be clear as to what we mean by a standard for "over-the-counter" use.

A standard is a measure, whether in terms of weight, dimension, performance, or other significant factor, and to be useful to consumers it should be expressed in a way that is meaningful to them. It answers the question: "How good?" "How poor?" with reference to quality. It may be simple, dealing with just one product characteristic, or complex, dealing with a number of them, or with the product as a whole. It should be definite, so that it provides a basis in relation to which the product or product characteristic can be described to the consumer with precision, and in a way that

facilitates wise selection among products of the same type at different prices and of different makes. This assumes, of course, that significant quality factors are measurable, a matter that is in dispute for some factors, for example, flavor.

The significance of a standard for description or appraisal of quality can be illustrated by reference to weight and linear dimensions, and within limits, color. Here there is no confusion. An ounce means the same to all of us, and so does an inch, and scarlet red, though with color we might run into disagreement with new and odd shades. The reason why there is no confusion in describing these factors is that standards have been set up for them, and accepted for everyday use. But when a product is labeled water-repellent, or color-fast, or is said to be "safe" for use, what precisely is to be understood by each term? Under what conditions and to what extent do these terms apply? A standard must be set up against which the product can be measured with respect to a particular characteristic or the product as a whole. An illustration of this is the United States Government standard for the term "pre-shrunk," which can only be used for garments with a residual shrinkage of not more than 1 percent.

The development of standards is sometimes referred to as standardization, but this is not to be confused with another meaning that is sometimes given to standardization, namely, simplification. Simplification is a process by which producers get together and agree to make only a limited variety of a product in the types in greatest demand, or the government requires that they make only a limited variety, or package their products in containers of fixed sizes and so on, in order to avoid waste in production, or to prevent fraud or for a number of other reasons. In many products, 80 percent of the business is normally done in 20 percent of the varieties of items produced.

At the end of World War I, mobilization for which had revealed great wastes in our industrial and distributive processes, a group of industrial engineers, under the leadership of Mr. Herbert Hoover, made a report on waste in industry due to excessive variety. When Mr. Hoover became Secretary of Commerce, he had a Division of Simplified Practice established in his Department to promote industrial standardization with a view, primarily, to simplification. During World War II this process was accelerated for product sizes, processes, finishes, etc., in connection with war contracts, and, particularly, subcontracting, since parts had to be made to detailed specifications which so far as possible were "simplified"—that is, variety limited to what was necessary for effective use. Simplification tends to reduce the waste involved in tooling for production of a large number of

odd sizes and also to reduce the inventory a distributor has to carry—in short, it reflects the requirements of a mass production technique.

Much of this development has been in war materials, but some has affected consumer goods, particularly with respect to size. During the war, for instance, the W.P.B. cut can sizes from some 30 or 40 varieties (at one time there were some 200 different sizes of cans) down to three, but this control was lifted at the end of the war. Again, as a result of surveys made by the Bureau of Home Economics of the U. S. Department of Agriculture, and the American Home Economics Association, the clothing industry is gradually adopting an improved practice with respect to size in children's garments, so that they are coming to be sized according to associated body measurements rather than according to age.

Cutting down the varieties in which a particular line of goods is produced, fewer shades of color, or scent, or design, and so on, is, from the consumer point of view, a problem of balance between variety that involves waste of resources and variety that gives adequate scope for choice. Little is to be gained in terms of choice from a wide variety in quality and type and pack of product unless the difference is significant—that is, produces different degrees of satisfaction in use, including aesthetic satisfaction. How much variety is necessary for effective choice, particularly for large groups of utilitarian products—for instance, hardware?

As the National Education Association has pointed out, simplification "is a process of positively identifying the most wanted items, among all the items currently being offered for sale" and concentrating on them. This does not necessarily mean dull uniformity. Certain features of a product can be uniform throughout a whole line of goods (facilitating, when desirable, interchange of parts), without necessarily affecting style features which attract different tastes. Unfortunately, some of the victory models which were made during the war to government specifications and proved unsatisfactory in use, became associated in people's minds with "standardized products." Certainly the consumer point of view should be represented in any "simplification" procedures. In connection with simplification, it has to be kept in mind that though it is based on standards, the development of standards for the measurement or appraisal of product quality does not necessarily result in simplification.

Three areas in the field of standards call for some special attention: standards of identity, minimum standards, and standards for comparative ratings or grades.

Standards of Identity

Standards of identity establish the nature or ingredients of a product or service offered for sale under a particular name. The Food and Drug Administration, for instance, in the case of many foods has established such standards of identity, so that if, for instance, a product is sold as tomato juice, it may not contain anything but the juice of pure tomatoes with or without salt; if other condiments are added, it must be sold under another name, for instance, tomato cocktail. If a product is sold as a jam, it must have at least 45 percent by weight of the fruit designated. If a standard of identity has not been established either by the Food and Drug Administration or some other government agency, the contents of a food product moving in interstate commerce must be stated clearly on the label.

Standards of identity for drugs are especially important and have been set up for a wide range of products through professional associations in the United States Pharmacopeia (U.S.P.) and National Formulary (N.F.). Aspirin, under whatever trade name it may be sold, must, for instance, conform to the standard of identity as set out in the U.S.P. Standards of identity for some non-food products have been established through the Trade Practice Procedure of the Federal Trade Commission, as in the case of rayon, and some through the standardization program of the U. S. Bureau of Standards.

Product identification is very important, not only to assist the consumer at the market but as a basis of statistical returns—for example, agents of the Bureau of Labor Statistics are continually collecting prices for a selected group of products, and to get continuity, prices must relate to the identical product, not some other like it. For instance, how is muslin to be distinguished from percale, so that if muslin is being priced, the mistake will not be made of pricing percale? What is the difference between spaghetti and macaroni?

Minimum Standards

Special problems arise in connection with the establishment of minimum standards, even if on a voluntary, and particularly if on a mandatory, basis. Such standards may be dimensional (relating to size), constructional (relating to properties of the product), or may be written out in terms of performance with respect to particular product characteristics or to the product as a whole. These standards may be worked out privately among producers or by a number of them in a particular line, who agree to produce

to the standards set, and in such cases, of course, the standards are voluntary, at least under the law, though considerable pressure for their adoption may be exerted within the trade. Standards may be worked out in cooperation with a government agency, as, for instance, at the federal level with the Bureau of Standards, or the Federal Trade Commission in the non-food field, or with the Department of Agriculture for foods, and so on, in which case they may be voluntary or mandatory. Some minimum standards are established directly by legislation.

When minimum standards are established on a mandatory basis, it may be provided that no producer or distributor shall sell goods below the specified minimum quality. In this case, the minimum may require that the product should contain or should not contain certain ingredients, or that it should be free of adulterants, or meet certain safety tests, etc. There are, as a matter of fact, very few mandatory standards that keep substandard products off the market altogether, other than those relating to adulterated foods or drugs, or those relating to new housing.

Under the so-called "McNary-Mapes Amendment," canned foods, covered by its provisions, which do not reach certain minimum standards, can only be sold if they are clearly marked "substandard" or an equivalent phrase. In this case the food is not adulterated, but it does not meet minimum standards for size, or uniformity of units, or freedom from defects, or so on. Some attempt has been made by interested parties to have these substandard products kept off the market, but is this to the consumer advantage if they are not deleterious to health and are sold at a correspondingly low price, particularly if their nutritive value is not markedly affected?

An important question here is: On what basis is the minimum set, at what level, and by whom or at whose instance, since this involves motives?

During the war, when a considerable amount of sleazy textiles, shoes, and other such items were produced, there was some talk among consumer representatives as to whether it would not be to the interest of consumers to keep these goods off the market, since they involved a waste of resources, not only for the consumer but for the economy as a whole. Two pairs of poor shoes with paper inner soles may use more labor and even more leather than one pair of better shoes and give much less service.

It will always be a matter of judgment at what point a product should be looked upon as unacceptable in the sense that by taking all things into consideration, and regardless of the low price, it would be better for the potential purchaser and the economy as a whole, if it were not produced. It

might be argued that providing the product is not deleterious to health and safety, this is a decision that should be left to the individual consumer—while there is any one willing to take the product at the price, it can be assumed that production is worth while. On the other hand, it might be said that consumers do not always realize and, under modern conditions, cannot at times find out how functionally poor a product is, until they put it to use. The trial-and-error method is costly for any one, but particularly so for those with low incomes.

However, it must be admitted that the process of arriving at a decision as to the level at which minimum standards should be fixed is beset with difficulties, and certainly should not be reached except in consultation with consumer representatives. Even with respect to safety requirements, this difficulty is obvious—for instance, in the Congressional proposal to prohibit the shipment in interstate commerce of goods of a "flammable" nature, the question is, "how flammable"?

One important factor is the motive underlying the establishment of standards. In some instances, where an industry is confronted by competition "from outside," that is, from another industry, the majority of producers want to maintain a satisfactory minimum quality for their product to protect it from the loss of reputation likely to come from those "on the fringe" who put poor quality goods on the market, and they therefore support minimum standards as a floor under quality. Nearly all gas appliances coming on the market, for instance, are tested for "safety" and other quality factors by an association maintained by the industry and in some states this is made mandatory by law. On the other hand, a trade association, in promoting minimum standards, may have a monopolistic intent, as happened in a number of cases under the N.R.A. in the early thirties.

The Consumers Advisory Board of the N.R.A., in a special policy guide prepared for its advisers to guard against misuse of quality provisions in the N.R.A. codes (January 1934), took the position that it was not in the consumer interest that low quality goods should be taken off the market, provided that low quality sold for correspondingly low price, did not impede acquisition of better quality at an equally low price, or affect costs of distribution in such a way that the consumer had to pay unnecessarily high prices for better quality.

They opposed the adoption of minimum standards designed to eliminate low-grade, low-cost products when the low grade was appropriate to some consumer use, or which would restrict improvements in techniques or the

offering of better quality at the same price, or would eliminate variety, except as called for by reasonable efficiency, or which gave a monopolistic position to certain producers or groups of producers.[7]

Under the Agricultural Marketing Act, certain low-grade fruits and vegetables have been kept out of marketing channels in order to maintain prices, regardless of the effect on total supply. A comparable situation is to be found in some of the building codes where certain minimum requirements, whatever the original purpose in promoting them, are maintained in order to protect the competitive position of existing interests against competition from new materials and new processes. It is difficult for newcomers to organize sufficient strength to bring about changes in fixed standards designed to protect established groups.

It would be desirable to have an analysis of all minimum standards, both those that are mandatory and those widely accepted in the economy, from the consumer point of view. And even though standards at any particular time might promote the consumer interest, changing circumstances might call for changing standards—rigidity under modern conditions is always suspect. "Standards may become a barrier to progress by making it so easy not to depart from obsolete designs," particularly if they are mandatory. This is especially true if minimum standards are written out in terms of materials rather than of performance. In developing standards it is the performance of the product rather than the type of construction that may be the significant factor, though even performance requirements may change continuously in our scientific age. As pointed out above, performance is itself to be measured in the light of function.

It is important in this connection not to confuse simplified design of a product with low-standard quality. There was considerable opposition from the electrical industry when the T.V.A. assisted in designing simple but functional appliances for use in the small homes of the Tennessee area. By keeping their eye on the function to be performed under the circumstances of life in that area, the T.V.A. was able to bring within the reach of families many products which they could not otherwise have afforded—products which in many cases lacked certain superficial gadgets, or were smaller in size than those previously available, but which nevertheless were adequate for their essential function. Something the same can be said for certain product developments by the mail-order houses and the variety chains.

It has been shown that by giving attention to the most significant characteristics of a product from a functional point of view and redesigning in

[7] See Persia Campbell, *Consumer Representation in the New Deal*, 1940.

line with these findings, it is possible to make a product both "better" and "cheaper" at the same time, as has been pointed out, for instance, by Mr P Millar, President of the Electrical Testing Laboratories Incorporated.[8] We have to be careful, however, to differentiate between modification of design and reduction in the quality of a product to such a degree that its functional usefulness is impaired, so that even for low income people it represents a waste The objective of standards is to bring about a better utilization of resources in terms of consumer satisfaction

Quality Grades

Minimum standards, whether voluntary or mandatory, are designed to keep certain types of goods and services off the market, or to set those which do not meet the minima apart in a recognizable class Comparative standards or grades are designed to establish quality ratings for those which do come on the market, so that consumers will be in a position to know that one brand of product is "better" than another, or, at any rate, "better" with respect to the factors that go to make the grade, and will be able to estimate the overall price-quality advantage in buying one rather than the other. This is particularly important for products that are canned or packaged so that the quality is concealed, or are made of new synthetic materials, the properties of which are not well understood

Grades may also be voluntary or mandatory Such grades as are in use at the retail level relate mainly to a certain number of foods, but, for a period during the war, hosiery and sheets were also priced on a grade basis Such grades for consumer goods as are carried through to the retail level are usually based on government standards

A considerable amount of buying and selling is done by businessmen on a grade basis, particularly in agricultural products, and warehouse receipts are issued on a grade basis, but very few of these grades have been carried through to the retail market for consumer guidance in buying. The demand made by consumers for grade labeling which has developed during the last 20 years, and particularly during and since the depression, is a demand to have such grades as exist and are suitable for consumer use carried through on the label, and to have other grades established so that consumers can have a more intelligent basis for selection of goods and get the best buy for their money.

Quality grades on a comparative basis are determined by a score system

[8] In a statement made at the Metropolitan Long Island Chemical Association meeting on January 17, 1947

for product characteristics and expressed in terms of A, B, C, or Fancy, Choice, Good, or other designations which imply that one is better than another in terms of the weighted characteristics selected for measurement. The actual process of grading is as follows. The grades are based on a number of factors which vary for different products. For canned tomatoes, for example, the grades are based on the proportion of whole tomatoes, the proportion of tomato solids to juice, absence of defects, color, and normal flavor. In grading vegetables, young, tender, immature vegetables usually grade highest, while in fruits those which are fully mature, but not overripe, grade highest.

Each factor entering into the grade is given a certain number of points. For example, for canned tomatoes, the points assigned to the different factors are as follows:

	Points
Drained weight (proportion of tomato solids to juice)	20
Wholeness (percentage of whole tomatoes)	20
Color	30
Absence of defects	30
Total	100

Tomatoes that grade from 90 to 100 fall in the Grade A class. Those that score from 75 to 89 are Grade B. Those that score from 60 to 74 are Grade C. Failure of a product to rate a specified number of points for any one factor may determine its grade no matter what the total score. All three grades are perfectly wholesome; their nutritional value is assumed to be much the same except as it is affected by the degree of maturity. For many uses Grade C is as suitable as the higher grades. If appearance is important, then Grade A or Grade B will be preferable. Grade labeling thus enables the consumer to buy the grade best suited to the specific purpose which, in turn, means a saving of money.

In this case, the grade, it should be emphasized, is based not on nutritive value as such, but largely on factors of tenderness, appearance, uniformity of sections, and so on. The grade, therefore, will be a guide to the proper kind of preparation of the food for consumption—this is especially important with respect to meat. The grade designation on the label would, of course, be in addition to such information as the brand name, style of pack, count and size of units, number of servings, and any other descriptive material the processor is required or chooses to add.

It should be noted that the grades are determined as of the date of

inspection. With some products the same grades will hold through to use if reasonable care is taken, but others will deteriorate unless the product is kept under continuous refrigeration.

From a consumer point of view, it is important to examine the basis of rating, to determine whether it is most satisfactory in terms of use value. One of the criticisms against grade labeling urged by certain business groups is that some important quality characteristics, particularly flavor and aroma, can only be judged on an individualistic basis. With respect to flavor, the Department of Agriculture works on the assumption of a "normal" flavor, determination of which is left to the experienced grader or graders who usually make a final decision, after consultation with the parties at interest.

Another type of criticism advanced is that it is impossible to give proper weighting to different characteristics of product quality as is required under the grading system in which one symbol designates the grade of the product as a whole. Manufacturers, particularly the large canners, who support this point of view argue that a descriptive statement with respect to each characteristic would be more realistic—but how effective would this be in "comparison shopping" at the retail level? As pointed out above, grades are considered of sufficient significance in business transactions for warehouse receipts and loans to be advanced on a grade basis. The consumer reply to criticism as to the reliability of the scoring system as a quality guide, is that the margin of error is insignificant compared with the present haphazard system of selecting among ungraded goods.

The grades must of course represent a significant difference in quality to be helpful to consumers. Some years ago there were two recognized grades of milk on the New York City market—A and B—but because of increasingly stringent health regulations and also improvement in dairy practice, the difference between the grades became insignificant, though a considerable price differential was maintained. Many consumers, particularly mothers of small children, felt obliged to buy Grade A. The two grades were later abolished and one grade of "approved" milk was established, though as a matter of fact, the subsequent development of "homogenized" milk, and the disappearance from many stores of the regular "approved" grade, has to some extent reestablished the price differential.

A considerable amount of explanatory material on the significance of grades in quality selection, has been distributed by the U. S. Inspected Foods Educational Service (N. Y. C.), which is maintained by a group of canners who are promoting grades for canned fruits and vegetables as a competitive device to offset the market strength of some of the large canners who have

established their position through national advertising Grading according to government standards, on a voluntary basis, together with continuous inspection of their canneries by government representatives, offers them an advantage, providing they can persuade consumers to buy by grade.

In 1941, the U S Department of Agriculture, through its Marketing Service, entered into formal arrangements with a group of small canners to provide continuous inspection in their factories, for a fee, and to grade the product according to government grades, other canners have since joined the service Their products carry a shield indicating continuous inspection, plus the designated grade letter These canners have taken the initiative in setting up and financing the U S Inspected Foods Educational Service, to increase public understanding of the significance and use of grades There has been some question recently whether the mass of consumers are sufficiently aware of the value of this service to make it worth the cost as a promotional device

Some of the chains, particularly Safeway and A & P, grade certain lines of their products according to government standards, but, as distributors, they are not associated with the continuous inspection plan Any company using designated grades must conform with government standards or they will be open to the charge of misrepresentation

Efforts made by the O P A to establish compulsory grading for a wide variety of foods and some other products as part of the system of wartime price control, had only temporary and limited success, as noted above, but it was a factor in increasing consumer interest in grades, and forced those who were opposed to grading, to consider an alternative more satisfactory than the brand name alone, on which many processors had formerly relied As a result, there has been considerable promotion of what has come to be called informative, as distinct from grade, labeling—informative labeling being understood to mean description of significant quality characteristics without any rating of them.

Descriptive labels provide information on such points as style of pack, degree of maturity of product, number of units in the can if units are large, the quantity in cups if the units are small, and so on In a recent booklet, the National Canners Association, in supporting descriptive as against grade labeling, have taken pains to emphasize the importance of using standardized terms in descriptive labels so they will mean something precise; for example "very young" or "mature" should always mean the same thing, but even the trade admits that not much agreement has yet been reached on uniform and easily understood nomenclature.

A few years ago, the National Consumer Retailer Council drew up what they considered a satisfactory "informative label"; they have also been on record as favoring "informative grade labeling",[9] that is, using grade ratings for such quality factors as can be measured by objective standards or reasonable judgment and adding descriptive material for other factors—this would also be the position taken by consumer leaders who support the use of grade labeling to the full extent to which it is practical, since "grades are simpler, more convenient, easier to use and understand."

On the other hand, national brand manufacturers maintain that a brand name for which a reputation has been established is a better guide to quality than grades. This, however, implies that branded products are always uniform in quality, which various tests seem to show is not the case.[10]

Members of the National Canners Association, the American Grocery Manufacturers Association, and others, who have bitterly opposed grading in the past, now seem to take the position that what they oppose is compulsory as distinct from voluntary grading, but the basis of their opposition is still mainly that the general use of grades would destroy the value of brand names,[11] which represent considerable equities. Professor R S Lynd, then a member of the Consumers Advisory Board of the N.R.A, declared in 1934, that "the nub of the opposition was the intangible equity and competitive advantage represented by various brand names which had been steadily increasing in value as the result of promotional advertising."[12] Grade labeling is thus tied up with the "battle of the brands" which, as explained below, is part of the struggle going on for position in the whole marketing process. The opponents of grade labeling further maintain that an attack on brands also constitutes an attack on advertising, and therefore on the advertising media, such as the press and radio.

In reply to the argument that the development of grade labeling would destroy the value of brand names, the American Standards Association, an organization maintained chiefly by business interests, said in 1943 "We can find no evidence, either in the experience of industry with standards and grade labeling over the past two decades, or in the experience under O.P.A. regulations, which supports the contention that such use leads to the discontinuance of brand names and advertising. On the contrary, all the evidence shows that brand names and brand advertising has continued. The

[9] *Informative Labeling*, Consumer Series No 4

[10] See, for example, C A B statement in testimony on standards for consumer goods, at canning industry hearing, N R A Documents, February 8–9, 1934

[11] See pamphlet material issued by Brand Names Research Foundation, N Y C

[12] See report of C A B Standards Committee, N R A, 1934

most reasonable conclusion is that the use of standards and grade labeling complement brand names and advertising."[13] Brand advertising has continued in Canada, where compulsory grade labeling for processed foods has been in force for many years, so that United States canners producing for the Canadian market, have to do for Canadian consumers what some of them contend cannot be done for United States consumers.

However, there is no doubt that extensive use of grade labels would establish competition more effectively on a price basis, since consumers are not likely to pay Grade A prices for Grade C products once they have evidence of the quality difference—one of the main reasons why grade labeling is advocated by consumer leaders.

Consumer interest in grade labeling has undoubtedly increased in recent years. A survey reported in the April 15, 1943 issue of *Sales Management* showed that practically all those questioned (91 percent) favored compulsory grade labeling, mainly on the grounds that "you would know what quality of goods you are buying." In their final report, the T.N.E.C. declared:

> Established grades and informative labels, like a standardized system of weights and measures, provide a common language between buyers and sellers. . . . Their use increases the efficiency of marketing transactions in various ways and substantially improves competition. . . . By identifying adequately and reliably the nature of the article to be sold, grades and labels save the costs of repeated sampling and inspection by different buyers. . . . Grades form a necessary basis for any system of market news reporting. Such reporting makes the flow of goods in trade more orderly by helping both buyers and sellers to locate the most favorable markets . . . the use of grades and labels also makes the mechanism more sensitive through which consumer preferences are reflected back to producers. This facilitates the adjustment of production to demand, and this results in greater income to producers and greater satisfaction to consumers. . . .

With grades, as with minimum standards, there should of course be provision for a regular review of the bases on which the various grades are established.

TESTING FOR QUALITY

It is one thing to get quality standards developed whether under private or public sponsorship. It is quite another thing to get them adopted by producers or processors, then to test the particular product for its conformity to the applicable standard, and finally to make the result available to consumers—only at this point does the process become significant as a quality

[13] See *Sales Management*, September 15, 1943.

guide in market selection. The extent to which a standard is adopted will depend in the first place on whether it is mandatory or voluntary, though, as a matter of fact, a mandatory standard to which there is considerable opposition, and that is not effectively policed, may not be so significant in practice as a voluntary standard that has the general approval of an industry.

For most lines of consumer goods, quality testing is itself a highly technical process, so that tests have to be made in well-equipped laboratories by skilled technicians.[14] In the case of mandatory standards under the jurisdiction of the Food and Drug Administration, for instance, inspectors are in the field constantly, taking samples of products for testing in the Food and Drug laboratories to see if they comply with requirements. Mandatory minimum standards, as in the case of milk and housing, are enforced by officials either at the local, state, or federal level of government after inspection and test. Not all the agencies, public or private, active in the development of standards, conduct tests of particular products to determine whether or not they conform to standards; on the other hand, some testing agencies do not concern themselves with the development of standards, applying only those already established in the particular field.

There are a number of government agencies concerned with the testing of products for quality characteristics, in addition to the Food and Drug Administration and other agencies mentioned above. The National Bureau of Standards which does some promotional work in the development of standards on a cooperative basis with industry, and promulgates some official "commercial standards" on a voluntary basis, also does a considerable amount of testing both on government account and for private business. Consumer leaders maintain that the results of tests on commercial products made by a tax supported agency should be available to consumers, but they have not been successful in their efforts to this end. A considerable amount of testing is also done in the Department of Agriculture, through both the Marketing Service and the Bureau of Home Economics. And there are other government agencies that, to a greater or lesser extent, are concerned with quality testing.

Quite a business has been developed in this country by commercial agencies in the testing field. Some commercial testing agencies have been set up by trade associations. For instance the American Gas Association which, as noted above, has established a set of minimum standards for gas appliances, also provides for the testing of these products.

Some independent commercial organizations, such as the Electrical Test-

[14] See U. S. Dept. of Agric. Misc. Publication No. 598, April 1946.

ing Laboratories (E.T.L.), have also been set up to test products for clients, either using standards already developed elsewhere or preparing criteria for themselves. On the basis of its tests, the E.T.L. will also recommend improved design to clients. For instance, they have been associated with the new "Certified Lamp Makers" program, which is said to give 50 percent to 100 percent more light for reading or close work.

There are also a number of magazines which have set up testing bureaus in connection with their advertising services, the general assumption being that they test the products advertised in their pages, though it seems this is not always so. In addition, some of these periodicals give a seal of approval to products that meet their standards, but what these standards are is not always clear. Some large retailers maintain a testing bureau within their organization to assist them in buying and also to serve as a guarantee to the public that their products are "reliable."

This list does not exhaust the catalogue of types of commercial agencies concerned with quality testing (even excluding the phony fringes of the business), but will serve to illustrate the kind of development that has taken place in this field. In addition, some professional associations, notably the medical and dental associations, not only maintain, in cooperation with producers, the U S P., and National Formulary for the identification of drugs, but also test certain consumer goods, particularly foods, health appliances, etc., and give a seal of approval to such as meet the standards of quality they themselves set up.

A limited amount of product testing is also being done by three consumer organizations, Consumers Union, Consumers Research, and the Inter-Mountain Association, which develop some of their own standards in cases where acceptable standards are not otherwise available, and also, when necessary, develop their own tests and testing procedures—their funds are small, however, and their work in this field correspondingly limited. They make the results of their tests known to members and subscribers through periodical publications. Consumers Union not only tests products for their quality value, but relates the quality of a product (as determined by the tests used) to the price charged for it, as the basis of recommendations on the "best buy." Consumer Cooperatives test some of the products they sell to their members, and maintain a grading service.

The testing of products to determine their conformity to established standards is another step in the process of quality appraisal, but to be useful to consumers the testing procedures must be such that they duplicate conditions under which the product will be used. Many of the tests, whether

set up by public or private agencies, are complex devices which may or may not be themselves standardized. As noted above, very little work has been done in the standards field itself, considering the vast area of consumer goods, and most of the work that has been done has been in the food field. Even less attention has been given to the development of tests and particularly in seeing to it that the tests set up reflect conditions of use. For instance, testing devices determine the tensile strength of sheets, that is, the amount of pull and strain they will take before tearing under laboratory conditions—does this actually compare with the sort of treatment that they will get in the home or at the laundry, which is, of course, what consumers want to know. Further, most of the tests have been developed for particular product characteristics, and not much attention has been paid to the end product, the goods as bought by consumers[15]

The problem is how to establish adequate laboratory tests for measurement of performance in use. For how long a time under normal usage and washing will the warmth quality of a blanket be retained? How long will a garment, as a unit, retain its shape, withstand reasonable wear, be readily cleanable, etc.?

It is easier to test construction features than performance, though it is in the latter that the consumer is most interested. One technical problem that arises in connection with such tests relates to the adequacy of the sample, since obviously each particular product cannot be given laboratory treatment. It is clear that we need standards for tests as well as standards of quality to be tested, and some agencies promoting the latter are also concerned with the former.

CERTIFICATION OF QUALITY

It is important from the consumer point of view that satisfactory quality standards be developed and made known, both as to the listing of the product characteristics evaluated, the weights used, and the performance ratings established; adequate and recognized tests must then be developed for particular products; as a further step, the results must be made known in a meaningful way to consumers. One way which has been developed is through the so-called "certification" procedure. Some agencies "certify," or endorse, approve, recommend, stand behind, products that meet whatever tests are set up. This may be by a seal or tag on the product or some

[15] See Irwin D Wolf (Vice-President, Kaufman Department Store, Pittsburgh), *Consumer Education Service*, February 1946

declaration on the wrapping and in the advertising, or by periodic publications.

Certification by independent agencies usually carries more weight than self-certification, but not necessarily so. There have been various misleading and even fraudulent practices developed in the field of certification,[16] and a number of companies have been the subject of suit at the instance of the Federal Trade Commission for misrepresentation in the issuance of seals of approval and other certification devices, and giving allegedly independent guarantees.

In 1941, in a case against Hearst Magazines Inc., particularly directed against *Good Housekeeping,* a magazine that maintains testing laboratories in association with "guaranteed advertising" and a seal of approval, the Federal Trade Commission ordered them to cease and desist from certain misrepresentations:

> In connection with the use of seals, emblems, and other insignia, purporting either to guarantee the quality of various advertised products or to indicate the nature and extent of respondents' testing of such products . . . the Commission finds that many of the advertisements appearing in *Good Housekeeping Magazine* contained false, deceptive, and misleading statements and representations with reference to the therapeutic value of medicinal preparations, the properties and effectiveness of cosmetic preparations, the fiber content and qualities of fabrics and wearing apparel, the properties and purity of food products, the results to be obtained from the use of various articles of merchandise and the efficiency and reliability of services and other commercial offerings.

The *Good Housekeeping* guarantee of today seems to be a guarantee that products advertised are as claimed by the advertiser or the magazine will help consumers get their money back.

Obviously, for certification to have any value as a quality guide, there must be some way by which consumers can distinguish between what is valid certification and what is not. The importance of this problem has led the American Standards Association, through a special committee, to draft "standards for certification," which have now been adopted by its members.

The development of significant standards of quality for consumer goods, testing, and certification is thus seen to be a complex and technical process,[17] but most of the problems involved could no doubt be solved if there was a general drive in that direction. The mass of consumers, however, are only slowly becoming aware that such guides to quality appraisal are practicable

[16] See T.N.E.C. Hearings, Part 8, 1939.
[17] See A.S.A., *Industrial Standardization,* December 1943.

and desirable, and many business groups are vigorously opposed to their development or, at any rate, to certain aspects of them. "Though there can be no valid argument against the right of the consumer to know the quality of the product he is buying, how it operates and how to use it to best advantage, there is no great degree of unanimity of opinion as to just what this involves or how it can be brought about," writes Professor Clark.[18]

A CONSUMER STANDARDS AGENCY

The main consideration is how the development of quality standards significant for consumers and acceptable to the trade can be accelerated—and this applies to standards of identity, minimum standards, and grade ratings and also to tests and certification procedures What is the appropriate agency to spearhead the development, and how can the various points of view be brought together so that the end result will be a maximizing of satisfaction in consumption? Consumers want freedom of choice, but freedom of choice is meaningless if they do not know what they are choosing.

During N.R A. days, 1933–1934, the Consumers Advisory Board[19] set up a special committee to consider the whole question of quality appraisal, particularly the development of standards for consumer goods from the consumer point of view, with the intention of having them included in the N R A codes. The C.A B. finally recommended that a special government agency be established charged with the responsibility of developing standards for consumer goods, with the advice of a committee representing all the various government departments concerned with quality appraisal, as well as of business, farmer, and consumer groups.

This proposal did not prove politically practical, and though a special standards committee was set up by the Consumers Advisory Board, it had neither the support nor the financing to do a significant job. Meanwhile, some arrangements were made with the American Standards Association, which set up a Committee on Ultimate Consumer Goods, to promote the development of standards for over-the-counter use, particularly in the non-food field; the Department of Agriculture and the Food and Drug Administration were working with foods

The Committee on Ultimate Consumer Goods has made some slow progress in this field, including some exploratory work in the area of nomenclature, that is, terms used in connection with quality appraisal, which

[18] Clark and Clark, *Principles of Marketing*, 1942, p 588
[19] See Persia Campbell, *op cit*

are in a state of great confusion.[20] It is not clear, for instance, whether "fancy" is always to be understood as representing the top quality of a product, or whether at times it is only a second or third grade, outranked (unknown to the consumer) by "superexcellent," "colossal," or similarly styled ratings.

However, a standards program of the size necessary to give consumers proper guidance in quality appraisal is perhaps too large a job for an organization such as the A.S.A., with limited financing, and set up with a somewhat different motivation, unless public funds are made available and the consumer point of view more vigorously brought to bear. The association is also committed to the development of voluntary, as opposed to mandatory, standards.

From a consumer viewpoint, there would be many advantages in having an organization such as Consumers Union spearhead development in the field of quality appraisal for consumer goods. But an organization of this kind lacks the financing to carry on a considerable program unless the consumer movement could develop to a point where it could supply funds for such a purpose, which does not at the moment seem probable. Consumer leaders would probably support a proposal comparable to that made by the C.A.B. for the establishment of a government agency for this purpose, a Consumer Standards Bureau, adequately financed, with provision made for active participation by all interested groups.

The problem presents many difficulties and calls for continuous study. There are those who maintain that all this effort to overcome the technical difficulties involved in establishing standards or measures of quality and the problems involved in securing a "meeting of the minds" of all parties is unnecessary, since a competitive economy makes available to consumers adequate guides to buying through the price tag, advertising, labeling and the advice of salesmen. These people would presumably agree to the desirability of having government, at the appropriate level, keep off the market goods and services that are deleterious to health and safety, though, as a matter of fact, there was most vigorous and sustained opposition to the passage of the first federal Food and Drug Act of 1906, and to the 1938 amendment, finally passed after five years of Congressional effort on the part of its supporters.

GUIDES TO QUALITY

Price

To what extent is price a guide to quality? Various studies have been made of the price-quality relations for particular products. The American

[20] See *The Grade Terminology Problem*, U. S. Dept. of Agric., Misc. Publication M 173.

Home Economics Association reports that in a study of 59 percales, "price was not found to be a reliable guide to quality."[21] A somewhat similar report was given by a representative of Consumers Union before the T.N.E.C. in 1939, with respect to tests for vacuum cleaners. "One very well-known brand selling at $29 rated far higher in actual cleaning ability than a well-known brand selling at $80 and another brand selling at $60; in all material respects . . . on the basis of use value for which a vacuum cleaner is bought, the $29 one was not only a better cleaner at the price, but a better cleaner at any price."[22] This was true also, he asserted, with respect to durability. Similar evidence was given for soap and cosmetics: ". . . of all the products on the market, cosmetics are those in which the gap between cost and price is greatest, in which a fair relation between cost and justifiable price is most rarely reached. . . ." This is illustrative of a considerable volume of evidence to much the same effect recorded in official documents.[23]

In connection with this testimony, however, it has to be kept in mind that quality value measured by experts according to their interpretation of function, may be different from the value of a product as judged by the layman, which after all is the main determining factor in sales. Professor Alexander in commenting on the quality-price relation, has said: "The purchasers of consumers' goods are interested primarily in obtaining not the tangible articles themselves, but the satisfactions to be gained from their possession or use. Such satisfactions often have their origins fully as much in the character and emotions of the buyer of a commodity as in the inherent physical properties of the article itself. Satisfaction which is subjective and which has its origin in a whim or prejudice is just as real and just as important as that which is objective and results from the mathematically measurable physical properties of a product Intelligent buying of consumers goods . . . demands that so-called emotional considerations play a great part in their selection. . . ."[24] On the other hand, the consumer may be mistaken as to the quality of a product, even from this subjective point of view, and come to associate good quality with high price, for lack of a better guide. We hear of retailers increasing the price of certain products in order to stimulate sales, on the assumption that consumers will be led to believe that the quality of a product is superior to what in fact it is, since they

[21] *Journal of Home Economics*, January 1945

[22] *T N E C. Hearing*, Part 8, 1939, p 3332

[23] See also testimony of W S MacLeod, Director, Standards Division of the O P A at hearings before the Boren Subcommittee of the House Committee on Foreign and Domestic Commerce, May–June 1943, set up to investigate standardization and labeling activities of the O P A, also C A B. (N R A.) Release November 17, 1933.

[24] Alexander, Surface, Elder, Alderson, *Marketing*, 1944, p 57.

tend to identify good quality with high price. This is a case where exchange value may be said to be related to what consumers believe the use value of a product to be, though they may later be disillusioned.

Advertising

Advertising is a device of salesmanship; its function is to sell, or to create a favorable environment for the sale of goods or services. It is successful to the extent that it makes people "company conscious, brand conscious, product conscious," stimulates a desire for a product or service, and finally brings about a sale. In carrying out this function, advertisers try directly or indirectly to attract attention to a product, persuade people to want, and then to buy it. They use various devices which in their opinion are calculated to accomplish the ends they have in view; if they believed that more information would do a better selling job, they would probably adjust their techniques accordingly. It is as well to keep in mind that advertising is a business activity and not a humanitarian movement. Advertisers are interested in selling a particular product, not in providing data that will help the consumer select among a number of different products on a quality-price basis, unless they have reason to believe that, on such a basis, their product would be selected.

Advertising may be directed by the manufacturer to distributors or to consumers, or by distributors to consumers; it may be handled directly by the manufacturer or distributor, or by trade associations or other groups of producers or distributors; or it may be handled on their behalf by various specialized advertising agencies, the numbers of which have increased considerably in recent years. These advertising agencies may carry on other activities, particularly what has become known as market research, either as an independent activity or as contributory to the advertising function.

Advertising has developed into a $2 billion industry, with a great institutional structure, separate trade associations, and journals. Those who sell their advertising services are organized (as in the American Association of Advertising Agencies); those who buy these services are organized (as in the Association of National Advertisers); and so are the groups who control the various media, the newspapers, magazines, radio, and so on.

The character of advertising is likely to differ according to how and by whom it is handled, and this should be kept in mind in analyzing it in terms of the assistance it gives to consumers in quality identification and selection. If consumers want more quality information in advertising or, as it has come to be called, informative advertising, they have to deal with all these organized interests, and also with various government agencies who

have some influence, positive or negative, over the character of advertising

Advertising is essentially a means of communication from seller to buyer through a wide diversity of media, ranging from skywriting to post cards, from national networks to the local sound truck For the most part it is a one-way flow, the effectiveness of which is checked by various "rating devices," and finally of course by sales, in so far as the advertising factor in sales can be isolated Advertising agencies have to convince manufacturers and distributors who buy their services that they are getting their money's worth through sales promotion, and of late we have had some very hair-raising stories of how this is done.

During the war, advertising expenditures were maintained at a high level, particularly for so called institutional advertising, to keep the name of a company or their brand before the attention of the public, even though their goods were in short supply or even unavailable This led to a good deal of criticism from some consumer leaders and others, particularly since these expenditures were included as costs and tax exempt In reply to such criticism, the U S Department of Commerce issued a special report eulogizing the advertising industry as the "Information Industry," and referring to the importance of its role not only in maintaining and expand ing markets, but also as "a mighty force for social good"

On the other hand, consumer literature has emphasized the importance of educating consumers to build up sales resistance against advertising appeals "If you glance through consumer literature," writes Dr Margaret Reid, "you will find a general point of view to the effect that the advertiser is someone to beware of, rather than someone whose business it is to help"[25]

Let us now come back to the question 'Does advertising give positive aid in appraising product quality and to what extent?" Students will find it interesting to collect a variety of advertisements with a view to determining the informative value of their content, particularly with respect to product quality, the amount and kind of information given in an ad will, of course, be affected by the media used Dr Reid reports a study made by her in 1935 into the content of advertising material in several national magazines An analysis of over 2500 ads indicated that three in every four, described quality in some such terms as superior, unusual, marvelous, matchless, keen, swell, premium, best, richest, glorious, perfect, superb, unique, etc; even when there was no direct claim in so many words, superiority was usually implied, many ads, to support the claim of superiority or to imply it without actual claims, provided facts about materials used, about the construction or process

[25] *Consumers and the Market*, 3rd ed, 1942, p 322

of manufacture or handling, and about the way in which the product functioned, "but much of the information given was found to be unimportant in revealing quality. . . ." This report, it might be said, reflects a general opinion among consumers as to the positive value of the content of advertising in quality appraisal, and particularly in the important process of comparing values, especially in terms of a quality-price relationship.

Much of the criticism directed against advertising as a quality guide is not that it gives so little positive guidance, but that so large a proportion of it is a lure rather than a guide, involving waste and confused choices; that it concentrates attention on brand names and slogans rather than on the functional value of the product; that some is "false and misleading"

Efforts to restrain advertising of the worst kinds have been made by the National and State Better Business Bureaus, and the Advertising Trade Associations, through the so-called "truth in advertising" campaigns In terms of the content of advertising, this program is negative rather than positive; it aims at eliminating certain types of advertising on a voluntary basis rather than promoting "informative advertising"

Certain controls are also exercised by the owners of the media used, particularly the National Association of Broadcasters, though this is mainly in the interest of "good taste" rather than as a positive guide to consumers in the selection of products on a quality basis

Trade associations, or some of them, also try to exercise some control over advertising excesses—for instance, the Proprietary Association of America has drawn up a code to restrain misrepresentation, particularly with respect to the functional value of patent medicines. The code includes, for instance, a provision to the effect that "when advertising copy for proprietary medicine contains either the term guaranty or an offer to refund money paid by the purchaser, the impression should not be conveyed that the product is guaranteed as a cure or as an adequate treatment for the conditions mentioned, unless such is a fact."

The public has not been satisfied by the results of "self-regulation" in advertising, and power has therefore been given to the Federal Trade Commission, under the Wheeler-Lea Act of 1938, to restrain false and misleading practices, particularly in the field of food, drugs, and cosmetics. Under this act, not only does the commission have power to prevent false and misleading advertising, but also to require that certain facts be disclosed, particularly if the product advertised is likely to have harmful effects in use. The commission has also developed certain controls over the content of

advertising, particularly "the nibbling at truth's edges," through trade practice rules worked out in cooperation with various industry groups.

The commission has set up a special division whose job it is to maintain a continuous survey of the content of advertisements in the various media, and any that seem to contain false and misleading statements are selected for special investigations According to Dr Kenneth Dameron, adviser to the Committee on Consumer Relations in Advertising set up by the American Association of Advertising Agencies, "Several advertisers have stated that changes in copy to meet the Wheeler Lea requirements have resulted in increased sales This is no doubt due to the fact that in writing specific and more informative advertisements, the advertiser presents those product features in which consumers are genuinely interested When readers understand that the information in advertisements is true and can be relied upon, they are likely to be much more widely influenced by them."[26] If this is true, it makes one wonder why, since it is the business of advertisers to gauge consumer reactions, they did not discover this fact earlier.

In a 1942 court decision having to do with an advertisement that failed to disclose that the product contained dangerous drugs in quantities sufficient to endanger health, the Commission s power to restrain false and misleading advertising was not only sustained but somewhat extended by the court's attitude that "the buying public does not ordinarily study or weigh carefully each word in advertisements, but the ultimate impression upon the mind of the reader arises from the sum total of not only what is said but also of all that is reasonably implied In determining their falsity, advertisements must be considered in their entirety and as they would be read by those to whom they appeal"[27]

Aspects of advertising bearing on quality appraisal, which have occupied much of the time of the Federal Trade Commission itself, are the so-called guarantees, testimonials, and so on The advertising "guarantee" may take the form of "certification of quality,' on the basis of alleged standards, which may or may not be disclosed—reference has been made above to the misleading character of some of this type of guarantee, as evidenced during the trial of the *Good Housekeeping* case. Or it may guarantee performance for a specific period of time, during which any necessary repairs will be made without charge It may take the form of a general statement guaran-

[26] See *Consumer Problems in Wartime* 1944 p 285

[27] *Aronberg et al* v *Federal Trade Commission* see also the address by Chairman Freer of the F T C before the Radio Executive Club, November 1944

teeing a return of the money paid if the consumer is not satisfied with the product.

Another device of advertising designed to impress consumers with the performance value of a product is the "testimonial" in which persons held in esteem by considerable sections of the public, or persons with "social" or "professional" status, "engaged" persons, or "people just like ourselves," testify to the satisfaction they have derived or they believe others will derive from use of the product; sometimes the testimonial is given by a person in a low-income group with a large family or in other circumstances with strong emotional appeal. The testimonial is usually given for a fee or for some other compensation. Since it is contrary to the ethics of the American Medical Association for any member to give a testimonial (apart from the A.M.A. seal of approval), medical testimonials are not easy to obtain.

What value is to be put on a testimonial as a quality guide? If it is honestly given, it indicates that for one reason or another the one testifying found the product satisfactory; it does not show whether he would have had greater satisfaction from another choice. But evidence obtained at F.T.C. hearings held in 1944 in connection with the advertising practices of "Camel" cigarettes, revealed that testimonials were obtained (at a fee) from some people who had never even smoked these cigarettes, and in other cases by people who preferred another brand. Commenting on this evidence, *Advertising Age,* a trade paper, declared:[28] "The Camel cigaret case . . . developed some testimony . . . which ought to make all advertising people blush. . . . Well-known men and women testified that they were paid for their testimonials for Camel, which is not necessarily bad, but that they had, in exchange for this compensation, signed testimonials which were at variance with experience and in some cases were completely untrue." Tobacco, cosmetic, and dentifrice advertising seems particularly prone to advertising excesses, no doubt largely because competition in these fields takes the form of attracting consumer attention by emotional appeals rather than by price advantages.

On the other hand, advertising men who would deplore practices of this sort, maintain that consumers exaggerate their significance; they declare that advertising is, on the whole, of service to the consumer and a stimulus to producers to improve their product offerings. A certain "puffery," they say, is expected by consumers and discounted in advance—although thousands of credulous buyers may be deceived by what is characterized as "reasonable exaggeration." They also maintain that consumers must be stimulated to

[28] *Advertising Age,* May 1944.

spend if the economy is to be kept in an expanding condition. It is argued further, that the important thing for consumers to do is to press for more information of the kind they want to aid them, rather than criticize weaknesses. Also it is said that efforts made by leading manufacturers and distributors to improve the content of their advertising without weakening its emotional appeal and to encourage informative advertising, do not receive the active support of consumers. What sort of quality data, they ask, would be useful to consumers, having in mind the limitations of space and time within which advertisers work?

Everybody nowadays, said Chairman Freer of the F.T.C., in 1944, is for truth in advertising—meaning the absence of false representation—though everyone does not practice it, and there is still considerable difference of opinion as to the borderline cases "where deception flows from distortion, ambiguity or half-truths aiding the aura of deceptive expression." The "buyer beware" standards of an earlier day, went on Mr. Freer, are generally regarded as antedated by organized advertising interests: "Ambiguous and deceptive advertising today is considered sissy continuity, in that it has been found so often to represent an effort to by-pass the expenditure of mental effort necessary to write 'factually informative advertising' which is generally accepted as most effective."[29]

"Factually informative advertising" is here taken to mean advertising that will not only avoid deception, but will aim at helping the consumer identify a product and appraise its quality. A good illustration of the soundness of this point of view is to be found in the history of the rayon business, according to Chairman Freer. He draws attention[30] to the fact that not so long ago, synthetic fibers were considered by the purchasing public to be sleazy substitutes for the real thing. There was considerable resistance among some industry representatives to F.T.C. proposals that rayon products be labeled and sold under their own name. But experience has shown that disclosure has in fact helped the industry, "demonstrating perhaps more dramatically than usual that the consumer can be trusted with the real truth, if it is given him." Some businessmen are guided in their advertising by the belief that "facts have their own glamour."

The same point has been made by the consumer cooperatives: "The most effective cooperative advertising is the advertising which is most informative. . . . The ad that frightens or snobs people into buying goods has no place in our program. Cooperative enterprise must tell people how to use the

[29] F.T.C. Release, statement at the Radio Executives Club, November 1944.
[30] F.T.C. Release, May 29, 1946.

product more efficiently, more thoroughly; how to take care of it, how to repair it, how to get the most value and service out of it. Our unique privilege of being able to speak and act for the consumer brings with it the responsibility of being scrupulously accurate and fair in any advertising claims made regarding merchandise or services."[31] Honesty also seems to be profitable. According to a *Printers Ink* report, September 10, 1943, for instance, "The Cooperative, on its own brand of cigarettes, has upped sales 50% since July 26. Copy makes no claim for product, says cigarettes contain 'a mild form of dope that gives pleasure to some and annoyance to others.'"

The development of a consumer movement has, of course, had a great deal to do with the changing attitude toward advertising content and procedure. "Public opinion polls and research groups have so sounded the public's listening, reading, and buying habits, that most any business can buy a reasonable facsimile of a dissected consumer. Probably on the theory that turn about is fair play, consumers today are showing quite an interest in the merchandising habits of business," comments Mr. Freer.[32]

This brings us back to the question: "What type of advertising would be most helpful to consumers in utilizing their total resources to best advantage?" How can it help them appraise price-quality factors of goods and services on a comparable basis with others available on the market, or that could be made available? Here again we see the importance of standards. Advertising is not a substitute for standards. On the contrary, the development of quality standards is a necessary preliminary to useful advertising.

Labels

Advertising is only part of the selling process. Information through advertising is supplementary to, not a substitute for, what is on the label or given by the salesman. A large collection of labels provides in itself an instructive experience in quality analysis. Some items on a label are required by law, others are part of the merchandising technique.

There is a considerable amount of legislation, local, state, and federal, that affects the content of a label. At the federal level the Food, Drugs, and Cosmetics Act applies directly to the labeling of those products. There are also some specific acts relating to individual products or groups of products—

[31] See James L. Proebsting (advertising and promotion manager of National Cooperative, Inc.), *Advertising Age*, September 13, 1943, p. 24.

[32] *Ibid.*

as, for instance, the Wool Products Labelling Act of 1939, which requires labels on woolen garments to indicate the percentage of virgin, reprocessed, and reused wool, plus any other fiber of more than 5 percent of the total In addition, there are a number of trade practice rules established under the authority of the Federal Trade Commission which either require certain information on the label, or require that if certain information is given it must conform to accepted standards Processed and packaged products have to be marked with the weight or liquid content

As we noted above, some food processors and distributors have adopted grade labeling as a merchandising technique, so their products carry the grade rating along with whatever supplementary information is required by law, or adopted as good business, including a brand name—this is the so-called "informative grade label" Others rely for their appeal on the brand name, with a developing interest in "descriptive labeling" to offset the movement toward "grade labeling" Here again, as with advertising, it is important that consumers should develop a point of view with respect to the type of information desired on a label, if it is to be looked upon as an aid in wise buying This assumes, of course, that consumers read the labels or would read them if they were to be prepared in a way calculated to aid them in quality selection

The jurisdiction of the Federal Trade Commission over false and misleading advertising in interstate commerce does not extend to labels, except in cases where specific trade practice rules have been adopted The Food and Drug Administration supervises the content of labels in the food, drug, and cosmetic field, and one has only to read the monthly Notices of Judgment of the U S Food and Drug Administration to realize how much misrepresentation is to be found there

Sales promotion also includes the function of personal selling To what extent do salesmen help the consumer in quality selection? It might be asked whether or not it is their function to give quality information If so, are they trained for the job and are consumers willing to pay the added cost for such professionalized service? What kind of information should they be prepared to give, and to what extent would it influence the decision of consumers?

Consumer leaders are more and more taking the view that consumers must accept a certain responsibility with respect to their own competence at the market. Undoubtedly, more emphasis should be put on education as a guide to quality analysis, but education must itself be based on adequate knowledge

of quality as a functional factor in consumer goods. One effect of intelligent quality appraisal would be to make, or tend to make, price a true reflector of the quality rating of a product based on use value.

The association of high price with good quality, moreover, has been a factor in weakening efforts to reduce prices. Rather than reduce the price of an established brand, some producers prefer to bring out a new brand, or change the design or package of a product; that is to say, they dissociate the new price from the old product. Until quality can be identified apart from price, and consumers become quality conscious, prices will not vary directly with quality and this in itself, according to the theorists, means a failure in the operation of the competitive system. "The whole competitive system goes on the rocks if customers cannot judge quality in relation to price. For its very anchor is their choosing the best buy."[33] Businessmen suffer, since unfair competition can come about fully as much by chiseling on quality as by chiseling on price, and consumers suffer a decrease in real purchasing power as a result of the waste due to a failure to appraise quality factors in functional terms.

[33] National Education Association (Consumer Education Study), *Standards and Labels*, 1945.

Chapter IX

CASH OR CREDIT?

We are concerned here with the problem of choice for any given individual (or family) as to whether he should "borrow to buy." The decision may involve a considerable shift in the pattern of expenditures, and of consumption.

Since the twenties, with an expansion of facilities for consumer credit, considerable pressure has been put on consumers to borrow—there has even been an extension of the technique of "free trial offers" into this field. After a marked decline during World War II, the volume of consumer credit outstanding took a sharp upward turn in 1946, and at the beginning of 1948 exceeded $13 billion. When an institution such as the Chase National Bank undertakes an elaborate advertising campaign to encourage consumer borrowing, the importance of this area of consumer choice seems to take on a new significance. We are dealing here with "big business."

WHAT IS CONSUMER CREDIT?

A wider concept of credit service has been developing since the turn of the century. It is essentially an advance of money or purchasing power to the consumer, for a given period of time, for consumption purposes. A joint legislative committee of the New York State legislature which, in 1940, made an extensive investigation of certain aspects of consumer credit in that state, defined consumer credit as credit granted to families and to individuals for use in their capacity as consumers.

The advance may take the form of outright cash (which we shall refer to as cash loans), or delayed payment, as in the case of charge accounts or instalment sales (merchandise loans). Some of these advances are repaid in a single payment. Others, however, are paid back in instalments on one basis or another, and for statistical purposes have been added together, whether on a cash or merchandise loan basis, as "instalment credit." It is important

to emphasize that "instalment credit" includes certain classes of both cash loans (usually referred to in this connection as instalment loans) and merchandise loans (or instalment sales), since some people take it to refer only to merchandise loans.

Mortgage loans of various kinds on real estate and housing are essentially a form of consumer credit, but are not included among consumer credit statistics, nor discussed under the general subject, though obviously there is little difference between a loan to buy a house and a loan to buy an automobile, except in terms of amount and period within which payment is to be made. But different agencies have come to specialize in the different fields, and we shall leave consideration of housing credit until we discuss housing as such. Statistics relating to housing credit are therefore not included in this chapter.

From the consumer point of view, of course, we should speak not of credit but of debt, and a debt which has to be paid for, either directly by the individual borrower or as a cost reflected in the price level of particular lines of goods or general store or service prices. Is it desirable for consumers to contract such a debt and if so, under what circumstances?

Credit may be merely a matter of convenience and have no marked significance in terms of buying power—as, for instance, in the case of the monthly milk bill for home delivery, or even many charge accounts; or it may be part of a plan to buy now and pay later, as a means of expanding present buying power. In the immediate present, for the individual borrower, it is true that credit increases buying power. But as instalment payments are made, the buying power of the family is diminished to the extent of the extra charges incurred.

If the goods or services for which credit is obtained lead directly to an increase in earnings, then they may result in greater buying power over the longer period of time. This would be true, for instance, if credit were obtained to meet costs of education which led to greater efficiency, or of improved health. It would also be true if an automobile were bought and used in part, at least, to increase earnings. But in such a case it would be better to speak of it as producer rather than consumer credit. Purchase of a washing machine on an instalment basis may increase the leisure and energy of the housewife and contribute to an increase in the general efficiency of the family; or it may mean that instead of laundry being sent out to be done commercially, it will now be done at home at the expense of family labor. That is to say, assuming a family is in a position to repay credit as arranged, the

advantage to be gained from buying credit services must be appraised in terms of individual circumstances.

It may be, as has been claimed by proponents for expanding credit, that increasing the market for durable goods, through the credit system, made possible improved techniques of production, and so led, in part, to the spectacular expansion of certain industries, with an increase in money incomes of workers or a decrease in prices—in which case it can be said that credit has increased buying power, if not of any particular borrower, at any rate in the economy as a whole. On the other hand, the tendency for credit to expand in a boom and contract in a depression, intensifies the effect of the business cycle. It is clear, therefore, that an appraisal of consumer credit has to be made both in terms of the individual family and of the community generally. In appraising the system as a social instrument, we have to ask whether it is "sound" not only from the point of view of an individual borrower, but also from the point of view of the general economy, in the "soundness" of which the individual also has a stake.

A credit advance constitutes a lien on future earnings. Unless these earnings increase, what takes place is a transfer of choice from one set of goods or services to another. The question is: Does this shift lead to greater consumer satisfaction? In many cases it is a question of future versus present satisfactions. There is a change in the character of consumption. What kind of things, for instance, would people buy with their money if credit were not available to them to make large occasional purchases of durable goods? Would they save and buy the goods at some future time? "Nobody knows," writes William Trufant Foster, "how consumers would spend the billions of dollars which they now spend in buying goods on time, if they bought only for cash. Perhaps they would spend more money for candy, cigarettes, chewing gum and cosmetics, more for tickets to the movies, and more in playing the slot machines and the races, instead of gaining more lasting satisfaction by spending their money for durable goods bought on time."[1] On the other hand, it may be that some families buy durable goods on credit, at the expense of food or other important areas of consumption. Consumer credit is a device which facilitates a change in the scale of consumer preferences as expressed at the market. Whether the change is for the best, according to some normative standard, is another matter. It might be pointed out here that durable goods which outlast the period of repayment, constitute savings in the form of capital equipment.

[1] Public Affairs Pamphlet, No. 61, 1941, p. 8.

Borrow or Save?

By a process of saving, consumers in a position to save could acquire the more costly goods after a time. But one of the arguments advanced in favor of consumer credit is that it is difficult for many people, particularly those in the low-income and low middle-income class, to save money for a future purchase except on some kind of a formal contract, providing for small but regular payments. When buying power is low, the pressure of immediate wants is too great. The question of appropriate stimuli to save is one about which we know very little, but surveys of the distribution of expenditures demonstrate the close relationship between savings and income.

There are sudden emergencies, as illness, unemployment, unexpected opportunities, which can only be met or taken advantage of by credit, unless the family has already accumulated a general savings fund, or made other provision, as through a prepayment plan for medical care, or social insurance. Even an increase in buying power for the low-income group would not dispose of the problem of buying expensive items; it would not provide for sudden emergencies.

There is nothing "wrong" about credit, but it is not a substitute for earnings, and a borrower who, though entering into a contract in good faith, finds he cannot meet his commitments because of a change in circumstances, or even because he cannot reshape his budget, "will have a hard time with easy payments."

PUBLIC ATTITUDES TOWARD CREDIT. The individual decision of whether to pay cash, obtain credit, or do without, will be influenced by the climate of social opinion with respect to the relative merits of borrowing, saving, and doing without, and this changes with the times. There is behind us a puritanical tradition of thrift, which discouraged borrowing for consumption goods. The classical economists, concerned largely with the accumulation of capital for production purposes, were disturbed by what they considered the dissipating effects on private capital of consumer credit. After World War I, in the midst of inflation, the Treasury organized a thrift campaign—"spend as little as you can, save as much as you can." But this was followed, after a brief lapse, by a period of expanding production when consumer credit was encouraged, to facilitate the sale of new durable goods with a high initial price. It was supported as a technique for transferring buying power, on a temporary basis, from those with savings who did not want to spend, to those without who did.

During the depression, everyone was urged to spend to maintain purchasing power, but people lacked the confidence and the credit standing to borrow on the previous scale, and as a result the volume of consumer credit fell off. As we started on the upgrade, it expanded again, and in the period from 1934–1941, the combined outstandings of all consumer credit-granting agencies rose from nearly $5 billion to nearly $10. At the present time, while the government is urging us to save, the credit men are urging us to borrow, and are meeting with a wide response. That is to say, public attitudes toward thrift and borrowing vary with the times, and vary at any one time. It makes a difference also whether the question is being discussed from the point of view of the individual borrower or of the economy as a whole.

WHO BORROWS? Under the present credit system, who are the borrowers, and for what particular purposes do they borrow? One difficulty in getting data of this kind is that until 1941, when the Federal Reserve Board was empowered by Executive Order to institute controls over consumer credit, regulation of the consumer credit field, to the extent it was regulated, was a matter for the states, and such descriptive or statistical material as was assembled, was very limited in character.

During the first period of federal control, 1941–1947, the Federal Reserve Board collected a considerable amount of data based on formal returns from different credit agencies as to the number and size of loans, and to some extent, the purposes for which they were required, but these data reflect the abnormal circumstances of war; moreover, the number of loans is not identical with the number of borrowers. Presumably, the reinstitution of federal control in 1948 will result in further information.

Certain material relating to instalment sales (as distinct from instalment loans) which was collected during the 1935–1936 income-and-expenditures survey, supplemented by that collected in the more limited survey of 1941, has been analyzed and presented in summary form in a special B.L.S. bulletin[2] prepared by Professor Reavis Cox, as Director of Research Projects for the Retail Credit Institute of America, which is interested in merchandise financing. The Cox study relates to "consumer units," that is, it includes both families and single individuals and is limited to a small sample of those living in towns of 2500 or more population. According to *Consumer Credit*,[3] published by the Consumer Banking Institute (concerned with in-

[2] U. S. Bureau of Labor Statistics, Bulletin No. 773, April 1944.
[3] September 1944.

stalment loans), some of the conclusions are at variance with the experience of consumer bankers operating in the cash loan field. They are nevertheless suggestive and point the way to further exploratory studies.

Professor Cox tried to find out "who the users of instalment (sales) credit are, how they differ (if at all) from consumers who do not buy on instalment, how they control their use of credit and how their instalment purchases affect their spending for other goods and services." The 1941 data indicated that about one third of urban consumers purchased goods and services on the instalment sales plan—over the years, of course, this percentage might be much higher since last year's instalment buyers might not be buying on credit this year.

These borrowers were concentrated in the income brackets between $1000 and $5000. More than half of them had incomes between $1000 and $2500—that is, they were among the lowest-income groups above the self-supporting level. This is one reason for characterizing instalment sales credit as the "poor man's credit." As noted above, these groups preferred to go into debt than to do without certain classes of goods, which, presumably, were important items in the acceptable standard of living. Wage earners, who predominate in the lower- and middle-income groups, were buying on the basis of instalment sales more frequently than salaried workers or the self-employed. Obviously, at the upper levels of income, it becomes possible for a larger proportion of consumers to pay cash or to obtain cash loans. However, the size of the credit purchase increased at the upper-income levels; that is to say, whereas the average purchase at the lower-income level was only $59, it rose to $847 at the highest, so that in terms of dollar volume, the upper-income groups constituted a much larger proportion of the instalment sales market than of the population.

The majority of consumer units buying on the basis of instalment sales, reports Dr. Cox, "are people who can offer as security for credit only the fact that they are earners and good moral risks . . . who find it difficult if not impossible to obtain the kind of credit which depends in large part on property and social position"—that is to say, their security is based on earning power, as distinct from property. Consumers in the very large cities seemed to be less frequent users of instalment sales than those in smaller urban areas, the apparent reasons being that the per capita purchase of automobiles in metropolitan centers is smaller than in other cities and also that in many city apartments, certain types of household equipment are furnished by landlords who buy on the basis of commercial, not consumer credit.

Most of the instalment sales provided for payment within a year, which led Professor Cox to remark that if the basic period for household accounting is to be taken as a year, "instalment buying can properly be considered current expenditure." In the income levels above $2500, credit seemed to be used as an alternative to interfering with savings rather than increasing purchasing power at any one time.

A number of studies have been made in different states that throw some light on the question: Who borrows? In 1941, for instance, a Joint Legislative Committee of the New York State legislature,[4] as the result of an extensive survey, estimated that at least one out of every six residents of New York State, was indebted to a credit agency either in the cash loan or merchandise loan field, exclusive of charge accounts and housing loans. Since most of the borrowing and instalment buying is done by heads of families, an estimate that one out of every two families uses these credit services was believed to be conservative.

A report by the New York Association of Small Loan Companies in 1941, presenting the results of an analysis of cash loans made by a group of small loan companies in that state, found that the borrowers included 39 percent skilled and semiskilled workers, 21 percent office and other non-manual workers, 12 percent small proprietors, 9 percent managers, superintendents, and foremen, 6 percent salesmen and saleswomen, 5 percent unskilled workers, 3 percent school teachers, 3 percent professional persons, 2 percent persons with independent means—but small loan companies are only one source of cash loans and are known to service primarily low-income and low middle-income groups. The reasons given for borrowing were medical care, dental, and hospital bills (19 percent), to consolidate overdue bills (18.5 percent), clothing (14 percent), travel expense (8 percent), business needs (5 percent), assist relatives (5 percent), home furnishings (5 percent), and a number of other listed reasons of proportionately less importance.

A number of other studies have been made by individual credit agencies as to the character of their customers, and the motives given for borrowing, which can be used to throw additional light on the subject by those interested in pursuing it further.

SHOPPING FOR CREDIT

Let us now proceed to consider some of the problems involved in shopping for credit. From the standpoint of the individual family, most credit,

[4] Report of Joint Legislative Committee to investigate rates of interest on small loans, Legislative Document, No. 45, 1941.

other than charge accounts, has to be paid for directly by the borrower, and it can be had at varying prices and under different conditions that might be considered as constituting quality factors; it should be shopped for as a commodity.

Price Differences

In shopping for credit, however, it will be found that the price is not always easy to determine, since the method of expressing charges varies among different credit agencies, and for different types of loans. Some agencies state their charges clearly and others tend to disguise them as far as possible. With respect to cash lending agencies, maximum charges are in all cases regulated by law, but in varying terms, regulation having been established on a piecemeal basis, as pressure developed.[5] Moreover, the maximum legal charges are not always the actual charges which, of course, is what is important to consumers. Not only do the charges made by different types of agencies differ within a state, but they differ also for the same type of agency between states, so it is not possible to give a summary statement of charges throughout the country.

Cash loans may be obtained on the basis of a dollar price, or in terms of an annual interest rate, or on a discount basis with perhaps certain charges added, or the interest may be calculated on the unpaid monthly balances, as is generally required of the small loan companies. If the charge is expressed in terms of a discount, say $6 on $100, the borrower actually takes home only $94 (exclusive of any special charges) and repays $100, which is $6 on $94, not, as he might be led to think, 6 percent.

In a little handbook on consumer credit, the Better Business Bureau illustrates how interest is calculated on unpaid monthly balances as follows: assume that a person borrows $100 at a rate of 3 percent a month; the credit cost is $3 for the first month, and if at the end of the first month $50 of the loan is paid off, the cost for the next month is $1.50, as the 3 percent rate applies only on $50, the reduced balance of the loan. In practice it would be more complicated, since the loan would probably be repaid in say ten monthly instalments with the interest rate applied to whatever amount was still outstanding at the beginning of each month, until the loan was repaid.

In the case of merchandise credit of all kinds, the procedure is different, since there is as yet no general regulation of rates as such. With charge accounts, as noted above, the cost is usually met, not by the individual borrower but out of general store receipts. With instalment sales, the bor-

[5] See Clyde W. Phelps, "Monopolistic and Imperfect Competition in Consumer Loans," *Journal of Marketing*, April 1944.

rower pays the charges, which are variously, and often not clearly, stated. The practice, generally speaking, is to require a downpayment on the cash price (which, however, may turn out to be higher than the price to cash customers, who sometimes get a discount off the quoted price); then the amount to be paid monthly is fixed until the total is paid off. The Federal Reserve Board, during the period of wartime control, limited the proportionate amount of credit allowable on a purchase by requiring a minimum downpayment; it also limited the period of repayment, but did not fix the charges as such, or even establish a maximum.

The 1941 New York Legislative Committee report gave some data on the rates charged in the new passenger automobile field. The most common rate worked out at about 12 percent, with a range frequently up to 18 percent a year. In the used car field, charges were substantially higher, ranging usually between 18 percent and 40 percent; some of these contracts carried rates in excess of 100 percent a year.

For commodities other than automobiles, the legislative committee found an enormous range of charges. They reported the findings of an investigating commission in a neighboring state to the effect that charges for radios and phonographs ranged from zero to 881 percent; for pianos, from 6 to 184 percent; for furniture, from zero to 330 percent; for washing machines and vacuum cleaners, from 9 to 114 percent.

In addition to these basic costs for cash or merchandise loans, there are very often additional charges, so that the consumer must be sure to get a complete statement before entering into any contract. Some agencies add an investigation fee and collection charges; others include this in the overall figure. In some cases an insurance policy is required on the life of the borrower, as is customary with many bank loans, or it may be required on the product purchased, and usually is, for instance, on an automobile. In the case of the automobile, an insurance racket of considerable size has developed among certain companies, arrangements being made between dealers and insurance agents for some kickback to the dealer, and similar arrangements are at times made between dealers and finance agencies who take up instalment papers. The Better Business Bureau has issued a special leaflet warning consumers against these so-called "packs"—that is, hidden sums added to the carrying charges by the dealers and paid to the dealers by the insurance or finance companies. To aid dealers in making these extra charges, some finance companies provide two or more charts of rates, which are kept as trade secrets. The Federal Trade Commission, in investigating the extent of this practice, has uncovered cases where car purchasers were never given the insurance protection for which they were charged.

Since it is so difficult to determine the comparative costs of different kinds of credit, some consumer leaders have taken the position that all instalment credit costs should be expressed in terms of a monthly percentage rate on outstanding balances, as is now required in most states for "small loans." But very few consumer credit agencies express their charges in this manner, and it still takes considerable mathematical skill to convert the various charges into comparable terms. Consider, for instance, the predicament of this consumer: he wishes to buy "on time" some furniture which a retailer offers for $150 cash. For instalment terms the retailer increases the cash price by 6 percent, requires a downpayment of 10 percent, and requires the balance to be paid in ten monthly instalments. A personal loan department of a bank, on the other hand, offers credit service for a 6 percent discount plus $2.00 for investigation and pays interest at the rate of 2 percent a year on monthly instalment payments. Which is the cheaper contract?

From the point of view of a particular credit agency, there is an advantage in a situation which makes it difficult for consumers to compare prices; it is one way of maintaining a more or less protected market for certain classes of loans.[6]

Since cash loans and merchandise loans on an instalment basis are becoming increasingly competitive, it is urgent that consumers have a clearer basis for comparative pricing, and indeed that the whole field of credit be examined in a comprehensive way and from a consumer point of view. In the past, different types of agencies have tended to operate in different areas of the field, segmentizing it, but increasingly, financial groups interested in consumer credit are becoming integrated, and as the postwar drive to expand credit volume increases, it seems there will be more of this, particularly among the finance chains that operate in a number of states.

As noted above, not only do the dollar costs of credit differ, but there are what one might call quality differences between different kinds of loans. The main differences are in the kind of security required, and the practice of the lending company in case of default. These quality differences, most of which are to be found to a greater or lesser extent in all types of instalment credit, may have a considerable effect on the cost of the loan or on the convenience and peace of mind of the borrower.

Security Required

The cost of credit depends to a considerable extent on the nature of the security offered by the borrower, those who have little, having to pay the

[6] See, for instance, C. W. Phelps, *op. cit.*

highest rate. The situation differs between the cash and merchandise fields, since in the latter the product itself affords at least some degree of security for payment, though this obviously differs as between automobiles and clothing. Many of the credit agencies subscribe to one or another of the various "rating" services, which have been set up to help check on the credit-standing of borrowers. However, there is no overall rating service, so it is possible for a person to borrow from different agencies whether on a cash or merchandise loan basis, or in different states, without any cross check being made of such activities.

In the cash field, different types of agencies tend to specialize in particular lines of security, according to the economic and social status of their clientele; or, in other words, they tend to serve different classes of borrowers, dependent, to some extent, on the type of security offered. Security may be in the form of a chattel mortgage on household furniture, automobiles, and so on; through endorsed or comaker notes; unsecured notes may be taken, particularly from borrowers in a relatively permanent position, or wage assignments from those who have little to offer but their earning power. For those who have them, stocks and bonds, insurance policies, savings bank pass books, or real estate will provide a basis for credit. Some borrowers prefer to pay high rates on an unsecured note in order to have secrecy rather than having to obtain cosigners or disclose their need to associates, as for instance in the case of credit unions.

The 1941 New York Legislative Committee prepared the figures shown in Table 11 with respect to types of security taken on cash loans in that state.

Many instalment sales are made on what is known as a "conditional" sales basis, that is to say, the title remains with the seller until all payments are made; this facilitates repossession of the article in case of default. If the article is repossessed, the consumer gets nothing back for the money already paid in, except the current use of the article. Automobiles are usually sold on a chattel mortgage basis; that is to say, the automobile is sold to the prospective buyer, but before the sale is completed a chattel mortgage is arranged, pledging the automobile as security for complete payment. In some states, instead of use being made of the conditional sale or chattel mortgage, instalment sales credit is sometimes extended on the basis of a bailment lease, under which the buyer technically hires the product until the final payment is made, and then, for a nominal sum becomes the purchaser.

Some companies require character or credit references before making an instalment sale. In the case of such articles as clothing, where the value of

the product rapidly deteriorates in use so that it has little repossession value, it seems to be a growing practice to take a wage assignment, when the borrower has little other security. Until recently, clothing sales on instalment were made largely by low-income groups, higher-income groups buying for cash or on charge accounts. However, many of the department stores are now offering an instalment sales service for clothing purchases by moderate or even middle-income groups under various so-called budget-payment or cash-time plans—Macy's of New York, for instance, is promoting such a

TABLE 11.

Loans Secured by	Licensed Lenders % in Class	Licensed Lenders Av. Amt.	Industrial Banks % in Class	Industrial Banks Av. Amt.	Personal Loan Departments of Commercial Banks % in Class	Personal Loan Departments of Commercial Banks Av. Amt.
Chattel mortgages						
on household furniture	54.6	$171				
on automobiles	12.0	154	7.5	$389		
on other chattels	0.9	189				
Unsecured notes	20.7	131	14.4	377	87.4	$257
Endorsed or comaker notes	7.2	120	56.5	268		
Wage assignments	4.1	127				
Stocks and bonds, savings bank pass books			18.2	239	12.0	260
Real estate and F.H.A.			2.5	597		
Other	0.5	49	0.9	266		
Total	100.0	$155	100.0	$295	100.0	$257

plan on an eight-months-to-pay basis among middle-income groups, and no doubt new types of security will be looked for in this field.

Period of Payment

There is a quality difference also with respect to the length of time allowed for payment of a loan. Competition between agencies often finds expression in lengthening the period of payment. The Federal Reserve Board, during the time Regulation "W" was in effect, set the limit for payment on different types of loans, or size of loans, usually at 12 months for most goods. When the regulation was terminated (November 1947) the period became considerably lengthened for certain types of loans or by certain types of agencies—some washing machines, for instance, were advertised "with 36 months to pay." Controls have since been reestablished as an anti-inflationary measure.

Collection Methods

Another difference is in collection methods. It is important for the borrower to know the policy of the lending agency in case of default. Does it take full advantage of legal rights, or give consideration to the circumstances underlying the default, and, where conditions seem to warrant it, make certain adjustments? One agency may be lenient in case of brief delinquency and another may resort to court process at every opportunity. The revival of Dickens brings forcefully to our minds the dreadful penalties that used to result from failure to pay back debts.

It must be kept in mind that instalment credit of all kinds is based on a formal contract, and the "sanctity of contract" is one of the basic principles of our law. Once a contract is signed, unless fraud can be established, the parties will be required by the court to carry out its terms. A person is supposed to read a contract before signing it, and once it is signed he cannot plead ignorance of the terms as an excuse for not fulfilling it, though of recent years some courts have been more tolerant of consumer ignorance than formerly, and have shifted more responsibility from the buyer to the seller in the loan business.

The instalment contract is usually "a maze of legal technicalities in fine print which the customer could not understand if he tried." Sometimes the borrower agrees orally to a set of terms, and then carelessly signs a contract which provides for something else. It is extraordinary what contracts consumers will sign without being aware of their significance, whether in the cash or merchandise loan field—a reflection, it might be said, on the content of our educational system in a matter so important to the business of living.

Before World War II, a considerable drive was organized under the leadership of the Russell Sage Foundation, with the cooperation of certain business and civic agencies, to secure legislation in the various states requiring a simplified form of contract, with the various charges stated clearly and providing for certain other protections for the consumer. Legislation along these lines was secured in a few states before the drive was interrupted by the war. In New York, for instance, a "Conference on Installment Selling," representing both buyers' and sellers' viewpoints with respect to instalment sales, sponsored a series of legislative proposals in 1941, which were embodied in the so-called Feinberg-Holley Acts, effective 1942.

Laws governing collection devices differ throughout the country. There is a legal problem in protecting the honest creditor from the debtor who

treats his obligations as scraps of paper, and at the same time in preventing a racketeer from brandishing legal documents to intimidate the unwary debtor. Agencies do not always resort to the use of legal weapons in the case of default, though they always remain available.

Sometimes provision is made in legislation regulating cash loan rates, for a higher rate on delinquent balances, subject to certain overall limitations. Where a wage assignment is taken, it is usually sufficient for the creditor to present the written pledge to the debtor's employer, who thereby becomes a collection agent. Many workers, however, dread recourse to the employer since it may lead to a loss of their job, and they may take out an additional loan to help pay off the original one, thus getting deeper into the quagmire of debt—the legal status of a loan taken out under such circumstances has been called to question in some courts and seems to be uncertain since it involves "interest on interest."

Small loan companies whose loans are largely to wage earners and made on the basis of chattel mortgages, particularly on household furniture, do not usually resort to taking over the furniture in case of default, at any rate pending efforts at adjustment When the family is in danger of losing its furniture, it usually has reached a precarious financial position and may have to call on welfare agencies for help Some state associations of personal finance companies (small loan companies) employ social workers whose business it is to cooperate with family welfare societies to work out some mutually acceptable solution in such cases The main difficulty arises of course when the consumer has overborrowed—that is to say, has accumulated debts beyond his power to meet the charges upon them, and in many cases is hopelessly in debt to a number of different agencies This is where an overall credit rating service would be helpful, not only to the creditor but to the borrower, in preventing him from getting out of his depth financially.

"Easy credit" is often hard to pay off, and may result in a collapse of the financial independence of the family. The question of how much a person can "safely" borrow is not one that can be easily answered. Since high pressure techniques seem to be developing in certain areas of the credit field, this is likely to become an increasingly difficult problem, particularly if we run into a business "recession." As a borrower's security diminishes, he finds it more and more difficult to get credit in any form, except from an unscrupulous lender operating outside the law who may not only charge exorbitant rates but also resort to intimidation and even terrorism to retain a hold over the victim. In May 1947, a loan-shark outfit which charged in-

terest on small loans at the rate of 10 percent a week, or 520 percent per annum, was found to be operating on the piers of New York City; on loans ranging from $5 to $50, it was said that the credit operator took the men's pay checks as security, drew their pay, and gave back their earnings, minus the loan principal and its interest.

There is a considerable racketeering fringe to the whole credit business. Racketeers may use legal methods for collecting debts, taking advantage of the consumer's ignorance in signing the contract. The Legal Aid Society has taken a considerable interest in this situation, helping to define the rights and obligations of the parties under the law in a way that gives more protection to the ignorant or hasty borrower. The repossession of merchandise bought on an instalment sales basis has been subject to certain abuse "within the law," partly because there is little regulation in this field in the consumer interest.

The device of the tie-in sale is a case in point. A consumer who buys one article on time, and, before completing payments, buys another article on similar terms, is likely to lose both if there is a default before the second article is paid for. Recent legislation in a few states has restricted the tie-in sale, requiring that under contracts covering a number of purchases, new monthly terms must be arranged and payments allocated in some proportion to each purchase, so that each purchase is paid up in turn and cannot afterwards be repossessed in case of default on subsequent payments.

A representative of the Russel Sage Foundation called attention, in 1937, to an organized racket in repossessing cars when payments were almost complete: "One way of doing this was to manoeuvre the purchaser into a technical default (for example by having no one in the office on the date of payment) as an excuse for repossessing, perhaps even charging a fee for the costs involved."[7] He also reported a different type of racket which had just been uncovered operating among municipal employees in New York City: "An employee wanting a loan went to an advertised jewelry firm which sold him jewelry that could be pawned for about $50. The borrower signed a blank acknowledgment of debt (a confession of judgment) which the jewelry merchant filled in and took to court, where he obtained a garnishment order against the wages of the borrower for an amount which in some instances averaged 7 to 10 times the amount the borrower received on the jewelry." A garnishment order, like a wage assignment, is for the stoppage of a regular percentage from wages for the benefit of the creditor. Municipal

[7] See John E. Hamm, "Credit Rackets," *The Consumer*, December 1937.

employees in New York City were tied up in this racket to the extent of about $500,000. This particular "jewelry" racket was broken, but new ones seem to spring up as the old ones are put down.

One method used by illegal lenders is to try to keep borrowers on their books by refusing to take part payment on the principal, keeping the borrower in perpetual bondage, unless or until through worry, destitution, or even death the racket is disclosed and public action taken.

Some of these illustrations date back a decade, but there is no reason to think that the causes giving rise to them have changed significantly in the interval, though in some states leading credit retailers have tried to "clean up" the credit business, that is to say, free it from elements of fraud, and misrepresentation. The New York Conference on Installment Selling, referred to above, is a case in point. In 1941, Senator Williamson of the New York State Legislature, proposed that all credit advertising that was "intended or calculated to encourage needless borrowing" be prohibited. Said the Senator, "No longer should the crooning voice be heard over the radio saying: there is no trouble that money will not cure. If you have character you can borrow all the money you need." However, advertising itself will not bring consumer response unless there is something in the consumer's position which favors such a response, and which students of consumer economics should further explore.

CREDIT AGENCIES: CASH LOANS

More light will be thrown on the credit business if we give some attention to the types of institutions operating in the field. Until the Federal Reserve Board set up regulatory control over consumer credit in September 1941, most relevant data were of a limited character and on a state basis, though from time to time experts of the Russell Sage Foundation prepared estimates of the total volume of consumer credit outstanding by various types of agencies. The summary statistics presented in Tables 12 and 13 are from the Federal Reserve Board. As pointed out above, it is customary to classify consumer credit into cash loans, and merchandise loans, both cash loans and merchandise loans repaid on an instalment basis being included in figures for instalment credit.

In the cash loan field there are a great variety of institutions offering credit service, whether on a single payment or instalment basis. All cash loan business is regulated in a majority of states, though only in a fragmentary way (that is, by type of agency), and to a limited extent. The following are the most important types of cash lending agencies.

Small Loan Companies

The first to be considered are the personal finance companies, or small loan companies or "licensed lenders," as they are called, which operate under special license from state governments. The largest of these companies operate interstate on a chain basis; the New York State Banking Department revealed in a special report on licensed lenders, issued January 1946,

TABLE 12. Total Consumer Credit, by Major Parts
(Estimated amounts outstanding, in millions of dollars)

End of Year	Total Consumer Credit	Instalment Credit					Single Payment Loans	Charge Acc'ts.	Service Credit
		Total Instalment Credit	Sales Credit			Loans			
			Total	Automobile	Other				
1929	$ 7,637	$3,167	$2,515	$1,318	$1,197	$ 652	$2,125	$1,749	$596
1933	3,929	1,605	1,122	459	663	483	776	1,081	467
1939	7,994	4,449	2,792	1,267	1,525	1,657	1,468	1,544	533
1941	9,895	5,920	3,744	1,942	1,802	2,176	1,601	1,764	610
1943	5,334	1,957	814	175	639	1,143	1,192	1,498	687
1944	5,776	2,034	835	200	635	1,199	1,255	1,758	729
1946	10,166	3,976	1,558	544	1,014	2,418	2,262	3,054	874

TABLE 13. Consumer Instalment Loans
(Estimated amounts, in millions of dollars)

Year	Amounts Outstanding (end of period)								
	Total	Commercial Banks	Small Loan Companies	Industrial Banks	Industrial Loan Companies	Credit Unions	Miscellaneous Lenders	Insured Repair and Modernization Loans
1929	$ 652	$ 43	$263	$219		$ 32	$ 95	...
1933	483	29	256	121		27	50	...
1939	1,657	523	448	$131	$ 99	147	96	$213
1941	2,176	784	531	134	107	217	102	301
1946	2,418	956	608	117	98	185	110	344

that over 80 percent of the licensed lender business in New York State was handled by 12 of the national chains, with two predominating. There are also some local chains and independent companies.

A drive for the regulation of the personal loan business was initiated before the end of last century, but did not have much effect until the Russell Sage Foundation, out of its concern for the condition of the poor, took a lead, about 1911, in working for more effective protection for the small borrower, including many state and city employees. During the twenties

there were some shocking disclosures of loan-shark operations in different parts of the country. The Foundation thereupon drafted a uniform small loan law as a basis for legislation in the different states.

It was said that legitimate business would not enter the personal loan field to meet the urgent needs of low-income people for small loans because of the restraints of the usury laws which limited the interest rate to 6 percent per annum, which was generally conceded to be too low to cover the risks involved. The Foundation took the position, criticized by some civic agencies, that "big bootleggers of small loans" could not be driven out of business or brought effectively within the restraints of law unless the rate of interest were fixed at a level sufficiently high to attract legitimate capital. Legislation based on these proposals was introduced into many state legislatures and by 1945 had been adopted in 31 states; in three others (Nevada, New Mexico, and Oklahoma) a less effective law was passed and in the other states regulation remained either weak or nonexistent, but these were, generally speaking, the rural states with scattered populations.

Under the various acts based on the foundation's draft, personal loan companies are required to operate under license, but maximum rates of interest and other provisions differ from state to state. Except in Wisconsin and California, the maximum loan charges are as high or higher than in the New York State law, to which we shall give our attention here.

Under the New York law, loans are limited to a maximum of $300, payable on a monthly basis, with the borrower having the right to make payment on the principal at any time. Under the original act, passed in 1932, the maximum rate, including interest and charges for all services rendered and expenses incurred, was fixed at 3 percent per month on unpaid balances for the first $150 of a loan and 2.5 percent on the balance up to $300.

This act resulted in a rapid expansion of the licensed loan business on a profitable basis, and as a result there was considerable agitation to have the maximum rate reduced, as being an unnecessary burden on low-income borrowers. Governor Lehman supported the drive for reduced rates and in 1941 they were reduced to a maximum of 2.5 percent per month for the first $100 and 2 percent on the remainder. The law prohibits any further charge for any examination, service, brokerage, commission, expense, fee, or bonus. There was agitation by some groups against the rates as being still too high, and a report to that effect was presented to Mayor La Guardia by the Commissioner of Investigation in September 1945. On the other hand, there was agitation from the companies to have the maximum amount of the loan increased to $500. In the special report referred to above, the Superintendent

of Banking, after an extensive inquiry into the small loan business in New York State, expressed the opinion that the rate of return on capital was not excessive compared with the return on other types of businesses The return after taxes on total capital engaged was 9 20 percent, 5 65 percent, 7 17 percent in 1941, 1944, and 1941–1944 respectively, the return on equity capital for the same years was 11 74 percent, 6 76 percent, and 8 86 percent

The Superintendent recommended that the maximum size for a loan be raised from $300 to $500, since the handling of larger loans is comparatively less expensive than smaller ones, the larger loans would make it possible to reduce the rate of interest on all loans, and he therefore recommended that the rate structure be modified, with a maximum rate of 2 percent on all loans up to $300 and 1 percent above that He expressed the opinion that a 2 percent per month rate would not cover the cost on small loans (under say $80) but "the Department does not subscribe to the principle that a profit must be made on every transaction" Some concern has been expressed as to the effect such a proposal, if enacted into law, would have on the making of small loans—would the companies, for instance, try to shift their business to the larger loans allowed under the proposed increase and so leave the small borrower to the mercies of revitalized loan sharks? These operators "keep their office under their hat" in states where regulation is effective, but do business openly elsewhere with wide interstate ramifications—they are the so called "20 percenters," that is, they charge at least 20 percent a month interest

In the course of their inquiry, the New York Banking Department found a high percentage of "repeat borrowing in the small loan business" In 1941, 60 percent of the number of loans and 70 percent of the amount, were renewed or refinanced loans, a much higher percentage than was found with the commercial or industrial banks, whose clients are usually in better financial circumstances 'This practice of encouraging repeated renewals of loans" declares the report, "is not in the public interest. . . All too frequently the lender does not wait for the borrower to seek him out A review of the examination reports covering all licensed lenders for 1944, shows that in the majority of cases borrowers are solicited for additional loans after 3 or 4 repayments. These reports further indicate that there are numerous instances of borrowers who have been on the books of licensed lenders continuously for a number of years"

In 1944, the average loan made by licensed lenders in New York State was $173, compared with $428 for credit unions and average consumer instalment loans of $296 and $388, respectively for commercial and industrial

banks. The rates of the licensed lenders are higher than those of other cash loan agencies, partly because of the increased cost of handling small loans, and partly because of the higher risks involved, the loss rate from 1936 to 1944 having been approximately 7.2 percent of the gross income for those years; the losses experienced by commercial banks were about one-third that of the licensed lenders.

The licensed small loan companies in a number of states have established a national trade organization previously known as the National Association of Small Loan Agencies and recently renamed the National Consumer Finance Association (Washington, D. C.) with *Consumer Finance News* as its monthly organ.

Bank Credit

Another source of consumer credit is the bank. Traditionally, banks have not been interested in consumer credit except in the special area of home financing, partly because of legal restrictions fixing their maximum charges below what was considered reasonable for consumer loans, also because they were accustomed to lending for production as distinct from consumption purposes.

However, in 1910, Arthur J. Morris established the first Morris Plan Bank to pioneer cash loans to consumers. He was convinced that consumer credit was a good risk and was prepared to make cash loans on a time-payment basis. He charged a 6 percent discount plus a 2 percent investigation fee; regular monthly instalments were credited toward the purchase of a certificate which, when fully paid for, was canceled against the indebtedness; most of the loans were on a comaker basis.

The undertaking proved profitable, but some of the courts held that the new system was usurious, so special enabling legislation was passed in a number of states to permit the operation of the Morris Plan Banks, which became known as "industrial banks," strangely enough, in view of the fact that they were specializing in consumer loans. There has been some modification in the system as it has worked out in the different states and other "industrial banks" not associated with the Morris Plan group have been set up. The Morris Plan group have been closely associated with the Consumer Banking Institute, which publishes *Consumer Credit.*

As the industrial banks developed, an increasing proportion of their business has been in purchasing or discounting wholesale and retail instalment sales contracts, in which they have come into competition with special finance companies set up for the same purpose.

Some of the Morris Plan Banks also set up an insurance system to insure the lives of their credit customers, and the customers of other consumer credit agencies, when such service was unavailable from other sources Under this system, if the insured borrower dies, the unpaid balance of a loan is automatically canceled Still more recently the Morris Plan Banks have expanded into the commercial banking field, so that the dividing line between them and the regular commercial banks has become less distinct, particularly since the commercial banks have developed personal loan departments

Commercial banks have become increasingly interested in consumer credit during the past decade or so, and many of them are now prepared to make credit available to consumers on an instalment basis, though they also make a large number of "single payment" loans Despite the general decline of all consumer credit during the war, the proportion held by commercial banks increased, so that by the end of 1946 they held about 43 percent of the instalment loans (cash loans) outstanding[8] The American Bankers Association, which has been studying consumer credit intensively for some time, has "discovered that the individual has emerged as a satisfactory bank risk, and, like the business group, is entitled to consideration for credit."

The commercial banks are making a large bid for the postwar business in consumer credit and particularly for automobile financing through cash loans, as distinct from the instalment sales contract In addition, many of the banks have already made arrangements with automobile and durable goods dealers for financing time sales in competition with the sales finance companies In rural areas, commercial banks have for some time handled a considerable amount of retail automobile paper, since, generally speaking, sales finance companies do not operate there However, despite their increasing interest in consumer credit, this activity of the commercial banks is proportionately small compared to their total loans and discounts for commercial purposes

Many of the commercial banks which give consumer credit, particularly those in the metropolitan area, have established separate personal loan departments, "with a friendly air, calculated to set the inexperienced borrower at ease" Up to the present time at any rate, the banks have been somewhat conservative in their personal loan policy, keeping down their costs by selecting only good risks, perferably among the salaried class, on the basis of steady and established earning power, supported by cosigners. If a call to

[8] Freda Baird, 'Commercial Bank Activity in Consumer Instalment Financing, *Federal Reserve Bulletin*, March 1947

an employer confirms the good standing of the applicant for a loan, it will probably be issued on a character basis. Security in the form of collateral, such as life insurance policies, bonds, etc., are also acceptable. Some of the banks are now doing a "mail-order" business.

As noted above, the charges of commercial banks are on the whole considerably lower than those of the small loan companies, but on the other hand, the latter will lend to people who would not meet the requirements for security set by the banks. It is very expensive to be poor! Commercial rates are also somewhat lower than those of the industrial banks, though they are expressed usually in the same general terms—a discount rate with or without an investigation fee. Commercial banks are operating in the consumer credit field under special enabling acts in many of the states which permit them to make loans ranging up to $3500 for consumption purposes.

Savings banks are also taking an interest in consumer credit, but so far state legislation has restricted them in a way that makes it impossible for them to offer consumer loans outside the area of real estate financing. In a recent effort to secure enabling legislation in New York State, they found themselves opposed forcefully by the State Bankers Association.

Credit Unions

A developing source of consumer credit is the credit union. A credit union is a cooperative association organized under state or federal law—42 states and the District of Columbia have enabling legislation and a Federal credit union act makes organization possible everywhere. This legislation is fairly uniform, with some difference in detail, having been promoted by an organizing group which has since developed into the Credit Union National Association (C.U.N.A.), with head offices in Madison, Wisconsin. A number of federal agencies have cooperated in this development. A credit union is usually organized within a specific group of people (occupational, religious, neighborhood, etc.), for the twofold purpose of supplying the members of that group with a plan of systematic saving for the purchase of shares in the organization, and of making it possible, thereby, for them to take care of their own credit problems at a low-interest rate. A union serves only its own members, many of whom are already known to each other. The size of membership varies—one group may have 40 members whereas in eight unions organized among employees of the New England Telephone and Telegraph Company there are 20,000 members.

The unions operate on Rochdale principles. Members are required to buy

one or more shares of stock (usually $5 a share), which constitutes the savings plan, since they can save up small amounts until they have enough for one share, and the stock can be redeemed at par value after due notice. Dividends on stock are limited to a maximum of 6 percent. Regardless of the amount of stock held, each member has only one vote. This stock provides the capital fund which is used to make loans to members for provident purposes, at a rate of interest which is regulated, usually at a maximum of 1 percent a month on unpaid balances. The actual charge may be below this maximum.

In 1944 there were over 9000 chartered credit unions in the United States, with a membership of nearly three million; about two-thirds of these unions with approximately one million members were operating under federal charter. There was some decline in the number and membership of credit unions in 1945, as with other credit agencies. Their outstanding loans constitute only a small percentage of total consumer credit, or even total instalment credit, as will be seen from the Federal Reserve Board tables above.

The unions are able to operate at comparatively low cost because the borrowers are known to the members of the finance committee responsible for making the loans, so that small loans are issued on a character basis. The uses to which loans can be put are limited to "productive" or "provident" purposes, and even during the depression there were very few losses. Credit unions do not need to advertise or solicit business except through the general educational fund of the organization.

Pawnbrokers

Pawnbrokers provide one of the oldest forms of cash credit. They make small loans on personal possessions, such as jewelry, clothing, cameras, tools, musical instruments, etc., which are deposited with the pawnbroker as security. In the event the loan is not repaid or renewed, the pawnbroker has the right to sell the article pledged. Since he holds the article, the pawnbroker does not have to make personal investigations. Loans may be repaid on a single-payment basis or by instalments. Though a certain social stigma seems to attach to pawnbrokers' loans, they have the advantage that in case of default only the pledged article is lost; there is no question of a lien on earnings as in a wage assignment, or the fear of involving comakers or the loss of furniture or so on.

In some states where pawnbroking is regulated, the borrower is entitled to the difference between the sales price of the article, should it be sold, and the unpaid balance of the loan, but he rarely claims it, probably through

ignorance. Such laws as exist, either on a state or municipal basis, regulating this area of the cash loan field, vary in the nature of the supervision provided, the maximum rate allowed, and the time restriction as to when the pawnbroker may sell the pledged article. In a special bulletin, *Facts You Should Know About Borrowing,* the Better Business Bureau urges that when "a pawnbroker's loan is made, the borrower should be certain before leaving the shop that he understands the terms. Sometimes the rate is printed on the card the borrower receives. The borrower should also clearly understand how much time is allowed before the pledged article may be sold if the loan is not repaid or renewed by the payment of interest." The 1941 New York Legislative Committee pointed out that since, in New York, pawnbrokers are not required to report their income, expenses, or profits to any public agency, no figures are available for the earnings of this type of lender. However, in that state, more than half the total pawnbroking business is done by the Provident Loan Society, which is organized to render a service without profit, its Board of Trustees giving their services. As a result, its loans are made at the comparatively low rate of 9 percent a year. Since this has proved a convenient way to dispose of stolen goods, the operations of pawnbroking establishments are usually under close police supervision, sometimes with a definite cooperative arrangement between the pawnbroker and the police.

This list of credit agencies does not exhaust the source of credit loans—for instance, no mention has been made of the fact that life insurance policies of certain kinds accumulate a loan fund on which policyholders can draw from the issuing company directly, without depositing the policies as collateral with other lending agencies. However, this list brings to the student's attention the major agencies operating in the field and the complexity of the cash loan segment of the consumer credit business.

MERCHANDISE CREDIT

No less complex is the merchandise credit business. It will be seen from Table 14 that the greater part of retail business is done on a cash basis, the proportion increasing from about 65 percent before the war, to 78 percent in 1945; some of these cash purchases, however, may be made with borrowed money.[9]

Charge Accounts

There are two main classes of merchandise credit, though the line between them is not always easy to draw. There is first the charge account, or open-

[9] See *Federal Reserve Bulletin,* June 1946, p. 581.

account or open-book credit, available both for goods and certain services as public utility services, medical services, and so on.

The charge account is the more important form of merchandise credit in terms of sums involved. When the neighborhood store gives credit, the record is usually an informal entry in a notebook at the counter. For the larger retail establishments, the charge account becomes a more formal affair. However, since retailers other than those operating on a cash-and-carry basis, seem to regard the charge account as a promotional device, "attaching the customer to the store," the opening of such an account is made as painless as possible, particularly for customers in the middle- and upper-income groups who are looked upon as good risks and have a considerable buying power. Usually there is no charge on maintaining these

TABLE 14. Retail Sales by Type of Transaction

Year	Sales (billions of dollars)				Percentage of Total Sales		
	Total	Cash	Charge Acct.	Instal.	Cash	Charge Acct.	Instal.
1939	42.0	27.2	9.9	4.9	65	23	12
1940	46.4	29.9	10.7	5.8	64	23	13
1941	55.5	36.3	12.4	6.8	66	22	12
1942	57.6	42.5	12.3	2.8	74	21	5
1943	63.7	48.9	12.4	2.4	77	19	4
1944	69.5	54.4	12.8	2.3	78	19	3
1945	74.6	58.3	14.0	2.3	78	19	3

accounts, the cost being covered in the general operating expenses, paid for by all customers. Charge account customers also usually get more consideration with respect to returned goods, announcement of sales, and so on. One of the reasons for the considerable increase in numbers of charge account customers during the later years of the war was undoubtedly the fact that for a period of time that was the only way to obtain nylon hosiery.

Before the war, payment on many of these accounts was often lax, the period stretching from one month into considerable periods and often approximating instalment credit, though without a formal contract. The merchant who carries charge accounts does not have effective collection devices of a legal character, his books being the only record, so that he is in the position of having to establish a claim for repayment. There are some finance agencies who will take over charge accounts from retailers at a discount, in which case they become responsible for collection. Regulation "W" of the Federal Reserve Board, as amended during the war years (particularly May 6, 1942) restricted the maximum time limit for payment on such accounts. If the account came into default, that is, was not paid

within the period set, no further sales could be charged until the account was cleared or converted into an instalment plan. This is one of the reasons why retailers were divided in their attitude about the desirability of terminating the regulation, since it greatly facilitated the collection of debts.

Instalment Sales

From charge accounts it is often an easy step to an instalment contract, or a "budget" plan, or a "convenient-payment" plan, which are essentially the same things under a different name. The system of instalment sales or merchandise credit on an instalment basis is not new, but has been rapidly extended since the spectacular increase in production of durable goods, particularly after World War I. During World War II it fell off markedly, partly as a result of federal regulation, but probably more because of the decline in sales of durable goods, and also the larger money incomes available for spending.

In the past, there has been a considerable amount of legislation in this field, protecting the creditor, particularly relating to the system of conditional sales, which greatly facilitates repossession in case of default. More recently, as explained above, certain limited controls have been established in a few states in the consumer interest. Regulation "W" set the minimum downpayment for various classes of goods (which, as of May 1942, was 33.33 percent for most products, with 20 percent for furniture), and the maximum period of maturity (generally 12 months, with 15 months for automobiles), but this was part of the anti-inflation program as such, and was not designed to protect the interests of the individual borrower. Rates and charges of various kinds are unregulated and, as pointed out above, have been shown in many cases to be excessive if not extortionate.

A number of specialized trade associations have been established in the merchandise credit field, in addition to general retailer associations which take an interest in credit problems as, for instance, the National Retail Dry Goods Association which publishes the *Credit Management Year Book*. One of the most recent of the specialized groups, the Retail Credit Institute of America, was organized in 1942, "to study and modernize the economic function of instalment credit buying and selling." It has established a research department with the *Credit World* as its official publication. The R.C.I.A. is owned by a large number of retail stores scattered through nearly all of the states, mostly the smaller department or specialized stores which also operate with charge accounts and for cash. The R.C.I.A. has taken out membership in the National Consumer Retailer Council.

There is also the National Retail Credit Association which includes all types of credit merchants, as well as certain cash loan agencies and banks and such specialized groups as the National Credit Jewelers Association.

A feature of the instalment sales field has been the development of specialized finance companies, particularly in the large urban areas, who buy or discount merchandise contracts and collect on them. The prewar business of some of these companies increased at an extraordinary rate. Some finance agencies have been associated directly with, or are controlled by, the manufacturers of particular products, the most outstanding example being the General Motors Acceptance Corporation which assists in financing dealers and consumers in the sale and purchase of General Motors automobiles and other products. Other agencies operate as chain organizations or independently.

Some of the independent sales finance companies who are engaged principally in the purchase of dealer's time sales contracts have established a national trade association, the American Finance Conference, with a monthly publication, *Time Sales Financing*.

In addition to the finance companies, the banks in some areas, particularly the industrial banks, have also handled this type of paper, as noted above. There is, therefore, a complex structure behind the retail dealer in the instalment sales field, which would be involved in any regulatory program planned to establish controls in the consumer interest. The falling off in volume of instalment sales during the war led to the reorganization of some of the finance companies, or a shifting of interest to other fields, as for instance to furniture. Postwar plans indicate that there will be increased competition in this field, and this might be expected to bring charges down or modify other terms of sale, unless offset by what appears to be an increasing tendency toward integrated control throughout the finance field.

However, competition in the form of "easier terms," generally meaning a very small or even no downpayment, and a long period in which to pay off a debt, is not necessarily in the consumer interest. It does not reduce overall costs; indeed in the long run it is likely to increase them. It stimulates borrowing which may upset the consumption pattern of the family to its disadvantage, even if it does not lead to financial difficulties. What consumers need is more real buying power which can come only with an improved wage-price relationship due to increased productivity and an elimination of waste.

Some of the finance companies also handle service credit, though this branch of consumer credit, of considerable importance in total sum, is much

less formalized than instalment sales credit. Doctors, dentists, nurses usually have to wait for the payment of their fees "through slow, small and uncertain payments," even though a considerable proportion of cash loans are made in order to pay off medical and other such charges. This question of how best to meet the costs of adequate medical care is one to which we shall give more attention below.

Federal Reserve Board figures indicate a considerable shift has been taking place in the relative importance of the various classifications of consumer credit, with the distinction between the services rendered by them becoming less clear. What is needed is a comprehensive study of the total consumer credit field, with the controls established for various segments of it appraised in terms of the problem as a whole, and on a basis that facilitates comparison between services rendered by the different agencies and types of agencies involved. The study should also take into account the effect of consumer credit on the general functioning of the economy.

CONSUMER CREDIT AND ECONOMIC STABILITY

Credit agents are taking the position that an increase in consumer credit is the solution which will make possible the maintenance of high production by facilitating distribution of output into the hands of consumers. In 1945, for instance, Mr. T. L. Cotton, Director of Social Research of the New York State Association of Small Loan Companies, asked, "Who will storm that Iwo Jima of Distribution?" He continued: "The products of assembly lines in peacetime will not be distributed without mass credit."[10] A leaflet by the Morris Plan Industrial Bank declares: "The smart salesman will sell consumer credit as he sells his product. Thus he will make sales to many who *think* they can't, but actually can, afford his product. . . . He will explain to prospects with steady, regular income but little immediate cash, how to convert income into buying power. . . . The vast increase of selling (necessary to keep jobs for 60 million men) can be achieved only by expanding consumer credit to twice or more of its pre-war record levels."[11] The objective is to convert the families who so far have not used consumer credit to wanting and liking it. Is this in the consumer interest?

Obviously, if we continue to expand production, the problem of distribution will become so much greater, but how great a role consumer credit should play in the distributive process calls for more consideration. Credit for convenience and for spreading planned expenditures over a limited period of time to facilitate the purchase of large items which cannot be

[10] *The Credit World,* August 1945.

[11] *Twenty-five Million New Buyers to Make 60 Million Jobs,* 1947.

bought out of a single paycheck, is obviously an important consumer service, to be shopped for carefully if the family feels that circumstances warrant the taking of such a "calculated risk." Under these circumstances, credit becomes an instrument of budget planning. It is also a service necessary to meet unexpected emergency costs, unless some more effective way of meeting them can be worked out, and in this case budgeting must come after, rather than before, the loan is made. But it is not a substitute for pay.

Credit can bring about a change in the way buying power is used. It also can affect the quantity at any one time. For the economy as a whole, a rapid extension of credit can intensify inflationary tendencies.

In 1939, in emphasizing that consumer credit had become an important factor in the economy (representing at that time about 10 percent of national income), Rolf Nugent of the Russell Sage Foundation, declared[12] that while credit volume expanded, it tended to "heighten and prolong periods of prosperity but in the process it created conditions which tended to deepen and prolong periods of depression." During the war, the Federal Reserve Board tightened its control from time to time over the volume of consumer credit, through amendments to Regulation "W," as part of the anti-inflationary program. After the war, the continuance of this control became a matter of controversy. The President was unwilling to continue acting under Executive Order, and asked for specific Congressional authority, but the Congress was unwilling to extend its authority into this field, despite warnings both from the Council of Economic Advisers and the Federal Reserve Board, with respect to the dangers of a too rapid expansion of consumer credit in the postwar years, particularly while inflationary forces were so strong. In their July 1947 report to the President, the Council had said: "The credit situation is sound enough to permit the continuance of the present rate of increase for the remainder of the year, but a more rapid increase in consumer credit would be unhealthy . . it would create a charge against the income of consumers which would reduce their power to buy goods in 1948, as compared with their buying power in 1947. For this reason it will be most unfortunate if merchants, by resorting to competition in easy credit terms rather than to competition in price, induce buyers to resort more freely to the use of credit."

Federal controls over the volume of consumer credit were lifted in November 1947 but were reimposed under Congressional authority, on a limited basis, in September 1948.

Where does the consumer interest lie with respect to control in the credit

[12] *Consumer Credit and Economic Stability*, 1939.

field? Apart from the question of its effect on the economy as a whole, which will change according to general economic circumstances, there is the immediate problem of helping the individual consumer understand the significance of credit in the expenditure pattern, and of providing effective regulation for all classes of credit on a comprehensive basis, so that the terms and conditions of "buying credit service," can be clearly understood, and unfair or misleading practices in connection with its sale, restrained. Consumer leaders also support the principle of self-help underlying the credit union movement.

Chapter X

FOOD

There are certain general problems that affect spending for all groups of consumption items, and some of these—price, quality, credit—we have already discussed. There are also particular problems relating to the purchase of different consumption items or groups of items. We shall now turn our attention to some of these problems as related to certain selected areas of expenditure, namely, food, housing, medical care, and life insurance, the reasons for this selection becoming clear, let us hope, as we proceed.

It will be useful at this point if the reader will refer to the table on page 94, showing the percentage distribution of expenditures[1] for different groups of consumption items, by income classes, in 1935–1936. The percentage distribution changes somewhat from time to time and place to place, but nevertheless the table gives a sense of the relative importance of expenditure groups.

Food and Health

First in importance is food. For most families in the United States, food expenditures (including alcoholic beverages) constitute more than one third of their total expenditures (allowing nothing for the cost of preparing and serving meals at home). For low-income families the percentage is higher, particularly in inflationary periods. But the importance of food in the consumption pattern is not to be measured in terms of a percentage. Food is the basis of health.

"Man is the combined product of inheritance and environment. Food is the environmental factor that most directly controls his physical development, and it probably plays an important part in setting the pattern of nervous and emotional response that makes up the total personality."[2] When people

[1] Expenditures is not quite accurate, since the figures include the money value of certain foods produced at home, particularly food on the farm.

[2] U. S. Dept. of Agric., *Food and Life*, 1939 Yearbook of Agriculture.

are fed well enough not to know the continuing pangs of hunger, the primary importance of food in the consumption pattern is not fully appreciated. Housing is also important, but it was the craving for food rather than housing that, according to reports, became the obsession of postwar Europe.

The effect of hunger—the lack of food—on all activities of life in a country which had previously been undernourished for years, has been vividly described by a medical doctor from Vienna:

> What does hunger mean to a human being? The citizen of luckier countries thinks of hunger as a gnawing sensation in the midriff, highly unpleasant if it continues for more than a few hours. He might be surprised to know that chronic hunger, as many Europeans have long discovered, does not make itself felt in the stomach, but in the head. After a few months of 1500 calory diet—what you suffer from is headache, weakness and a feeling of emptiness throughout the whole body. Your hunger begins to paralyze you physically and mentally. It robs your mind of all thought except where your next ration or your next meal is coming from. You become a man of one idea—food. And how strong that idea is! Some weeks ago when the electric current failed, as it so often does in European cities, I sought in vain for my supply of candles. They had gone, I discovered, to fill the stomach of an old man who had been working round my apartment, had seen them, cut them into small pieces and devoured them.
>
> You not only feel worse on 1500 calories but you begin to look worse. Your whole body begins to thin out. Your skin completely loses its fat and, therefore, grows wrinkled and gray. You look ten years older than your age. Your strength begins to diminish perceptibly and steadily. When you look in the mirror you notice that your face is gray and unsmiling, your cheeks have lost their curve, your eyes are deeper in their sockets.
>
> It is this difference of expression that marks the chief difference between the crowds you would see on the street in New York and in any hungry Continental city. There are superficial effects on conduct, too. The Viennese, for example, have lost their good nature and become embittered and irritable. Incidents which in happier days would have been passed over with a smile, give rise to outbursts of empty fury and tragic-comic street scenes which show human nature at its pettiest and most peevish. But the real cause of all this is hunger. . . . One of the results of undernourishment is apathy which shows itself in movements. It produces a sort of somnambulism. American drivers say that Europeans sometimes walk into the sides of their automobiles, waking up at the last moment of their dream to start back in fright with their hands in the air—an empty stomach has little judgment and few scruples. Hunger is making criminals of us all. Hunger turns a human being into a crass egotist concerned with little beyond self-preservation. . . .[3]

[3] Dr. A. Wawerka, *New York Times*, June 8, 1947.

The same general impression has been given by other reporters—"The well-fed can never imagine how it feels to be hungry," wrote the American columnist, Anne O'Hare McCormick, from Europe, in May 1947. "It all comes back to the question of food—the listlessness of the people in the London streets and the sharp edged debate in Parliament on whether the British are slowly starving on a 2100 calory diet; work stoppages in the Ruhr as the ration dips close to 1000 calories and General Clay's threat to use troops to seize stocks German farmers hoard because the currency is valueless; bread riots in all sections of Italy. . . . On the second anniversary of V-E Day, the papers were full of news reflecting in one way or another the political consequences of hunger . . . more and more it is borne in on policy-makers that everything comes back to food."[4]

That different sorts of food have a different effect on health had been known for a long time before the science of nutrition (the health values of food) was formally organized. The lack of certain food elements was known to lead to many deficiency diseases. In the eighteenth century, for instance, the British Navy was experimenting with citrus fruits to check the dreadful scurvy, long before there was any specific knowledge of the vitamin C element in food, to say nothing of the more recent success in isolating it in pure chemical form.

As a result of expanding nutritional research, it has been shown that beriberi (the "I cannot" disease, involving muscular and nervous weakness and degeneration) can be overcome by adding certain of the B vitamins to food to replace the natural B vitamin lost due to the overrefinement of grains. Pellagra disappeared in some areas of the South, during World War II, as a result of increased food consumption and the enrichment of bread.

Nutritional deficiency in an acute form can lead to death, but more frequently it results in lack of energy, and recurring disability which is reflected not only in statistics of health but also of productive output. After analyzing food consumption as revealed by the 1935–1936 survey, Dr. Hazel Stiebling, food expert of the U. S. Bureau of Home Economics, wrote:

> Millions of people in this country are living on diets that are below the safety line. This does not mean that all of the people are hungry. Some often are. Nor do all that subsist on poor diets show symptoms of pellagra, beriberi, scurvy, anemia, or other well-defined disease. For every case of actual illness traceable to poor diet there are probably hundreds of borderline cases. Getting along on poor diets for weeks at a time takes its toll in chronic fatigue, shifting aches and pains, and certain kinds of digestive disturbances. While such discomforts may not keep

[4] *New York Times*, May 10, 1947.

a person in bed, they cut down his efficiency on the job Inadequate diets prevent a child's normal growth and development They lower a person's natural resistance to infection They destroy too his sense of well being, his joy in being alive and able to work [5]

All authorities on nutrition are agreed that "failure to provide enough of any essential food element brings such results as impaired efficiency, poor growth, susceptibility to disease, and in severe cases death" But interest in nutrition is shifting from particular problems of deficiency diseases, to the more positive approach of getting the right kinds of food to increase the general level of health This "new" approach was already evident in an experiment made in 1925 by Sir John Orr, former Director General of the U. N. Food and Agriculture Organization, with a number of Scottish school children, which showed that another pint of milk in their diet improved the health and rate of growth of even the healthiest

There was a marked development of interest in nutrition during the depression when governments were forced into extensive food relief programs In 1939, the U. S Department of Agriculture published its fascinating year book, *Food and Life,* devoted solely to problems of animal and human nutrition; this was dedicated to the memory of W. O. Atwater (1844–1907), one of the pioneers in the food research field A national conference on nutrition, called by President Roosevelt in 1941, brought together the latest developments in knowledge on food values, and the human need for different food elements Similar work has been done in many other countries The United Nations, through numerous subsidiary agencies, notably the F.A.O., is also encouraging continuous exploratory work in this field in carrying out one of its objectives—"to raise the level of nutrition of all people." As a result of this continuing research, there is a large and growing body of knowledge on the effect of food on health, of what is required to meet the needs of man if he is to achieve what, according to our present standards, is a reasonable state of health, or "good" health—even what food values are necessary to help promote "stability, contentment, enthusiasm and zest for life . . ."[6] A shaky nervous system now raises the question whether it is due, at least in part, to "hidden hunger"—that is, a diet lacking in some of the nutritive elements, even though quantitatively satisfying

There are, of course, other factors affecting health besides food, but the

[5] See U S Dept of Agric, *Are We Well fed,* Misc Publication No 430, 1941 In this general connection see also Report to United Nations by Interim Commission on Food and Agriculture, August 1, 1944

[6] See Professor J Rowntree, *This Problem of Food,* Public Affairs Pamphlet No 33 (rev), 1942

basic importance of food, and particularly of different kinds of food, for health, has been clearly demonstrated. In shopping for food, therefore, in selecting a pound of this and a package of that, the housewife is shopping for "health and well-being" in the broadest sense of the phrase. What a tremendous responsibility!

Food Requirements

There seems to be close agreement among scientists as to the nutritive elements necessary for proper bodily functioning and the quantities required of each to furnish an 'adequate" diet, under varying circumstances of climate, type of occupation, age, sex, and individual idiosyncrasies—the quantities varying of course with the criteria of adequacy. "Among the many striking advances in our knowledge of nutrition since the last war," reported the Special Joint Committee of the Combined Food Board in 1944,[7] "none is more impressive than that which enables us today to express with a measure of assurance the more important nutritive requirements of individuals in quantitative terms." However, it has to be kept in mind that this is a developing science and the discoveries of tomorrow may modify what is believed to be true today.

Since a considerable body of material is now available on the different requirements for "minimum," or "reasonable," or even "good health," in a readily accessible form for those who wish to explore the subject further, there is no need to do more here than summarize the more important data, though it must be kept in mind that the "research findings are complex, as indeed they must be in view of the great subtlety and complexity of life processes, especially in the human body."

During 1943, the National Research Council worked out a standard of daily requirements of various food elements as a tentative goal toward which to aim in planning practical dietaries during the war; this is reproduced in Table 15. The standard is based on actual intake of food, that is to say, not the amount bought at the store or even the amount served at a meal, but the amount actually eaten, which may be a very different matter.

The basic requirement is for a source of energy to keep the body functioning and active. This is measured by "calorie" units obtained mainly from carbohydrates, fats, and to some extent protein; carbohydrates and protein yield about the same amount of energy, weight for weight, and fats double that of the others. The daily calorie intake required to meet the

[7] *Food Consumption Levels in the United States, Canada, and the United Kingdom,* April 1944

standard of activity adopted, varies considerably according to type of work done, size, age, and sex. During World War I, calorie requirements were given most attention and still are a basic aspect of the science of nutrition as applied in practical affairs—food requirements for a hungry Europe, for instance, are always expressed in terms of calories.

Another need of the body is for the amino acids which protein foods provide. The function of these acids has been described as "to stimulate appetite, aid digestion, produce healthy blood, build strong muscles and

TABLE 15. Estimated Daily per capita Requirements, National Research Council, 1943

Item	Recommended Allowances								
	Calories	Protein	Calcium	Iron	Vitamin A	Thiamine	Ascorbic acid	Riboflavin	Niacin
	Number	Grams	Grams	Milligrams	International units	Milligrams	Milligrams	Milligrams	Milligrams
Children:									
Under 1 year	900	36	1.0	6	1,500	0.4	30	0.6	4
1–3 years	1,200	40	1.0	7	2,000	.6	35	.9	6
4–6 years	1,600	50	1.0	8	2,500	.8	50	1.2	8
7–9 years	2,000	60	1.0	10	3,500	1.0	60	1.5	10
10–12 years	2,500	70	1.2	12	4,500	1.2	75	1.8	12
Boys:									
13–15 years	3,200	85	1.4	15	5,000	1.6	90	2.4	16
16–20 years	3,800	100	1.4	15	6,000	2.0	100	3.0	20
Girls:									
13–15 years	2,800	80	1.3	15	5,000	1.4	80	2.0	14
16–20 years	2,400	75	1.0	15	5,000	1.2	80	1.8	12
Men (21 years and over), moderately active	3,000	70	.8	12	5,000	1.8	75	2.7	18
Women (21 years and over):									
Moderately active	2,500	60	.8	12	5,000	1.5	70	2.2	15
Pregnant	2,500	85	1.5	15	6,000	1.8	100	2.5	18
Lactating	3,000	100	2.0	15	8,000	2.3	150	3.0	23

organs, repair worn out tissues." Minerals are also needed; calcium is important for the development of bones and teeth but apparently must be combined with phosphorus and vitamin D for full utilization; iron helps in the formation of hemoglobin in the blood, the lack of which results in anemia; iodine, phosphorus, and certain other minerals are also important.

The more recently discovered of the food elements necessary for "good" nutrition are the vitamins which "help regulate bodily processes," but this is an area still in the early stages of exploration. A series of vitamins has been listed, each of which has a specific function, though apparently they also

work in association with each other. Vitamin A is generally spoken of as the growth vitamin, Also, specifically, it is said to make healthier mucous membranes, lessen danger of infection, improve eye conditions and adaptation to light. In *Food and Life,* emphasis is given to the importance of vitamin A to good vision, reference being made to the experience of Denmark during World War I, Denmark exported an increased proportion of butter abroad and substituted other fats in the diet, as a result of which blindness, caused by a lack of vitamin A began to show up among Danish children—"their eyesight had been sold abroad with the butter." The addition of vitamin A to margarine is an important factor in increasing nutritive values to low-income families. (It might be mentioned here that the addition of nutritive elements to food which did not previously contain them, makes it a fortified food; when nutrients that have been removed are later added, the food may be completely restored or partly enriched.)

The vitamin B complex includes vitamin B_1, niacin, riboflavin, and others less clearly differentiated. Vitamin B_1 (thyamin), the lack of which is an important factor in the deficiency disease of beriberi, promotes appetite and food utilization, so that an inadequate intake of vitamin B_1 may also mean inadequacy in other food elements The average intake of this vitamin in the United States has been generally below the standard set, partly because of the refinement of flour and cereals, which destroys the vitamin content, and also because of the increasing per capita consumption of sugar which yields only calorie units and takes the place of other foods richer in vitamin content. The bread enrichment program during the war was planned to offset, to some extent, this lack, also a lack in other B complex" elements and iron.

Vitamin C promotes general resistance to infection, aids in the rapid and effective healing of wounds, and is a factor in the development of muscles, glands, bones, and teeth. Vitamin D, or the "sunshine" vitamin is formed from sterols in the skin by sunlight or ultraviolet light; or it can be obtained from certain foods, particularly from certain fish liver oils; in some way it helps the body utilize calcium and phosphorus necessary for bones and teeth. Vitamins E and G also have been discovered, and there are other less well-known food elements, the function of which is not well understood.

The function of all the nutritive factors referred to above is certainly more complex than indicated here; for instance, though fat is a concentrated source of energy, it also seems to be necessary for carrying some of the fat-soluble vitamins, and also for its satiety value—the staying quality which

keeps one from feeling hungry between meals. We seem to have become accustomed to diets in which the fat content provides about 25 percent of the total calorie intake.

Indeed, our body adjusts to a certain balance of food elements, and maximum health requires an "optimum" balance, though probably for each individual the "optimum" varies. One of the reasons why doctors generally recommend that people get their vitamins directly from well-selected food rather than from synthetic tablets, is that the balance of food consumption is more likely to be maintained.

The dietary requirements set up by the National Research Council, were characterized by the Combined Food Board during the war as, "liberal and difficult of fulfilment under prevailing conditions" The Board pointed out that experience in the United Kingdom showed that somewhat lower levels of intake of minerals and vitamins were compatible with a good general state of nutrition, although doubtless health could be improved if the full allowances were obtainable. Most standards for nutrient requirements have been drawn up with reference to some concept of a minimum or as mentioned above an "adequate" diet, rather than one for "abundant and lasting health." Not much attention has been given to what might be called an optimum diet. Assuming, for instance, that food was available in unlimited amounts and free, what combination of nutrient elements would bring about the maximum condition of health and general well-being to the extent that we are able to visualize it? Since apparently there is some optimum balance between the various food elements (and perhaps others not yet discovered), any considerable increase in one element might be undesirable or ineffective, unless associated with similar increases in other elements It seems clear that the optimum calorie intake depends on the social value attached to obesity, and its ascertainable effect on health and longevity—since a calorie intake in excess of what is necessary to carry on accustomed activity results in fatty deposits in the body. But could we, for instance, maximize "vitality" by concentration on vitamin rich food, and what would the result be? According to Dr. Henry C. Sherman, a well-known nutritionist, research indicates that both adults and children would benefit greatly, both in improved health and a longer useful life span, if they consumed twice as much vitamin A as that ordinarily recommended, though he suggests that increased intake should be through eating foods rich in vitamin A, not concentrates, except on the advice of a physician

Setting up an optimum goal, however, is an elusive undertaking; perhaps the sort of people we are capable of becoming through optimum intake of

nutritive elements is beyond our present imagination to conceive. Nevertheless, it is well to keep in mind that current standards as established to guide individual action and public policy, are in terms of a minimum, or adequate, or liberal standard, within the general limits of current food practices and are not projected into the possibilities of tomorrow. Maybe we should ask, in connection with the optimum, not only what sort of people are we capable of becoming, but whether we want to be that sort of people.

Determining the food requirements of the body is only the first stage in the science of nutrition. The next is to analyze particular foods to determine the food elements they contain, and therefore their usefulness in the diet, and the proportions in which they should be consumed. That is to say, it is necessary to apply the newer knowledge of nutrition to the daily selection of food.

Nutritive Values of Foods

What the consumer buys at the market is a food product, not a measured quantity of any particular nutrient. Some foods contribute more or different kinds of nutrients than others, and some provide them more cheaply than others. Which are the best foods to buy in terms of their nutritional value? This should be followed up by another question, namely, in terms of nutritional value, and within the limits of any particular pocketbook, which are the "best buys"?

Quality in food relates basically to its nutritional value, since this is its primary function. However, this is often subordinated to other factors, such as appearance, flavor, odor, freedom from defects, and so on, which have an aesthetic appeal, important in itself. As noted above, these latter factors are the basis on which quality grades are established for particular foods, the assumption being, presumably, that different units of the same product are nutritionally uniform, though, as a matter of fact, this does not seem to be the case. We shall concentrate our attention for the present on nutritional value.

There has been a continuing analysis of foods by various agencies to determine the nature and value of their nutrient elements, and much of this knowledge has been made available to the public. However, it has to be realized that the measurement of nutrient elements in different foods is a problem that presents many difficulties; measurement cannot be precise and in different countries varying methods of assessing food values are used—for example, one of the difficulties encountered by the Combined Food

Board in comparing consumption levels in the United States and the United Kingdom was the different method used in these two countries in assessing the nutrient content of meat, especially the fat content. Further, an assessed value for any food, in terms of its nutrient content, obviously applies to a standardized product, but, as mentioned above, this is a field in which, because of varying growing conditions, uniformity is not to be expected, and there are difficulties in working out standardization procedures.

Nevertheless, there is a considerable body of material on food values prepared by public and private agencies in a form useful for consumers. For instance, to show how protein needs can be met, Professor J. Rowntree[8] has prepared two combinations of foods that will provide the daily requirements, one on an inexpensive and the other on a more expensive level: A. 1 pint milk or buttermilk, 5 slices of bread and 1 dish of cereal, 1 serving pork and beans, some vegetables and fruit, 1 ounce cheese and ½ ounce peanut butter; B. 1 serving meat or fish, 1 egg, 1 rasher bacon, 1 pint whole milk, 2 slices bread, some vegetable and fruit, and 1 serving ice cream. As Dr. Rowntree points out, "All foods in their natural state contain some protein, but meat, fish, milk, cheese and grains are the richest sources. Even though grains and milk are not primarily protein, they are eaten in such quantities to supply other needs that they also provide the largest proportion of protein. Two or three cups of milk furnish the same amount of protein as one average serving of meat. Two to three ounces of cheese, which is more concentrated than milk, might be substituted."

Dr. Rowntree also gives lists of foods rated according to their vitamin content. Table 16 rates selected foods according to their vitamin B_1 value.

There is also considerable information available on the total nutritive value of particular foods, for example, milk. *Food and Life* reports: "Milk is a cheap and important source of protein, calcium, vitamin A, vitamin B and riboflavin. The forms in which it is taken—whether as cheese, or as fluid or evaporated or dried milk—are largely matters of taste and relative cost. But without a generous supply of milk it is difficult to obtain the calcium needed for building and maintaining teeth and bones and for promoting a high level of general health."

There has been much talk, in recent years, of "protective foods," which usually means the addition to the menu of larger quantities of dairy products, eggs, green and yellow vegetables, and fruits; these are usually the more expensive foods and likely to be lacking or in short supply in the diets of low-income families. However, it has to be kept in mind that all foods that

[8] *Op. cit.*

contribute substantially to nutritional requirements are "protective," and the tendency shown at times to emphasize the so-called protective foods, may lead to a loss in the diet of calorie or other values that are no less essential. Dr. Hazel Stiebling says: "It's all the nutritive values from all the foods in a meal that add up to a satisfactory or unsatisfactory total. There is no fixed quantity of specific foods that gives people good diets. Many combinations of protective foods can make adequate diets."[9]

Since there is such a wide variety of foods available, the Bureau of Home Economics of the U. S. Department of Agriculture, as a help to consumers, has grouped the various common foods into a number of classifi-

TABLE 16. B_1 Requirement in International Units (approx. 15 units for each 100 cals. food intake) Average Adult, 350–600; Child, 150–300; *Infant, 75–150*

Food Sources	Weight	Amounts	Units
Beans, dried	1½ oz.	½ cup cooked	40–50
Bread, dark	1 oz.	1 slice	15–20
Beef	3 oz.	1 serving	30–100
Cereals, whole grain	1 oz.	½ cup cooked	30–40
Egg	1	1	50
Fruits, raw or cooked	4 oz.	½ cup	30–40
Liver, kidney	3 oz.	1 serving	100–150
Milk	8 oz.	1 cup	30–40
Peanut Butter	½ oz.	1 tablespoon	20–25
Pork	3 oz.	1 serving	200–300
Potatoes	6 oz.	1 medium	50–60
Prunes, dried	2 oz.	½ cup cooked	40–60
Vegetables	4 oz.	½ cup cooked	30–50

cations according to their most distinctive nutrient element, though foods in one group may contribute importantly to other nutrient groups. Moreover, foods from one group may be necessary to enable full utilization by the body of foods from another group.

Dietary Plans

Originally, the bureau used ten classifications but during the war it emphasized a "basic seven" grouping, urging consumers to choose foods from each one of these groups daily; the basic seven, usually set up in chart form, included, leafy, green and yellow vegetables; citrus fruit, tomatoes, raw cabbage; potatoes, other vegetables and fruits; milk, cheese, ice cream, and other milk products; meat, poultry, fish, eggs, dried peas, beans; bread, flour, cereals, whole-grain or enriched; butter and fortified margarine.

One of the purposes of such a grouping is to indicate which foods can be

[9] *Op. cit.*

substituted for others in terms of their major or distinctive contribution to nutrition—for example, during the meat shortage, it was emphasized that milk (though a fluid) is a better substitute for meat than a casserole dish of spaghetti and tomato sauce (though served in a casserole dish like a meat entree). The value of such a grouping as a guide to food substitution is not of course limited to war experience; any shift in income or price relationships makes it necessary, in determining a good buy, to know which foods are substitutes for others, in terms of nutritional value.

For the publication, *Food and Life* (1939), the Bureau of Home Economics worked out four dietary plans to meet the needs of consumers at different income levels; these plans were not recommended menus, but a listing of the total quantity of food of different kinds a family should consume a year, allowance being made for the size of family, age composition, and so on. On the basis of this listing, four weekly diet plans were worked out for an economical fair diet, a low-cost diet, a moderate-cost good diet and an expensive good diet, one set being worked out for towns and cities and the other for farms.

In preparing these dietary plans, an attempt was made by substituting low-cost for high-cost food products with approximately equivalent nutritional values, to maintain a satisfactory food consumption level even for low-income families, though there is some difference in values between the different cost groups. As supplies and prices changed during the war, these dietary plans were modified and a variety of actual menus prepared to guide consumers in the particular combinations of food that go to make up a satisfactory diet, or as satisfactory as can be obtained at various income levels. Here again we have to keep in mind that any relative increase in food expenditures means a cut in other areas of consumption, if buying power is not increased, though the result may justify such a shift.

These various plans and menus are of course only suggestive, illustrating the way a knowledge of nutrition and the nutrient elements of foods can be used to increase the health and well-being of families at any income level, and are particularly valuable in periods of marked price changes or short supply indicating how substitutes can be introduced into meals without changing the basic nutritional content. However, though theoretically various products can be interchanged, in practice the problem is greater than it seems.

During the war, for instance, the British had to make a basic change in their food consumption pattern and food management became one of the important branches of national programming. As the war continued, it became necessary to eliminate most of the animal-derived proteins and to

substitute vegetable proteins obtained by intensive use of the land resources. Apart from the psychological importance of animal proteins and their value in relieving the monotony of diet, the shift to vegetable from animal sources of food, usually means that the diet becomes more bulky as well as less palatable, which in itself might lead to digestive disturbances among people accustomed to higher protein intake This applies of course equally to calorie values. In the United Kingdom during the war there was an average increase of approximately 17 percent in per capita consumption of grain products, which represents a very considerable change in the character of diet, much greater than the change in its nutritional content, technically considered. This is apart from the question whether vegetable proteins are as valuable nutritionally as animal proteins, about which there is some doubt.

However, such an extreme example should not distract attention from the fact that there are various ways of achieving a "good balanced meal," and the "best buy" will involve a knowledge of these alternatives.

A complication that arises for the consumer in using nutrition as a basis of market selection comes from the fact that nutrient elements are not constant for any particular food. It is well known for instance that both the water supply and also the locally grown foods in certain areas lack iodine, which is important for proper thyroid functioning But many other products vary in nutrient qualities according to the soil and other environmental conditions affecting their growth and also their heredity strain—the milk of various breeds of cows, for instance, varies widely in fat content and therefore in calorie and vitamin A value. There are "mineral poor" soils, though nowadays, at any rate for urban dwellers, food usually comes from so many places into any one market that the effect of particular local factors is to some extent offset.

Moreover, the assumption is that food values are retained through the process of distribution until the act of consumption takes place, but this is not so, particularly if the food is highly perishable. Eggs, for instance, lose in nutrient value if they are not kept under refrigeration; fruits and vegetables wilt. Buying products "cheaply" at special sales because they are spoiling, may not, in fact, be a good buy if the food value is deteriorated—how much is lost is what a consumer wants to know, but finds difficult to learn. This is part of the problem of choice. Moreover, there is often some loss of value during the consumption process itself, both in storage, preparation, and cooking of foods, and this loss may be considerable.

So far, we have been discussing food selection in terms of nutrient elements, on the assumption that the consumer will buy the most nutritional food once

the importance of nutrition as a basis of food selection is understood; at any rate, he will buy within the limits of the pocketbook. But food must be acceptable as well as nutritious. Our scientific knowledge of nutrition is well ahead of our practice. As has been said, "Knowledge born in rat laboratories cannot be applied automatically to man." He may get balky. Food habits are not determined by a desire for good health—in fact, discussion of food in terms of its nutritional value is looked upon as boring, compliments to the hostess being in terms of taste, appearance, and general culinary qualities.

Food Habits

What, then, are the conditions that underlie acceptability with respect to food, and how can we come to want what we need in food consumption? In shopping for food, we have to keep the family attitudes in mind, as well as food values.

This is a field for the cultural anthropologist rather than the biochemist, who analyzes food as such.[10] Human responses have their origin in complex cultural factors which are not well understood—they are rooted in the folkways and mores of the people. Why do people eat what they eat, and how can they be brought to change their food habits when it is nutritionally desirable that they should do so?

Food consumption is, in fact, conditioned by all kinds of customs, taboos, and prejudices, as well as individual tastes and attitudes, developed from infancy. Customarily, in the United States, we have three meals a day, with "between-meal" snacks of foods and beverages. Certain kinds of food are associated with each meal. Some foods will not be eaten at all because of a definite taboo, rooted in religious sanction, in a sense of social status, or in a belief that may, at one time and under certain circumstances, have been well-founded, that the product is in some way harmful. For instance, high-class Brahmins eat no meat; orthodox Jews eat no pork; Catholics eat no meat on Fridays; Americans, for the most part, are averse to eating horse meat, which they do not consider fit for human consumption—an attitude that is partly associated with status. During the war it became evident that many people felt the same way about glands and organs, and an educational campaign was undertaken to encourage the consumption of liver, kidneys, etc., which are rich in nutritive values. Cheese plays a minor role in the American diet, compared, for instance, with some European countries—one of the reasons seems to be that it has for long been looked upon as in-

[10] See National Research Council Report, *Problems of Changing Food Habits, 1941–43*

digestible. In some countries or among some groups, the people will not drink milk; others will drink only the milk of certain animals, of horses or goats or cows. Again certain foods have come to be associated with special occasions—turkey with cranberry sauce at Thanksgiving; the bridal cake at a wedding.

Availability is an important factor in food use, but for one reason or another some available foods are not looked upon as such—Americans, generally speaking, do not think of snails and grasshoppers as food for man, though they are enjoyed by some peoples. Most of us do not even relish frogs. The more limited the food resources of a group, or the more limited their contacts, the more they are likely to cling to their accustomed ways. Immigrant groups have clung to some of their old folkways, while at the same time bringing greater variety into the average American diet by making new foods available. On the other hand, they have come to look upon white bread and meat as symbolizing the greater opportunity of American life, a higher social status. A study of the food habits of a people and exploration of their origins is a significant as well as fascinating undertaking for consumers anxious to perform their function intelligently; in the same way it is important to understand the background of the food habits of the particular family.

Then there are individual habits, attitudes, tastes, developed since infancy in the environment of the family, the school, the local group, which cannot be changed by a battering ram of science; some other way must be found to take that bastion. In some families, food is used for reward and punishment and comes to have particular emotional associations on that account. In introducing new foods or promoting the greater use of old ones, advertisers recognize the importance of emotional factors in food acceptance and endeavor to take advantage of them, appealing to curiosity, or prestige value, or aesthetic feeling, and so on. Even in promoting the sale of vitamins, the appeal is to the emotion of fear rather than to an intelligent interest in good health.

Consumer education must take account of the complex factors conditioning food habits, if it is to be successful in encouraging better nutrition. Food must also be enjoyable as well as nutritious; it must appeal to taste and sight and smell. That is to say, it is not only a question of shopping for food, but also of preparing it for consumption in a way that will both conserve nutritive values and also lead to a maximum enjoyment and therefore utilization of them—and this has to be kept in mind in making market selections.

Cooking habits are tied up with food habits—or the other way round.

This was one of the problems in trying to get people to increase their consumption of soybean products during the war—an effort that was not very successful and the limited results of which do not seem to have been lasting.

There has been a considerable change in food habits in the United States in the last, let us say, 50 years, though there are few quantitative data to show the magnitude of the change. It has been estimated, for instance, that the proportion of calories derived from milk, cheese, fruits, and succulent vegetables has actually doubled. At the same time there has been a marked increase in the consumption of sugar to an extent which the nutritionists deplore—substituting sugar for wheat products, for instance, has resulted, it is said, in a cut of one-sixth in the protein intake from this source, and also in a considerable decrease in the intake of vitamin B_1. Increased consumption of citrus fruit is an example of a change in diet which has added both to its variety and nutritive value.

Part of the change in diet has resulted from the increased availability of foods, both in variety and seasonally The development of the canning industry and, more recently, the frozen foods industry, are a factor in this situation, as is the increase in transportation facilities. These are, however, only suggestive of the many interrelated factors affecting diet, which themselves condition shopping habits.

Income and Nutrition

The most significant of these factors, to which so far we have only made passing reference, is purchasing power. It is true that an intelligent consumer can at any income level improve the nutritive content of the diet by careful selection on the basis of food values, but the amount of the budget allocated to food is a basic conditioning factor in urban living, unless facilities exist for vegetable gardening. Of course a larger proportion of the budget could be allocated to food, changing the total pattern of expenditures, but what would be given up?

An extensive study of the data collected in the 1935-1936 survey on food consumption was made by Dr. Hazel Stiebeling and her associates in the Bureau of Home Economics, some results of which were published in the pamphlet *Are We Well-fed*. The data covered both kinds and quantities of food consumed for one week by a number of representative families, with out making any allowance for cooking and table waste. It was classified into good, fair, and poor diets, according to specifications for food values established in relation to a minimum standard, which was considerably below that adopted by the National Research Council. In this study Dr. Stiebeling posed

a series of questions. How many of the nation's families are ill fed? Who are the people with poor diets? Do high incomes guarantee the right food? Does it pay in better diets to produce food at home? Must everyone change eating habits to get what his body needs? What can people do for themselves to get better diets? What can all of us, working together, do to improve the nation's diets?

As a result of the study, made, it must be remembered, during a post-depression period, the bureau classified about one fourth of the families in the United States under the heading of "good" diets, more than one third with fair diets, and another third or more with poor diets. Speaking generally, more of the ill-fed were found in the lower-income classes than in the higher, more in the larger families than in the smaller, more in the Southeast than in the North and West, more among Negroes than among white families, more in cities than on the farms, more in the small villages than elsewhere in an area.

A number of factors were involved in this difference in nutritional status among the various groups. The most important was the amount spent on food (taking account of price differences). However, poor diets were found among the well-to-do, due to ignorance or other factors. Though it is difficult to get a satisfactory diet on a low income, it is possible to spend a lot of money without getting the foods needed for good nutrition. But generally speaking, as per capita food expenditures increase, the quantity of nutritionally rich foods increases—for instance, milk, eggs, meat, citrus fruits, leafy, green and yellow vegetables. A particular problem affecting people in small villages, particularly mining villages, etc, was the lack of distributive facilities and refrigeration. At all levels of income, and in all areas, the knowledge, managerial ability and culinary skill of the home-maker, at the market and in the kitchen, and the willingness of the family to accept "good" food, were also involved.

To indicate the relation between food expenditures and food values, the diets of a group of families in the North and West who spent on an average 15 cents per person per meal were analyzed; it was found that 24 percent of these families had good diets, 64 percent fair, and 12 percent poor diets, though, as pointed out by Dr. Stiebeling, differences in size of family were not given full weight.

During the war, as real income increased for many families, and also the per capita food supply, the average level of food consumption rose with an improvement in nutritional status, at any rate on an "average" basis. In 1943, for instance, the Combined Food Board, on the basis of the National Research

Council's standards, stated that food requirements were exceeded by supplies moving into civilian consumption, except possibly for vitamin C and the B complex. However, what is important for any family is not the average but its own nutritional status.

The "Best Buy" in Food

In discussing the economics of food selection, or the best buy, we have to keep in mind the basic function of food which is to provide nutrient values, under circumstances which will lead to their full utilization by the family, with the greatest degree of satisfaction. The role of the consumer at the market is to shop for food in terms of its function, making the most effective use of the amount of money allocated in the budget for food, as reflecting family values with respect to the total pattern of consumption. Within this overall role, however, a number of alternatives present themselves which call for the exercise of choice.

To get the best buy, the consumer must take advantage of "bargains" and shifts in price relations. She must know brands and grades of quality, and the use to which they can be put. She has to decide whether to buy fruits and vegetables fresh, canned, or frozen. A seasonal factor is important here. Fresh foods in off seasons are likely to be expensive; the choice then is between foods in season or others in processed or frozen form.

A further question is whether to buy at the delicatessen or the supermarket; this is partly a matter of price advantage, but also may involve a choice between ready-prepared meats, let us say, and fresh meats to be cooked at home. The latter are cheaper for comparable quality, but the value of a consumer's time and energy may be worth more than a difference in price, providing the family has no special preference which will lead to greater enjoyment of food in the prepared than in the home-cooked form, or the other way round. Kitchen capacity of the home-maker is thus tied in closely with market selection—the capacity to make "good" food taste "good."

Another alternative is to eat out. In 1940, of a total $21.9 billion spent on food and beverages, $4.7 billion was spent on eating out.[10] Shopping the restaurants or drug-store fountains or other food counters calls for considerable experience, if maximum nutritive values for money expended are to be obtained. Usually a considerable amount of money can be saved if a worker takes his lunch to work instead of eating out, but here, as in other areas of consumption, questions of status and social relations play a considerable part. In some factories and other establishments, cafeteria are maintained

[11] J. F. Dewhurst, *America's Needs and Resources*, 1947, p. 105.

in which case, if the food is appetizing and nourishing, the better buy may well be to take advantage of this opportunity Encouragement of plant cafeteria by the federal government was a feature of the wartime nutrition program, and trained nutritionists advised cafeteria managers on desirable food combinations

Eating out, under circumstances other than those determined by the conditions of work, may be due to shortage of household help, or the desire to break away from the day to day routine, or for entertainment. Much of the money spent at restaurants, is spent not for food as such, but for its preparation and table service, and, all things considered, the family may get more satisfaction from such an experience even though, for the same amount of money, more nutritive values could have been obtained at home Recreation is a recognized area of consumption expenditure It cannot be said, however, that eating out under rush-hour conditions, at any rate in large metropolitan areas, provides much recreation or opportunity of social intercourse. It would be an interesting study to investigate the consumption values obtained by eating out under varying circumstances

Shopping for food is clearly a complex function for the individual consumer

Government Regulation

Raising the nutritional level of any large proportion of the people of the United States is, however, far more than an individual problem. It involves a national program, since as Dr Stiebling has remarked "It is in the interests of the people as a whole that everyone be well fed in the same way as it is that they be well educated" Government has long been concerned with the food supply both on a regulatory and a promotional basis. On a regulatory basis, government at all levels has for many years played a role in protecting the quality of the food supply coming on the market, particularly through the activities of health departments and food and drug departments in cities, states, and, since 1906, at the federal level

One of the most important factors in improvement of the health of young children has been control of the quality of milk, mainly by local governments, both through inspection on the farms and of the milk in process of delivery Development of the pasteurization process has in itself been an important factor in helping to control bacteria In shopping for milk, therefore, in areas where such control has been established, consumers can be reasonably confident that its quality does not fall below minimum standards.

Meat inspection has also helped to keep diseased meats off the market. We

are all familiar with the purple stamp of the federal service (not to be confused with a grade stamp) which attests to the fact that, at the time of slaughter, meat bearing the stamp was found to be free of disease Federal inspection of course applies only to meat moving in interstate commerce. Moreover, the inspection stamp is no guarantee that the meat will not spoil before it passes into the consumption process, hence the need for local inspection of retail establishments

The effectiveness of general regulation of foodstuffs by local and state food and drug departments differs in different areas, and it is important that consumers take the responsibility of maintaining cooperative relations with the food inspectors operating in their area, giving them any assistance possible The federal Food and Drug Administration has power to keep "adulterated" or contaminated goods from moving in interstate commerce. The extent to which it can succeed in doing so, depends of course largely on Congressional appropriations, which have always been inadequate for a satisfactory job, it depends also on the cooperation of state and local agencies and also consumers If a consumer finds food adulterated or in other ways contaminated or spoiled, the F.D A asks that this be immediately reported to their inspectors, since it may be a sample from a spoiled lot that should be removed from the market. In the monthly *Notices of Judgment* issued by the Food and Drug Administration are reported the actions taken during the preceding month in connection with food and beverages seized in the process of interstate commerce because of adulteration, or because they are misbranded or mislabeled. These notices, which, strangely enough, do not seem to interest the press, are an extraordinary record of action taken to protect the quality of the food supply moving interstate

Take for instance, at random, the June 1946 issue, a document of 61 closely printed pages, recording cases numbered 8301 to 8500. The first (No. 8301) in the "Beverages and Beverage Materials" section, is an action to restrain the interstate shipment of adulterated and misbranded grapefruit juice by the Christensen Products Co of Texas, on the grounds that "the product consisted in whole or in part of a filthy substance by reason of the presence of insect fragments, maggots, whole adult scavenger flies, and scavenger fly larvae, fly eggs, fly fragments, scaly insects, insect eggs, mold and rodent hairs," and had been "prepared, packed and held under insanitary conditions whereby it might have become contaminated with filth, and moreover was labelled 'U. S. Grade A Fancy,' which was false and misleading since it was contaminated with filth." In this case the defendant was enjoined from shipping adulterated grapefruit juice, "Conditioned that at the end of one

year from the date of the entry of the decree upon a favorable report from the Department of Justice with respect to the plant conditions, the Court may terminate the injunction and dismiss the complaint."

Case 8303 is an action against Sun Rich Products Company of Louisiana, shipping "Sun-Glow Orange Ade" labeled in part to represent that it was "made from Fresh Ripe Fruit . contains the juice of fresh California oranges . . . rich in vitamins," whereas, in fact, it was an "artificially colored and acidulated liquid, sweetened with sugar, flavored with orange oil and containing orange pomace, a very small amount of orange juice and an insignificant amount of vitamins" In this case a plea of guilty having been entered, a fine of $150 was imposed

Case 8309, in the "Cereals and Cereal Products" section, is a charge against the New York Bakery Company of Colorado for shipping interstate bakery products labeled in part "Enriched Dutch Maid Bread," "Maple Bar," "Chocolate Malted Milk Cake," or "Cup Cakes" which were adulterated in that they consisted "in whole or in part of filthy substances by reason of the presence of insect parts and fragments, larvae, rodent hairs, whole beetles, hairs resembling rodent hairs, and a hair resembling a cat hair," and they were prepared and packed under insanitary conditions

Case No 8321 is an action against 237 bags of phosphated flour shipped by the Pillsbury Flour Mills from Minnesota, Oklahoma, and Tennessee, on the grounds that it was adulterated consisting "in whole or in part of filthy substances by reason of the presence of beetles, larvae, pupae, cast skins, insect fragments, weevils, rodent hair fragments and rodent urine."

There are pages of such cases in which adulteration is charged against products in a large number of different classifications of food, as, for instance, the chocolate and sugars section, dairy products, eggs, fish and shellfish, fruits and vegetables, dried fruits, meat and poultry products, nuts and nut products, and so on Charges were made either because of the presence of filthy substances, or because the product was in whole or in part in process of decomposition, or was misbranded or mislabeled These cases arise in shipments from all parts of the country by large and small firms, some with a national reputation and others, the names of which a reader probably never heard.

The importance to consumers of the operations of the F D.A is obviously very great, though they seem to take little interest in such activity, at any rate from reports of inspectors themselves Recently the authority of the F.D.A. was limited by the refusal of the Supreme Court to review a decision of an Arizona court to the effect that its inspectors had no control over food which, after moving in interstate commerce, had "come to rest" in a wholesale

warehouse, even when the conditions under which it was stored were filthy and likely to lead to contamination. The 1948 Congress corrected this situation to some extent. But such an incident emphasizes the need for continuous consumer interest in and support of food and drug agencies at federal, state, and local levels. State and local authorities must be effectively organized to step in where the federal agency has no power to act.

In addition to this regulatory activity, government has played a positive role, sporadically and on a limited scale, in promoting a better level of nutrition among particular groups and in the community as a whole, in this way also affecting the selection of food by the consumer. The educational drive for a wider knowledge of nutrition is one aspect of this promotional activity. Another is the school lunch program, by which the government undertakes directly to increase food consumption. If the National Research Council's recommendations were to be put into effect, a considerable increase in food consumption, at least of certain "protective" foods would be necessary for a large number of families. Suggestions have been made that the government should underwrite food consumption up to this level, so that if the individual family were not in a position to obtain an "adequate" supply directly, the government would by one means or another, make it available, because of the importance (if for no other reason) of building up the working efficiency of the population. However, this promotional aspect of government activity in the food field, is tied up with questions of general agricultural policy, which we shall consider below.

Chapter XI

HOUSING

Housing constitutes one of the main items of consumer expenditure, the proportion spent on it declining somewhat as income rises, though not as much as in the case of food. The figure will differ according to what is included under the "housing" classification—for example, in reporting family expenditures for 1941, the B.L.S. has one classification for housing, fuel, light, and refrigeration, another for household operation, and a third for furnishings and equipment. For comparative purposes, it is desirable to include fuel, light and refrigeration with housing costs because in some apartment houses the utilities are included in the rent. The percentage of money income spent for housing under this classification, in 1941, by non-farm families and single consumers according to income groups, as estimated by the B.L.S., ranged from 20.7 in the $500 to $1000 group to 13.9 in the $3000 to $5000 group.

Housing expenditures for the family are usually fixed for a considerable period of time. It is said that in the "good old days," a large proportion of city people, particularly New Yorkers, changed their living quarters every year, and perhaps their housing costs, but this is an extreme case of mobility. More than half the urban population probably moved within five years. The Better Business Bureau,[1] in warning consumers to be careful before making financial commitments with respect to housing, points out that with respect to food, though the annual expenditures are large, it is bought in small amounts; thus mistakes can be more readily corrected than in the case of housing, even if it is only a question of moving from one apartment to another, and of course much more so if the purchase of a house is involved.

Postwar experience has made Americans very conscious of the price of food; in housing what we think of primarily is the "shortage." It is not that people don't have a roof over their heads; we have not had to dig among

[1] See B.B.B. Housing Unit, "Facts You Should Know" Bulletins.

the debris of war hunting for household treasures But the sort of housing we have is so far inferior to what we think we ought to have and the normative standards set up as necessary for decent and healthy living, that it has come to constitute not only a problem for the individual family, but one of our major social and political issues It is a problem of standards, and this of course relates to the function of housing

Let us first consider the function of housing, then the standards by which to judge its quality, so that we can better evaluate what the market has to offer for the exercise of choice within the limits of the family's housing budget

Housing expenditures have frequently been classified under the heading "shelter," as though the function of housing were to be understood only in terms of protection from the elements Today, however, the concept has broadened In buying "housing," or more properly the service of a housing unit, whether as owners or renters, we are buying the use of a "dwelling place," a center where family life develops, as well as where much of the actual consumption of material goods takes place Here we eat and sleep, prepare the food, care for the clothing, pursue our hobbies or at any rate give them a background, bring up the children, enjoy the association of the family, entertain our friends It is the point from which we go out to work and school, church and market, and all the "outside" activities which are part of normal living It is the point to which, always, we return In buying housing, in short, we are buying the framework of the home

HOUSING STANDARDS

How can we judge the quality of housing in relation to its function? We are concerned obviously not only with the condition of the roof, important though that is, nor even the floor plan, which will condition to some extent the carrying on of domestic activities, but also the immediate setting, general neighborhood, and its relation to those aspects of community life which are of significance to any particular family

Consumers have their own ideas of what is fit and proper in housing, and normative standards are set up by various social agencies, public and private Since our culture is built up around the immediate family of husband, wife, and children, a housing unit is required for each such family. If they have to live with relatives in-law, as is the general custom in many parts of the world, they are classified as "doubled-up," and a housing problem is created. We have a condition of overcrowding when there is more

than one family to a housing unit, as well as when there are too many persons to a room, whatever standard is adopted.

Moreover, rented rooms don't make a housing unit. The family wants a degree of privacy for its normal functioning, with suitable facilities—a separate entrance, a private toilet, a kitchen for its own use—though, at any rate in city apartment houses, it is becoming customary to have a common basement laundry. A survey made by the Census Bureau in March 1946 found that 30 to 40 percent of married veterans were living in rented rooms or doubled-up, both being classified together A leaky room may be preferable to a family than living doubled-up in structural comfort, or doing without a private kitchen in well-equipped rented rooms. Here as in all other items of consumption, there is a problem of weighting the various quality factors.

Structural factors are, of course important, not only for the family who is buying a house and is concerned about its long-time value, but also for its importance in current use, in protection against the elements, provision for light and air, and so on. Also important is the arrangement of the housing unit; this will determine in part its convenience in use and the degree of safety with which it can be used (as, for instance, if there are many or steep stairways); it also will be a factor in the aesthetic quality of the home.

The mechanical installations have come to assume a large weighting in individual decisions on quality—indeed, before the war, when the market still offered the opportunity of choice, agents often made a new gadget a strong selling point in new or renovated housing units, to the neglect of factors which, in normative standards established by public agencies, might be rated as much more important However, mechanical installations include not only trick gadgets, but the heating arrangements, the quality and extent of the plumbing, whether water is laid on or whether it has to be fetched from outside.

Looking around the house, appearance is a factor, whether it is the general appearance of the apartment house in the city, or the suburban cottage. It is a question not only of aesthetics but of social status, of how it strikes you as you come up the street in the evening, and how it strikes your friends and associates. Is it built to get a maximum of sunlight and the prevailing winds? What is the character of the lot on which it stands? Does the property next door drain away from you; is your own lot graded so that the surface water will not drain into the basement and so on.

Then, there is the general neighborhood—the Better Business Bureau, for

instance, suggests that the following questions are relevant Is there "adequate" police and fire protection, garbage and snow removal? Are the streets well-lighted? Are utility services—sewerage, gas, electricity, water supply—available? Is the site reasonably accessible to transportation, churches, schools, stores, hospitals, parks, and so on? Is the neighborhood "improving or deteriorating" (but in what sense)? Are there objectionable noises, smoke or noxious odors? What kind of zoning restrictions affect the area?

If these are the most important general quality characteristics to be considered, on what basis is the consumer to judge how they should be rated? Without recognized criteria of appraisal, it is of course impossible to judge the adequacy of housing consumption at any time, or in any country. "Adequacy" depends on the standards adopted; it makes a great difference, for instance, whether the overcrowding limit is set at one person or 1 5 persons per room, and whether 5 percent or 10 percent of vacancies is considered normal.

It is important also to make it clear whether we are thinking of "minimum" standards, below which no family should be expected or even allowed to live; or standards of "reasonable adequacy," of what is frequently referred to as "health and decency"; or even an optimal level of housing—within the limits of our present imaginative capacity, what do we conceive of as the best possible kind of housing for the individual family and the community as a whole? What are the criteria for a "model" house, a "model" community? In planning for the best use of our resources it is too limiting to have our attention restricted always to the minimum. Consumers must bring vision to a study of the economy and the satisfactions of consumption, in which it results.

It will be useful for students to analyze their own standards with respect to the quality factors in housing and to examine some of the normative standards that have been set up, mostly as the result of public concern for the effect of housing conditions on safety and health and general community welfare. It is desirable, of course, to have individual and public criteria represent only different aspects of the same general set of values.

Varying standards for the construction and maintenance of housing are embodied in local ordinances, usually with emphasis on structural rather than performance characteristics; such standards are needed, both with respect to permits for new construction and to determine when existing housing should be condemned as unsuitable for use. In some instances, however, these ordinances have become instruments for the protection of

vested interests, and are used to retard the development of new techniques and new materials in housing that would be in the consumer interest.

In the last 10 to 20 years there has been an increasing interest in housing conditions at both state and federal levels of government, partly because of the relation between construction activity and economic prosperity, and partly because of the public agitation for an increase in suitable housing units. As a result, state and federal officials have added to the growing body of criteria for the appraisal of housing conditions, usually as a basis for the grant of funds to help meet housing "needs."

Social agencies, particularly those concerned with the housing conditions of families at low-income levels, have also set up standards of quality, with emphasis in this case on performance in use. Standards have also been established by loan agencies, public and private, with considerable emphasis given to the resale value of the housing involved, making it difficult for the individual to develop and embody new ideas not generally acceptable to potential buyers. These standards apply to housing at all consumption levels.

In a special report on housing policy, prepared in 1945 by the International Labor Office because of the world-wide character of the "housing problem," special attention was given to the matter of housing standards on a minimum basis, after analysis of housing laws and regulations in all major countries enacted "for the purpose of safe-guarding the physical, mental and social health of the community." The I.L.O. draws attention to the "comprehensive and detailed report, *Basic Principles of Healthful Housing*, prepared by the National Committee on the Hygiene of Housing of the American Public Health Association, under the chairmanship of Dr. C. E. A. Winslow; this was characterized by the I.L.O. as the most elaborate and precise formulation of its kind so far attempted. The criteria relate to the quality of housing as such, irrespective of whether it is occupied by the owner or rented, or whether it is an apartment or a private house or wherever located. They are written out largely in terms of health. The relation between housing and health is now generally accepted, but what particular housing conditions retard or promote health are not so easily determined.

The committee's report emphasizes the need for "adequacy" with respect to 30 basic requirements, without, however, indicating what level is to be accepted as "adequate." These requirements are organized under a few general headings. Under the heading "fundamental physiological needs" are listed several requirements, including "an atmosphere of reasonable chemical purity," provision for admission of sunlight (but how much?), protection

against "excessive" noise; under "fundamental psychological needs" are included such items as, adequate privacy for the individual, opportunities for normal family and community life, and so on; other headings are "protection against contagion," requiring safe, sanitary water supply, toilet facilities, exclusion of vermin which transmit disease, etc., and "protection against accidents" of all kinds.

As the I.L.O. pointed out, it is important to list these general criteria, but they have then to be expressed in specific terms if they are to become effective in practice. Specific requirements to meet general housing standards have been prepared by some social welfare councils. For instance, the Social Service Housing Committee in New York City, representing a number of social agencies, has drawn up a list of minimum requirements for family dwellings, some of which are legal minima in New York City, and others are set up as necessary by the committee itself.

Under a heading "protection from the elements," for instance, the committee includes a requirement that the dwelling be capable of being maintained at 68° Fahrenheit, 3'6" above the floor. Under "hygienic facilities and protection from contagion," there is a requirement for running hot and cold water with a normal pressure of two quarts per minute; another requirement is for a toilet in good working order on a waterproof floor in a compartment 2'4" wide, lighted with a 30-watt electric bulb, and ventilated by a window to the outer air, or a ventilated duct that assures a constant updraft of air. Under "provisions for safety," every part of the public halls and stairways should be lighted sufficiently to enable a person with normal eyesight to read the numbers on apartment doors. There are also specific requirements under the headings, "light and air," "privacy, overcrowding and space," and "neighborhood conditions."

Another instance of the application of a set of housing standards are the calculations of the Census Bureau as to the number of substandard houses in the United States based on detailed housing data collected in the 1940 census; more than one third of the existing stock of housing units were declared to be substandard. The basis of judgment in this instance was to declare substandard, non-farm dwellings which needed "major repairs" or lacked a private flush toilet or bathing facilities. A farm dwelling was declared substandard only if it needed major repairs. In both instances, major repairs were said to be needed when "floors, roofs, plaster, walls or foundation required repairs or replacements, continued neglect of which would impair the soundness of the structure and create a hazard." The estimates were as follows:

Type of Dwelling	Total Number of Dwellings	Substandard Dwellings	
		Number	Percentage of Total
Non-farm	29,683,000	11,369,000	38.3
Farm	7,642,000	2,591,000	33.9
Total	37,325,000	13,960,000	37.4

With reference to the criteria adopted by the Census Bureau, Catherine Bauer,[2] a well-known authority on American housing, points out that if the bad effects of congestion in some of the larger and older cities in terms of deficient light, air, privacy, or open space were taken into account, the proportion of substandard non-farm dwellings would be greatly increased. Further, she declares that though modern sanitation in farm homes is difficult to achieve, nevertheless the "double standard" adopted by the Census Bureau for farm and non-farm dwellings tends to divert attention from the fact that 82 percent of the farm houses in 1940 did not have running water inside; indeed 15 percent had no water within 50 feet of the house. (There has been a noticeable improvement in the condition of farm dwellings since 1940, partly due to postwar repairs and new construction, and partly due to the migration from farms to war-industry areas, which has resulted in a number of the worst houses being dropped from the "occupied" class.) Dr. Bauer also points out that many rural non-farm houses are as isolated as those on farms and should properly be taken out of the category of non-farm dwellings.

The National Housing Agency, in preparing estimates of housing needs throughout the country, set up a different, and what might be called more conservative, set of criteria than those adopted by the Census Bureau. The agency used a definition of "substandard" which took sanitary conditions (that is, the existence of a flush toilet and bathing facilities) into account only in metropolitan areas, not in the small towns and villages and other non-farm areas as did the Census Bureau, and as a result their estimate of substandard dwellings was lower. According to the National Housing Agency, in 1940, seven million non-farm housing units required replacement.

This figure increased during the war, since facilities were not available for keeping other housing units from falling into the category of substandard because of the need of major repairs. "It is recognized," said the agency,[3] "that a unit does not need to be demolished merely because it lacks a private bath and toilet or because it is in need of major repairs. However, these

[2] "Housing in the United States," *International Labor Review*, July 1945.
[3] *Housing Needs*, November 1944, p. 15

conditions are closely correlated with the need for demolition resulting from other factors, such as lack of light and air, which make dwelling units unhealthful places of habitation."

Housing Conditions

Let us look at the present level of housing consumption before going on to consider what the market offers for consumer choice in this field. In the case of housing, as distinct from food, it is the existing stock that is the most significant factor rather than the current supply, though of course that is also important. According to census figures, there were some 37,325,000 housing units available for use in 1940—29,683,000 in the non-farm and 7,642,000 in the farm classifications. Farm housing is in a separate class because usually the house goes with the farm and its use is conditioned by the circumstances affecting the farm as such. Of the non-farm units, 1,400,000 were vacant.

The largest number of housing units produced in any one year in the non-farm group was 937,000 in 1925; 93,000 were built in 1933, and the annual average from 1920 to 1939 was less than half a million. These new units coming on the market affect the supply situation at any one time, but only as part of a larger whole. If a family wants to change its abode, its opportunity for choice will depend largely on whether and to what extent old houses come on the market, and on what terms.

A considerable proportion of the existing supply of houses has come down to us from times when different standards prevailed, and we must make the best of them, since we certainly cannot demolish many of them until we find a way to make a substantial increase in current supply. The median housing unit in 1940, for instance, was 25 years old, which means that many were much older. These old houses were built for larger families than most of those now to be found, at any rate in urban areas, with larger rooms and a general-purpose kitchen that did not come assembled in a single unit. Many of these houses lost much of their sales value under the changing standards of the times, though the abnormal circumstances of war have again created an active demand for them. Indeed, there are some people who feel that they have offsetting advantages.

As a matter of fact, there has been very little fundamental change in housing construction in this country in the past hundred years. Most single-family houses have been built for the well-to-do, or middle-income groups and are passed on when styles and neighborhoods change as hand-me-downs that often do not fit the needs of those who come to use them. However, it is difficult even to describe, to say nothing of evaluating, the housing condi-

tions in a country of continental proportions. In the city itself, from some points of view, there is a vast range from the fashionable uptown apartment houses to the cold-water flats of the lower east side. About half a million New York families, some two million persons, are still living in more than 50,000 "old-law tenements"—houses built before the Tenement House Law of 1901 went into effect, many of which are without adequate fire protection, sanitary facilities, or light and air. However, it might be mentioned (since the matter figures largely in official statistics) that all these housing units, for rich and poor, have modern plumbing, though in some quarters there is a bathroom to each bedroom, and in others, facilities have to be shared among families.

Then there are the rapidly growing suburbs with their spacious homes and gardens in reasonably close proximity to the country clubs, and clustered around the bus and subway lines are the modest homes of the middle-income groups which seem comfortable compared with the shacks on the outskirts of town. A less pronounced range marks the living quarters of different income groups in the smaller towns and villages. When you get out to the country itself, there are the comfortable houses of the well-to-do farmers completely equipped with electric conveniences, and farther on, the rough cabins of those who struggle for a living from marginal or even submarginal land. The age of the pioneers with their log cabins or sod huts has passed, but there is still a great difference between areas, particularly between the North and the South, but less marked in the urban than in the country districts. Urban living throughout the country is taking on a general sameness as between one area and another, though climatic conditions have some influence as, for instance, in the installation of central heating. In Table 17, prepared by Catherine Bauer[4] from the 1940 census materials, some further characteristics of American housing are presented statistically.

From this it will be seen that the greater number of dwelling units, even in urban areas, are detached one-family houses. However, only 38 percent of the urban units were owner-occupied, and it will be seen that even in the rural and country areas little more than half were occupied by their owners; so whether or not it can properly be said to be the "American dream" to own your own home, it is not an actuality. Far the greater majority of families are in the renter, not owner category. However, this does not necessarily constitute a problem. The real problem in the housing situation is just that there are not enough acceptable housing units to go around, that there is a housing shortage.

[4] *Op. cit.*, p. 4.

TABLE 17. Characteristics of United States Farm and Non-Farm Dwelling Units 1940
(82% of residential buildings being of wood construction)

	Non-farm Dwellings			
	Urban	Rural	Farm	All Dwellings
No. of dwelling units (millions)	21.6	8.1	7.6	37.3
Detached 1-family homes as percent of total	68	89	97	81
Needing major repairs	12	21	34	18
Lacking private flush toilet	17	57	89	40
Lacking private bath or shower	23	59	88	44
Without electric light	4	22	69	21
Without mechanical refrigeration	44	61	85	56
Without central heating	42	73	90	58
With more than 1 person per room (not counting bath)	16	23	30	20
With more than 1.5 persons per room	6	11	16	9
Owner-occupied dwellings (as percentage of occupied dwellings)	38	52	53	44

HOUSING NEEDS

The general question, "How does one measure a shortage?" was asked above. In determining housing needs, the agencies concerned have to do a lot of estimating, at any rate between census periods. Taking as a basis that there must be a separate housing unit for each family, the number of families has to be estimated and by localities—a major problem particularly during and since the war because of the high rate of mobility. Moreover, the rate of increase in family formation is greater than the increase in population, because of the decreasing size of the family. But as new families are formed and need housing, others are being broken up for one reason or another, offsetting in part the new demand.

Again the extent of present "doubling up" and room renting by families wanting a separate unit has to be estimated. This, of course, has been a major problem during and after the war, but there was also a considerable amount of "doubling up" during the depression, not because of a lack of housing, measured at any rate by market demand, but because many families could not afford a separate housing unit. In estimating housing need, in terms of active demand, it is not "doubling up" as such that is significant, but the number of families so living who want to get a separate establishment. In

1946, Dr. Leon Keyserling stated: "With every possible resource utilized, there will still be more than 3 million cases of 'doubling up' by the end of the year. This means almost 6½ million doubled up families—and that's almost one fifth of all the non-farm families in the country."[5]

Then the number of total available dwelling units has to be estimated, less those that are regarded as substandard, if the position is taken that substandard units (on whatever basis they are appraised) should not be occupied. Some allowances should also be made for a vacancy rate, say up to 5 percent, to allow for "reasonable choice." On the basis of this kind of estimation, the National Housing Agency declared in November 1944 that about 12.6 million new units would be needed within the next decade or some 1.25 million each year. To the extent that building construction falls short of this goal, a shortage will pile up.

There are various other estimates of the amount of new housing units needed within a year or a decade, these estimates being somewhat colored, no doubt, by the point of view of those making them. Some are made by economists interested in promoting a "full employment economy"; others by the A.F.L. and the C.I.O. looking for maximum employment for building trades employees; some are made by the Chamber of Commerce. Most of these estimates range, however, from about one million to 1.75 million housing units needed annually for about a decade to catch up on a "shortage" accumulating since World War I.

At the beginning of 1946, the New York City Housing Authority tried through the survey method "to determine the exact number of families and persons in need of living quarters here." In explaining the reasons for the survey, the chairman declared that the authority had been studying the problem for some time and had discovered that no one knew exactly the extent of the shortage. He said there had been estimates varying from 40,000 to 500,000 family units. He himself used the figure 187,000 as representing the city's shortage of family dwellings before Congressional committees, but that was based on the 1940 census, and there had been a considerable change in conditions in the city since that time. However, the survey project was not very successful, lacking cooperation from the public.

The housing units estimated as being needed to provide satisfactory minimum conditions are, of course, for people at different income levels with different sums available for housing expenditures. One of the difficulties in the postwar situation of acute shortage has been that well-to-do people who could afford better housing have come into the market for less desirable

[5] *Survey Graphic*, February 1946.

quarters, with pressure downward, so that, at the lowest level, housing formerly abandoned as unfit to live in has been pressed back into service. Of the 1.25 million units estimated by the National Housing Agency as needed annually for the next decade for non-farm families, 360,000 are for the low-income families who cannot afford more than $19 per month in rent; 480,000 are for a middle-income group who can pay from $20 to $39 per month; 420,000 are for those who can pay from $40 a month up, making a total of 1,260,000 families to be served with new housing.[6] This assumes that there is no marked change in income levels.

In a further analysis of these figures, the agency estimates that only 12 percent of the proposed 1.25 million new homes will be needed at more than $7500 or at rents of $75 or more per month; 21 percent at between $5000 and $7500—that is to say, only about one-third of the families for whom new accommodation should be provided can afford housing which costs more than $5000 to build, whether as private homes or as apartment units. But—and this is the nub of the housing problem—the residential building industry has not been able and probably will not be able for some time to come to provide new housing ready for occupancy below $5000 a unit, and for the most part nowhere near as low as that figure. That is to say, only the needs of the middle- and upper middle-income groups can be met on the present basis of housing costs, in relation to the housing budget for each family. Even allowing for wide margins of error in all these varying estimates, it is obvious that there is a basic problem in providing housing at acceptable standards, unless either the costs are brought down, or real incomes increased, or public subsidies are made available, or the standards are lowered. As pointed out above, much of the problem comes from the gap between acceptable or normative standards and actual housing conditions.

WHY THE HOUSING SHORTAGE?

Let us look first at the factors in the market situation from the supply side, which makes it difficult for many consumers to get the kind of housing they want, and feel they must have, at prices they can afford to pay. Why is it that we have not been able to organize the industry on a basis that will make it possible to satisfy, within reasonable limits, people's housing needs as established normatively or according to their own standards of what is fit and proper? As a result, the building industry cannot operate at full capacity and, indeed, the groups involved have come to think and act in terms of an industry of limited opportunities, bound around by restrictive

[6] See Leon Keyserling, *ibid.*

devices, while at the same time one survey after another tries to gauge the extent of shortage in housing facilities.

There are two main aspects of the supply situation to be considered: (1) factors affecting the actual construction of the house; and (2) factors affecting its financing.

Housing Costs

Let us look first at the general distribution of building and financing costs. The main items in cost, under "average conditions," of a house and land in non-farm areas assumed to cost about $5000, were set out by the National Housing Agency in 1944 and are shown here in Table 18.

TABLE 18. Cost of House and Land (each item expressed as percent of total cost of house and land)

			Percent
1. Cost of materials at site-delivered price			45.70
2. Cost of site construction labor			29.50
3. Contractor's and subcontractor's overhead and profit			12.30
4. Total cost of house			87.50
5. Value of unimproved land (including profit on land)			7.00
6. Cost of land improvements (including profit on improvements)			5.50
Total capital cost			100.00
Monthly Cost to Own (assumed cost of house and land is $5000)			
1. Initial cash payments			
Down payment (90% mortgage)		$500	
Closing fees and commissions		100	
Total cash payments		$600	
2. Monthly cost for:	First 25 yrs.	Next 15 yrs.	Av. for 40 yrs.
Interest (5%)	$11.31		
Amortization (25 years)	15.00		
Loss of interest on cash payments (3%)	1.50	$ 1.50	
Taxes (2½%)	10.42	10.42	
Hazard insurance 2/10 of 1%	.83	.83	
Maintenance ($100 per annum)	8.33	8.33	
Total monthly cost	47.39	21.08	$37.52

These figures are average for the non-farm areas of the country as a whole, and although they may not apply to any particular area, they give some idea of the relative importance of different items of construction cost.

These costs, it will be seen, do not include any fees for an architect, or housing consultant, or for a broker if one is used, or various fees connected with the survey and transfer of land; nor do they include various items that

would have to be bought before a house would be ready for occupancy. However, they are adequate to serve as a basis for discussion of the character of the building industry as such, or rather that section of it engaged in residential construction, with which we are concerned here. There is a considerable body of material available on this subject, since the industry has been under investigation a number of times by the Federal Trade Commission and the Department of Justice, and engaged much of the attention of the Temporary National Economic Committee,[7] largely because of the importance of the industry in the total employment situation. Also, many private studies have been made, notably one by the Twentieth Century Fund.[8] "No industry supplying a basic necessity of life," says Catherine Bauer, "has been more perversely geared to either consumption or employment needs."

The industry of residential building is divided horizontally into more or less distinct groups. An important group are the real estate brokers who engage in selling land to prospective home owners, or in assembling various parcels of land for speculative builders and handling the houses they build, or in selling old houses. There are a great number of these brokers doing business all over the country, but though their business is, on the whole, on a small scale, they are organized through real estate associations on the local, state, and national level into one of the most powerful political pressure groups. They were recently indicted, under the anti-trust laws, for fixing rates, and in November 1947, the National Association of Real Estate Boards decided, rather unexpectedly, to plead guilty to the indictment.

The actual construction work is for the most part in the hands of small entrepreneurs. We have been so preoccupied of recent years with the monopolistic practices of big business that it is a check to our thinking to come upon this section of an industry which is under considerable criticism for being small scale, and, therefore, outmoded in an age geared to mass-production techniques. In 1938, according to a survey made by the Bureau of Labor Statistics,[9] an individual or firm erecting as many as ten houses inside a single city was a relatively large enterprise; only 6 percent of the builders were in this category. In cities of 10,000 to 50,000 population about 40 percent of the homes were erected by builders who took out only one permit each

As a result of this comparatively small-scale operation, most builders cannot take advantage of the economies of mass purchasing on a standard-

[7] See T N E C Monograph No 8, *Toward More Housing*, 1940
[8] *American Housing Problems and Prospects*, 1944.
[9] See *Builders of 1 family Houses in 72 Cities*, 1940, p 4

ized basis The small builder usually secures many of his supplies from the retailer, and in some cases the retailers are powerful enough to prevent manufacturers or wholesalers from channeling their products directly to any but the largest operators. Moreover, small builders are in no position to resist the monopoly practices prevalent at other levels of the industry, and the materials field is highly controlled by a few large producers or by many producers organized into strong trade associations, and therefore in a position to refuse their products to groups representing new methods of sale or new price policies. Nor can small builders provide modern land planning or neighborhood facilities.

Since the war there has been a considerable change in the size of building operations, and in a few instances, speculative building on a mass-production basis is being carried on. In large-scale production of houses on a well-organized building site, there is more opportunity for mass production techniques at the site itself as well as for large purchases of products to uniform specifications made possible by the adoption of a few basic floor plans with provision for some difference in external architecture.

With these developments, an increasing percentage of the houses built are being built speculatively, not to order, so that families able to afford the price of such houses buy the finished product and are not involved in the original designs and planning. Most of the houses are for sale, not for rent, and builders, large and small, usually operating on loan moneys, work on a "quick-profit-and-get-out" basis; they are all in for a "quick killing."

Building is still mainly a matter of on-the-site construction and, therefore, subject to weather conditions which makes it highly seasonal and also irregular from day to day. Moreover, the marked cyclical swings to which the industry is subject, expanding when incomes are high, and contracting when they are low, affect the efficiency with which the builder is able to assemble workers for the various operations. Restrictions put by the unions on the training of apprentices add to this problem. Building employees are well organized for large commercial projects but less so in the residential housing field, and indeed, much of the private housing is being built with non-union labor. However, the supply of labor, union or non-union, is affected by the general conditions in the industry.

The builder may act as his own contractor and employ subcontractors for plumbing, electrical fixtures, etc., or himself assemble individual workers for different types of jobs many of which are still on what might be described as a handicraft basis. As a result there has been no comparable reduction in labor costs comparable to what has been effected in other industries by the

adoption of labor-saving devices, and little has been done in the way of "scientific management." Indeed, any trend in this direction has been resisted by the unions as likely to lead to unemployment. This fear of unemployment also leads to many other restrictive practices, some embodied in union contracts and even at times in building codes, designed to protect those already in the industry. It explains much of the opposition of building trades workers, who for the most part are skilled craftsmen, to prefabrication, which, though it would provide factory jobs for factory operators might have disastrous results for the on-the-site worker. Jurisdictional disputes in the building trades are, in general, also traceable to this belief that there is only a limited amount of work to be done, so that each trade comes to regard the right to perform a particular type of work as a "property right."

Trade union opposition to labor-saving devices and other innovations, known as "featherbedding," represents an effort "to prevent the entire cost of technological change from being imposed on a few while the community as a whole reaps the benefit." If labor costs, which according to the National Housing Agency, amount to about 31 percent of total building costs, are to be brought down, some provision will have to be made to ensure a high and stable level of activity in the industry, or else to protect the welfare of workers who bear the brunt of cyclical or technological change.

If total building costs could be reduced so that the housing needs of families at different income levels could be met on a commercial basis, a considerable expansion in construction activity might be expected, which would in turn give more stability to the income of the workers and of the contractors themselves. But the search for stability under existing circumstances, is a factor in keeping costs up and preventing or restricting research into and development of materials and methods of construction specifically adapted to the needs of low-cost housing. Moreover, since each product or class of labor supplies so small a part of the final building, a reduction in its price would be only a slight stimulus to building construction, and would, therefore, increase sales or work only slightly; therefore, no one industry or union is likely to cut prices unless it can be sure that all prices will come down.

Another factor that has to be taken into consideration in the supply situation is the local building codes, the multiplicity and variety of which form a serious obstacle to the standardization of building materials, structural dimensions, and other features of building design and practice. Moreover, as pointed out above, many of the existing codes are antiquated and, whether or not originally adopted in the interests of public safety, have come to be a retarding influence on housing development. Nothing has been said above

about the price of land as a factor in housing costs; this opens up a whole new field of inquiry to which students of the subject have given considerable attention,[10] but which we shall not explore further here.

FINANCING CHARGES. In addition to construction costs (broadly interpreted), the other major factor in housing costs is the financing charges. As noted above, most of the single or two-family houses built in the past have been built for sale, which means that "the burden of financing their capital cost is transferred to the consumer." Since consumers do not, as a rule, have the ready capital for such financing, they buy on an instalment basis; usually they have to make some downpayment. The loan is secured as a mortgage on the property.

Generally speaking, the mortgage is obtained, not from the builder or real estate broker, but from one of the various specialized agencies whose business it is to finance such transactions. The builder gets his cash. As a result of mortgage financing, a whole system of mortgage equities has come to be tied up in the present capital structure of housing. If the cost of new housing were to come down appreciably below the average of, let us say, the last 20 years, it might have a prejudicial effect on the general level of housing values in which so much mortgage capital is involved, including large amounts from savings banks and life insurance companies, on the stability of which the hopes of so many "little people" are based. The housing problem is very complex.

According to a survey made by the Federal Home Loan Bank System,[11] the total home mortgage indebtedness, on one- to four-family non-farm homes as of December 31, 1944, was $19.5 billion. The amount and percentage of this debt held by different institutions and groups in 1944, was as follows:

Type of Mortgage	Amount (millions)	Percent of Total Debt
Savings and loan associations	$ 4,799	24.6
Life insurance companies	2,458	12.6
Mutual savings banks	2,570	13.2
Commercial banks	2,410	12.3
Home Owners Loan Corporation	1,091	5.6
Individuals and others	6,200	31.7
Total	$19,528	100.0

[10] See, for instance, Charles Abrams, *Revolution in Land*, 1939.
[11] Federal Home Loan Bank Release, October 15, 1945.

Since the thirties the federal government has had a considerable influence in the mortgage field in a number of ways Reference has been made above to the establishment of the Home Owners Loan Corporation in the early days of the New Deal, as an emergency measure to help families who were in danger of losing their homes through foreclosure Two other measures of more permanent significance in the early thirties were (1) the Federal Home Loan Bank Act and (2) the National Housing Act In 1932, in an effort to stimulate revival in the residential building industry as part of its attack on the depression, the government acted to free some of the channels of private credit which had become frozen, by instituting a system of Federal Home Loan Banks organized by regions, to operate with respect to the mortgage agencies in much the same way that the Federal Reserve System operates with respect to the commercial banks The various credit institutions that supply home mortgage loans continue to cater to the requirements of individuals along accustomed lines and have recourse to the Home Loan Banks only when they require supplementary short- or long-term advances which are secured by approved home mortgages, this provides a national system of credit reserves

It should be mentioned also that the Federal Home Loan Bank Administration has a "Home Program" of interest to consumers who want to build rather than buy a home, this program provides technical guidance on design and planning of a house and architectural supervision while it is being built, and the house is automatically eligible for F H A. mortgage insurance

Secondly, in 1934 a National Housing Act was passed which, as amended, empowers a Federal Housing Administration 'to insure a wide variety of approved financial institutions against losses that may arise out of home financing" Formerly, a family interested in buying a home (and there was practically no other way to get new housing) could not always get a first mortgage adequate in amount, and so was obliged to take out a second and even in some cases a third mortgage, the financing charge usually being 6 percent discount on the first mortgage, and somewhere from 15 to 30 percent on the second and third mortgage Moreover, mortgage loans were frequently limited to terms as short as five years, involving renewal charges usually on a discount basis

Under the F.H.A. (which does no direct lending) loans will be insured up to 80 or 90 percent of the appraised value of the house, which means the consumer has to find only enough cash for a relatively small down-payment; interest on insured loans is limited to a maximum of 5 percent

(including 0.5 of 1 percent to cover the insurance provision) and the period of amortization has been extended in most cases to 20 or 25 years, thereby eliminating the costly renewal charges. Thus the monthly carrying charges on the house are reduced by extending them over a longer period and the actual charges are lowered through reduction in interest rates which has made it easier for the lower middle-income groups to buy a house. However, the effect on the total capital cost of the house, has not been very significant.

The influence of the F.H.A. has also been felt to some extent in the standards of construction, design, and layout, since it will only insure loans on "approved" buildings and has, therefore, had to work out standards on the basis of which loans would be approved for insurance. Though these standards are influenced by considerations of resale value, they do give the consumer some protection against inflated values. F.H.A. requirements cover the construction and utilities of the building, its design and plan, its neighborhood location, the financing arrangement, and the borrower's ability to pay. Though "the standards are not particularly high, they do make it more difficult for the home buyer to make a seriously unwise purchase."[12] When the selling price is higher than F.H.A. valuation, the buyer ought to beware, and in any case has to make a larger downpayment. There has been considerable criticism of the 5 percent maximum rate under F.H.A. insurance as being too high for insured loans; some agencies make loans at 4.5 percent, which is still considered too high in some quarters.

In estimating the influence of the F.H.A. and the Federal Home Loan Bank Administration on the housing situation, Catherine Bauer writes that they "saved and revived the residential building business, but in so doing they virtually became the professional defenders of, respectively, the speculative builders and the savings and loan associations—that is, the status quo."[13] In all that the government has done in this field, nothing has been done to change the character of the building industry. In the opinion of some authorities, such a change is necessary if the level of housing consumption is to be permanently raised.

TO BUY OR RENT?

One approach to the housing problem is to shift interest from home ownership, which as seen above is only a reality for considerably less than half the population, by shifting interest from mortgage to equity financing. Dr. John P. Dean, a housing expert, has for some years been trying to

[12] John P. Dean, "Don't Get Stuck with a House," *Harper's*, July 1945.
[13] *International Labor Review*, July 1945, p. 15.

check what he regards as stimulated interest in home ownership as a device for shifting the capital cost of new housing, at any rate for single and two-family housing, to consumers, the majority of whom are not in a position to carry it. Would it be to the advantage of consumers if equity capital were induced to enter the housing field in considerable amount so that housing, whether on a one-family or multiple-family basis, could be made available for rent on terms that would give consumers a reasonably permanent arrangement (one of the attractions of home ownership)?

Dr. Dean raises a series of questions:

1. What will be the needs of the family five, ten, fifteen years hence? "When we buy a house we tie a dynamic, changing family to an immobile structure that is incapable of major change . . . somehow the family must keep adapting and readapting itself to the stubbornness of the house's structure, and the implacability of its network of financial commitments."
2. Are we sure that we are ready and financially able to commit ourselves to a permanent residence? Unless the income earner is reasonably certain that he has a stable position which secures him sufficient income to meet all of his housing costs as well as to put aside savings for emergencies, he should beware of committing himself and his family to the burdens and restrictions of home ownership.
3. Are we willing to tackle the legal obligations involved in buying a home? "The current use of the mortgage as an installment purchasing device is likely to obscure the size of the personal debt the family has undertaken . . . the sheriff's gavel may rap out the truth of this with an unpleasant shock."
4. Do we understand what it really costs to buy a home? There is more to it than the downpayment, the interest, and amortization and the taxes. "To keep costs on the one-fifth of income basis usually recommended by home economists for housing," he argues, "a family should buy a home which costs considerably less than twice its annual income."[11]

As a rule-of-thumb measure for determining the maximum capital cost that should be undertaken by families at different income levels, Dr. Dean suggests that they first determine what they can afford to pay monthly for housing (including heat, but not including light and refrigeration) and multiply it by 100 to arrive at an estimate of the maximum price they should pay for a house. He draws attention to many additional costs that must be met before a house is ready for occupancy, in addition to those usually included in the capital charges—possible special assessments, costs of land-

[16] *Op. cit.*

scaping, the necessity for purchasing certain durable goods, and so on. "Actually," he says, "the cost-figure (including mortgage payments and taxes) may represent only one-half or two-thirds of total costs."

It is on the basis of this sort of underestimate, he asserts, that people often buy houses worth several thousand dollars more than they can comfortably afford. One of the results, frequently, is that the family is not able to maintain the house in proper repair so that it depreciates too rapidly, and becomes a factor in the deterioration of the neighborhood. He refers to the argument that in buying a home a family is building up an equity, but points out that the value of the equity is to be measured, not by the amount invested but by the sales value of the property, which is an elusive factor at best, particularly in terms of the future; he draws attention to the millions of people who saw their equity vanishing during the depression. "A realistic hard-headed home-buyer," he says, "will look upon all the outlays for home purchase as housing costs, without counting on his equity too heavily." "Remember," he says, "when the post-war shortage is over, inflated rents will come down, but the costs of owning a home which was bought when prices were high, will remain pegged at the peak and may well prove exorbitant for the quality of housing obtained"—though he recognizes that many families who bought during the war and early postwar period had little choice if they were to have a roof over their heads. He argues: "If it were true that this kind of investment is as attractive as the real estate dealers and builders claim, you can be certain that big investors would put their funds in large scale home purchasing instead of shifting the burden to the little fellow. . . ."

Would consumers benefit if we had a much greater increase in housing units through rental projects, particularly if these were undertaken on a large scale by agencies like life insurance companies which now invest in mortgages, but might, given enough inducement, use the capital for equity investment? Large-scale developments could include single-family homes as well as multiple ones, for those families who want to live in separate establishments. At the same time, they would offer the opportunity for large-scale economies in production, financing, and maintenance. They would also offer the opportunity for neighborhood planning, at any rate within the limits of the project, with more attention to space, sunlight, gardens, and facilities for the care of children than is possible under the small-scale system still predominant in the building field.

This does not mean just the building of a single multi-family dwelling,

existing structures can be converted. Rental housing is needed for these families but it is an area into which it does not pay private industry to enter without a substantial government subsidy.

Assuming that public money is to be put into housing for low-income families, one of the points at issue is whether the government, federal, state, or local, should subsidize private enterprise, or whether it should undertake the job directly. There has been some subsidizing of private enterprise in the rental housing field, mainly through tax exemptions, but generally speaking this has been for the low middle-income group. Advocates of public housing provided directly by government have pointed out on different occasions that the provision of "proper" housing, should be a matter for cooperative relations between private and public agencies, not a question of one as against the other.[15] Solution of the housing problem by finding some way consistent with our social ideals to provide suitable dwelling units for the masses of people at prices they can afford to pay is a task that calls for continued activity on the part of organized consumers themselves.

The National Housing Act of 1937 provides for a cooperative relation among all levels of government in a joint attack on the slums. A Federal Public Housing Authority is empowered under certain conditions to make loans to specially constituted local authorities (the establishment of which usually requires state action), up to 90 percent of the capital cost of housing projects, and also to grant annual subsidies to enable the authorities to fix a rent below cost to low-income families, both the maximum rental charge and the maximum income of tenants usually being fixed.

It is the policy of the federal administration to leave a gap between the income groups who can be provided for on a private profit basis (at any rate theoretically) and those who are declared elegible for public housing projects, both as a challenge to private industry to enter into the no-man's land, and also to minimize opposition to direct government action in the low-rent housing field. Altogether, before the war brought an end to housing construction for civilians other than in-migrant war workers, some 150,000 family units in public housing projects had been completed, and others were being built or under contract. Several factors have slowed down construction under the National Housing Act, apart from the war. For each new unit produced, a substandard one has to be demolished. If the new project is built on the site of substandard houses, the previous tenants have to be rehoused during the building of the project and many of them may not be eligible for

[15] See Klutznick, *Survey Graphic*, January 1945.

the new units. Moreover, slum sites may be on land with a high sales value, out of proportion to its residential use value.

Some experts, such as the former Federal Public Housing Commissioner, Nathan Straus, have supported proposals to have new projects erected on outlying vacant land, where the assembly of suitable sites can be more cheaply, and in some cases more effectively, accomplished; they think that the shifting of population out of the slum areas would in itself be a factor in bringing down the high land values in these areas. Opposition to this proposal has come from different quarters, notably from those who feel that the scattering of population to the outskirts of an urban area, necessitating the building of an entirely new system of utilities is not in the best interests of the community, particularly when existing facilities are in the substandard areas to be abandoned. This is just one of the many controversies that have been a factor in slowing down public housing development.

Urban Redevelopment

To some, public housing should be undertaken only as part of an overall program of urban redevelopment. As cities have expanded and shifts of population have taken place within them, and into the suburbs, blighted areas have become evident, inhabited only by low-income people—"those who could escape having escaped." At the same time, out in the suburbs new housing has gone up in areas without adequate transportation, education, or other social facilities, and unrelated to any general overall plan for development—between 1930 and 1940, for instance, suburban areas gained 16 percent in population, while the cities themselves increased by only 5 percent on the average, and in some cases declined.

Zoning laws represent an attempt at planning on a limited scale, but usually with a view to restricting one area for homes, another for factories, and so on. From the point of view of redevelopment, however, it might be desirable to have residential areas built around factory sites in such a way as to reduce to a minimum the time lost every day in journeying to and from the place of work, and to facilitate the building up of neighborhoods, representative of different groups in a community, with their own educational, cultural, and recreational services.

Model housing should be planned as part of the development of a model community, if we have such a concept, looking to the conditions that best promote the well-being of all, in terms of health, efficiency, and happiness. To this end, trends in population have to be taken into consideration, as

well as trends in industrial expansion, the location of resources, including power and transportation facilities, the significance of new technological factors, and so on "What are Cities For?" was the subject of an address, in 1945, by the Director of the Urban Development Division, National Housing Agency.[16]

One of the difficulties in redeveloping "blighted" urban areas into new community patterns (as distinct from a limited project of slum clearance), is that the price of land in these areas is usually far above its value for residential use Proposals have been made that the federal government should buy much of this land in large reassembled blocks, and take a loss on it by selling it back to private builders at a cheaper price, to develop the areas according to a generally agreed upon plan The increase in taxes, it is said, might well be expected to make up for the loss taken on the land itself

Albert Mayer, an architect, has criticized the piecemeal approach to veterans housing

> Like barnacles on a ship, they will increase size here and there, without fundamentally changing or refashioning anything All the municipal illnesses, illogicalities, delays and traffic snarls will be left untouched, they will, in most cases be accentuated Fundamentally, there is no new thinking, no new planning, no use of this enormous quantity of construction to change our outworn municipal patterns and processes, our tedious and banal environment we know now that our cities are unmanageably sprawling We know and have known for years, that you can't put tens or hundreds of thousands of people and thousands of cars into the center each day and take them out each night without excessive and increasing cost in money, irritation and nervous exhaustion, and yet we keep on trying to do it What we should do and could readily do, is to create new nuclei of manageable size, nuclei consisting of industry, homes, shopping centers and community facilities They should be architecturally, functionally and spiritually satisfying, and all but complete in themselves, tributary for their longer and occasional needs to the central city where are the finest museums, concert halls, super shops and libraries[17]

A considerable number of bills have been introduced (and some passed) at all levels of government for the reassembly of land, usually at a price higher than its value for effective land use, with resale at a lower price The National Public Housing Conference, reflecting the viewpoint of local housing authorities, labor organizations, and liberal welfare groups, has prepared amendments to the National Housing Act which would provide

[16] 'Building the Future City, *Annals*, November 1945
[17] *New York Times*, August 11, 1946

a system of annual contributions entirely separate from those for low-rent housing for the purpose of acquiring and devaluing blighted areas which could then be leased or sold to public or private agencies for redevelopment in accordance with official plans for the area This is one of the provisions in the Taft-Ellender-Wagner Bill, which proposes an overall federal program in its broadest sense

The Taft-Ellender-Wagner Bill, long under debate in Congress, has these aims (1) It would facilitate the purchase of homes for those who want to buy, by lowering the percentage of downpayment required under F H.A provisions, and also the monthly finance charges, both through a lower interest rate and longer period of amortization (2) It would encourage the development of a rental housing program in large units by private investors, both through preferential tax treatment and also (and this is the new idea) by providing "yield insurance," that is a guarantee in some form that those institutions (looking particularly toward life insurance companies and savings banks) who invest their money on an equity basis in rental projects will be ensured a minimum annual return (3) It would expand the subsidized public housing program for low-income people (4) It would facilitate urban redevelopment by subsidizing the price of land to bring it closer into line with land use. The 1948 Congress made limited provision for stimulating private enterprise in residential building through loans and yield insurance, but refused any expansion in the public housing program

As the federal government takes more interest in a housing program, both because of its direct significance in improving housing conditions and also because of its connection with a "full employment policy," the National Housing Agency becomes a more significant administrative unit, stimulating interest in all aspects of the subject, even beyond the areas in which it has direct control and supervision The agency, established in February 1942 by Executive Order to consolidate wartime responsibilities for all the non-farm civilian housing functions of the Federal Government, became the central clearing point for federal policy in the housing field, while actual administration was carried out mainly through the three constituent units, the Federal Home Loan Bank Administration (which as pointed out above provides, among its various functions, for a national credit reserve for home-financing institutions), the Federal Housing Administration (which insures loans made to home owners through private financial agencies), and the Federal Public Housing Authority (which has responsibility for the federal share in low-cost, slum clearance programs). The National Housing Agency has now been established on a permanent basis by Congressional action, and

can be developed into a powerful instrument for national policy. As proposed in the Taft-Ellender-Wagner Bill, that policy would be to cooperate with state and local governments and private industry for the improvement of housing standards generally, including community planning, to meet the consumption needs of the people at a "satisfactory" level.

Rural Housing

A special problem to which we have given no attention, is involved in rural housing, particularly farm homes. As pointed out above, farm houses on the whole are more overcrowded and in worse repair than urban homes, and only a fraction of them have modern conveniences and sanitation. As Catherine Bauer has pointed out,[18] one inherent difficulty in this situation "is the close dependence of farm housing policy on broader agricultural planning issues, such as reduction of tenancy, factory farms versus family farms, abandonment of hopeless submarginal cultivation and resettlement."

Major responsibility for federal policy with respect to farm housing is in the hands of the U. S. Department of Agriculture, not the National Housing Agency, and a remarkable amount of constructive thinking—and action—in this field has been done by the Farm Security Administration, which deserves more attention than we can give it here. With very limited funds and without the guiding light of any governmental experience in the field, the F.S.A. "produced in various parts of the country housing projects that, in economy of construction, in charm of architecture, and in functional adaptability to the purpose for which they were built are unsurpassed anywhere in the world."[19]

[18] *Op. cit.*, p. 22.

[19] See, for instance, T.N.E.C. Hearings, *Small Houses by F.S.A.* Part 31A, 1939, p. 18194.

Chapter XII

MEDICAL CARE

MEDICAL SERVICES

Medical care is a service to consumers which, like any other service, has to be paid for directly or indirectly, if not by those who buy it, then by someone else. Usually when we speak of medical care we are referring to the care of the sick by private physicians; what comes first to mind is the doctor's office, with a waiting room full of patients who for, let us say $3 a visit, will get advice and treatment of a professional kind from a person specially licensed by the state to render such service. He may or may not have a nurse in attendance, or the nurse may be little more than a secretary taking records. The doctor, for a somewhat higher fee may come to the house, and in an emergency situation will come at any hour of the day or night, if not otherwise professionally engaged. He will order drugs on prescription, to be prepared by a licensed pharmacist, for which the patient will also pay. If necessary, and as medical knowledge and techniques become more elaborate this becomes increasingly necessary for certain conditions, he will, or at any rate he should, call in a specialist to advise both on diagnosis and treatment. He may arrange for the patient to be admitted to a private hospital at various rates of charge, or to a public hospital, under certain conditions, without charge.

This is what we usually understand by medical care on what is referred to as a private "fee-for-service" basis, and clearly it is a complex service, the purchase of which involves many special considerations. A considerable amount of medical care is given by doctors without charge in private hospital clinics, and all the medical care given by private doctors in public hospitals is also given free. In fact, all service in a public hospital may be given to a patient free of charge if he is not in a position to pay for it. In such a case of "medical charity," free medical care for the individual patient is the result of cooperative action between private medicine and public in-

stitutions, the latter including not only general hospitals maintained at public expense, but also special institutions for certain classes of patients, as, for instance, mental hospitals, most of which are supported by state governments

In addition to such private care for the individual, attention should be called to the broad field of "public health," supported by public funds, and administered by special government departments, primarily for the prevention of disease and maintenance of health for all members of the community, or certain groups as, for example, children These preventive services are tax-supported

Historically, the curative and preventive fields of health work have been looked upon as something distinct and, indeed, private medical men have shown considerable antagonism to the development of public health services, or at any rate to any extension that seemed to impinge on their curative field To the consumer in search of health as an essential element in a satisfactory standard of living, it is important that an overall view be taken of the problem of maintaining, promoting, and restoring health To the extent that the public health services are able to control epidemics and free the individual consumer from the necessity of paying doctor's bills, buying power can be released for other areas of consumption, and indeed overall buying power is likely to be increased by the greater capacity for work

Public health services are varied and cannot be fully catalogued here Most of the direct service to individuals by government doctors of the public health service is carried on at the local level, with considerable variation from one center to another, but is aimed generally at keeping people well, as in prenatal clinics, or in advising them when they should seek private treatment, as in examinations of school children It is argued in some quarters that this latter work will not bring marked results until correction is added to examination, but this is opposed by medical groups as an extension of government activity into the field of "private medicine" Where the line should be drawn between "public health activities" and "private medicine" is one of the acute controversies of our day.

An important area of public health service in the past has been control of contagious diseases and, more recently, increased attention has been given to degenerative diseases, particularly those of age Indeed, it is through such activity that many of the spectacular advances in health conditions during the last half-century have been brought about, though the appropriations for such work are still deplorably low. This includes educational and promotional, as well as actual administrative, activity for the elimination or

control of conditions that breed disease, not so much social as bacterial, but nevertheless with an increasing recognition of the significance of social factors.

Public health authorities have been an important influence in securing an improved water supply and sanitation system in different communities, compulsory pasteurization of milk, control of food adulteration, and so on, as well as achieving a notable success in the direct control of epidemic diseases through preventive measures. A notable example of effective public health work was given in the spring of 1947 by the New York City Health Department when, as the result of a smallpox "scare," over six million people were vaccinated in about a four-week period, under the general direction of the City Health Commissioner, and through the cooperation of a wide variety of agencies.

The states have residual powers of control in the health field. They delegate certain authority to local governments but always retain the right to intervene if they think necessary, particularly in areas outside the large cities. However, the importance given to public health activity differs in different states. The federal function in the public health field has been gradually expanding. In the past, it was limited largely to the national quarantine, with some funds devoted to research and information; it also maintained a specialized hospital service for the merchant marine. As the program of grants-in-aid for various state and local health services has grown, the U. S. Public Health Service has become much more vigorous in arousing the public to an active sense of need in the health field, as well as taking more supervisory responsibility in connection with the grants-in-aid. From the consumer point of view, public health work is one of the "free goods," not provided through direct expenditures, which can have an important effect on the standard of living.

In addition to the services of private doctors and government agencies in the field of medical care and public health, there are some 20,000 non-profit, voluntary health agencies who collect at least $50 million annually in voluntary contributions from the public. A study of these agencies and their functioning has recently been made, financed by the Rockefeller Foundation.[1] It is impossible to give any generalized account of the activities of these agencies since they cover a wide and varied field—most of them are specialized in interest, as, for example, in the control and eradication of tuberculosis, heart disease, and so on. But it can be said that they aim to improve the state of health of the community largely through promotional and educa-

[1] Selskar M. Gunn and Dr. Philip S Platt, *A Report to the National Health Council.*

tional activities, by fostering research and in some instances by arranging demonstrations, by assisting in public emergencies affecting the general health, by providing charitable aid in the health field to those who need it, or, generally, by furthering any one or more of these activities.

They handle considerable sums of money which, to the extent that it is effectively applied to the promotion of health, is a direct contribution to the standard of living of those who profit by it, and may result in savings in medical expenditures by the individual consumer benefited. The value of the work of the voluntary agencies is unequal, and there has been considerable criticism of overlapping in program and also in fund raising, but there is undoubtedly a role to be played—if only the role of a gadfly—in stimulating public interest in particular areas of "health care," and in the general promotion of good health. A large number of the voluntary agencies have come together to form a National Health Council, with local councils in some areas. The Rockefeller report urges the establishment of such councils in all centers.

No mention has been made so far of dental care, which may or may not be included in statistical statements on medical care, though from a consumer point of view, there is no basic reason for separating the two services, and we shall consider them here as part of the same general problem. Indeed, if dental care were thought of more often in this light it would probably be to the advantage of both patient and the program.

Nor has mention been made of the cost of medicine as part of the cost of medical care. In a study on the cost of medicine made for the Committee on the Costs of Medical Care (1932),[2] it was stated that about $715 million was spent annually for medicines, less than one third of the total being for medicines used or directly prescribed by physicians in the treatment of illness, about half on patent medicines, and the rest on so-called home remedies, the non-secret remedies purchased for self-medication—a considerable part of this expenditure therefore might be considered in direct competition with other medical services. An unfortunate aspect of some of the drug business, in the words of the report, is that the "credulity of the sick, the near-sick and the infirm and the quite general faith of man in his fellows, constitutes the basis of a 'quack' medicine business and is particularly deplorable if it deters people from seeking medical advice in time to give them relief and perhaps cure." The authors of the report recommended that patent medicines as such be abolished through the compulsory disclosure of ingredients. For our purposes here, however, though the effect of drug ex-

[2] Committee on the Costs of Medical Care, Publication No. 14, 1932.

penditures on the quantity and quality of medical care cannot be overlooked, we shall concern ourselves only with such activities and expenditures as are directed or supervised by qualified medical men (and dentists), whether operating on a private or public basis, and in terms of an individual or the community as a whole.

WHAT IS HEALTH?

Medical care is a peculiar service, in that it would be better for consumers if they did not need it; it is not something to be enjoyed for itself as part of basic human functioning. What we need is health, a state of physical and mental well-being that is hard to define and that most of us do not include among our conscious wants as a positive good—we are "afraid of being sick," or we "want to get well" after being sick, but how many of us set before ourselves the goal of "radiant health" as a basic source of satisfaction? "Many people," it has been said, "are more concerned with how they look than how they feel." We do not, one might say, line up for good health, as we did after the war, for instance, for nylons. Indeed, there is a certain sympathy to be gained from a state of moderate ill health, a social concern, which has some advantage in itself, under our existing scale of values, providing it is not offset by anxieties of a financial or other character. In his stimulating little satire, *Erewhon,* Samuel Butler proscribed this sympathetic attitude toward ill health, which was treated in *Erewhon* as a menace to society and those guilty of it as criminal; on the other hand, a moral lapse was regarded as we regard an illness, and word of it received with sympathetic concern, so that in that community one greeted a neighbor, not with our customary, "How well are you today?" (which would be indelicate), but with an inquiry into the state of his morals (which would be indelicate with us). The satire serves its purpose in directing our attention to the importance of good health as a positive goal not only for the satisfaction of the individual but for the well-being of the community as a whole.

In developing and maintaining a condition of good health, medical care is only one factor, and not necessarily the most important, so that a descriptive account of health conditions in a country is not in itself necessarily a test of the quality of medical service. A doctor may help a patient through a serious illness, but he cannot keep him well unless his care is given in association with suitable food, decent surroundings, particularly with respect to light, air, and sanitation—and in an emotional environment that is free of anxieties and generally conducive to a state of well-being. No amount of medical care can ensure health to the "hungry, the cold, and the

sore at heart." The doctor can, perhaps, help the patient compose his mind and relieve some of his fears, but unless the material basis from which many of those anxieties spring is changed, his professional success is limited by the environment in which he has to work. In 1945, the Pepper Subcommittee of the Senate Committee on Education and Labor, in advocating the establishment of mental hygiene clinics, drew attention to the many experts who testified "that full employment and adequate social security are indispensable to a truly effective health program. This is especially so in regard to mental health. There is nothing so detrimental to a person's morale and self confidence as idleness and the feeling that he has no useful place in the scheme of things"[3] It might also be said that the environment is to some extent conditioned by the state of health, since illness has a devastating effect on the level of consumption, both from its effect on income and on the character of expenditures. Of course it is true that even when we have the material basis for good physical health as such, some of us drive ourselves into a condition of anxiety by striving to secure an ever-increasing amount of consumption goods as a means of attaining social prestige. This calls for treatment by a philosopher.

Health, then, is affected—one might even say largely determined—by the level of consumption and by attitudes toward that level, as well as by the quality of professional medical care, the effectiveness of which is conditioned by factors many of which are beyond the control of the medical men. Many doctors of course realize this fact, but one of the difficulties with which, as professional people, they are confronted, is that there is so much specialized learning to be absorbed during and after the period of training that they are not able to acquaint themselves closely with the underlying social forces and conditions which can help or hinder the outcome of their work.

Another matter we must have in mind in examining the service of medical care, from a consumer point of view, particularly with respect to its "adequacy," is the level of health which is to be regarded as "minimal," or "optimal," according to the criteria adopted, and to the establishment of which medical care should contribute—what is the goal to be aimed at? A minimum standard of health and physical fitness was set up during the war for selective service; this was not only far above the actual health level, as evidenced by the large number rejected, but also far above what most people would regard as "acceptable" for civilian life. Not much attention has been given, however, to the consideration of a minimum civilian standard

[3] Senate Subcommittee on Wartime Health and Education, *Interim Report*, January, 1945

to be regarded as tolerable by the community, though some approach to the subject has been made by those concerned with nutrition.

Since we have not set ourselves very clear normative standards in the field of health, we cannot say how many of us are above or how many below a "reasonable health" level. We can describe certain health conditions, but whether these are to be regarded as "fair" or generally satisfactory, is a question to which we have given little thought. What percentage of the population are in the "best of health"?

Health Conditions

There are various ways of measuring the actual health conditions in a community, without saying whether they meet minimum or optimum standards. Among measures most frequently used are mortality rates at different age levels (on which all life insurance business is built), the frequency, severity, and duration of illness from various causes, and the existence of disabling defects of all kinds—defective vision, impaired hearing, orthopedic handicaps, and so on. Mortality rates are easily arrived at, since all deaths have to be officially recorded. It is a very different matter arriving at reliable estimates of morbidity, except in so far as absence from school or work due to illness is reliably recorded and the data made available, or if visits to or by the doctor, or periods in hospital are compiled for use. If you have a bad cold but drag yourself to work, you are not statistically ill, though you might be so recorded if you stayed home—housewives, presumably, are never statistically ill unless they have the doctor. Disabling defects will be recorded if they result from an accident covered by workmen's compensation. Apart from such statistical material as might be made available from such current data, most of our information on health conditions comes from special surveys and investigations; selective service records throw light on the degree of disability among men of military age.

The most extensive health survey was that undertaken in 1935–1936 under the general supervision of the U. S. Public Health Service.[4] Representatives made a house-to-house canvass of some 740,000 families in urban areas in 19 states and of some 36,000 families in rural areas. The objectives were, *inter alia,* to find out how many and what kinds of illnesses disabled a fair sample of the population during a twelve-month period, their duration, and how much medical care the sick person received, the number and type of accidents and whether or not they had disabling results, the amount and

[4] U. S. Public Health Service, *The National Health Survey, 1935–1936,* 1938. For a summary account, see *Who Can Afford Health?,* P.A.P. No. 27 (rev.), 1939.

type of chronic sickness, the relationship, if determinable, between sickness and such social and economic conditions as income, occupation, employment, and unemployment, housing, education, and so on.

There are various ways of expressing the results of such a study, and of deriving estimates as to the health condition of the population as a whole. The survey indicated, for instance, that throughout the country there were, during the year, about 20 million cases of "disabling" sickness, with a minimum of 8 million cases having disability for a week or more. On an average winter's day, it was estimated that there were 6 million persons disabled from sickness and of these probably about 1.5 million were suffering from respiratory diseases, including colds, influenza, grippe, pneumonia, and tonsillitis. More than 23 million people in the country had some chronic disease or physical impairment. One of the main causes of disability was accident—the approximate number of accidents daily (1935–1936) which disabled their victims for one or more days was 30,000. The exact figures are not important to remember, except for their historical interest, since the numbers no doubt change with time and circumstances. They do, however, indicate the general magnitude of the problem of ill health among American families at the time of the survey.

The proportion of those sick on an average winter's day was found to vary widely with age; the aged (65 years of age and over) had the highest proportion of sickness; youth was found to be the healthiest group, particularly those between the ages of 15 and 24; in childhood the proportion was higher, being about the same as that for adults between 25 and 65 years of age. The rate varied also with type of industry, particular diseases being more prevalent in some industries than others—for example, over a seven-year period, the pneumonia case rate in the steel industry was approximately 50 percent higher than in all other reporting industries as a group, and the death rate from pneumonia in 27 iron and steel manufacturing towns was 66 percent greater than in the United States as a whole.

The incidence of sickness was generally much higher among the low-income groups than those with a higher level of consumption, except that in rural areas, particularly the areas with a low average income, the average sickness rate was probably greater among families with a relatively higher income than those in urban areas where medical facilities were generally better. According to the survey, "The gross sickness and mortality rates for the poor in our great cities are as high today as they were for the nation as a whole half a century ago. . . ." Not only was the rate of illness high among families on relief, but non-relief families with incomes of less than $1000

were shown to experience twice the rate of disability of families in higher-income groups

Infant mortality was much higher among low than among higher-income groups, and particularly in rural areas; this fact has a special significance to the community as a whole, since, as the survey indicated, a million babies or about half the total number of babies born, were born to families either on relief or with less than $1000 annual income "A great majority of the mothers of low income families do not receive adequate pre-natal care, yet we know that one half to two thirds of maternal deaths are preventable, and that the death rate of infants in the first month of life could be cut in half" The higher general mortality rate among low income groups compared with others is recognized by the life insurance companies who, as will be explained later, use different mortality tables for "industrial" and for "ordinary" life policies

The National Health Survey emphasized the fact that the amount of medical care declined as the need for it increased not only in terms of money costs but of the number of doctor's visits and so on At the time of the survey, "about two million of the more serious illnesses received no medical care, another two million received care in general hospitals only. . . ." Some people who could afford it hesitated to get early medical aid in sickness, but for the most part the economic factor was most significant

Much of the illness with the attendant disability was preventable, and much could be relieved given good medical care, according to current standards The survey emphasized not only that the infant and maternal death rate could be cut, but that of chronic illness also· "Each year 30,000 cancer victims might be saved with more surgery and radiation Although concerted national effort might almost eradicate tuberculosis, in 1942 this disease killed 60,000 Americans, mostly people in the prime of life."

These general conclusions prepared by the National Health Survey startled those who became aware of them, and led to the setting up of a federal interdepartmental committee to explore the problem and prepare a set of recommendations as to how it might be solved Their recommendations were presented to a special National Health Conference, held in Washington in July 1938, representing various groups and points of view in the health field. Testimony given during the conference was corroborative, generally, of the survey statement as to the health status of different groups in the community. Selective service experience dramatized still more both the prevalence of remediable defects and preventable diseases

The Pepper Subcommittee highlighted this selective service experience in

emphasizing the imperative need of more adequate medical care on some basis that would bring it within the reach of low- and middle-income groups, and in rural areas. The subcommittee pointed out in an interim report, dated January 1945, that the 4 5 million men classified as 4-F were those who were still regarded as unfit for military service after all doubtful cases had been reexamined and were rejectable "under the lowest possible physical and mental standards" for military service. They were much concerned by the high rejection and discharge rates for neuropsychiatric causes, which focused national attention on the prevalence of mental disorders and maladjustments "It has long been known," they declared, "that approximately two-thirds of the illnesses encountered in general medical practice are essentially neuropsychiatric in origin. . . ."[5]

The subcommittee recognized that selective service standards were not necessarily those most applicable to civilian life, but they were impressed by the evidence of widespread defects such as impaired vision and hearing, orthopedic handicaps, and so on; also they were impressed by data concern ing some 1 5 million men who, though suffering from what were considered major defects were inducted and rendered fit for duty after induction—"the success of this program demonstrates what can be done by vigorous and coordinated effort."

The subcommittee assembled data not only from selective service records but from extensive testimony at a series of hearings from various experts in the field. It summarized much of the historical data available on health conditions, emphasizing the loss in industrial productivity resulting from the sickness and accident rate which they described as heavy, though, as students, we have to ask, heavy by what criteria? From Pearl Harbor to January 1, 1944, 37,600 American workers were killed on the job—7,500 more than the military dead for the same period, more than 200,000 workers were permanently disabled and 4.5 million were temporarily disabled. As a result of the heavy sickness and accident rate, in 1943 the average male industrial worker lost 11.4 days and the average female worker 13.3 days of work; by far the greater portion of this loss—80 percent in the case of men and 90 percent in the case of women—being due, it was believed, to common ailments. The total loss was estimated at more than 47 times the amount of time lost through strikes and lockouts of all kinds during 1943.

The subcommittee emphasized the high cost of illness, in terms of actual medical cost, of wages lost, and also of loss in industrial output. And, finally, "Intensive investigation and the testimony of many expert witnesses has

[5] *Op cit*, p 8

convinced the Subcommittee that a great deal of illness and disability could be avoided if the benefits of modern medical and public health science were made readily available in all sections of the country and to all persons regardless of economic status ."

On the positive side of the picture, there has been a considerable improvement, generally speaking, in the health status of the population during the last 50 years, due partly to an average improvement in the level of consumption and of leisure, partly to the more effective control of epidemic diseases, to be attributed largely to progress in medical science itself. For instance, the American death rate has dropped from 17 deaths for every 1000 persons in 1900 to eight in 1944, exclusive of enemy action The average life expectancy has been increased by about 15 years in the same period. This improvement has been brought about largely by a cut in the mortality rate of infants and young children, though it has been reflected throughout the life span

Also, in the past thirty years especially, effective new remedies and public health measures have greatly cut the death rate from certain infectious diseases "Deaths from typhoid were about thirty times more frequent thirty years earlier than in 1943 The death rate was twenty times higher for scarlet fever, six times higher for whooping cough, more than four times higher for tuberculosis, six times higher for dysentery and malaria, three times higher for pneumonia and influenza and fifteen times higher for diarrhea." As a result of these improvements, the most serious diseases are coming to be those not of infancy but of age, and particularly the degenerative diseases—cancer, heart trouble, diabetes, and so on.

THE ECONOMICS OF MEDICAL CARE

To the extent that good medical care can bring about improvement in the health conditions of the people, on the average, and in different age, occupational, and geographic groups, it is in the consumer interest to determine the conditions under which such care can be made available, not only to the well-to-do but to all members of the community—assuming that good health, like good education, is a community asset. What is the proper role of government in this regard?

There are three important factors involved here (1) basic scientific knowledge; (2) the supply of trained personnel and institutional facilities; (3) conditions under which this consumer service becomes available to those who need it, which involves both the attitude of consumers toward medical care, whether, in the first place, they want what they need, and, secondly,

whether they are in a position to buy it or otherwise have it brought within their reach. In the opinion of many students of the subject the latter factor, particularly the economic factor, is the most important and largely conditions the others.

Are our economic resources adequate, whether on an individual or group basis, to pay the costs of adequate medical care, in view of all our other wants? It might well be, of course, that if we put more of our immediate resources into more adequate care, our rate of productivity would increase so much that the result would be more of other things rather than less. If an improvement in the condition of individual health is purchasable, consumers obviously are much concerned with the terms of sale—and this holds even though "good health," by whatever standard measured, is affected by many other factors besides medical care as such.

At the present time, most of the total costs of medical care, broadly defined to include both private medicine and public health work, are met directly from individual disposable income, private patients paying some 80 percent of the total in 1936, government 16 percent, and philanthropy and industry 4 percent,[6] though these figures are somewhat variable with time and circumstances. The total sum spent on medical care (exclusive of drugs) in the same year was about $3.2 billion, or an average of about $30 per person; this represented approximately 4 percent of the national income, most of it for therapeutic services. In 1940 about $4 billion was spent on medical care.

Expenditures on medical care as a percentage of total family expenditures is shown for selected groups in 1935–1936, in Table 10 above. There are special problems involved in budgeting for medical care, as emphasized in a study of medical economics made during the years 1928–1932 by a special Committee on the Costs of Medical Care, set up by a group of doctors and interested laymen. In the first place, as pointed out above, the burden of illness, speaking generally, falls most heavily on those least able to pay for adequate care, low-income families being, on the average, sick more often and for longer periods than those in higher-income groups. There is not only the question of paying medical bills, but also the fact that, in many cases, a wage earner's pay stops when he is away from work, or if he is away for more than a brief period, so that unless he has savings the family has to borrow and can soon be brought to destitution.

A second point is that in any income group the burden of illness falls unequally on different families, or on the same family from one year to another, so that to say that on the average 4 to 5 percent of the family income is paid

[6] See *Who Can Afford Health.*

for medical care is misleading, since probably about 40 to 50 percent of the total burden of medical costs falls, in any one year, on only 10 percent of the population.[7]

A third factor is the unpredictability of illness. Some people are never ill, and some are ill most of the time with some chronic disease, but for the majority of people illness is a hazard that falls occasionally, but unpredictably; moreover, the nature, occurrence, duration, and severity of individual cases of illness cannot be predicted. This means that the variety, amount, and cost of services cannot be foreseen, which makes budgeting difficult or impossible, particularly for families of modest means.

Another factor, emphasized by the Committee on the Costs of Medical Care, was that the overall total spent on medical care was inadequate for good care on an average basis, and they suggested that the average of $30 per person should be raised to about $36 (1929 prices). The actual figure is not of much current significance, but it is important to be able to arrive at some average per capita cost for "reasonable" care, or "good" care, if prepayment plans, now being widely developed, are to be worked out practically, and this is irrespective of whether the bill is paid from individual income, by government, industry, or private philanthropy

There is, at present, a wide variance of opinion and even of experience on the question of average cost for reasonable care, and therefore of the percentage of the national income that would have to be made available for this purpose—this refers primarily to curative measures, since the amount of money that could be spent on preventive work in the field of public health, on a short- or long-time basis, is subject to other considerations. However, we must always keep in mind the fact that additional funds spent on public health work of a preventive character might make it possible to reduce the total health bill, rather than add to it.

Prepayment Plans

In devising ways by which consumers can themselves meet the costs of individual medical care, otherwise than through savings or borrowing, most attention has been given to the advantages of prepayment plans operated on an insurance basis. Though the onset of illness is unpredictable for the individual family, there is a reasonable actuarial basis for determining the average rate of illness that is likely to occur in any large group over the period of a year or longer. Given an average figure for what is estimated as the cost of adequate service and the predicted rate of illness for a group, it is possible

[7] See Committee for the Nation's Health, *Health for the Nation*, 1946

to work out a basis for payments that are, in effect, insurance premiums, which can be budgeted regularly by families who are in a position to meet such costs. "Health insurance," it has been said, "is primarily a method of substituting average for variable costs."

The insurance principle is a "well-tried American way of meeting the hazards of life by pooling risks that can be predicted on a group though not on an individual basis, and prepaying costs, and it is distinctly applicable to health service" This principle underlies a wide variety of prepayment plans that are now being experimented with in the field of medical care This, of course, does not meet the needs of families whose income is already too hard pressed for minimum food, housing, and other consumption goods, or who have no income at all—the so-called medically indigent—unless the premium payments can and will be made on their behalf from other sources, whether industry, philanthropy, or government, which of course is a possibility to be kept in mind.

"The heart of the problem," said the Committee on the Costs of Medical Care, "is the equalizing of the financial impact of sickness" They pointed out that the regular budgeting of income is only possible if the distribution of expenditures can, by and large, be determined in advance Another advantage in prepayment systems is that when medical care is paid for in advance, people are encouraged to seek advice in the early stages of an illness or even on a regular examination basis; though this might have an adverse influence on the patent drug business, it would undoubtedly help to promote the health of the population. There are two main points involved here (1) that "pay ment of medical costs might be arranged for on a basis that will enable everybody to get medical care when they need it"; and (2) "medical care must be good enough to make it worth while paying for when you get it"

There are a great variety of prepayment plans, most of them being limited in coverage; that is to say, they may meet the doctor's bills but not hospital bills (or vice versa), or the bills for certain kinds of illness or accident but not others, or only up to a limited amount, or they may compensate for loss of income while sick without actually meeting medical costs as such.

Some of these plans are on a commercial basis, a number of private companies being active in selling health and accident insurance policies, usually providing compensation up to certain amounts for loss of income, or to meet medical and hospital charges, based on premium payments. A bulletin of the Social Security Board, November 1945, estimates that at some time during the period of 1938 to 1942, about 390 insurance carriers wrote accident and health insurance as a business, the amount of insurance written, estimated on the

basis of a limited survey, having increased from $183,702,000 in 1938 to $326,623,227 in 1942—a considerable part of this increase was due to an expansion of life insurance companies in this field. At present, about eight million people hold indemnity policies with commercial companies.

Since people who tend to take out commercial policies are likely to be those who have special reasons for fearing illness, whereas others will be more inclined to "take a chance," the rates will naturally be much higher than if individuals were accepted as subscribers only as members of a group in which the risks were more evenly distributed. This group basis for eligibility is a prominent feature of most of the larger non-profit schemes. Of course it does not take care of the individual who cannot become associated with an eligible group, but it does tend to reduce the cost for those who do.

A number of prepayment plans have been set up on a non-profit basis by particular industries, or sections of industries, usually only when they are large and well organized, with strong labor unions. These plans differ considerably in coverage, in the quality of the care provided, and in the basis of payment. Some of them are not on a prepayment basis, in the ordinary meaning of that term, since the funds are provided directly by industry, as, for instance, in the garment industries where funds for the health care of employees are set aside by the industry and administered by the unions concerned—the I.L.G.W.U. and the A.C.W.A. Health plans of one sort or another are becoming an increasingly significant feature of union contracts. One of the most dramatized prepayment plans was that established in the Kaiser shipyards and plants on the West Coast, during the war. Under the Kaiser system, "Employees are provided with superlative medical care in their own hospitals at low cost, all of which are paid for by the individual employee subscribers, who join on a voluntary basis. . . ."[8] At the Oakland, California, shipyards, it was said that during the war some 90 percent of the employees were members of the plan.

Health insurance plans for entire industries are attracting attention as a means for ensuring adequate medical (including hospital) care to all employed persons and eventually their families, pending the development of a broader national program. Such plans are said to have a measurable effect on labor turnover and absenteeism, on bringing about higher productivity, and on decreasing workmen's compensation premiums, since experience indicates that healthy workers have fewer industrial accidents and less industrial disease—it is claimed that industrial accidents in factories with health programs have been reduced, on the average, by more than 40 percent.

[8] See Paul De Kruif, *Kaiser Wakes the Doctors*, 1943.

There are also a number of health plans, usually on a limited coverage basis, maintained by unions, fraternal societies, and similar organizations in which there is a certain prepayment feature, even if the whole plan is not operated on a prepayment basis.

CONSUMER COOPERATIVES. Some of the most significant developments in this field are those initiated by consumer groups themselves, either with the aid of existing cooperatives, local medical societies, or interested government agencies, or so on; without some such sponsorship it is difficult for a group of consumers to get together a list of subscribers sufficiently large for the risk to be distributed well enough to make for sound and economical operation. A few years ago sponsoring of medical cooperatives by local doctors was bitterly opposed by leaders of the American Medical Association, but their attitude has been somewhat modified, partly in an attempt to offset the growing demand for compulsory health insurance, discussed below. One of the difficulties here is that long opposition to the principle of prepayment now makes it hard for local medical groups to adopt and promote it with the enthusiasm necessary to carry out an experiment of such significance.

One of the oldest and most interesting of these cooperatives is that in Washington, D. C, set up in 1937 as the Group Health Association. The local A.M.A. tried by various means to restrict the growth of this association and hamper the work of the group of doctors signed up with it, to such an extent that the government brought a charge of monopolistic practice against the A M A. The original charge was dismissed by the District Court in Washington in July 1939, on the ground that the practice of medicine was not a "trade" within the meaning of the Sherman anti-trust legislation, but this decision was reversed by the Appellate Court in March 1940.

One of the largest of the medical cooperatives on a prepayment basis is that in Michigan, which was established by the Michigan Medical Association with the support of the United Auto Workers of America (C.I.O.); it has a present membership of some 800,000. These examples, however, are only illustrative of a considerable amount of activity in this general field.

The Farm Security Administration (U. S. Department of Agriculture) has, for instance, been instrumental in stimulating the formation of medical cooperatives among groups of low-income farm families, most of whom do not otherwise have access to medical care or only in grave emergency. As pointed out above, the general health of farm families is on the whole poorer than that of urban dwellers, and they receive less care, however measured. Health conditions in some rural areas are deplorable, being both cause and effect of the widespread poverty in which a large number of

families are living and trying to raise their children. Public health work is also much more limited than in urban areas. The Farm Security Administration has been concerned with all factors affecting the level of consumption of low-income farm families, of which medical care is one, and has become experienced in various aspects of the problem of budgeting farm cash income for necessary consumer goods and services, and so has come to recognize the importance of developing some prepayment plan for care in unpredictable illness. It has even made available funds from which these families can borrow to meet their payments.

In addition to the medical cooperatives sponsored by the F.S.A. among low-income farm families, other divisions in the U. S. Department of Agriculture have been experimenting with prepayment medical care programs for farm families in the higher-income groups, and have also been directly financing limited care for agricultural migrant workers.

THE BLUE CROSS SYSTEM. A few plans for prepayment for surgical care have been worked out recently, mainly in association with the Blue Cross Hospitalization system. The Blue Cross system has been an outstanding development in the field of prepaid care, though it is limited to the payment of actual hospital bills, exclusive of medical care, with some minor exceptions. In a number of states, non-profit corporations have been set up to establish and operate a prepaid hospital care plan, as, for instance, the Associated Hospital Service of New York, which is the largest, with some three million members in 1947.

The most important of these groups (numbering 85 in 1946) have been coordinated nationally into what is known as the Blue Cross system, and have set up the Hospital Service Plan Commission (with headquarters in Chicago) which establishes standards and acts as a general clearing house. By the end of 1947, there were 28 million Blue Cross members, with the numbers steadily rising, partly as a result of the developing practice among employers of paying hospitalization fees for their employees—these payments, it might be noted in passing, are looked upon as "costs of business," not as an increase in wages subject to personal income tax.

Subscribers to such plans are self-supporting people who in most states are required to join through groups with which they are associated, as, for instance, through a group of their fellow employees, or a farm organization, or a government department; this is a technique for spreading the risks, and some plans which started out with individual subscribers have now adopted the group system. In some areas, under certain conditions, individuals who have no group association are permitted to join. Under most of the "Blue

Cross" plans, provision is made for the prepayment of hospital expenses in semiprivate rooms, for a limited period, with a certain reduction in rates for a longer period of time; the plans vary in detail and may provide for all or part of the laboratory fees and other such expenses during the hospital stay. As noted above, they do not provide for medical care, though in a few instances prepayment for surgical care can be arranged through a subsidiary organization at a higher rate The basic rates for hospitalization insurance on a group basis under the New York plan in 1947, were as follows individual $12 per year; husband and wife, $26 40, family $32 64 This provides for 21 days semiprivate care for each different ailment, with a reduction in cost for longer periods and an allowance for private room care, it covers bed and board, including special diets, general nursing service, use of operating room and equipment, laboratory and x ray examinations, drugs and medicines, oxygen administration, and use of anesthetic supplies and equipment

In 1946, the Blue Cross plans in the United States paid out $141,354,949 to hospitals, for more than 2,500,000 patients

HEALTH INSURANCE PLAN OF GREATER NEW YORK. The most ambitious prepayment plan providing for overall coverage for medical and hospital care is the newly organized Health Insurance Plan in New York City, which, though not officially sponsored by the City of New York, was "fathered" by Mayor La Guardia, and has had the active support of a number of leading members of the city government State legislation has been passed, authorizing the city government to set aside funds to contribute on a half-and half basis for its employees who elect to enroll under the plan A cooperative arrangement has been worked out with the Associated Hospital Service which makes possible complete care on a single subscription basis

The Health Insurance Plan (HIP) is a voluntary prepayment plan, worked out on an insurance basis, for "the purpose of bringing to the people of the city the fruits of the most successful experiments in the distribution and application of modern medical care" It is administered by a nonprofit corporation with a medical board charged with responsibility for medical matters.

The benefits of the plan at present are available to New Yorkers employed in organizations which contract with the HIP. Employees earning up to $5000 (and in some cases up to $7500) are eligible but they can subscribe only through their employee groups, and providing 75 percent of the group with which they are associated join up—75 percent of all employees in a firm, or government department, or any recognized division or branch of it, if approved by the HIP. The 75 percent must include a minimum of 25

people On termination of employment, an employee may continue as a subscriber under certain conditions. No physical examination is required. There is no age limit and no waiting period before receiving compensation. Spouses and unmarried children under 18 may also be included.

The distinctive features of the scheme are:

(1) The all-inclusive service. It offers "complete preventive, diagnostic, and therapeutic medical and surgical care in the home, office, and hospital, including maternity and infant care, immunization and refraction, laboratory work, X-ray and physical therapy"; hospitalization is through joint arrangement with hospitalization insurance plans, as noted above. A significant provision is for a visiting nurse service—this should make it possible for hospitals, under certain circumstances, to discharge their patients earlier.

All illness and physical disability will be covered, including conditions existing at the time of application for membership, except for conditions requiring long-term psychiatric treatment or long-term institutionalization, drug addiction, acute alcoholism, and purely cosmetic surgery. No dental care, drugs, or appliances are included under the plan as originally set up, though it is contemplated that the coverage will be extended at some future time. Dental care is recognized as a tremendous problem, and no one seems to have a plan as to how to handle the great volume of accumulated dental neglect. When H.I.P. starts in on dental care, it will probably be limited at first to children.

(2) Another important feature of the plan is the provision for group practice by physicians. Cooperating physicians are required to form integrated groups, each group consisting of about 25 doctors including some 13 general practitioners and the rest specialists in various fields, aided by qualified technical personnel. The plan is for each of these groups, either immediately, or at a not-too-distant date, to work out of a medical center equipped with required diagnostic and therapeutic facilities—and promoting teamwork for the patient's benefit. The H.I.P.'s medical groups, recognizing the part emotional and mental factors play in illness, plan to include the services of consulting psychiatrists to help the family doctor meet these problems. At the end of February 1948, 25 groups were already functioning in the metropolitan area.

All licensed physicians in New York City are eligible to affiliate with, or form, a medical group to care for H.I.P. subscribers. The groups must meet professional standards set by the H.I.P.'s Medical Control Board and must agree to give service of the specified scope and quality. Some of the medical groups which have been organized to care for H.I.P. subscribers are centered

at hospitals or medical schools, with a nucleus of physicians from the hospital or medical school staff. Others are independent groups who are setting up their own centers or are still operating out of their own individual offices. In all cases the groups are self-organized; as new groups are organized, the number of subscribers can be increased.

In emphasizing the importance of group practice, H.I.P. representatives point out, after referring to the noted success of group practice at the Mayo Clinic and other such centers, "Because the great scientific advances made in the last half century have rendered modern medicine so complex, specialized, and costly . . . no solo practitioner, practicing in isolation, can alone give his patient the comprehensive care the family doctor undertook in medicine's horse and buggy days. Only when collaborating with his colleagues in other fields of medicine, with full access to the fullest and latest in medical equipment, facilities and technical assistance (as is the practice in leading hospitals) can the modern practitioner bring to his patient the full advantages of present-day medical developments and advance. . . ."

Many doctors recognize the inadequacies of the present system of individual practice, even though most of them are associated with hospitals or clinics in one way or another. Overspecialization means that during the course of a single year, a patient may receive from several different specialists services which are not coordinated by a family physician. The present system involves waste of time and facilities and puts difficulties in the way of continued education of medical men in new techniques, etc. In their recent report, *Medicine in the Changing Order,* the New York Academy of Medicine supports the principle of group practice, and suggests, particularly to urban doctors, that they organize into voluntary groups for this purpose.

Dr. Michael Davis, director of the Committee on Medical Economics in New York City, who is a leader in the drive for a comprehensive national health program, says: "Numerous studies have shown that through well-organized group practice under a prepayment plan, about twice as much physician's and auxiliary service can be furnished for the same total expenditures as people are accustomed to spend for comparable services supplied in the same community through individual practice paid for on a fee-for-service basis."[9] Group practice would also serve as a check on individual doctors against the kind of abuses that have developed from time to time in connection with workmen's compensation.

With respect to the doctor-patient relationship under H.I.P., each subscriber is free to choose any medical group affiliated with the plan, within reasonable

[9] *Survey Graphic,* December 1944.

geographical limitations. He is free to choose any general physician within the group as his family doctor. He may change his physician or his group as he wishes. The H.I.P. policy is to emphasize the importance of the family doctor-patient relationship for truly effective medical care. "The family doctor becomes the key man of the medical team . . . all records go through his hands and through him the specialist's services also become more personalized."

The costs of the plan are met by premiums, based on careful calculation of the overall average cost of inclusive medical care (exclusive of hospital care) as determined by various component factors estimated as follows:[10]

Component	Rate per Person
Capitation to medical group	$19.20
Indemnity for emergency care	.50
Visiting nurse service	.40
Contingency for care of patients with rare and unusual diseases	.55
Administration	4.50
Legal reserve	1.05
Total	$26.20

It was decided to prorate the additional costs for families in excess of three over all subscribers, so that the basic annual rate as set initially was $29.04 for a single person, with roughly corresponding increases up to three persons. To this was added the cost of hospitalization insurance in New York, under the Associated Hospital Service; if a subscriber had paid up already on this insurance at the time he enrolled in H.I.P., an adjustment was made.

The basic H.I.P. rate of $29.04 has been slightly modified for employees of the New York City Government (which pays half the cost). Payments by city employees covered by the plan, worked out on a monthly basis (at half cost) for both H.I.P. and A.H.S., in February 1948, are as follows:

	One Person	Parent and Child	Couple with No Maternity Benefits	Family of 3 or More (with maternity benefits)
H.I.P.	$1.26	$2.47	$2.47	$3.69
A.H.S.	.54	1.03	1.13	1.41
Total	$1.80	$3.50	$3.60	$5.10

Employee contributions are made through pay roll deductions. The principle of employer contributions of at least half the overall cost has been

[10] See Neva R. Deardorff, "H.I.P. of Greater New York," *Social Service Review*, August 1947.

adopted partly as a practical necessity, to bring the plan within the reach of low-wage and low-salary groups; and partly because of the value to industry, now recognized by leading businessmen throughout the country, of adequate medical care for their employees.

Under the H.I.P., each medical group will be paid an annual fee for every enrollee who selects the group and for his dependents, at a basic per capita rate of $19.20 per year, with certain additional sums for special circumstances. The members of the group will share this revenue as they decide. Such an arrangement encourages preventive medicine, since the rate will be paid whether the subscriber is well or sick. It has been estimated by H.I.P., that a group of about 25 doctors should be able to care for 20,000 persons, with about 1400 for each general practitioner who works full time for the plan. Group doctors can also take private patients and workmen's compensation and veterans' cases, if they have time. On a full-time H.I.P. basis, a general practitioner should make about $10,000 gross income.

At the end of the first year (February 1948), with the plan only in its initial stages, there were 116,000 persons covered (men, women, and children), serviced by 646 doctors, operating in 25 groups. As yet, none of the various proposals for bringing the medically indigent under the H.I.P. has been put into effect, and this is one of the reasons why the cooperating doctors are resisting proposals to offer coverage to those earning over $5000 a year, since it is from this group they have to get compensation for their free services to the indigent.

In the report, *Medical Care and the Family Budget,* prepared for the National Conference on Family Life (May 1948), Dean A. Clark, M.D. and Neva R. Deardorff, Ph.D., of the H.I.P., listed a series of ten criteria of a good plan for prepaid medical care as the prime things for which to look and to provide in any realignment of medical economics.

1. Since nobody knows in advance the kind of illness that he or his dependents are going to have, all types of acute and chronic conditions must be covered, with the exceptions clearly stated. These may properly include the ones for which public responsibility is now fully established, as in the case of Workmen's Compensation cases or the long time care of the mentally ill, or those that involve no health issues, as the correcting of cosmetic defects, or those that still defy planning for adequate care, such as dentistry, the total need for which among adults could not possibly be met by the existing supply of dentists.
2. A high quality of care must be guaranteed. Quality has to do with both the competence and the interest of physicians, with the use of specialist services,

hospitals, visiting nurses and with the coordination between family physicians, specialists and the auxiliary personnel

3. The amount of the remuneration to physicians must be large enough to attract and hold men who, though they love the practise of medicine, also want to do right by their own families
4. The system of remuneration must be such as will give physicians incentive to prevent disease and promote health among the persons and families in their care
5. The plan must be set in such a way as to achieve a maximum of working together among physicians in arriving at a diagnosis, in treatment planning and in carry through and a minimum of waste in medical and technical services and of patients' time and strength.
6. The family must have reasonable opportunity to choose the doctor that it wishes as its family physician, with freedom to change for cause.
7. The charges should be levied and paid in such way as to facilitate family budgeting and low administrative cost
8. All questions pertaining to medical competence and the performance of physicians must be left to medical authority which should be organized and equipped to deal adequately with the medical questions brought to the attention of the administrators of the service.
9. The whole of the organization must be alive to the importance of medical education and prepared to cooperate with medical educational services.
10. Ultimate responsibility for the operation of the economic aspects of the service should rest with a group composed of physicians, direct consumers and a goodly proportion of representatives of the public interest.

COMPULSORY HEALTH INSURANCE. Despite the impressive character of some of the voluntary prepayment plans, however, and their rate of growth in the last year or two, they still protect only a relatively small proportion of the population, and for the most part, except for the H.I.P. of Greater New York, are limited in coverage. Many of the plans are available only to persons who are members of certain recognized groups, and even for them, individual eligibility is conditioned by the willingness of the group as a whole, or a significant proportion of it, to subscribe. This does not apply to commercial policies but they are, generally speaking, expensive and beyond the reach of the masses. Moreover, most voluntary plans have a flat fee for each class of subscriber, regardless of ability to pay, though employer contributions in many cases make good medical care possible for all their employees. Otherwise, for most families of low and moderate incomes, membership in a prepayment plan, even when such is available, means a shift in the pattern of expenditures which they find it difficult to make, be-

cause of the pressure from what seem more urgent wants As a result, there has been increasing support among consumer groups for compulsory health insurance based on the principle of ability to pay, that is, with rates fixed as a percentage of income rather than on a flat rate basis This would ensure comprehensive health care for all members of the population

Compulsory health insurance has become one of the most controversial issues in Congress during the last two or three years; the principle is embodied in the Wagner-Murray-Dingell Bill, detailed below. Arguments for and against this proposal were collected and presented to the Senate Committee on Education and Labor in a report issued December 4, 1945, by the Pepper Subcommittee [11] Students should certainly make themselves acquainted with this report It might be pointed out here that the principle of compulsory health insurance has been approved by the International Labor Office for adoption by all member-states

Some advocates of compulsory insurance favor state plans, but those proposals which have become the center of public controversy contemplate an overall federal system, available both to employees and the self-employed, with central supervision and decentralized administration. In favor of a federal system, it is argued that in a population so mobile as that of the United States, this is more suited to the needs of the people than separate state systems. Moreover, through a federal system it is possible to establish uniform standards throughout the country whether a state is relatively poor or well-to-do, distributing costs according to the capacity of the people to bear them, while at the same time providing equally good medical care in all areas, or at any rate to the extent that it is dependent on economic factors. Since the risk would be spread among all the people, the financial burden on any one person would be proportionately less These proposals do not necessarily involve the organization of doctors for group practice—in fact, most of those presented to date do not include these features But whether medical care is given through group practice or otherwise, proponents of the compulsory insurance plan argue that the quality of medical care would improve [12]

Every doctor "would have equal access to costly equipment, specialists, laboratory tests . . . every patient would have equal access, regardless of financial status, to the best that medical science can offer; doctors' average incomes would increase. . . ."

Such a scheme, in the opinion of some of its supporters, should be avail-

[11] Senate Committee Print No 2, 79th Congress, 1st Session, December 1945.
[12] *Ibid*

able to all people, though some would make it compulsory only for employees; it should also provide for complete coverage for all types of care. The prepayment feature based on the principle of insurance—the principle of pooling risks to reduce the financial burden of unpredictable illness—is supported as being "in keeping with the desire of our people to pay their own way as far as possible." It is proposed generally in connection with plans for compulsory federal health insurance, that the cost be paid for employee subscribers on a 50–50 basis as between employers and employees, as in the case of the old-age insurance system now in operation—indeed the new proposals might be regarded as an extension of the social security principle already adopted for aged employees coming within the federal system.

In fact, the Social Security Board has formally approved the principle of compulsory health insurance, which was discussed at some length in the board's 1946 annual report, where it was pointed out that the United States is one of the very few industrial nations in the world that does not have a system of prepayment for medical care as part of its social insurance system. This principle, they point out, has already been adopted in all states, except Mississippi, in connection with accidents on the job, most employers in commerce and industry being required to pay the cost of treatment for injuries incurred at work, which is arranged usually through insurance. In fact, "Workmen's compensation under which about $150 million was spent for medical care in 1945, is the only prepayment plan in the country covering any substantial group of workers on a compulsory basis."

The board emphasized the difference between compulsory insurance and "socialized medicine" about which there has been considerable confusion. The phrase "socialized medicine" is used with different meanings, but generally it can be said to be a system of medical care available on the same basis as education is available today. Proponents of this plan argue that since education is a foundation stone of democracy, all children, regardless of social or economic status, should have access to the same general level of education through free, tax-supported schools, by teachers who are on the public pay roll; and correspondingly, since good health is also a national asset, all people, not only children, should have equal access to good medical care on a free, tax-supported basis by doctors on the public pay roll, as are our present public health staffs. Essentially, it would mean an extension of our public health services to absorb all areas of health care, therapeutic as well as preventive.

Socialized medicine would not necessarily mean good medical care (though

free), any more than socialized education has meant good education in all areas. There would still be underlying conditioning factors such as the general economic situation, the availability of good medical practitioners and facilities, the importance set by the public on good medical services, and the cooperation of all parties involved The only country in which socialized medicine on an overall basis has been established is Russia, and there is very little support for such a system in the United States, though it is the method by which we take care of military personnel and veterans and is the basis of public health work

While proponents of socialized medicine argue that compulsory insurance does not go far enough, others oppose it for going too far Officials of the American Medical Association, and particularly Dr Morris Fishbein, editor of the *Journal of the A M A*, have bitterly opposed all proposals for compulsory insurance for medical care In view of the apparent trend of public opinion in favor of some organized system for prepayment of the costs of medical care, the A M A. is now supporting voluntary schemes sponsored by local medical associations, which it formerly opposed A subsidiary organization for limited medical service (United Medical Service), has been set up to promote this development, which will include cooperation with participating private insurance companies

Lobbying against compulsory insurance, as embodied in the Wagner-Murray-Dingell Bill, has been carried on mainly by a specially organized National Physicians Committee for the Extension of Medical Service, largely composed of leaders of the A M A, and financed in part by some drug and appliance manufacturers. Opposition by the manufacturers is explained, in part, at any rate, by a statement of Professor E Boas, which draws attention to the wide discrepancy between the manufacturing and retail costs of most drugs ". . . patients pay a minimum of $1 for prescriptions which a New York City hospital compounds for an average of 31 cents . . . under a comprehensive national health program, the sick will obtain such products less frequently over the counter, more frequently from their doctors, in clinics, or during hospitalization "[18]

The National Physicians Committee has distributed a great quantity of leaflet material explaining its general position—some of this material is handled by retail drug outlets It argues that a government system of medical insurance, and particularly a compulsory system, would inevitably bring government interference into the practice of medicine with a resultant deterioration in the quality of medical care; it would interfere with the free

[18] *Ibid*, p 83

choice of doctors by the patients and result in loss of confidence, which is a basic factor in therapeutic treatment. As a matter of fact, the confusion between compulsory insurance and socialized medicine, referred to above, is present through this whole argument—for instance, a recent statement of the retiring president of the New York County Medical Society,[14] directed against current insurance proposals was in fact an attack on socialized medicine. He assailed "government medicine," charging that government care now available fell far short of "decent standards"; he declared the "plight of many state institutions for mental and nervous patients is fast becoming a national scandal"; the pay of professional people on government rolls, he said, is "totally inadequate" and represents "a sad commentary upon state medicine and socialized medicine as evidenced in New York City"; there is no encouragement, he said, to continued experimentation and improvement, which is essential if a high quality of care is to be maintained.

While noting the opposition of the A.M.A. to compulsory health insurance, it should be pointed out that there are groups of influential doctors who are supporting it, notably the Physicians Forum, a "national society of physicians for the study of medical care," who have taken pains to emphasize that compulsory insurance as a system for meeting the costs of medical care, removes the financial burden of sudden illness both from the patient and the doctor.

In considering the *pros* and *cons* of compulsory health insurance, it is important to distinguish between a system of paying for good medical care so that it can be brought within reach of the mass of people, and the control of the professional practice of medicine as such. The setting up of standards of medical practice to ensure the quality of care, at least on a minimum basis, involves both a consideration of the standards to be applied and by what agency they are to be applied, and whether, for instance, it is to be under the control of medical men, or persons approved by them.

It should be mentioned in this connection that there is, under present circumstances, a regrettable laxity in some areas, both in setting up and enforcing standards, whether by a government agency or by representatives of organized medicine itself. Dr. Hugh Cabot of the Mayo Clinic said at the National Health Conference in 1938:

> The maintaining of standards of medical practice by the medical profession as at present organized has been grossly unsatisfactory. . . . The profession is quite incapable of enforcing its own standards. It can punish gross dereliction; it cannot keep lazy, shiftless people up to a standard, and doctors are going occasionally

[14] *New York Times*, May 1946

to fall below a proper standard I admit that they are a preferred group, they are wonderful people, but you will find some of them who are a bit lazy, you know, and a bit something else, so that at times they become almost human . . any extension of medical care paid for by the government is going to require training of a group of paid government administrators, a group for which at the present time this government has made no provision . . Is it possible in a highly commercialized environment to maintain a service organization on a competitive basis?[15]

In the words of Dr. Michael Davis "The problem before the democracies is to work out a plan so that the organizing principles of service and profit can both operate"[16]

Availability Of Medical Care

The various proposals for meeting the costs of medical care on a budgetary basis, generally assume that an adequate supply of such care is available or could rapidly be brought into being through trained personnel—doctors, nurses, pharmacists, laboratory assistants—adequate institutional facilities—hospitals, clinics, laboratories—and by expanding medical research But apparently this is far from being so The most thoroughgoing survey of United States medical practice to appear since that of the Committee on the Costs of Medical Care, is a study recently reported by the New York Academy of Medicine,[17] which was prepared through a committee of physicians and laymen The academy did not give its approval to any plan of compulsory health insurance, it saw greater possibilities in voluntary prepaid schemes, but was not prepared to approve any particular form of prepaid, full coverage insurance "to be applied as suitable for all sections of the country," partly on the ground that we are not professionally equipped for it. There are marked inequalities in the availability of care between different states, between urban and rural areas, and between income groups Conditions, they point out, are very heterogeneous from the point of view of medical facilities, with respect to both doctors and assistants of all kinds, and hospital facilities tend to be concentrated in the cities and wealthier districts of the country. The shortage of hospital beds in many areas of the country, particularly in the poorer rural areas, whether measured by population or by estimated need (as distinct from ability to pay), is very serious and would no doubt become even more marked if hospital insurance coverage were to become general;

[15] *Health for the Nation*, pp 20–21
[16] *Survey Graphic*, December 1944
[17] *Medicine in the Changing Order*, 1947.

to meet this shortage not only must new hospital buildings be provided, but also funds for their operation and the necessary maintenance staff. The Pepper Subcommittee paid considerable attention to the present distribution of medical facilities and their adequacy to meet the increased load that a general system of health insurance would undoubtedly throw upon them (since the amount of medical care on an average basis which people now receive is generally agreed to be inadequate in terms of need). After referring eulogistically to the high quality of American medicine at its best, they pointed out that good medical practice today requires a concentration of skilled personnel and equipment that is found only in good hospitals, medical centers, and group clinics.

Some 40 percent of our counties with an aggregate population of more than 15,000,000, have no registered hospitals. Many of the counties with hospitals have poor ones, even though they are registered. The subcommittee referred to a study conducted by the American Medical Association which showed that only 2 percent of the population did not reside within 30 miles of some hospital, but said this did not indicate the quality of the institutions, whether or not they have vacant beds, whether or not patients are financially able to use them—some hospitals, for example, which have vacant beds are too expensive for those who need them—or whether racial barriers or legal requirements concerning residence prevent their utilization by all who live in the vicinity.

The U. S. Public Health Service estimated in 1944, that facilities were needed for 100,000 new hospital beds for general patients, 94,000 for neuropathic and mental patients, and 44,000 for tuberculosis patients. In addition, 66,000 general beds, 97,000 nervous and mental disease beds and 16,000 tuberculosis beds were said to be situated in hospitals that were obsolete and should be replaced. The Public Health Service emphasized also the need for mental hygiene clinics to serve all groups, with special child guidance clinics.

Further, the Pepper Subcommittee reported that medical personnel are unequally distributed throughout the country. Many doctors in some areas are not fully employed, even when there is great need for their care; in other areas there are too few doctors. Studies show that the distribution of physicians is influenced by several interrelated factors—community purchasing power, adequacy of hospital facilities, degree of urbanization, proximity to medical schools and teaching hospitals, and the presence of professional colleagues; the wealthier rural areas are better supplied than are the poorer rural areas, but even the wealthiest group of rural counties in 1938, had 30 percent fewer physicians in proportion to population than the urban

areas with the same per-capita income. In 1944, 18 percent of the counties had less than one active physician for each 3000 population. This is particularly serious, since a large percentage of our child population is being brought up in areas where facilities are poorest. According to the report of the New York Academy of Medicine, infant mortality was one in ten in New Mexico, where a quarter of the births were unattended by physicians, and half occurred outside hospitals. The rate was only three in a hundred in Connecticut, where virtually all births occurred in hospitals and were attended by a physician

With reference to the increasing need felt by doctors for the use of institutional facilities, the subcommittee referred with interest to the growing trend toward setting up "medical centers" for preventive, diagnostic and therapeutic services: "Such a center furthers group practice by physicians, surgeons and dentists; encourages experimentation and research; and stimulates dissemination and exchange of medical knowledge." They reported favorably on a plan submitted by the Surgeon General of the U. S. Public Health Service for the development of a coordinated network of four basic types of medical center facilities—the small neighborhood or community health center, the rural hospital, the district hospital, and the large base hospital, as part of a general construction plan.

STATUS OF MEDICAL RESEARCH. In addition to personnel and institutional facilities, adequate medical service depends on continuing research, funds for which are at present deplorably low. Dr. Howard Rusk, medical correspondent for the *New York Times,* has stated[18] that a total of about $20 million is available for medical research (including sums spent by government, private foundations and voluntary organizations), compared with $30 million available to the U. S. Department of Agriculture to investigate the cause and cure of plant and animal diseases; about $275 million is being spent on industrial research.

In a statement supporting the principle of compulsory insurance, Albert Lasker gave a figure of $25 million as the overall total for medical research, but again emphasized the great disparity in size between funds available for medical and other research. He "learned to his amazement that instead of many millions being spent annually for cancer research as he had supposed, the largest amount spent by private interests in any one year was less than $600,000, and by government only $500,000. Contrast this total," he said, "with the $9 million now going to Mexico to eradicate foot and mouth disease in cattle." He went on to say that "medical care is almost the only transaction

[18] *New York Times,* June 29, 1947.

in the world where the consumer is considered out of turn if he expresses any opinion on how the trade should be made"[19]

The state of dental research is perhaps even weaker than medical "Today," declares Dr Michael Davis, "we are probably putting out less than $100,000 a year to discover the causes or means of controlling mouth diseases, though we spend over $400,000,000 annually to palliate them . at that we do only a fraction of the job It is stupid to continue to cultivate the dental arts without promoting dental science Only our brains can save our teeth."[20]

What are we willing to pay for health research? In a Gallup poll taken in 1946, 87 percent of the people polled were in favor of the government appropriating $100 million for cancer research, and 72 percent were even willing to have their taxes increased to make this possible Why can't we go all out, asks Dr Rusk, for a long range medical research program to include the problems of cause, prevention, and treatment of disease and new techniques for training and rehabilitation of our handicapped? Here, as in other fields of research, the problem arises as to who is to reap the financial gains from new medical discoveries, particularly discoveries made at public expense with respect to drugs and appliances which are then produced by private companies, and sold at a price which keeps them beyond the reach of the masses of people This, however, is part of the general problem of financing medical care, for a satisfactory solution of which we need a new sense of the importance of our human resources, and a willingness to invest in them to build a better future, and as an essential step in improving the standard of living

As Dr Rusk points out, expanded research will have to go along with an increase in trained personnel and institutional facilities, since research only becomes significant as it is applied And this, in turn, involves the setting up of some system whereby the cost of such care can be met by those who need it, or on their behalf This includes not only some effective system of prepayment, but government subsidies, for instance, for the construction of hospitals in poorer districts where local resources are inadequate to carry the cost of establishing and maintaining them We have to remember that we can only establish an effective system of medical care after medical services have been made available—though the availability of such services will be increased, if not immediately, then after a necessary period of training as the economic problems are solved

INADEQUACY OF PUBLIC HEALTH SERVICES. In addition to provisions for

[19] *New York Times*, July 12, 1947
[20] *Survey Graphic*, January 1946

increased facilities for preventive diagnostic and therapeutic care of individuals, there is need for an expansion of general public health work, primarily of a preventive character. Federal grants made available under the Social Security Act have led to an increase in the number of local public health services, though nearly 40 percent of the counties still lack a full-time public health officer, and existing departments need extra funds to be able to expand activities, particularly into the fields of tuberculosis, venereal diseases, malaria, and other preventable diseases, food and milk sanitation, industrial hygiene, maternal and child health, and health education, as well as control of filth and water-born diseases.

Representatives of the U. S. Public Health Service declared before the Pepper Subcommittee that 2400 modern structures were needed to serve as headquarters for local health departments and priority should be given for materials to bring the public health work out of "the musty basements of county court houses and city halls to modern and well-equipped buildings where the health officer and his staff could efficiently carry on their very important functions."

The Sanitary Engineering Division of the Public Health Service, reported, as the result of a survey into the sanitation facilities of 78 million persons in 5800 communities, that "more than 2 million persons living in communities of over 200 population, have no community water supply systems and 79,000,000 have systems needing improvement . . . more than 6 million persons in towns and cities need new sewerage systems; over 79,000,000 need improved systems; and only about 6,500,000 are served by adequate systems at present."[21] The report declared that "loans and grants for improved sanitation facilities would pay big returns in better health for all the people and in civic improvement throughout the nation." At a cost of millions, "we can save billions."

LEGISLATIVE PROPOSALS

There have been a number of formal reports and proposals on an overall national program designed to promote health and bring medical care within the reach of all people as the realization grows that "our physical and mental health is perhaps the nation's greatest asset"; that "the time has come to marshal the complete resources of modern medicine and place them at the service of all the people."

One of the most comprehensive of these programs was contained in a

[21] *New York Times*, July 6, 1947.

report of the Interdepartmental Committee of the U. S. Government which was set up, following the National Health Survey of 1935–1936, to prepare recommendations for a health platform. In this task, the Interdepartmental Committee had the advice of a special technical committee which it set up. The recommendations included expansion of public health services, extension of hospital facilities, particularly in small town and rural areas, better provision for the "medically indigent," consideration of "a comprehensive program designed to increase and improve medical services for the entire population" (without giving specific endorsement to any particular plan), and insurance against loss of wages during sickness, both for temporary and permanent disability.

This five-point platform was presented to the National Health Conference, representative of all interested groups, which met in Washington in 1938, and was generally approved, except that the American Medical Association made clear its position against health insurance. At this conference both branches of organized labor gave their support to the principle of compulsory health insurance. "Clearly," said Dr. Hugh Cabot of the Mayo Clinic, during the conference proceedings, "there is rising here today the evidence of a movement of tremendous power, a power which compels us to recollect the fact that the center of gravity of the thinking of this country has shifted and has shifted permanently."

In November 1945, President Truman proposed to the Congress a five-point program, including the construction of additional hospitals and related facilities, the expansion of general public health and maternal and child care services, governmental aid for medical education and research, the prepayment of medical care costs through a comprehensive health insurance program, and protection against the loss of wages from sickness and disability. In supporting such a program, he was no doubt considerably influenced by the findings of the Pepper Subcommittee. The President's statement was the "first full-length Executive message on the subject in American history."[22] "Millions of our citizens," he said, "do not now have a full measure of opportunity to achieve and enjoy good health. Millions do not now have protection or security against the economic effects of sickness. The time has arrived for action to help them attain that opportunity and that protection."

Health programs are incorporated in a number of bills before Congress, the two most important at the time of writing being the Wagner-Murray-Dingell Bill, and the Taft Bill; these represent, to a considerable extent, opposing points of view.

[22] Social Security Board, 1946 Annual Report.

THE WAGNER-MURRAY-DINGELL BILL

The Wagner-Murray-Dingell proposals have been before Congress in one form or another for a number of years, and have been modified from time to time. In the National Health Bill, introduced in 1945 (S. 1606; H.R. 4730), about which most of the controversy has centered, provision was made for a broad program in the field of health, including: (1) grants-in-aid to the states for public health work generally (grants to be administered by the U. S. Public Health Service), maternal and child health services (grants to be administered by the Children's Bureau), and medical care of needy persons (either through money payments direct to needy individuals or to persons or institutions furnishing care, or through a prepaid personal health plan (the grants to be administered by the Social Security Board); (2) establishment of a system of compulsory insurance with universal coverage —all employees in industry and commerce (except railroad workers), agricultural and domestic workers, employees of non-profit institutions, self-employed persons, and recipients of retirement or survivor's benefits would be covered, and also their dependents. The medically indigent could receive health service benefits if the public agencies responsible for their care arranged to make payment for that purpose.

Under the proposed system, all necessary preventive, diagnostic, and curative services by a general practitioner, laboratory and specialists' services, and hospital care up to 60 days a year, or 120 days if funds permit, would be provided; limited dental and nursing services would be provided at the outset of the plan, with further development of these benefits as funds and personnel became available. It is important to note the emphasis given in the national health proposals to preventive as well as curative service in the treatment of the individual, showing a converging interest in these two phases of the attack on ill health.

Every eligible person would be allowed to choose his physician, group clinic, or hospital from among the physicians and institutions participating in the plan. No physician or institution would be required to participate and physicians would be free to decide what patients they would treat. Physicians would be paid out of the insurance fund to be created, according to one of four methods as a majority of the physicians and dentists in a local area elected, with provision for negotiating payment to individuals or groups who preferred some other method. To ensure competent personnel, grants would be made to non-profit institutions for medical research and the training

of doctors and other health workers, with emphasis on training of returned servicemen.

The system was to be financed from a Health Service Account to be created in part through the appropriation of funds consisting of a tax of 3 percent on wages up to $3600 a year of workers in covered employments, half to be paid by the workers and half by the employers, plus an amount to be estimated by the Surgeon General as representing the cost of dental and home nursing benefits for the preceding year; also funds were to be raised in different ways to cover persons in other categories as the self-employed, needy persons, and so on. Provisions for financing the system were not included in the 1947 version of the bill; costs were still estimated at from 3 to 4 percent of earnings up to $3600 a year, but it was felt by the sponsors that separate legislation should be introduced to provide for the establishment of the necessary Health Fund, once the principle of the national health program was approved "Congress will no doubt want to hear from the public as to how those costs should be met, and how distributed among workers, employers and government."

The bill contemplated that the system would be supervised by the U. S. Surgeon General with the advice of a special board, but that the actual administration would be decentralized with a considerable degree of local responsibility, in line with overall national standards.

The 1947 version of the bill took more account than did the earlier ones, of arguments advanced by those who are genuinely concerned to ensure adequate medical care for all but are fearful of the "gigantic machinery needed for the administration of such a program with its myriad complexities." For instance, it gave more specific recognition to voluntary prepayment plans, group service organizations, voluntary hospitals, and so on, and to the diversified conditions throughout the country. In every locality a committee representing the people who receive service and the doctors and hospitals that furnish it would be established to work with the medical and administrative officials; similar committees would be established at the state and federal level. Actually. the national government would do little more than collect the money and set up minimum standards to be followed by all doctors and hospitals.

Provision was also made in the bill for grants-in-aid to the states for construction of hospitals and other facilities. Apart from the benefits of such direct grants, however, proponents of the bill pointed out that the guaranteed payment on an insurance basis for hospital patients would relieve the

financial insecurity under which many hospitals operate and as a result give them the necessary encouragement to improve and expand their facilities.

The bill made no provision for compensating employees for wages lost through sickness, though that was contemplated as part of the general national health program; it was to be provided for by a separate measure, possibly through an extension of the Social Security Act as such.

The Taft Bill

The Taft Bill, referred to above, did not include a compulsory insurance feature—to which in fact its sponsors were opposed. Its main provision was an appropriation of some $200 million as grants-in-aid to the states for medical care services to families of low income, with some grants for periodic examination of school children, and for the remedying of certain dental defects.

No provision was made for increasing public health services of a preventive character other than this limited program in the schools, or for education and research, except for some dental research, and no provision for assistance in the training of personnel. The bill would appropriate some funds as grants-in-aid to the states for the preparation of state-wide health, medical, and dental care programs, based on a state inventory. One provision of the bill to which attention should be drawn would establish a national health agency in which all health activities of the federal government would be grouped, and which might become a constituent unit of a separate department of health, education and welfare, with cabinet rank, if such a department were established.

The great divergence of opinion with respect to an overall health program is illustrated by the history of a Commission on Medical Care set up in New York State to advise the governor on this subject. After 15 months of study, the 19 members of the commission submitted, in February 1946, five separate reports. The main report, signed by only 9 of the 19 members, opposed any plan financed on a compulsory basis, declaring that it would cost "at least $400 million a year to provide overall medical care and hospitalization"; the signatories of this report said they were of opinion that this "sum represents too great an expenditure to be imposed on the people of the State, either directly or indirectly through government authority, until there has been more experience in the field of medical and hospital insurance."

In the meantime, while this issue is being thought out and fought over,

the consumer must budget his expenditures as best he can, making as good provision for the purchase of medical care as is possible under existing conditions of the market for medical service, and in view of the demands of other areas of consumption as reflecting the current scale of preferences. Medical care cannot be looked upon as a substitute for food, clothing, housing, and so on, and the consumer must determine what distribution of expenditures, under existing conditions, will yield optimal satisfaction now and in the future, meanwhile bringing a consumer point of view to bear to effect desired changes in "existing conditions."

Chapter XIII

LIFE INSURANCE

In buying life insurance the consumer is confronted by a set of problems distinct from those encountered in other areas of expenditures. From another point of view, however, like any other commodity or service, life insurance varies in quality and price and should be shopped for. Except in the case of savings bank insurance (and National Service Insurance, which is of significance only to veterans), it is sold mainly through agents, so, in practice, shopping for life insurance means finding a good agent and asking what he has to offer. Since it is not easy for the inexperienced consumer to identify a "good" agent, perhaps it would be wiser to find two or more agents and compare their proposals. Usually, the agent is the one to take the initiative, soliciting business. There are often considerable sums involved, as well as peculiar emotional factors; so buying insurance is worth a special shopping effort.

More than half the people of the United States carry one or more life insurance policies of one kind or another, for which, in 1945, they paid more than $5 billion, exclusive of National Service Insurance. During the same year they received, in one form or another, nearly $2.7 billion. The average percentage of disposable income spent on life insurance is relatively small, about 5 percent, though it varies greatly from one family to another; it also varies from one period to another, having been higher during the depression when people tried to hold on to their policies, despite the fall in national income, and lower during the war when, though there was a very marked increase in insurance, it was at a less rapid rate than the increase in national income.

Though the percentage is relatively small, the overall sums involved are large and, in fact, life insurance companies have come to control such tremendous resources, the stated assets of the "legal reserve" group in 1945 amounting to $45 billion, that they have become a dominant factor in the

economy. The subject of life insurance is, therefore, of importance not only with respect to the living conditions of the individual family, but also to the proper functioning of the economy as a whole.

THE PRINCIPLE OF INSURANCE

Life insurance is only part of the general field of insurance, and the underlying principle is the same, whether it relates to health, accident, fire, or so on. It is in essence an organized system by which regular payments can be made, on an actuarial basis, by a large group of persons, into a joint fund from which sums can be drawn to meet all or part of the costs of a particular hazard which may or may not occur to any one member of the group, but is likely to occur to some of them, or to all of them at some time. Loss of property due to fire or theft or other hazards, or loss of income from illness or accident or unemployment, may never occur at all for any particular individual; as distinct from this, death will occur, but the timing of it is uncertain, and if it comes during the productive years of life, it will involve not only great emotional loss but also financial loss to dependents, quite apart from the expenses incident to death itself The certainty of death but the uncertainty of its timing, creates special problems in this field of insurance.

There are various ways other than insurance for meeting unpredictable losses. One, of course, is just to take the risk and do the best possible if and when the loss occurs Some people have the feeling that to prepare for an unpredictable disaster is to invite its occurrence Others save for a "rainy day" But for each person or family to save enough to meet such emergency expenses, should they occur, would mean a prodigious total of savings which, as a matter of fact, the mass of people are not in a position to make. To some extent, of course, there is a pooling of resources among all members of a family group when any one of their number suffers a loss, though in a society such as ours, where the family has tended to separate into small units particularly under conditions of urban living, there is perhaps more of a feeling of not wanting to be "a burden" on the family group, rather than of security in having the family group "to fall back upon." The anxiety attendant on the threat of financial insecurity in the loneliness of a vast city is particularly oppressive.

Another way to provide for losses due to unpredictable hazards would be for organized society to take care of such emergency costs as prove too much for its individual members to meet. To a limited extent this is now being done. Part of the federal grants-in-aid to the states, for instance, are

available for the support of widows with children for whom no other financial provision has been made. Old-age pensions, as distinct from old-age insurance benefits, are made to the indigent in most states, with federal support, though the amounts paid are small, and such help is sometimes given in a way that is not conducive to the self-respect of the individuals affected. Our social mores are such that we tend to look askance upon the recipients of non-contributory benefits as a "burden" to the group as a whole, though admittedly our attitudes are not consistent. Education at public expense, for instance, has come to be looked upon as a right, though burial at public expense is a disgrace.

Organized social security, on a contributory basis, to make some provision for old age and for dependents, is a recent development in the United States, and is limited both in coverage and in benefits paid. Under the federal old-age insurance plan, amendments, passed in 1939, provide that when an insured worker dies before his old-age pension becomes due his widow will receive immediate benefits providing there are minor children to be cared for, or otherwise will receive a pension on reaching age 65. That is to say, the principle of social insurance to include so-called survivor benefits has been adopted, but with limited coverage and payments that are "minimal" in amount—too small in fact to provide what would generally be regarded in this country as a minimum level of consumption. How far an extension of such payments under social security would affect the system of private life insurance is a matter of conjecture. In some countries social insurance is much more extensively developed than here.

Up to the present time, the customary way in the United States of providing for last debts and/or protection for dependents has been through the life insurance system operated by private companies under state supervision, and this system has been rapidly expanding, more rapidly indeed than the increase in population. Life insurance held by people in the United States represents much the greater part of all life insurance in the world. However, as noted above, other people have other means for taking care of at least some of their losses.

The development of an insurance system calls for a high level of financial organization, an economy which is considered reasonably stable, and generally a community with confidence in their political and social future. Otherwise, it would be better to keep what little one could put aside in a stocking under one's bed or around one's person. The building up of great companies with assets counted in billions of dollars reflects an extraordinary confidence by the mass of people in their social institutions. A person will take out a life insurance policy with complete confidence that sometime

within the next 50 years or so, on his death, or at a stipulated time, the face value of the policy will be paid to his dependents or to himself. This confidence depends mainly on the security of the funds, and on the maintenance of money values.

The security of the funds is protected by state laws under which life insurance agencies operate. Companies must be of a certain size so the risks will be better distributed, reserves must be set aside in a calculated amount, on the basis of actuarial computations, to guarantee that the company will be able to meet its obligations under its outstanding policy contracts as they fall due. There is also some control of the channels of investment for insurance funds.

With respect to the maintenance of money values, one of the most powerful arguments used by the government against inflation during the war was the importance of maintaining confidence in the value of insurance and other contractual obligations. However, as we have noted above, the postwar period proved other factors in the economy to be more powerful. But this postwar inflation does not seem to have undermined confidence in the insurance system.

Essentially, life insurance involves a promise on the part of the insurance company to pay a sum of money at some future time, providing the consumer makes certain prepayments in the form of premiums over a stipulated period, but the conditions surrounding the promise are bewildering in their variety and the consumer has, in fact, to choose between a large number of different plans. All provisions affecting the insurance purchase will be contained in the contract, a closely printed legal document which, as required by law, contains the entire agreement between the parties.

Additional policies can be taken out, or existing ones dropped as the circumstances of the family change, so it is not only a question of making a purchase at one time but of programming to insure the best insurance status continuously in view of income, family responsibility and so on. Buying life insurance is not a transaction that is completed at any one moment, except under certain special circumstances; it is a continuing obligation to pay the stipulated premium for a fixed period of time, in some cases throughout the policyholder's entire life, if the policy is to be kept in force.

INSURANCE COSTS

The premium is based on actuarial calculations. From prepared mortality tables, it can be predicted that out of every 1000 persons, say aged 35, a certain number will die during the ensuing year, though it is not known which

particular persons these will be. For instance, under new mortality tables (1941 Commissioners Standard Ordinary), which came generally into use in 1947, the calculated death rate at age 35 is only 4 59 per 1000. Thus, if 1000 people at age 35 pay into a fund enough to meet the losses of less than five of their number, payments can be made in the agreed amount to take care of the loss of those who actually die.

The calculated mortality rate will determine the number of death benefits expected to be paid out of the insurance funds; but the calculated rate may differ considerably from the actual rate Until the new mortality tables came into use, the companies, speaking generally, based their rates on a mortality table determined in 1868, with some modifications. There has been a considerable decline in the actual death rate since that time which is only now being reflected in the calculated rate. In 1868, for instance, the calculated rate at age 35 was 8 95 per 1000, as compared with the new rate of 4.59. However, the average decline in the actual death rate has come mainly from a much larger decline in the rate for the younger age groups. These groups have, therefore, in the past been paying too much, relative to other groups, for their insurance

Use of the new tables will not necessarily bring about a lowering of average premium payments, however, because the interest earned on invested funds, another factor in insurance costs, has been going down, and the gain on mortality has been used to offset this decline in company income. The chief effect of the new tables will probably be a relative decrease in premiums for those who take out insurance while young, compared to those who take it out at older age levels; that is to say, there will probably be a realignment of rates rather than a decrease in their average level.

Another factor in costs is the use of the so-called uniform or level insurance premium which has been generally adopted, despite certain criticisms. This can perhaps best be illustrated in the following way. The lowest death rate in the past has been in the age group from 10 to 12 years, and after that it has gradually increased, so that presumably the premium would increase year after year, steepening rapidly from the fifties on. However, this is not the practice, the premium being calculated on a uniform or level rate throughout the life of the policy, being higher than actually necessary in the earlier years, if one takes out a policy, say, at age 21, and lower after one reaches a certain age. For a number of years, therefore, an insured person is really making savings through the premium which will be used to maintain the uniform rate as he gets older.

This cash reserve earns interest at the declared rate and, providing the

policy has been in force a certain period of time (which differs with different types of policy and different companies), the insured can withdraw this sum if he surrenders his policy It also, under certain circumstances, forms a basis for loans, though the insured, in borrowing money against these values, has to pay declared interest on the borrowed funds since they are part of the invested assets of the company. These reserves, however, are only incidental to the life insurance program and are not to be confused with the "savings" element that forms an essential part of the so called "endowment" policies This will be better understood after a consideration of the various types of policies that can be purchased

TYPES OF POLICIES

There are a great many different types of policies, varying with respect to benefits, rate and conditions of premium payments, the availability of the cash reserve, provision for various "settlement options" on maturity of the policy, and so on, but they can be generally classified into three main groups term, whole-life, and endowment policies

Term Policy

A term policy is obtained, speaking generally, after medical examination, except in the case of "group" insurance It provides benefit payments for dependents in the event that the insured person dies within the time specified in the contract—these policies may be written for a one-year, five-year, or even ten year period, and, in exceptional cases, for example, Ohio Farm Bureau Cooperative insurance, twenty-year terms are provided for. If the insured outlives the stipulated period, no money is payable, and sometimes a person is indignant when he realizes he has paid money out for a period, and, as he says, "got nothing out of it" This, however, shows a misunderstanding of the whole principle of insurance. During the period, presumably some of those insured in his age group did die, and the money he paid in premiums helped to provide benefits for their dependents; had he been one of the group to die, his dependents would have benefited.

The term policy is the cheapest form of protection if taken out at the younger ages, however, each time it is renewed (if it is renewable) the rate goes up because the insured moves into the higher age brackets where the risk of death increases. Moreover, a new medical examination may be required, and as a person gets older this may prove to be an obstacle. Usually term policies are not renewed after the age of 60 or 65. Some term policies are renewable without further evidence of insurability (that is, another

medical examination). If the term contract is written for a considerable period of years, cash values may accrue (from the level premium basis) which can be withdrawn if the policy is surrendered, though usually there is no loan value

Such a policy (particularly if renewable without further examination) is well suited to the needs of a young person on a low income which he hopes will increase as his family grows; it is also convenient for a person who wants to make special provision for payment of a mortgage debt within a limited period of time and so on It is important, however, as with all types of insurance, that the consumer be clear as to the provisions of a contract (its quality features) and also its net cost, before signing one.

Whole-life Policy

Whole-life policies, as the name implies, provide benefits for dependents whenever death occurs, providing premium payments are kept up. A medical examination may or may not be required before such a policy is issued, according to the circumstances under which it is taken out—for example, it is not required in the case of "industrial insurance" (see below). After a given period of time, which differs with different types of policies, cash values accumulate and can be withdrawn or may form the basis of loans The basic reason for such policies, however, is protection for dependents, and the cash and loan values should be regarded as incidental. Competition in the sale of life insurance policies has at times led to an overemphasis on these values and so diverted attention from the real function of life insurance However, an insurance contract does offer a good security against a loan, which is usually available for an unlimited period of time and at a lower rate of interest than could be obtained from the cash-lending agencies; as a student once said, it is a "clean, safe, quiet" way of borrowing. However, if the loan cannot be repaid, the policy itself is jeopardized.

Premiums on whole-life policies can be paid annually throughout the life of the insured (in which case the policy is usually spoken of as "straight-life" or "ordinary-life") or arrangements can be made to complete payment within a specified period of time, though the policy continues in force throughout life. These limited-payment policies are favored by those who feel that their present earning power is greater than it will be as they get older and they would prefer to pay higher present rates and be freed of payment later on. In some instances, only one lump-sum payment is made; or payments may be made for ten or twenty years.

ENDOWMENT POLICY

The endowment policy combines the principle of protection with a savings plan. It provides benefits in a stipulated sum for dependents in the event the insured dies within a specified period of time (the maturity date), and at the end of that time, if he is still alive, it will pay the same sum to him either in a single payment or on an annuity basis, or as otherwise provided for. Endowment policies planned to mature at retirement are usually referred to as "retirement policies," and if they are taken out on an annuity basis, as "retirement-income policies." The rate is, of course, considerably higher than for a policy with the same face value on a term or whole-life basis, and if the insured should die within the life of the policy, the dependents would nevertheless get only the face value, the savings element being lost. Had the insured made his savings separately from his life policy he could have carried his policy for life, drawn his savings when he needed them and still have left both policy and savings for his dependents in case of death.

Nevertheless, endowment and retirement-income policies have increased in popularity, particularly in recent years The savings feature of the endowment policy appeals to some people who want to make provision for their old age, or want to have a sum of money at a particular time, as, for instance, when a child is ready for college, or a loan is due, or so on. They prefer this method of saving, since they find it difficult to save without the compulsion that is felt to inhere in a contractual obligation Moreover, insurance companies have generally paid a higher rate of interest on moneys entrusted to them than savings banks (though it may not differ appreciably from that payable on government bonds), so that if the insured wins his gamble with death and lives to enjoy his savings, he does reasonably well for himself; if he loses, his dependents suffer an excessive financial loss.

From a consumer point of view there is much to be said against this form of saving. In a *Buyer's Guide* (1945), the Massachusetts Savings Bank Life Insurance Council declared "Well-trained, conscientious agents seldom recommend endowment insurance which matures before the age of retirement." The council was particularly critical of endowment policies taken out on children for "college education," particularly when it is an alternative to a larger policy on the father's life, or when the percentage of current income going into insurance is "too high." It might be argued that the savings banks would naturally be opposed to the development of a savings

system by the regular life insurance companies, in the same way these companies have opposed the expansion of savings bank activity into the life insurance field. The points made, however, should be carefully considered by consumers who have to budget their income to secure maximum satisfaction within its limits.

Most of the benefits payable under these various types of policies can be taken out as a lump sum, or provision can be made for payment according to any one of a number of settlement options under which income payments from the principal are made, while the principal is left for investment with the company. If such arrangements are not made in the contract it may provide that such options can be selected at the time the policy matures. It is important for the purchaser of life insurance to look carefully into these "quality" factors before signing the contract.

Another classification of life insurance policies can be made according to the circumstances under which they are written, and in this connection they are usually referred to as ordinary, industrial, or group insurance.

Group Insurance

Group insurance, the newest of these classifications, first written in 1911, expanded rapidly during the war years, partly as a substitute for wage increases which were restricted by government. Under this system, insurance is arranged for a group of employees, usually not less than 50, through a master contract, with certificates for the individual policyholders. Premiums may be paid by the employer, employees, or both on a contributory basis. Medical examinations are waived. These policies are generally of the renewable term type and do not carry any cash or loan values; premiums are calculated according to the age and occupation of the employees covered, but the employees all pay the same amount regardless of age; usually each policy has a face value amounting to about a year's income.

This is the cheapest system of life insurance, as protection for dependents, that is available (exclusive of national service provisions), and should be taken advantage of wherever possible. It is important, however, for the individual employee to find out whether or not his policy can be converted into other types if he leaves his present employ, and without further evidence of insurability (medical examination); usually such conversion can be arranged.

Many group policies provide for disability as well as death benefits and in some cases give broad coverage including hospitalization, accident, illness, medical and surgical expenses, and retirement annuities. It should be under-

stood that death benefits payable under this system of private group insurance are supplementary to survivor benefits now available under the social security system to the dependents of insured persons who die before their retirement pensions become due.

At the end of 1945, there were 36,000 organizations insured under group life insurance through the legal reserve companies, covering some 12 million workers Death benefits paid out in the same year amounted to more than $171 million. In addition, group contracts are being taken out in increasing numbers through the savings bank life insurance plan.

Individual policies, as distinct from group insurance, are either in the ordinary or "industrial" classification Of recent years, the distinction between ordinary and industrial policies has become less marked and some companies are now writing what they refer to as "intermediates," which to some extent bridge the gap between the two. The significance of this development will become clearer when the nature of the criticisms that have been made against industrial insurance is explained later.

Ordinary Policies

"Ordinary" policies (whether of the term, whole-life, or endowment type) are those taken out directly by the insured with a life insurance company or the company's agent on an individual basis, usually after a medical examination, and in terms of a face value of units of $1000, premiums being payable on a quarterly or annual basis directly to the company's offices. Some regular insurance companies are beginning to sell $500 policies and to make provision for monthly premium payments to meet the needs of lower-income groups—these are the so called "intermediate ordinaries." Ordinary policies account for about two-thirds the face value of all legal reserve insurance, but less than one-third the number of policies.

Industrial Policies

The so-called "industrial" policy, first written in this country in 1875, was developed originally for the low income, wage earning group who were not in a position to buy from the larger "ordinary" classification. Some of these people were members of fraternal societies or burial clubs of one kind or another which made provision for death payments, but these organizations were at times in an insecure financial position and, in any case, were limited in their range. There was, therefore, a real need for some form of protection for dependents of low-income earners, if only to meet the costs of burial of the

deceased, particularly when these costs increased after the process of embalming became general during the latter part of the century.

In 1945, there were more than 104 million industrial policies in force in the United States, some policy holders having more than one contract. These policies differ from the "ordinary" type, chiefly in that they are written out for smaller amounts, the face value usually being fixed in terms of a premium payment of five cents or ten cents a week or fortnight. The average value of the policy is between $200 and $300; in 1945 it was $274. This type of policy is usually thought of as providing benefits at the death of the insured (hence the term "burial insurance"), though increasingly the "savings" aspect has been featured, and "endowment" policies have become increasingly popular on an "industrial" as well as on an "ordinary" basis. Some of these policies also provide disability benefits. Mortality tables used for industrial insurance are different from those used for ordinary insurance, since the mortality rate is higher for low-income groups.

The premiums are collected at the door by the insurance agent, so that the overhead expense is considerably higher than for the ordinary policy—in more recent years discounts have been granted by some companies handling this type of insurance, for premiums paid directly to the company offices, some of these payments being made on a monthly basis. Usually an industrial policy has no loan value, and cash values only accrue after three or five years, if at all, the practice being to recover all the costs of selling the policy first. Industrial policies are for the most part written without a medical examination, and since the mortality rate among the low-income class is higher than among the middle-income group, the risks assumed are greater and therefore the costs are higher. As in the case of consumer credit, so with life insurance, it is very expensive to be poor.

The policies are sold through agents, who, in many cases, are part-time workers and not always so well trained as those handling ordinary insurance, though some of the larger companies, following T.N.E.C.[1] disclosures in 1939–1940, have been trying to improve the situation.[2] These agents are under pressure to "produce," which in turn results in high-pressure selling techniques and the "overloading" of policies on policyholders who are frequently not well informed as to the terms of the contract and their significance—this,

[1] T.N.E.C. Committee members were surprised and concerned to learn from the testimony of one official of a large life insurance company that out of approximately 4000 contracts with whole-time agents employed during the calendar year 1938, 1636 were terminated, the principal cause for termination being lack of production, and that from a study made by that company, over 49 percent of the whole-time agents working in a metropolitan area earned $1200 or less and 31.4 percent of the agents earned $750 or less. T.N.E.C. Monograph No. 28.

[2] See a special circular of the Securities and Exchange Commission, *The Agency System*, February 9, 1940.

of course, is quite apart from the fraudulent operations of the so-called "twisters" against whom the Better Business Bureau warns the unwary consumer. The T.N.E.C. estimated that there were 100,000 agents selling industrial insurance in the United States of whom about 40,000 were employed by the Metropolitan Life and the Prudential Corporation alone, each operating in an assigned territory.

There is a heavy lapse rate in industrial insurance—the lapse rate indicating the discontinuance of policies before cash surrender values become available, or without claiming such values; if cash values are claimed the policies are "surrendered." As a matter of fact, relatively few weekly payment policies are ever carried long enough to be matured as a death claim, or even to yield cash surrender values (and often consumers are not aware they can claim these values even when they are due). Lapses are related closely to general conditions in the economy. The ratio of policies lapsed and surrendered to mean policies in force in selected years was:[3]

Year	Ordinary (percent)	Industrial (percent)
1925	6.62	14.19
1932	11.93	27.91
1939	5.41	14.47
1945	2.19	7.68

It will be seen that in 1932 the lapse and surrender rate for industrial insurance reached the staggering proportion of 27.9 percent; it continued high throughout the depression. The lapse rate is particularly significant because of the fact that for many low-income families their industrial policies represent their only savings. The situation with respect to lapses during the thirties occasioned much criticism, particularly following revelations made by the T.N.E.C., showing large profits made by companies handling industrial insurance from lapsed policies. For instance, in 1938,[4] gains made from lapses and surrenders by the three large companies which dominate the industrial insurance field were as shown in the accompanying figures.

Gains from Lapses and Surrenders, 1938

	Ordinary Policies	Industrial Policies
Prudential	$3,605,000	$19,579,000
Metropolitan Life	4,915,000	13,432,000
John Hancock	899,000	3,848,000

[3] See Institute of Life Insurance, *Life Insurance Fact Book*, 1947, p. 29.
[4] T.N.E.C. Hearings, *Industrial Insurance*, Part 12.

These are large gains made from the misfortunes of the poor. One of the special problems in this field is to find a way to adjust the carrying charges of insurance to the changing economic circumstances of the family and of the economy as a whole. Some developments have been made along these lines, and since 1931 a Life Insurance Adjustment Bureau, financed jointly by the Metropolitan, Prudential, and John Hancock companies, has been functioning in association with various social agencies to "adjust" insurance for families who have become dependent, or at any rate are in financial difficulties. The basic trouble, of course, lies in the fact that most industrial policy holders cannot afford the amount of coverage they feel they ought to have, or are overambitious in their savings program, in view of their general financial position. This relates particularly to endowment policies taken out on an industrial basis, which continue increasingly popular, despite the high rate of loss. A survey made in Massachusetts in 1940 by officials of the Securities and Exchange Commission in cooperation with the W.P.A.[5] to determine the insurance holdings of low-income families showed that more than 42 percent of the premiums being paid for industrial insurance were for endowment policies, of which nearly 56 percent were issued on the lives of children under ten years of age and nearly 25 percent on the lives of infants less than two years of age; in a number of cases insurance was concentrated on the children with nothing on the father.

In 1938, New York State prohibited the issuance of endowment policies on an industrial basis, though it has since permitted "intermediate ordinaries."

In a statement before the T.N.E.C., February 28, 1941, Commissioner Sumner Pike of the Securities and Exchange Commission, suggested that the sale of industrial insurance should be prevented, since, in his opinion, it was impossible to eliminate the basic difficulties. He emphasized that some satisfactory substitute would have to be found since insurance protection was earnestly desired by the masses of people. He was inclined to support a proposal for extending the federal and state social security programs in place of industrial insurance, or else a system for selling burial benefits through the post office.

The American Life Convention, a trade association of life insurance companies centered in Chicago, warned its members to let Congress know "of the desire of some members of the Temporary National Economic Committee for federal supervision of all life insurance together with the taking over by the government of industrial insurance and merging it with the social security system." Further, a number of life insurance companies took exception to

[5] See T.N.E.C. Release, August 23, 1940.

various statements made in a special monograph[6] on the legal reserve life insurance business prepared by the Securities and Exchange Commission, including a statement on industrial insurance to much the same effect as the statement, referred to above, made by Commissioner Pike.[7]

Of recent years, the major companies in the field have attempted to bring about limited reforms in the industrial insurance system to protect consumers. For instance, in its annual report for 1946, the Metropolitan Life Insurance Co., dominant in the field, pointed out that, with respect to its operations, "ordinary insurance rose almost 50% over 1945 and new monthly payment industrial insurance increased 14%. But new writings of weekly premium industrial insurance rose only 5%. This was not because Metropolitan Agents could not have sold a larger proportion of weekly premium industrial insurance. It was because Metropolitan's Agents, recognizing improved economic conditions, stressed monthly premium industrial insurance or ordinary policies."

In three states, the development of savings bank life insurance is looked upon as a solution to many of the problems involved in providing suitable protection for the low-income family. Before considering the savings bank system, however, we should give some consideration to the general organization of the life insurance business.

ORGANIZATION OF THE INSURANCE BUSINESS

Legal Reserve Companies

The life insurance business (if we exclude national service insurance, savings bank insurance, and fraternal policies) is carried on by the so-called legal reserve companies which numbered 463 at the close of 1945, an increase of 68 over 1940. However, despite these numbers, the field is dominated by a few large companies. In 1940, 87 percent of the total life insurance assets were held by 26 companies operating interstate. Of these, five held more than 54 percent of the total assets. The headquarters of these five is in the Northeastern states, though their policyholders and investments are scattered throughout the country. The Metropolitan Life Insurance Co. towers above all the others. It has 32 million customers, who, as of December 31, 1946, were insured in an amount of over $34 billion. Metropolitan has more than $8 billion worth of assets, "more than the combined wealth of the Pennsylvania Railroad, General Motors, U. S. Steel and E. I. DuPont de Nemours. In world history no other single company has ever achieved such vast economic

[6] T.N.E.C. Monograph, No. 28.
[7] *Comments on Monograph No. 28;* prepared for filing with the T.N.E.C.

stature. Metropolitan money is so interlocked and enmeshed with the United States economy that nothing short of complete national disaster could bring about the company's downfall."[8]

The business done by the legal reserve life insurance companies falls into three broad categories: 1) life insurance, 2) accident and health insurance, and 3) annuities. We shall concern ourselves here with the first of these, though many of the available figures include annuities.

These companies operate under state laws, though most of them function in a number of states, the largest of them in nearly every state, and many of them also abroad. On June 5, 1944, a Supreme Court decision reversed a long standing position when it declared that the fire insurance business came within the jurisdiction of the federal government under the interstate commerce clause: it was not clear whether life insurance companies would be covered by such a decision, but generally it was believed that such would be the case. The Congress, however, has not chosen to exercise this newly recognized power to any significant degree, so life insurance companies continue to be regulated, to the extent that they are regulated, by the states.

The laws vary from state to state, but regulation primarily is to ensure the safety of life insurance funds, which, of course, is a matter of basic importance to the policyholder. The companies are required to set aside calculated reserves to meet liabilities, from which they get the name "legal reserve" companies. Their income in 1945 amounted to the tremendous sum of $7,674,000,000. Funds in the hands of the companies come not only from annual premium payments and income from investments, but also from beneficiaries who elect to leave a portion or all of their benefits in the company and receive income payments on an annuity or other such basis. In 1945, policyholders and beneficiaries in these companies used $545 million or 41 percent of the ordinary and group death and endowment benefits available in the year to set up income plans. Certain other funds come from their regular annuity business.

The companies are restricted as to the channels through which they can invest the tremendous funds which are entrusted to them; most states, for example, prohibit or limit investment in stocks, particularly in common stocks, though there has been some tendency recently to a somewhat less stringent policy. As the life insurance business has expanded and its funds increased to such large proportions, the problem of how to earn money on these funds, in view of the various restrictions, has become more acute. Moreover, shutting off a large proportion of these ever-increasing funds from the

[8] See *Life Magazine*, July 28, 1947, p. 81.

equity market has a considerable effect on capital investment. At the end of 1945, 46 percent of the assets of legal reserve companies were invested in United States Government Securities.

Mortgages on real estate have in the past accounted for a large percentage of life insurance investments, increasing from about 33.33 percent in the early 1900's to over 40 percent by the end of the twenties; however, by 1945, the proportion of assets invested in mortgages had decreased to 15 percent. During the depression, the companies took over a considerable amount of real estate in farm and urban areas, but were able to dispose of much of it later on a rising market. The question of whether the companies should invest in housing on an equity basis was discussed above.

From the point of view of the policyholder, it is important that insurance funds be invested as profitably as possible within the limits of reasonable safety, since the return on investments affects the net cost of insurance. As was pointed out by Marquis James in the special annual report he prepared for the Metropolitan Life Insurance Co., in 1946: "The Company's policyholders also have a practical stake in the amount of income the Company is able to earn on its investments because the higher the Company's interest return, the lower the cost of insurance to each policyholder. To illustrate, a man of 35 now pays Metropolitan a yearly premium of $27.57, on a $1000 Life Policy. I am told that if the Company could not earn interest on its investments, the premium would be $36.87." The more successful a company is in handling its investments, the lower its premiums should be, other things being equal.

The legal reserve companies operate either on a stock basis with nonparticipating policies, or on a mutual basis, issuing participating policies, or, in a few cases, a combination of both. The stock companies are legally owned, not by the policyholders but by the equity investors, and any profits accruing from their operations after reserves are set aside, are payable as dividends on capital invested, though even in the case of stock companies, assets are built up more from premiums than from equity capital.

Policyholders are the legal owners of the mutual companies, which, though much smaller in number than the stock companies, dominate the field, most of the great companies, including Metropolitan Life, being mutual in character. As the legal owners, policyholders have the "right" to determine the general policy of the mutual companies, though, as a matter of fact, as is true of most stockholders in the stock companies, they do not as a rule exercise their rights.

A comparatively new development in the legal reserve field which, though

still small, shows considerable vitality, is the cooperatives. These operate technically on the same basis as the mutuals, but are sponsored specifically by cooperative groups and, on the whole, keep in closer touch with the membership than do the mutuals. The cooperatives have taken the initiative in writing contracts more suited to the needs of a low middle-income group, whether of farmers or urban dwellers, than any otherwise available—for instance, as mentioned above, they write a term contract for 20 years with a face value of $500. The outstanding cooperatives in the insurance field are those associated with the Farm Bureau cooperatives of the Middle West, though they also operate in a number of other states—particularly, the Ohio Farm Bureau group of companies which write automobile and accident policies as well as life insurance.

Of the total life insurance in force at the end of 1945, 77 percent was of the "participating" type. In the case of mutuals, any profit on operations, after funds have been set aside for reserves, etc., are returned to policyholders as dividends in the form of premium refunds, though dividends are not usually available until after the second year's premium has been paid, or at the end of the second year. These policy dividends or refunds (not to be confused with stock dividends) may be taken in cash, used to pay premiums, to purchase paid-up additions to policies, to shorten the premium paying period, or left with the company to accumulate interest. The size of the refunds is determined for each company by the actual mortality rate experienced among policyholders as distinct from the assumed rate, the interest earned on invested funds, and the expenses of operation. The net cost of a policy cannot, therefore, be determined until after the dividends have been declared at the end of each year.

There is a considerable difference of opinion among the mutual companies on the question of a "high-premium, high-dividend" policy as distinct from a "low-premium, low-dividend" policy. An argument used to support the former is that consumers are attracted by the high dividend returns even though they have to pay higher premiums, and also that this enables the companies to build up a special reserve against epidemics or other disasters, though in view of the large reserve funds already held, this would hardly seem to be necessary. Proponents of the low-premium, low-dividend policy,[9] argue that a high premium tends to raise the level of administrative expenses, salaries, commissions, etc., and the associated high dividend gives the consumer a false impression of a company's position. It also makes cost com-

[9] See Acacia Mutual Co. (Washington, D. C.), 78th Annual Report (1947); T.N.E.C. Monograph No. 28, p. 246.

parison for different contracts difficult—which may, of course, be one of the reasons for adopting such divergent policies. It has been suggested that the high-premium policy is one way to avoid competition with the stock companies.

In statements prepared by the Securities and Exchange Commission for the T.N.E.C.,[10] a charge was made as to the existence of monopolistic agreements among certain life insurance companies for the determination of rates and other contract conditions, particularly in the case of the stock companies. It is clear, however, that irrespective of any formal or informal agreement among the companies on the average net premium to be charged policyholders, there is not likely to be any considerable difference between them on an overall basis, because of the controls exercised by the state. For instance, in New York State, a penalty attaches to any company which charges a premium less than that required to maintain stipulated reserves; channels for investment of premium income and other funds are, as pointed out above, strictly limited, so that the earning power of the funds of the different companies cannot be very different; underwriting rules (for instance, medical requirements and so on) are similar, and the only source for differential charges comes from operating efficiency and the relative profitableness of the different types of policies promoted.

But even though the average net premium cost is likely to be about the same, the cost for any particular type of policy may differ considerably among the companies and also, as pointed out above, there may be considerable difference in the qualitative factors with respect to availability of cash reserves, settlement options, and so on One of the charges made against the companies during the T.N E.C. investigation was that though their rates were not basically competitive, they had developed a great variety of policies at different premium rates to create the impression of a competitive situation.

Usually the initial premiums on non-participating policies issued by stock companies are lower than those on mutual policies, but not necessarily the net cost, after dividends are taken into account.

One new development of interest in the legal reserve field is the increase in "mail-order" business As pointed out above, most of the business of writing policies has in the past been done by agents, many of whom are organized into the National Association of Life Underwriters. They operate largely on commission, most of which is written off against the first-year premium, or the premiums during the early years a policy is in force. The agency system is costly, and moreover agents of a company cannot operate in any state

[10] See particularly T N E C Monograph No. 28.

unless that company is licensed for business there. For these and other reasons, there has been, of recent years, a marked development of selling life insurance through the mail, and by use of advertising media of all kinds, including the radio.

The value to the consumer of some of the offers made has been open to suspicion "because of the misleading claims and over-statements of benefits in policies offered." One of the arguments used by S.E.C. Commissioner Pike for Congressional control over the life insurance business, was that the states were not in a position to control "mail-order excesses." However, it must be kept in mind that the important thing is to prevent fraud in such transactions, not necessarily to restrict mail-order selling which, conceivably, if properly handled, might be a factor in reducing operating costs, providing it is more efficient than the agency system, and gives adequate service to the consumer. Advertised direct-to-consumer "bargains" in this field, however, must be carefully investigated, not only because of the actual moneys paid out but because of the very nature of the product sold.

LEGAL RESERVE STATISTICS. Following considerable public criticism of certain aspects of the life insurance business made during the T.N.E.C. investigations, the legal reserve companies set up a public relations agency, the Institute of Life Insurance, part of whose function has been to prepare overall data on the operations of the legal reserve companies. In 1947, the Institute issued the first annual edition of a *Fact Book*, an invaluable compendium of data from the legal reserve field. These show with respect to the business of legal reserve companies, that at the end of 1945 there were 71 million policyholders, owning an average protection of $2190, with approximately 2.5 policies per policyholder or four per family. As in the case of all averages, these figures, of course, conceal the great range between the person holding a small industrial policy, of say $200 face value, and the well-to-do policyholder with $1 million on his life. In this connection it has to be kept in mind that life insurance holdings refer to the total face value of the policies, which is the sum that would have to be paid out if all policyholders died at the same time; as a total, these figures are, therefore, rather unrealistic; they are not to be confused with the actual assets of the companies.

The figures in Table 19, taken from the *Fact Book*, give the total holdings and distribution by type of policy for selected years.

During World War II, not only was there a great increase in the total insurance held, but there was a considerable change in the type of insurance purchased, with both ordinary and group life policies showing increases of

nearly 50 percent, while total purchases of all types of life insurance were up about one-third.

TABLE 19. Life Insurance in Force by Type, U. S. Companies
Amount (000 Omitted)

Year	Ordinary	Industrial	Group	Total
1929	$ 76,122,095	$17,901,997	$ 9,122,348	$103,146,440
1933	71,918,829	17,154,473	8,911,742	97,985,044
1941	84,363,735	22,280,022	18,029,481	124,673,238
1946	116,109,948	30,246,934	28,196,470	174,553,352

Number of Policies (000 Omitted)

Year	Ordinary	Industrial	Group[a]	Total
1929	31,311	89,415	5,531	126,257
1933	31,925	81,517	5,213	118,655
1941	40,640	89,412	11,792	141,844
1946	54,849	107,737	14,071	176,657

[a] Number of certificates.

Assets of U. S. Life Insurance Companies

Year	Total in $ (000 Omitted)	Percentage Distribution						
		U.S. Govt. Securities	Securities of Business and Industry	Mortgages	Real Estate	Policy Loans	Other Assets	Total
1929	$17,482,309	2.0	28.0	41.7	2.7	13.6	12.0	100.0
1933	20,895,726	4.2	25.4	32.0	6.1	18.0	14.3	100.0
1941	32,730,965	20.5	31.0	19.6	5.7	8.9	14.3	100.0
1946	48,190,796	44.9	27.2	14.8	1.5	3.9	7.7	100.0

In 1944, a sample survey of "ordinary" insurance policies made by the Life Insurance Agency Management Association, showed distribution of these policies by type of policy as given in the accompanying figures.

Type of "Ordinary" Policy Purchased (ages 0–14 excluded)	1942 (percent)	1944 (percent)
Whole-life (straight-life)	26	22
Limited-payment life	36	36
Modified life	5	5
Endowment	16	21
Retirement-income	4	7
Term	6	4
Family-income and miscellaneous	7	5

Benefit payments to policyholders from all types of insurance in the legal reserve companies during 1946 were as follows (000 omitted); death benefits, $1,280,362; matured endowments, $398,340; disability payments, $91,774; annuity payments, $203,921; surrender values, $316,727; policy dividends, $501,600; total, $2,792,724.

The death benefit payments for 1946 were made under 1,260,000 policies, of which 65 percent by number were industrial life insurance policies, 28 percent were ordinary life insurance policies, and 7 percent were under group life insurance The average size of policy paid off as a death claim in 1946 was $2600 for ordinary insurance, $1900 for group life insurance, and $250 for industrial life insurance Only about 5 6 percent of total death benefits paid in the United States from December 1941 to September 1946 were paid under policies on members of the United States armed forces and merchant marine. For the most part, policies issued during the war carried a war clause excluding coverage for war risk.

Savings Bank Insurance

In addition to the legal reserve companies, savings banks are handling life insurance in Massachusetts, New York, and Connecticut. Criticism of industrial insurance for low-income families, was the main factor that led to the establishment of savings bank insurance in Massachusetts in 1907, under the leadership of the late Supreme Court Justice Louis D. Brandeis, then a prominent Boston attorney Under the Massachusetts plan, a consumer may take out a policy in an issuing bank not exceeding $1000 face value, though the overall coverage that may be obtained from different banks is not limited.

In 1939, New York State legalized the sale of life insurance policies by savings banks, up to a total face value of $3000; this limit was raised to $5000 in March 1948, after years of political fighting in which the savings banks were opposed by the legal reserve companies. Connecticut set up a savings bank system of life insurance in 1941.

Savings bank life insurance is not state insurance, though it has been specially sponsored by the states in which it has been authorized, and certain public funds were made available for promotional and administrative expenses during the early stages of development. The system differs somewhat in the three states where it is in operation, though not in basic plan; thus an outline of the New York State set-up will serve for a general understanding of the whole. The New York savings banks are authorized to establish separate departments to handle life insurance on a mutual basis, or they

may act as agencies for issuing banks. A central organization, the New York Savings Bank Fund, has been set up:

1. to provide certain administrative and actuarial services and medical selection for all participating banks; premium rates are established by the actuary for the fund and are required to be uniform for all banks;
2. to "pool" risks within the system—this pooling of risks eliminates chance fluctuations and gives individual banks and their respective policyholders added protection and stability regardless of the size and experience of each life insurance department; it also is a means for equalizing mortality losses among all issuing banks;
3. to underwrite initial risks and certain operating expenses of newly established insurance departments;
4. to act as an additional guarantee of all policy liabilities over and above the legal reserves and surplus funds held by the individual insurance departments. Investments in the Savings Bank Life Insurance Fund and in the surplus for the insurance departments are legal for New York savings banks.

The banks will issue policies for a face value as low as $250 (as against the $1000 unit that was customary for ordinary insurance in the legal reserve banks before the "intermediate ordinaries" were developed). Policies are not sold by soliciting agents, the applicant being required to go to the bank to obtain a policy—a provision that was intended to protect him from high-pressure selling methods of individual agents, and at the same time reduce the costs of operation; premiums have also to be paid direct to the bank, provision being made for payments on a monthly, quarterly, or annual basis.

Applicants must pass a medical examination which reduces the operating risks but, at the same time, of course, bears heavily on the low-income breadwinner who cannot meet the requirements; for instance, in Connecticut in 1945, 5 percent of the applications for insurance were turned down by the medical director. As was pointed out above, industrial insurance is issued without such tests of insurability. A statement from the Massachusetts savings banks declares: "Throughout the history of Savings Bank Life Insurance, the savings banks have been able to offer insurance over-the-counter at substantial reductions in cost compared with ordinary and industrial policies issued by the reserve companies." The lower cost of savings bank life insurance is said to be due principally to the absence of sales commissions, and the avoidance of losses from policies lapsed before the acquisition costs have been recouped.

The savings bank policies provide more liberal cash and loan values during the early years than do those of the legal reserve companies. As a general

rule, ordinary policies do not have cash values until the second or third years and then such values are reduced by a surrender charge during the first ten years. In contrast, cash values equal to the full legal reserve without any surrender charge are available on savings bank life insurance policies at the end of six months. Loans equal to the cash value may be made on savings bank life insurance policies after the first year's premiums have been paid, whereas in most cases loans are not available on ordinary policies until the second or third year's premiums have been paid. However, too much emphasis should not be put on the importance of early cash and loan values. In taking out a policy, the purchaser should plan to hold it until maturity and loans certainly should not be encouraged to a point where they imperil protection.

The savings banks in all three states sell straight-life, limited-payment life, endowment, and five-year renewable term insurance and will also issue group policies. During the war, some of the savings banks featured a "packaged" plan, combining war bonds, a savings account, and savings bank life insurance for one weekly deposit. The so-called "all-in-one" plan offered by some of the banks today combines straight-life insurance with a savings account, which as indicated above is preferable to an endowment policy in that the savings are not forfeited in the event that the policyholder dies before the policy matures; for example, at the end of ten years with $10 monthly payments, a $3000 straight-life and savings plan would yield $736.59 cash in bank, and $360.30 cash surrender value of life insurance, making a total of $1096.89, with total death benefits payable of $3736.59. Other banks in the savings system are experimenting with various modifications. However, as noted above, the savings banks do not usually pay as high a rate of interest on funds held for policyholders as do the companies.

Despite its many advantages to low-income families, savings bank insurance has had a comparatively slow growth. More recently, the banks who are issuing insurance and the central funds have undertaken more active advertising and educational campaigns. As pointed out above, they are prohibited by law from employing agents to solicit insurance from individuals and also from making house-to-house collections, but this does not restrict their general promotional activities, including advertising through various media, educational talks and so on, and an increasing number of banks are taking part in such a program. It seems clear, however, at any rate for the past, that people respond more readily to the direct personal appeal of the agent who calls at the door.

Nevertheless, in a report on 1945 operations prepared for issuing banks by

the New York Savings Bank Insurance Fund, it is pointed out that the number of participating banks, number of policies, amount of insurance, average size of policy, assets, and all the other indices of growth reached new highs, partly due to the general conditions which led to a rapid increase in all life insurance, partly to the increase in the number of savings banks participating, and partly as the cumulative result of past promotional efforts. Figures for 1946 for the face value of life insurance issued by the three systems are given here.

Massachusetts	Ordinary	Group	Total
Issued during the year	$ 27,341,972	$ 4,401,650	$ 31,743,622
In force at end of year	270,755,492	22,832,750	293,588,242
New York			
Issued during the year	24,973,100	1,746,200	26,719,300
In force at end of year	80,685,521	8,281,000	88,966,521
Connecticut			
In force at end of year	6,243,069	1,481,450	7,724,519

Comparative costs between savings bank and legal reserve policies are difficult to determine, since qualitative aspects of the policies differ, and moreover all rates are now undergoing a revision as a result of the adoption of the new mortality tables. According to the Massachusetts savings bank group, considerable savings to policyholders have resulted from the development of the savings bank plan which are only in part reflected in the rates. Perhaps more important is the fact that "Concessions forced from the weekly premium insurance companies by the establishment of this system (in Massachusetts), aggregate 25% reduction in premiums, and now represent a savings to our Massachusetts people of about 13 million dollars annually, and a very large portion of the entire population of the United States is in some measure affected by this saving."

WHAT IS THE BEST BUY?

After looking over the general field of insurance, we can now come back to the individual in the process of making a choice with respect to a life insurance purchase, trying to select the policy that will best suit his particular needs, at the present, and as "circumstances" change in the future. "The buyer of a life insurance policy," says the Massachusetts Savings Bank's *Buyers' Guide*, "should be interested mainly in getting the maximum pro-

tection for himself and his family at the lowest possible cost. He should never permit a discussion of frills to divert consideration of this basic purpose."

How much life insurance should a person take out? Basically, this is a philosophic question. One might go through a mathematical process and try to estimate the financial loss involved in a breadwinner's death by calculating what he might have earned had he been spared and how much of this would have been available for family living; any benefits to which dependents might be entitled under the social security program have to be taken into account here. What the family is concerned with, is how much of the current income should be put aside for insurance payments in view of all the other claims upon it. It involves, in part, a choice between present and future values, at any rate for those families who are not in a financial position to satisfy their most intense wants.

There is the further question of whether to combine savings with protection through some form of an endowment policy. Again, which members of the family should take out insurance? Professor Gordon and most other consumer-minded students of the subject, favor putting most of what the family can allot for life insurance into a policy for the breadwinner, at the most taking out a policy on other members for an amount not greater than necessary to meet final expenses; they are particularly opposed to endowment policies on children, at any rate for families with incomes below what might be considered a level of comfort. It is not only a question of selecting between this and that policy, but of selecting between life insurance and other consumer goods and services, in the effort to establish a balance of expenditures which, in view of the total circumstances of the family, will yield it the greatest satisfaction.

SUMMARY OF SECTION II

In this section we have not, of course, exhausted the experiences and problems of the consumer at the market; we have, on the contrary, barely touched upon them. We have analyzed certain general problems, and discussed the market situation with respect to certain goods and services which are important in themselves, and which also highlight some of the basic issues that arise in connection with the process of market exchange in a highly industrialized society. We have not tackled the question of consumer experience in buying clothing, or the broad range of problems associated with public services. No attention has been given here to the whole field of recreational buying, whether for equipment, admission to shows, or whatever, though as pointed out by the Council of Economic Advisers in their second annual report, "present standards for our 'content of living' require a considerable paraphernalia for play." Do we get the best buy for the money we spend however we spend it, whether as individuals or through private and public agencies? But this is a matter not only of the market as such; it takes us back to a consideration of wants, and all the factors underlying the scale of preferences which determines our behavior at the market. It also leads us on to consider some general aspects of the functioning of the economy, and the factors affecting supply.

Section III

FACTORS IN SUPPLY

Chapter XIV

THE FUNCTIONING ECONOMY

The other aspect of the consumer function to which we must now give our attention has to do with (1) an appraisal of the economy as a whole in terms of its end results in goods and services and the pattern of living generally, and (2) developing and bringing to bear an informed consumer point of view on economic policies, institutions and relationships in order to achieve the optimum use of our resources with the least effort and in a way consistent with our general social ideals. Can we achieve "abundance" even for those at the minimum level—assuming there is some agreement as to the meaning of "abundance"?

DO WE WANT "ABUNDANCE"?

In the 1840's in Philadelphia, the German author, J. A. Etzler, published the first English edition of his book, *The Paradise Within the Reach of All Men,* in which he argued that man, having advanced so far in his power to organize for action and in his knowledge of the forces of nature, could, if he chose, within ten years, free himself from manual labor and make possible for everyone the superior state of existence enjoyed currently by only a few. The book was widely read, and Thoreau, in reviewing the second edition, warned against such an excessive preoccupation with material welfare. Emphasizing the dangers that lay in the possible regimentation of a technological paradise, he argued that happiness is a condition of the mind, independent of material circumstances, and that it might even be hampered in its development by the accumulation of material things; the goal should be set up in "terms of ethics rather than mechanics."

A century later, in his introductory remarks to *TVA—Democracy on the March,* David Lilienthal declared:

I believe in the great potentialities for well-being of the machine and technology and science; and though they do hold a real threat of enslavement and

frustration for the human spirit, I believe those dangers can be averted. . . . I believe that men can make themselves free. . . . In a thousand valleys in America and the world over there are fields that need to be strong and productive, land steep and rugged, land flat as a man's hand; on the slopes, forests—and in the hills, minerals—that can be made to yield a better living for people. . . . These are the foundation of all their hopes for relief from hunger, from cold, from drudgery, for an end to want and constant insecurity. . . . There is almost nothing, however fantastic, that (given competent organization) a team of engineers, scientists and administrators cannot do today . . . out of their skills they can create new jobs, relieve human drudgery, give new life and fruitfulness to worn-out lands, put yokes upon streams, and transmute the minerals of the earth and the plants of the fields into machines of wizardry to spin out the stuff of a way of life new to this world—no longer do men look upon poverty as inevitable, nor think of drudgery, disease, filth, famine, floods and physical exhaustion as visitations of the devil or punishment by a deity. . . . The physical achievements that science and technology now make possible *may bring no benefits,* may indeed be evil, unless they have a moral purpose, unless they are conceived and carried out for the benefit of the people themselves. . . .[1]

People might prefer not to reap the advantages modern science can put into their hands, if it means the curtailment of political, or religious, or social rights, or even if it means merely an upset in the customary ways of doing things to which they have become attached. In bringing a consumer point of view to bear on the economy, it must be in the belief, expressed by Mr. Lilienthal, that men can free themselves from the material want that depresses the spirit and do it in a way that enhances rather than restrains their individual happiness. Consumers are concerned, therefore, not only with such questions as how most effectively to spend their money incomes to improve their consumption level, but also with the larger issues of how to organize economic activity so as to achieve the greatest enjoyment possible from material things, not only for an individual family but for all members of society. At the minimum level, this implies "freedom from want," though that in itself is admittedly a relative term.

Consumer education in the past has been concerned primarily with problems of choice and market efficiency, but increasingly it is reaching out into this broader field of appraisal of the economy as a whole, in terms of its end results. This is partly under pressure of circumstances. For instance, in labor-management disputes of recent years, it has become almost a regular practice for both parties to appeal, through the press and other media of communication, to consumers to take a stand on their behalf. But how can

[1] *TVA—Democracy on the March,* 1944, p. 11.

this be done unless consumers are in a position to know the factors in the situation, which may have their roots in the farthest reaches of the industrial process? It is no answer to say this is none of their business, since by their action in shopping at a particular store, or buying a particular product, or traveling a particular route, consumers may, in fact, force a decision in a dispute, whether or not they are aware of the significance of what they do Or, to cite another type of example, one of the causal factors in high prices of grain in 1947, was, according to the President and his economic advisers, the speculative operations on the grain exchanges, a highly technical business with which the housewife could hardly be expected to familiarize herself Nevertheless, the futures market, from being the remote activity of a handful of traders, suddenly becomes a matter of considerable importance in the kitchen, as the housewife does her best with substitute products, while turning over in her mind the question of what should be done about rising prices

Appraisal of the economy involves, first, an understanding of what is to be appraised, the discovery and analysis of significant factors influencing the outcome of all this economic activity of getting and spending Such influence is to be measured, not only in terms of the total output of goods and services, but also in the content of that output and the way it is divided, since the goal is not maximum production as such, but maximum satisfactions derived from a level of consumption that is in line with acceptable and normative standards

FACTORS IN PRODUCTION

We do not need research to show that we cannot divide up more than we produce How much we can produce at any one time will depend in the first place on our available resources Various efforts have been made from time to time to measure our productive capacity[2] but this always includes an elusive element, because capacity depends on a number of variable factors. The supply of raw materials will be affected by the weather. The supply of minerals depends to some extent on whether it is worth the cost to get them out. A new development in science may open up sources of supply not previously imagined, to say nothing of measured The labor supply is an important factor in productive capacity but the potential supply is always greater than the number seeking work, though any additions from this reserve may be less efficient in production The quality of labor supply is no less important

[2] See, for instance, the Federal Interdepartmental Committee Report (Krug Report), October 1947, in connection with the E R P program Much preliminary work in this field was done by the National Resources Committee and the Brookings Institute during the thirties See also, J F Dewhurst (Twentieth Century Fund) *America s Needs and Resources*, 1947

than the quantity; in the United States, for instance, we have a high percentage of semiskilled and skilled workers who are able to handle the machines put at their disposal, and to help organize job processes It takes time to train workers to vocational skills, this is one of the drawbacks confronting many undeveloped countries Moreover, labor will be applied willingly only under conditions that conform with current social norms—for instance, for postwar estimates the Council of Economic Advisers accepts the pattern of an eight-hour day, five day week, two week paid vacation

Another factor in production capacity is capital equipment During the depression there was so much talk of increasing spending power that the necessity of adequate capital came at times to be overlooked. The question is "What is adequate?" When is the rate of capital formation adjusted to the rate of consumption so that the capital plant can be utilized "at the highest practicable capacity with the greatest practicable steadiness"? Factories, office buildings, power, and transportation facilities have been built and then utilized only to 80, or 60, or even 40 percent of capacity a few years later on the other hand, as the Council of Economic Advisers has pointed out, this capacity was not too great to produce the goods consumers should have in an economy of such richness "Adequacy" of capital depends, therefore, on how effectively productive resources are organized to achieve the best results How are these resources organized for use?

In approaching this area of our subject, we have to keep in mind that different communities are organized on different economic patterns That is to say, the way people make a living and the circumstances under which they make it, differ in different countries and at different times Some people live largely on a self sufficing farming fishing-hunting basis, for the most part they produce what they consume, with some exchange by barter Others live in communities in which the use of resources is determined by a government, which may be totalitarian or democratic in character—the government sets up economic priorities in line with overall national policy, which may or may not tend to promote the consumer interest at any one time.

In the United States, we make our living in a highly complex society, predominantly industrialized, but with significant agricultural activity, organized on a money exchange basis, in which the initiative in bringing together resources for use is for the most part taken by private individuals, usually acting in groups and motivated by anticipation of 'profit" as that term is broadly defined During World War II, nearly half our output was produced either by government or on government order, but in "normal" times the predominant characteristic of the economy is what we know as "private enter-

prise" operating for the most part, except in agriculture, through corporate structures.

The development of the corporation, a growing feature of the past century, has led to a division, more or less marked, between those who legally own an enterprise, because they hold shares of stock, and those who manage it. The initiative in organizing production, in determining what to produce and how much, comes in fact largely from a managerial group organized on a corporate basis which does not respond in the same way to the expression of consumer choice at the market as individual owner-managers might be expected to respond and as, in fact, they were expected to respond by those who developed the theory of the "free capitalistic system."

CONSUMER SOVEREIGNTY

According to the theory, consumer choice at the market is itself the determining factor in the allocation of resources. If consumers buy product A, but reject product B, so that A is profitable but B takes a loss, then either the producers of B must, by a drop in price, improvement in quality, or change in design, again win a place in the scale of preferences above the line of effective demand, or sooner or later they will go out of business. Consumers, through the exercise of choice, thus affect and in fact ultimately determine the character of the economy and the nature of goods and services produced, forcing the inefficient producer out of business and directing the use of resources in line with consumer preferences.

This is what is meant by "consumer sovereignty"—the exercise of choice becomes an act of sovereignty. We hear much these days about "sales resistance," the phrase being used to imply that by conscious action in refraining from buying, consumers have determined to force down price, though in this case we have to distinguish between deliberate use of the boycott to effect an end, and the withdrawal of consumers individually from the market for customary goods, because they do not have the money to buy—which in the absence of an organized consumer movement is the more probable explanation of a falling off in demand. "Talk of consumer resistance," said the Mayor of New York not long ago,[3] "is just a fancy way of saying that people are doing without necessities of life because they don't make enough to afford them." Is this an act of sovereignty?

In her stimulating little volume, *Freedom Under Planning,* Barbara Wootton suggests that since consumers, for the most part, are not aware that their actions at the market are determining factors in production, they would

[3] *New York Times,* October 3, 1947.

not in fact suffer any substantial loss of freedom, or at any rate would not be conscious of such loss, if full control over the use of resources were to be taken over by government through a planning agency. What is important to the consumer, she argues, what the consumer is conscious of, is the freedom to take his money and exchange it for goods actually available on the market; not the sense (which most consumers don't have, anyway) of exerting an influence on the nature and functioning of the economy. Money to her is the effective medium of choice; therefore there would be no great loss of freedom if the quantity, quality, and kind of goods coming on the market were determined according to economic priorities set up by a planning agency, rather than through the fumbling mechanics of the market under the private enterprise system. Indeed, assuming the planning agency is the instrument of a democratic government, the influence of the consumer as a voter might be greater than through action at the market, particularly in view of the controls exercised within the private enterprise system.

This point of view has been challenged by others who argue that whether or not consumers are conscious of their influence on the direction of production through the exercise of choice at the market, that influence is nevertheless real and immediate, even under the conditions of our economy with its monopolistic elements, and consumer sovereignty, in determining the use of resources in line with consumer preferences, can best be secured under a system that is predominantly one of private enterprise than of public control. Dr. Elizabeth Hoyt writes:

> Consumers must be free to express their demands and the production system must be free to change and adjust itself to these demands at a moment's notice. . . . We may criticize free private enterprise as much as we like and still hold the opinion that no other system of enterprise is likely to be so successful as this in supplying consumers' wants. . . . Imperfectly as free competition functions in its own field, we believe that it functions, on the whole, better than the government would function, since consumers have more power to express themselves on the market than they have through votes and government planning. On the market they vote with their dollars, and every day is voting day.[4]

An analysis of our economic functioning makes it clear that consumer control through market choice is in fact limited. In the first place, choice is limited to available supply; as many people have found out in the last few years, you cannot choose a house, if there is none available. Production in our economy is carried on for the most part in advance of sale, and this certainly

[4] *Consumption in our Society*, 1938, p. 76.

facilitates the use of mass techniques. We have only to look around to see the enormous quantities of goods of various kinds that do come on the market and are displayed for consumer selection on the retail shelves. But has this productive energy been put to the best use from the consumer point of view? Are goods kept off the market that would give greater satisfaction than those produced?

In referring to the argument that in our economy consumers hold "a kind of daily plebiscite," David Lilienthal,[5] in his story of the T.V.A. venture, declared: "From time to time new and better products are kept off the market or long delayed in order to protect the position of an individual industry. We sometimes see that the customer has no way of knowing what kind or variety of products could be produced, and therefore that he is forced to state his wants only in terms of his ignorance of what he could get if he had a real choice (not unlike a free election where one may vote as he pleases so long as it is for the one candidate who is eligible)."

Or again, if tariff policy is successful in keeping out varieties of goods of a kind or at a price consumers would buy if available, choice is limited, and the situation cannot be changed by action at the market. Consumers are free to buy or reject goods that are made available, but they are not in a position to suggest the kind of goods that would be most desirable. The theory of consumer sovereignty with regard to the supply of goods coming on the market is, further, based on the assumption that consumers are fully informed as to the price-quality relationship, which is not the case, as is evident by the difficulties even informed consumers experience in determining quality in a product, particularly new products coming on the market.

A basic problem in supply arises from the fact that goods and services will not be produced unless they sell at a price which will cover costs and provide a "satisfactory" return to those who organize production and those who put their capital into it. But consumers, or groups of them, may not be in a position to pay such a price, however much they "need" and "want" the products, because of their limited spending power. The forces back in the economy that determine the distribution of spending power set a limit on consumer action at the market, and this in turn affects the total amount produced, and therefore the use we make of our resources. However glamorous and abundant the display of goods may be, the consumer with only $20 to spend, can spend only $20. The core of our present economic problem is to contrive a way by which we can use our full productive capacity and get the

[5] *Op. cit.*, p. 113.

goods and services produced into the hands of those who want them, on a basis that will return the necessary entrepreneurial rewards on which our free enterprise system is based.

The Pattern of Income Distribution

What pattern of income distribution would be best from a consumer point of view? Under a private enterprise system we must ensure an adequate accumulation of savings for the optimum use of all our resources. We must also ensure that the goods and services we can and do produce will be taken off the market, and in a way that will provide at least a minimum level of consumption in line with dynamic standards

The present pattern of income distribution in the United States, by which a large proportion of spending power is concentrated in relatively few hands, tends to encourage waste and excessive savings at the upper end of the income scale, and too little spending power among the large number of consumer units at the lower end Except under the abnormal circumstances of war and postwar conditions, the result is likely to be an accumulation of inventories and a restriction of output unless the government steps in to take over the "surplus." When production begins to bog down under the weight of a "surplus," we are threatened by a crisis of unemployment and the loss of still more spending power, with a devastating effect on those who carry the burdens of economic maladjustment.

Toward the end of the war, when many people were afraid that a depression was "just around the corner," various proposals were made to increase real wages by 50 percent (that is to say, make a wage increase while holding prices steady), as a way of maintaining productive power in full use.[6] This would not mean a redistribution of a fixed supply All would have more (though not necessarily proportionately more), because the economy would be maintained at a higher level than would otherwise be possible. In the immediate postwar years, contrary to what was expected, our capacity has proved inadequate to meet a sustained demand. This might, however, prove to be a temporary matter, in which case arguments will again be made for expanding purchasing power among the masses of people, not only to catch up with the consumer price index but to enable them to buy more of the goods and services that our economy can produce, if we want, and are able, to maintain it in "full" production, that is, production at the "optimum" level.

It is clear that if consumers are to bring an informed point of view to

[6] See Chester Bowles, *Tomorrow Without Fear*, 1946

bear on this central problem, they will be able to do so only by extending their influence back beyond the market to those points where the decisions are made, whether they are of a political or economic character, and whatever the forces are that determine the economic relationships of different interests and groups.

Monetary Instability

Not only is consumer choice limited by purchasing power, but the effectiveness of that purchasing power is subject to changes in the value of money as such Money is an amazing social invention, facilitating exchange and extending the area of consumer choice beyond what would be possible on a barter basis It leads us at times, however, to overlook the essential nature of the exchange that underlies economic activity in so highly complex a society as ours

Barter essentially is a direct exchange of products between two individuals or even nations In our everyday activity, "making a living" consists, for most of us, in producing a small part of one product, receiving a money return for it, and completing the exchange by taking the money to a store and buying something with it We have to bargain, not at one point but at two—the first in exchanging for money what we have produced, which may be only a series of bolt holes, and the second in exchanging the money for the goods and services we want for consumption, if not immediately then at some future time

In this complexity, we tend to talk of "making money" instead of "producing goods for exchange," and lose sight of the connection between production and consumption But the situation is made even more complex by the fact that in this involved and delayed process of exchange, the value of money itself may change, introducing a further element of uncertainty into the business of making a living Consumers may be caught in an inflationary or deflationary spiral which they are helpless to control at the market, though its influence may be so great as to affect their whole economic position.

Changes in the value of money would not be so significant if incomes and prices (and also the burden of debt) all changed at the same relative rate, but this does not happen, as we saw in discussing the effect of World War II on the level of consumption. Control of the money supply has therefore been one of the major political issues throughout our history. Use of the printing press by those in political power has declined, but not the manipulation of the money supply—the greenbacks of Civil War times were replaced during

World War II by bonds issued through the instrumentality of the Federal Reserve System, but with the same general effect. Representatives of the consumer point of view have in the past shown great concern about the price level, but little about the money issue that underlies it.

Speaking of the people of Southeastern Asia, Bruno Lasker writes:

> Use of money, at first a pleasing key to the pleasures hitherto undreamed of, brought new, utterly incomprehensible hazards. What could a rice grower in Cochin China do when a shift on the Paris exchange suddenly depreciated the money which he had received for his crops? What could an Indonesian rubber grower do when a new agreement among the large producers suddenly closed to him a market on which he had long relied? Only the speculator benefits from price fluctuations, and he is usually a foreigner. . . . Some of them on the verge of becoming absorbed in a world economic system, drifted back to the relative security of their tribal and local associations—even to barter and abstention from the use of imported commodities.[7]

It is obvious that those who have power to control the volume of money, have power over the consumption levels of the people, and if consumer sovereignty is to prevail, it must reach back to these areas of power.

And the value of money, along with much else, may be completely destroyed by war. No one development could have a greater effect on the consumption level of people throughout the world than the elimination of war, not only because of the immediate costs of war, the enormous destruction of material wealth and human capacities, but in the influence that the fear of war, and preparation for war have on our economic policy during periods of peace or, as perhaps they could better be described, as periods of "no-war." Consumer sovereignty through the market ceases to have much reality under war conditions.

Once we look at such problems as those raised above, we can see that though by wise buying within their means, under existing market conditions, and by wise use of goods when bought, the individual family can improve its consumption level, forces of more significance in determining that level can only be controlled in the consumer interest through action that goes back beyond the market, and involves not only economic but political action and indeed social action in its broadest sense.

But the fact is that consumers are not effectively organized for such action, and moreover there is no clearly developed consumer point of view with respect to many of the basic issues affecting the standard of living at any one time or over a period of time. When the National Re-

[7] Bruno Lasker, *Peoples of Southeast Asia*, 1944, p. 13.

covery Administration was set up to formulate "codes of fair competition" in the early thirties, in the hope that such codes would help lift the economy out of the depression, a Consumers Advisory Board was set up to bring a consumer point of view to bear on the code-making process. One of the major difficulties confronting the board in this task was the lack of an articulate consumer point of view with respect to the basic issues with which it had to deal, and one of its major contributions was to undertake the development of such a point of view, at any rate on an exploratory basis.

The question to be asked, as these issues are raised relating to the functioning of the economy, is: "Where does the consumer interest, that is to say, the public interest in its consumer aspect, lie?" What solution of particular problems that come up would lead to a general improvement in the consumption level of the masses of people—if we have our eyes on them—not only in the immediate but in the more distant future? In the following section we shall assemble some relevant material on certain problems of the economy on the basis of which students can discuss intelligently where the consumer interest lies with respect to them. The consumer point of view on the overall functioning of the economy is indeed the only point of view that really makes sense—for what else are most people working so hard, except to obtain the best sort of living they can for themselves and their families under conditions that preserve for them the essential characteristics of a democratic way of life?

Of course, any attempt to analyze and evaluate our economy in terms of its end results in the consumption levels of 140 million people is a formidable task—one is tempted to say an impossible task, except that it is urgent that consumers undertake it as best they can, because of the great and pressing importance of establishing a sound economic foundation for our democratic social structure, and for world cooperation.

So highly complex and interrelated is our economic system that we can easily get lost in the details of its operation, become so absorbed with the intricate devices developed to carry out essential functions that we forget to examine the functions themselves, so concerned with the conditions immediately around us that we fail to see the overall and long-range trends. In the following pages we shall attempt only to look at some aspects of this vast subject in the hope that students will be stimulated to pursue the analysis further in the search for a solution of the problem of how we can use our resources to "maximize our satisfactions" with least effort, and release our energies for those non-material pursuits to which as human beings we are constantly drawn.

A study of how best to "maximize satisfactions" involves, of course, both the nature of our wants, discussed above, and the means by which we can organize to satisfy them; so that while we study the latter we must keep in mind the former, since a change in our values might have a significant effect on the economic activity necessary to supply our wants, according to whatever new scale of preferences is established. Moreover, we have also to ask again, as we did in the beginning of this study: "Whose wants are to be satisfied?" Do we aim to raise the minimum level of consumption to some normative standard whatever the effect on the higher income groups, or to maintain the spread while raising the minimum, or raise the level of everyone, but of the poor more than the rich? Do we prefer to take advantage of increased productivity per man-hour in the form of leisure or of goods? Such questions of value have to be answered before we can make an appraisal of the economy, or seek a solution of its problems.

In an exploratory study of this kind, it is important to be as clear as possible as to definitions, to clarify concepts, since much of the argument that arises in this highly controversial field comes from a misunderstanding of terms. It is also important to recognize the difference between a profession of faith and practice, between slogans and the realities of a changing situation. Laymen can properly ask of economists that their efforts, however limited, help clarify rather than obscure and confuse issues which at times seem too difficult for comprehension.

We propose in this approach to a study of the economy to start off, as it were, upstream, beginning at the retail market where goods pass from the production into the consumption process, since it is the point with which consumers are most familiar.

Chapter XV

RETAILING

We shall now focus our attention on the retail market. What is the market? From a businessman's point of view, it is the group of people who buy his products, or who can be induced to buy them. From a consumer point of view, it is the place to which people go to satisfy their wants through a money exchange. From the first point of view, a good market exists when there is an "active demand"; from the second, when consumers find an adequate supply of products of good quality at a satisfactory price. We are concerned here primarily with the consumer approach.

We usually think of the market as being limited to the retail store, though probably nearly 40 percent of consumer spending is done elsewhere. When we pay our rent, telephone the plumber, the laundryman, the coal dealer, call on the barber or the doctor, we are spending money, often in a haphazard way which makes it difficult for us to check up on the efficiency with which this money is spent—assuming we have the necessary criteria for measuring the efficiency of spending.

Broadly speaking, the market is any point or process in the economy at which, or through which, consumers "spend their money"—that is to say, use their exchange power to transfer from the production into the consumption process the goods and services that, within the limits of their pocketbooks and the available supply, they choose to satisfy their wants, or rather such of them as are met through the exchange system. More attention should be given, than has been given in the past, to the functioning of the market for the service trades and professions (beauty and barber shops, hotels and restaurants, laundries, and dry-cleaning establishments, doctors' and dentists' offices, box offices for the movies and the baseball games) which are absorbing an increasing proportion of consumer expenditures.

Here, however, we shall limit our study to the retail store, and the circumstances surrounding the final act of sale by which goods are transferred

into the consumption process. It is at this point that the significance of the total economic process, in all its complexity, can be most easily understood. This is what it is all for.

Of course it cannot be assumed that the housewife, who may have hurried off to the store in the interval between making the beds and getting the children's lunch, is fully aware of the importance of her act as she pays her bill and gets her package—on the contrary, as we pointed out above, it takes an effort of the imagination to see the series of ripples through the economy that can be caused by an individual act of choice—and certainly will be caused if a number of consumers act together.

Nor can it be assumed that the retailer properly appreciates the dignity and importance of his role in finally channeling into consumption the goods that have a determining influence on the actual standard of living; his mind is usually on more immediate things, particularly if he is shorthanded and preoccupied with the cash register. The unawareness of the parties on both sides of the basic social importance of this final transfer of goods, is no doubt one reason why it is not more intelligently performed.

Retailing in a modern capitalist economy is a remarkable process. It involves, in part, the final assembling of hundreds or even thousands of products, many of them from distant parts of the world, into convenient local shopping centers, where they are put on display, in advance of order, for "inspection and purchase at the consumer's convenience." Run your eye in memory over the shelves of the various stores on Main Street, from the newsstand on the corner to the department store or supermarket down the block. Even perishable fruits and vegetables in fresh form are on sale for urban shoppers during winter months from widely separated sources.

RETAILING FUNCTIONS

The function of retailing is broadly that of local assembly, display, and final sale of goods to consumers. Before assembling goods, the retailer must first estimate demand for particular lines and the prospects of promoting new lines among his customers and potential customers; this is an important process. In our economy, goods are produced and brought to the point of final sale in anticipation of demand. The risk of miscalculating demand is assumed at different points along the line of production and distribution. When the retailer decides to place an order, he assumes the risk for the goods he actually buys—some goods he sells on consignment. In some cases production only begins after a retailer has placed an order. In all cases the sum total of the estimates made by retailers is a guiding factor in the

decisions that bring our resources into use. It is important that the retailer accurately gauge consumer wants, not only from the point of view of his own business success but to ensure that the resources will be used to best advantage for consumption. It has been said, "The greatest waste in the present social order comes from making and selling things which neither do nor can fit into the customers' own ideas of what is involved in a satisfactory life."[1]

Once the retailer has decided on the merchandise he wants to assemble, he must then select his sources of supply, whether wholesalers, manufacturers, or farm producers. In this, his policy will be influenced by the general supply situation. During the nineteenth century when goods were hard to get, sources of supply were closely guarded trade secrets. During the 1920's, when the situation had changed and goods were hard to dispose of, the retailer was beset by salesmen. During World War II, he again had to take the initiative, and if the customary sources of supply were no longer available, to find substitutes for old lines of goods, or open up new lines. In selecting sources of supply, he must, of course, keep his mind on the price at which he expects to sell the goods, and the general competitive situation.

Having placed his order, the retailer must then arrange for the physical handling of the goods before they are ready for display. This may involve transportation, such as carting from the factory, market, or warehouse; or the goods may be delivered at his door. He must break up wholesale lots into individual packages, and sometimes package bulk shipments into smaller lots, though nowadays much of this packaging is done by distributors and processors. The temporary surplus must be stored. However, with rapid and regular transportation, retailers tend to carry smaller inventories than formerly, so more of the risk of price fluctuation and product deterioration is carried at some point behind the retail level.

Goods may be graded, labelled, tested. Finally the price tag is put on. In deciding on his mark-up, the retailer may follow "customary practices," act under contract, or according to a list price or "gentlemen's agreement," or he may make an independent decision as to the price at which he thinks the products will move into consumption with a satisfactory return to himself. He is now ready to make a sale.

Selling may involve considerable promotional effort, particularly if the retailer has misjudged demand, or is trying to introduce a new line, though in the latter case most sales promotion may be undertaken by the manufacturer. The sale is usually facilitated by, or associated with, many services

[1] *Annals*, May 1940, p. 83.

and activities that sometimes assume large proportions in the retail process—these include convenient and attractive surroundings, advertising and advice of sales personnel, credit arrangements, delivery, returned goods privileges, and so on. The cost of these various services are usually included in the general overhead and are not borne directly by those customers who make use of them, though there is a growing feeling in some quarters that at least some of them should be. This would widen the area of choice, and individual consumers could decide whether or not any particular service was worth the special cost to them.

From a consumer point of view, the retailer, in carrying out his general function, should be regarded as an agent for his customers, and so conduct his operations, and develop the structure of his enterprise as to enable him best to carry out this task.

THE STRUCTURE OF RETAILING

We had very little statistical information on the number of various types of stores and on their relative importance, until the general census of 1930 which, for the first time, included a census of distribution (as of 1929); a second retail census was taken as part of the census of American business in 1933 and again in 1935. Since then it has become a regular part of the decennial census returns. This material has been supplemented by U. S. Department of Commerce surveys, of a more limited character. The census material covers "every phase of business primarily engaged in retailing, also eating and drinking places and filling stations, mail-order houses selling from catalogs, house-to-house sellers, roadside stands and public markets." It shows that retail establishments increased from 1,476,000 in 1929 to 1,770,000 in 1939.

We are all familiar with the great variety of forms of the retail store: it may be small or large, with no employees or with thousands; it may deal in one specialized line of goods or a few lines, or it may carry general merchandise; it may be independently owned and operated or it may be a unit in a local regional or national chain. Retail stores can be classified along these lines—volume of business done, line of commodities handled, type of ownership.

Retail Classification

BY VOLUME OF BUSINESS. From Table 20 it will be seen that the retail structure is composed of a large number of very small stores, a fairly large number of medium size stores, and a very small number of large stores. For

instance, in 1939 nearly 84 percent of all stores did less than $30,000 business a year—that is gross business from which all the costs of buying the goods, and operating the establishment have to be deducted before there is any net income for the owner; these stores, however, handled only about 30 percent of the retail volume. If the classification "small stores" is limited to those doing less than $10,000 gross volume a year, this group still totals more than 54 percent of all stores, with 9 percent of the total business, and when you get down to the still considerable number of stores doing less than

TABLE 20. Retail Stores Classified by Volume of Business

No. of Stores	1939 (percent)	1935 (percent)	1929 (percent)
Percentage of total under $10,000 annual volume	54.2	64.0	43.7
Proportion of sales	9.1	14.1	5.7
$10,000 to $30,000	29.5	24.9	31.5
Proportion of sales	21.3	25.3	17.6
$30,000 to $100,000	12.8	9.1	19.8
Proportion of sales	27.3	26.6	31.5
$100,000 to $300,000	2.8	1.6	4.0
Proportion of sales	18.9	15.5	20.1
Over $300,000	.7	.4	1.0
Proportion of sales	23.4	18.5	25.1

$5000 a year, you begin to understand some of the difficulties in which the small retailer finds himself, and what small reserves he has to meet any difficulties that develop. In some of these stores, however, the retailer sells services or changes the form of goods before he resells them (for example, delicatessen stores, lunch counters, automobile agencies, paint shops, etc.); for them net returns may be somewhat larger.

A study reported in 1940[2] revealed that the average weekly sales in the group below $5000 was $41.34. Also a census survey of 166,120 independent grocery stores, not carrying meats, showed that three-fourths had average annual sales of about $3100. The grocer who has a volume of only $3100 cannot make a large net profit and frequently operates at a loss. The average markup on groceries is less than 20 percent. The typical grocer in this large group, then, had less than $620 to cover all the costs of doing business and in most cases of course operated at a loss. It is not difficult to understand why there is such a high mortality rate among retailers. In the years between 1900 and 1930, it is estimated that some 16 million enterprises opened their doors and about 14 million closed up, most of the failures

[2] See *Annals*, May 1940, p. 47.

being in the retail trade. Many of these smaller stores are in the Southern states.

On the other hand, a small percentage of the total number of stores (3.5 percent) doing over $100,000 worth of business in 1939, had over 42 percent of the volume of sales, and since most of them are located in the larger cities their influence there is greater than this figure suggests. However, and this is a point to be kept in mind, the smaller retailers have the larger number of votes.

BY LINES HANDLED. A second classification of retail stores is by lines of goods handled, and in this there is a considerable amount of shifting, over a period of time. Some of the changes during the decade 1929–1939, were due partly to a general increase or decrease in sales of particular lines of goods—as, for instance, an increase in the sales of women's ready-to-wear goods and a decrease in cigars—and partly to "raids" by stores on new lines, or their dropping of old ones.

The 1940 census report draws attention to the reduction by nearly half in the number and sales of cigar stores and stands during the decade 1929–1939, when the consumption of tobacco products generally increased. Food stores, drug stores, restaurants took over a large part of the tobacco sales, and many of the remaining cigar stores added fountain lunches, packaged liquors, sporting goods, and men's furnishings. The Schulte cigar stores, for instance, pioneered counters for men's furnishings, their principle being to concentrate on the minimum variety of shirts, socks, neckties, and underwear necessary to fill the average needs of possibly 80 percent of the men patronizing these stores. "With a traffic of several million customers a week passing through their stores Schulte's were accustomed to working on the tiny margins afforded by cigarettes and could therefore sell men's accessories at little more than half the profit a department store requires, and still make money."[8]

Part of a recent shift in lines carried has been due to the wartime shortages and efforts by retailers to find substitutes to fill their empty shelves. Part, however, is a long-time trend in the policy of mass distributors to reach out ("raiding" to their opponents) after standardized quick-selling products such as many of those sold in drug stores (as vitamins) and at candy counters. In the case of drugs, druggists usually average a markup that covers both these lines and others that move slowly and cost considerably more to carry. In some cases, the retail price of drugs is fixed by manufacturers under the resale maintenance price and fair trade laws,

[8] See Victor Lebow, "Who Will Get What Where," *Harper's*, July 1945.

which prevent mass distributors from competing on a price basis with the established druggists. Nevertheless their competition is already becoming formidable. In 1945, for instance, the independent grocers' national association reported that 60 percent of its members were carrying shaving cream and tooth paste; over 40 percent were carrying hand lotions, face cream, face powder, proprietary medicines, vitamins, and so on. And plans were for further extension in this field. Organized druggists are discussing ways to protect themselves against this competitive situation, and a "merchandising war" between drug stores and food supermarkets seems to be shaping up.[4]

Many other competitive plans for new selling lines are said to be under consideration. In this perpetual battle for the consumer's dollar, where does the consumer interest lie?

BY TYPE OF OWNERSHIP. Retail stores can also be classified by type of ownership, the main classifications being independents and chains, though the distinction between the two groups is becoming less clear. According to the census definition, a chain is "a group of four or more stores of similar type which are centrally owned, managed, and merchandised." The independents are defined to include in addition to unit stores those which have joined buying and service associations of one kind or another, branch stores and others centrally operated but not in excess of four. In addition to the independents and chains thus classified there are some consumer cooperatives but these did less than 1 percent of the total retail business in 1939.

A feature of retailing over the years is the change in structural forms, the emergence of the chain store group being only one aspect of the historic development of new types of retailing enterprise, though it is the one that has attracted most attention in recent years, partly because of the opposition it has aroused among many of the smaller independents and other functional groups in the economy, notably the wholesalers and even some of the manufacturers and processors.

Along with the emergence of new forms of retailing as such, there has developed an increasing integration with the historic function of wholesaling and to some extent with that of processing and manufacturing, so that the conflicts, the pulling and hauling for position and advantage, have extended back into the whole industrial process. But before attempting to analyze this situation further, it will be helpful to look at the evolution of different forms and functions of retailing, to set the present in the perspective of the past. What we have to keep in mind is that behind the apparently stable front of Main Street, retailing is in fact in a constant state of change which

[4] "Food Supers Face Drug Trade Battle," *New York Times*, March 18, 1946.

creates strains and conflicts that emerge in both economic and political action of great concern to those interested in facilitating the movement of goods and services into consumption, with a minimum of effort. We have to try to find where the consumer interest, that is, the public interest in its material aspect, lies with respect to these developments.

HISTORY OF RETAILING INSTITUTIONS

As with other economic institutions, retailing has had to adjust itself to the changing demands of an economy rapidly expanding and becoming ever more complex. There has, for instance, been the increase in volume necessary to satisfy a population that has grown from some 3 million in Revolutionary times to the 140 million of today, partly from natural expansion and partly from immigration, which has itself brought complex factors into the nature of consumer demand. Moreover, with this growth in numbers has come a shift from a predominantly rural to a predominantly urban population; an urban population spends more and somewhat differently than a rural population, though this difference is less pronounced now than formerly. There has also been a trend toward smaller families, associated with the movement to the cities, which has increased the proportion of family units to the population. This has led to housing units of smaller size, and a change in packaging and handling problems has gone along with it—the big storage pantries with their bulk goods has given way to the kitchen cabinets with their small, gay, packaged products.

The changing demands made on marketing institutions under these circumstances have been intensified by the great increase in per capita productivity—for instance, it has been estimated that the per capita production of industrial goods (products of mines and factories exclusive of agriculture) in the United States was about six times greater in 1937 than in 1863, largely as the result of mass-production techniques.[5] This has put correspondingly large demands on the total marketing system. Not only has there been more production per capita but also an increasing variety within this total, both of goods and of services, all of which has made for great complexity in handling.

The distribution of this vast stream of productive goods has been facilitated by technical developments—in transportation, for example, remarkable progress has been made, not only in carrying capacity but in speed, refrigeration, and so on. As Professor Hotchkiss has pointed out: "Transportation facilities have been one of the most important elements affecting retailing methods,

[5] See *Annals*, May 1940, p. 23.

since they have tended to define trade areas. The railroads, supplemented by street railways, were a vital factor in the rise of the department store . . . indirectly through the Post Office service they helped in the growth of mail order houses . . . the automobile first tended toward centralization of trade in towns and later decentralization to supermarket areas."[6] And this catalogue of change is of course suggestive rather than exhaustive.

In adjusting to these various changes in our economy, retailing has displayed a dynamic character, though whether its development has been adequate to meet the challenge of the times, as seen from the standpoint of the consumer, is open to question. Be that as it may, retailing today is a very different system from the itinerant trader and the general store of Revolutionary times.

The General Store

The old-time general store in the village or at the crossroads provided the place of assembly for goods for sale to farmers, obtained from the import trade and from domestic manufacturers through the intermediary wholesale merchant; it was also the place of assembly for many of the products of the farm and forest brought in for exchange, usually on a barter basis; and many of the storekeepers extended credit to the farmers from one crop year to the next. By 1939 the general store was doing less than 2 percent of the total retail volume, and was located for the most part in small towns with a population of less than 2500, particularly in the less populated agricultural areas.

The Mail-Order House

The first active competition met by the country general store was from the mail-order houses, which "diminished the local monopolies in retailing that previously characterized many smaller communities." The mail-order technique of retailing was an economic invention, that had far-reaching effects on farm life, particularly after the general extension of rural free delivery. Montgomery Ward and Co. developed from a small business started in 1872; Sears, Roebuck and Co. started in 1895, followed by a number of other companies. In this case, the market, as experienced by the consumer, was not a place but a process, and the meeting of minds between buyer and seller took place through the medium of a semiannual catalogue, supplemented by flyers to announce special sales. Before a catalogue could be used in this way, however, it was necessary to work out exact descriptions of

[6] George B. Hotchkiss, *Milestones of Marketing*, 1938, p. 197.

standardized products and to associate with each description a firm price that would hold for a considerable period of time. These problems were worked out and the mail-order business extended rapidly in the latter part of the nineteenth century, the catalogue having a place beside the family Bible on many a parlor table. "Shopping at home" became a family enterprise.

With respect to the competitive advantages of the mail-order system compared with the country general store, it has been said: "If the small-town merchants had been progressive and up-to-date, mail-order houses would never have been of much importance. The mail-order houses carried more adequate stocks, their styles were more up-to-date, and they offered merchandise backed by an unconditional guarantee at lower prices than competing independents. The convenience of ordering merchandise in the home from a large illustrated catalogue appealed to many people living in the country in the days of bad roads and inadequate traveling facilities. The credit for the success of the large mail-order houses must be given to superior management."[7]

One of the advantages of the mail-order company over the local store was that it employed skilled buyers at large salaries to purchase merchandise, and then, having developed an expanding trade, it was in a position to take over the entire output of many factories and in some instances to erect its own. Moreover, the mail-order houses, or at any rate the leading ones, pioneered in providing for the "mass market" durable goods built to sell at lower-than-prevailing prices, and thus stimulated the concept of "functionalism" (that is, emphasis on the essential qualities of a product in terms of its function) in these and other lines.

Following World War I, the mail-order houses adopted the instalment system of payment to expand sales, and during the twenties opened retail outlets, and so became a chain system on a large scale. This latter development which, at the time, aroused much skepticism, was in response to a change in the buying habits of consumers, due in part to the automobile, the expansion of competitive systems of retailing, and an increase in "style-consciousness" which brought with it a desire to examine merchandise and compare prices before buying. As of January 31, 1939, Sears, Roebuck and Co. were operating 409 retail stores located in 45 states, with sales exceeding $619 million and Montgomery Ward and Company had 604 stores with sales of nearly $472 million. Their plans seem to be for much further expansion of the retail store section of their business in the postwar period,

[7] See Professor M. D. Taylor, *Annals*, May 1940, p. 49.

particularly in outlying districts and suburban areas. Many of the smaller mail-order houses, already faced with a decline in catalogue sales, are also acquiring retail outlets and experimenting with new structural forms.

But though the mail-order system has had considerable influence on retailing techniques, particularly in the early days of its development, it has never attained a dominant position and its volume of business (including that done through outlet stores) now constitutes only about 1.3 percent of total retail sales. A more important position has been taken by the department stores, though few individual department stores have handled trade volume comparable to that of the two leading mail-order houses; many department stores have themselves developed a considerable mail-order business.

The Department Store

The department store development was an attempt to combine, for the customer, the convenience of a general store with the advantages of a specialty store, having detailed knowledge of merchandise operations in a particular line, specialized buying, and accounting procedures. The specialty or limited line stores handling groceries, hardware, drygoods, shoes, and so on, developed early in American town life, mostly as independent establishments buying from the wholesaler or, in the case of retailers with initiative, seeking out sources of supply in a period when buying was difficult. The department store brought together into a common shopping center, with a single overall policy, what were, in effect, a number of specialized stores. Emphasis was put on expert buying and accounting procedures, and centralized services, as this form of retailing adjusted its development to the long period of falling prices that followed the Civil War and continued, with few interruptions, until the early 1890's. They then had to adjust to a rising price trend.

Before World War II, operating costs for department stores tended to increase partly because of their elaborate buildings and costly location in cities and on main shopping thoroughfares, and partly because of the customer services which they competitively developed. Department store shopping is often a family affair, and takes time, so waiting rooms, children's rooms, rest rooms, some on an elaborate scale, were provided, with, in some cases, restaurants for the convenience of customers. These were in addition to the more general credit service, personal shopping guide, daily home delivery, returned goods privilege, and so on. With the extension of their

market area to include the rapidly developing suburbs, most department stores have been expanding their telephone and mail-order service until, in some cases, it has become an important part of their total business

Because of the scale of their operations in particular lines, the larger department stores have come to have considerable bargaining power with suppliers, whether they be wholesalers, or, in the case of direct buying, manufacturers. The increasing tendency has been to buy direct from manufacturers, and in some instances small manufacturers have become more or less dependent on a particular outlet, with little bargaining power In cases where department store buyers place large orders in advance of production, they of course directly determine the character and quality of the goods they handle Some of the larger department stores have developed private brands which can compete successfully with the national brands of larger manufacturers and so they become participants in the "battle of the brands" Retailers whose policy it is to build up a reputation for reliable merchandise, not only stand behind their own private brands but behind all the goods they sell and, to ensure quality and performance, have, in a number of cases, set up for themselves or engaged the services of testing laboratories, the value of which from the consumer point of view depends on the basis of the tests and reliability with which the tests are carried out.

The department store is not a static structure but has been in a continuous state of change During the 1930's with the department store group operating, on the average, at a loss, those with alert management made various structural changes for more profitable operation, and to reach a wider market Basement stores were developed with application in some cases of self service techniques, departments were leased to specialized chains or other concerns, branches were established in suburban areas as well as in summer and winter resorts.

Perhaps the most significant development was in the establishment of joint buying and service organizations by groups of department stores, and even an increasing tendency towards amalgamation and central ownership of a number of stores to create a chain of so-called "multiple ownership" groups. Also some new department store units were established by chain store companies; by 1939, chain-operated department stores had increased to 30 percent of the total volume of sales. So rapid has this movement toward centralized buying become, whether through cooperative and service associations or through various forms of amalgamation and chain developments, that the department store system is taking on an entirely new aspect

An example of this development in group or joint buying was the forma-

tion, in August 1944, of Affiliated Retailers Inc., by Macy's of New York, and the May Co. stores (in five cities), with other stores joining later. Another outstanding example of a service cooperative among the department store groups, is the Associated Merchandising Corporation set up by such stores as Abraham & Straus, and Bloomingdale's, New York, Filene's in Boston, Joseph Horn in Pittsburgh, Bullock's in Los Angeles, and the Emporium in San Francisco. The Allied Stores Corporation owns outright the 70 stores throughout the country which form part of this chain; in its operation it tries to combine the economic advantages of chain store operation, and the traditional appeal of local management and associations. Most of these integrated organizations have developed their own brands for certain lines of goods.

What is the significance to the consumer of this trend toward centralized operations on the part of department store groups? This is part of a general question which we shall consider later.

The Chain Stores

Meanwhile, the chains had become a highly competitive factor in certain areas of retailing. The percentage of chain stores to total retail stores declined steadily from 9.8 in 1929 to 7.0 in 1939, but the volume under their control increased from 20.3 percent of total sales in 1929 to 23.3 percent in 1935 with a slight decline to 21.7 percent in 1939. There are indications of a further decline in the relative position of the chains during the war. Their importance varies considerably by line of business. Because of the dominant position of the A & P, we tend to associate chains mainly with food retailing, though as a matter of fact they are relatively more important in some other fields; in grocery stores selling meat, chain store sales in 1939 were 38.4 percent of total sales; in the variety store field, 86.8 percent; in motor accessory, tires, and battery sales, 45.1 percent; in shoe stores, 49.7 percent.

During the experimental period of the seventies to nineties, while the mail-order and department store techniques of retailing were being developed, the chain store type of retail organization in different commodity lines, was going through its embryonic stage—the Great Atlantic and Pacific Tea Co. began business in 1858; the Jones Bros. Tea Co. in 1872; F. W. Woolworth Co. in 1879. Since that time there has been a continuing expansion in chain store activity in these and other lines. The chain became prominent in the retailing picture during the latter part of the First World War and the years immediately following it, when rising prices "heightened the penny-consciousness of consumers."

During the difficult thirties, chain store organization and practice became the subject of numerous investigations, largely as the result of bitter opposition developed by independent retailers, supported by certain groups of wholesalers and other factors in business. The most notable of these investigations was that of the Federal Trade Commission whose report, issued 1935, includes voluminous data collected from various sources; but in the highly charged controversial temper of the times, the reliability of some of this data or at any rate its comprehensiveness is open to question. In a suit brought in 1942 by the Department of Justice against the A & P and two other chains under the anti-trust laws, more material was accumulated through the lengthy government brief of some 1100 pages, and the defendants' reply. The main difficulty in studying the effect of the chains on the retailing function is not in lack of data but in their evaluation.

The Supermarket

A significant influence on chain store practices was the development of the supermarket, a comparatively new structural form in retailing, which became conspicuous during the depression of the thirties (a supermarket being generally described as a large cash and carry combination food store with an annual volume of business of not less than $250,000 per year, and with its merchandise arranged in open display to facilitate self-service). Most of the early supermarkets were established as independent stores, frequently in cheap "edge-of-town locations," but soon expanded so that supermarket chains began to appear, and then some of the old-line chains expanded into the supermarket field, with the support, so it is said, of large financial interests, including some investment houses.

There is no question that the general policy of the chains has been to expand sales through lowering prices. One important factor in this lower-price policy has been the elimination of many services, particularly credit, delivery and so on, which gives the consumer the choice between low prices and increased services, and for low-income groups this area of choice is important. With the development of supermarkets, choice was extended to self-service.

One reason why the chains have been able to cut their operating margin is the practice, fairly general among them, of carrying only fast-moving goods of more or less standardized types with wide mass appeal—so they do not offer to consumers the variety of specialties carried by some independents which are frequently slow-moving, involve high carrying costs, but do widen the area of choice, if variety is to be preferred to low-average prices. Of more recent years, some of the chains have added lines of mer-

chandise less adapted to standardization, which might be expected to increase their operating cost, though they are still predominantly handling "convenience" rather than style goods.

Speaking of retailing in the 1920's and 1930's, Professor Hotchkiss said: "There were many offenses and abuses in large-scale retailing but the chains performed one service that is not generally recognized, simply because the public has so little knowledge of earlier market conditions. They brought the market closer to the consumer. They watched the trend of population growth and established their stores where they found the future needs would require them. They watched consumers' buying habits and governed their stock purchases and sales methods in accordance with them. They made it easier to buy—that is, not only cheaper, but easier."[8]

In fact, there are many non-price factors that account for much of the success of the chains in the past, despite the reduction in types of service rendered. The face-lifting operations that were given to many country towns by the chains was one such factor. The convenient and attractive layout inside the stores brought customers who were not so concerned with their pennies. Moreover, in some cases the chains have not only lowered prices but have made available cheaper models of more expensive products previously beyond the reach of low-income groups. Students will find it interesting to shop for identical or comparable products in different types of stores to see what price differentials actually prevail in their own localities; "shopping around" consumes time and energy, but experience is a better educator than statistical averages.

The activities of chain store companies is not limited, however, to retailing as such. The more outstanding of them have integrated many of the functions of wholesaling with centralized buying operations; some of the chains have also extended their activities into certain lines of production—in fact, it is largely in connection with their activities at levels beyond that of retailing as such that the A & P has been indicted as a monopoly. This indictment, upheld in a district court of Illinois, is on appeal before the U. S. Court of Appeals in Chicago with oral arguments set for early 1949.

The A & P has established a number of important manufacturing subsidiaries: Quaker Maid Co., manufacturing grocery products; the White House Milk Co., processed milk and milk products; the Nakat Salmon Packing Co.; a large coffee processing business, a bakery business, and others. It also has set up the Atlantic Commission Company (A.C.C.O.) to buy fresh fruits and vegetables directly from growers in producing areas or from jobbers and receivers in terminal markets; some of the produce not

[8] *Op. cit.*

wanted by the A & P is resold to the trade (about 13 percent). National meat and butter departments buy those products directly from the processors.

The government charged in its complaint that the A & P used its combined vertical and horizontal integration: (1) to coerce systematic, discriminatory buying preferences from manufacturers, processors and producers of food and food products; (2) to eliminate competition at the retail level in selected areas by selling below the cost of doing business at retail; (3) to expand retail volume by pooling profits secured at levels other than retail; and (4) to adopt general price policies designed to injure and destroy competitors. These acts, according to the government, constituted "a conspiracy to monopolize and restrain trade."

The A & P was not charged with being a monopoly as such, since the government recognized that it did a relatively small percentage of the total food trade and only about one-third of that done by the corporate food chains. The government also agreed that the mere growth of the A & P was not sufficient proof in itself of the violation of the anti-trust law, though they indicated considerable hostility to big corporations as such while admitting that "vertical integration under proper auspices, could and should result in operating efficiency and consumer benefits." However, they charged that "A & P has abused that vertical integration by manipulating its huge power and advantage at one level of the industry to secure an unwarranted and unreasonable advantage against its competitors at another level—and as a result the A & P has been enabled to undersell competitors and nationally advertised brands to their detriment and injury." The A & P, on the other hand, maintained that they were passing on to the consumer the savings made at the manufacturing and processing level, which was in the consumer interest.

We shall return to this case later, when we consider the action taken by groups of independents to protect themselves, through political action, against these intensive forms of competition.

Retailer Cooperatives

Meanwhile, some of the independents had been developing another structural form, known as retailer cooperatives, as a means of improving their efficiency and competitive advantage. Isolated examples of retailer cooperatives have existed for a long time, as, for example, the Independent Grocers Alliance, but they have only become significant in recent years, under pressure of competition from the chains and the necessity for cutting operating costs. Reference has been made above to cooperative buying groups in the department store field; there has also been a considerable development

of centralized buying on commodity lines, as in groceries, drugs, and to a less extent, hardware. Many of the alert and progressive independents have come together into groups for the purpose of centralized buying, and also in some cases with the idea of providing for themselves more expert managerial aid in various fields than they could have on a unit basis—and at the same time they maintain their unit independence, that is, remain individually owned.

In a number of cases, the initiative in setting up these cooperative groups has come not from the retailers but from the wholesalers, many of whom have found their position jeopardized by the direct buying of large retailers. These wholesalers may confine their activities to their cooperative members but frequently they continue to carry on business with non-affiliated stores. There is usually a difference in fundamental approach between the retailer and wholesaler-initiated cooperatives—"The wholesaler groups are exponents of the manufacturer-guided system of production, and the others of the retailer-guided system." Savings are likely to be divided between the wholesaler and retailer in accordance with the bargaining power of each.

However established, these retailer cooperatives vary considerably in the degree of coordination established between the members in their buying and selling operations, and in the services rendered, particularly with respect to internal managerial functions such as shop organization and layout, accounting techniques, stock-keeping methods, advertising practices, and so on. For the most part, however, these internal functions of the cooperatives are still very limited, though no doubt the merchandising ability of some independents has been improved by joining one of them. In some cases, the retailer cooperatives develop private brands of their own to be sold by their various members, or take over an existing wholesaler's brand, and promote its sale by central advertising and so come, themselves, into competition with the nationally advertised brands of manufacturers.

Altogether, the number of stores organized into voluntary cooperatives in the grocery, drug, and hardware fields, is said to exceed the number of units in each line operated by the corporate chains.[9] Is this retailer cooperative structure becoming an even more important part of the pattern of retailing in the future? Is its development to be welcomed by consumers?

Consumer Cooperatives

In consumer cooperatives a different principle operates. Here the initiative in carrying out the retailing function is taken directly by local consumer groups. The coop store is owned and controlled by consumers themselves,

[9] See T. Conroy, *New York Times*, January 20, 1946.

though some members do not patronize the store and some non-members do, the proportions varying between different stores. A coop store is started by a group of people voluntarily banding together as consumers to pool their purchasing power and other resources in order to supply themselves with consumption goods of the most suitable quality at the lowest cost. Each member of the coop subscribes a minimum capital, which may vary from $5 to $30, on which a maximum interest rate is set; the actual interest paid within this fixed maximum may vary from year to year and, as a matter of fact, in their developing stage, many consumer coops do not pay any interest at all.

Consumer coops as a general policy sell their goods at "current" prices (that is, somewhere within the range from chain store to independent prices); any surplus over operating costs, including interest paid on capital, will be divided up by the local board of directors, between reserves for contingencies, etc., and patronage refunds to members in proportion to the volume of their purchases. A difficulty that arises at times in this connection is that pressure from members for higher refunds may prejudice the financial position of a coop in its developing stages.

Non-members who trade at coops may be given a patronage refund in the form of a "set-aside" to accumulate until they each earn a share of stock and become a member. Coop officials, in arguing against proposals by business opponents that would make patronage refunds subject to income tax, have insisted that refund money does not belong to the cooperative but to the patron, representing a readjustment on price. What is important in the consumer cooperative principle of retailing is that the source of initiative is with the consumers themselves: the satisfaction of their wants rather than the accumulation of profit is the direct motivating factor.

In analyzing the consumer cooperative system, a careful distinction should be made between producer and consumer cooperatives. Producer cooperatives in this country are nearly all farm cooperatives, organized to secure better prices for farm products, and, to the extent they are able, to provide for "orderly marketing" of their products, which may lead to a limitation of supply going on the market if the cooperatives control a sufficient proportion of the total output; this may or may not be in the consumer interest. Dairy cooperatives have a history of working with the powerful processing groups to maintain retail prices at a high level, rather than to encourage large sales volume at low prices.

Many of the farm organizations have been active in setting up buying groups to obtain farm supplies for production purposes, at as reasonable a

price as possible, and from this have extended into the buying of supplies for direct consumption, which is the function of consumer cooperatives. As a result of this development, consumer cooperation is stronger in the Midwestern states, and closely associated with the producer cooperative movement.

In the last two or three decades, consumer cooperatives have been gaining some strength in urban areas, local groups coming together, often with a humble beginning, in a neighbor's basement, from which they have tended to move to street level near if not on Main Street; some of these locals have experienced financial difficulties in postwar adjustment. As the urban movement has grown and come into closer association with the farmer-consumer movement, there has developed a broader philosophy on the part of some of the farm groups with respect to the nature of the consumer interest, but this applies to a greater extent in some areas than in others.

Consumer cooperation in the commodity field (excluding farm supplies for productive purposes), has in the past been limited to a relatively few lines, mainly groceries and other food stuffs, lines in which there is only a small margin of profit. There is a tendency, however, to expand to other commodities and services as the movement grows and becomes better integrated.

Individual coops, that is the local groups, buy shares in regional wholesales, through which much of the local buying is done, and, of recent years, the majority of these regionals have associated together to establish a national wholesale, National Cooperatives Inc., through which buying of some products has become highly centralized. Connected with the national wholesale is a Cooperative Finance Association, set up to assist in financing cooperative enterprises. By 1947, 22 cooperative wholesales in the United States and Canada, were members of National Cooperatives Inc., serving some 1.5 million member-patron families. There are also a number of cooperatives, with a total membership of about one million, not affiliated with National Cooperatives.

In all this development, it must be kept in mind that the control continues with the local cooperatives, since they own the regionals and through the regionals the national, and the determination of policy flows, in a democratic process, from the bottom up, each local member having one vote regardless of the number of shares held. This, at any rate, is the principle of organization; in practice, a considerable degree of control accumulates at the regional, and to some extent at the national, level.

The cooperative movement in the United States also has international

affiliations with the International Cooperative Alliance, and since World War II, arrangements have been made for a certain amount of trade between cooperatives in different countries, particularly in petroleum products.

Not only is the commodity marketing activity of the consumer coops becoming more integrated at regional, national, and even international levels, but also, as with the chains and other large retail systems, they are engaging to an increasing extent in production. Most of the production program has been in the field not of consumer goods but of farm supplies—fertilizers, farm machinery, livestock feed, oil and gasoline, and so on—but as it expands an increasing amount is for direct consumption, as with the coffee roasting plants, canneries, bakeries, flour mills, and of course a certain percentage of the oil and gasoline processing. One of the most spectacular developments in the coop field has been in petroleum products, and cooperatives now own more than 400 oil wells, nearly 2000 miles of pipelines, 10 oil refineries, with a weekly capacity, in 1945, of 65,000 barrels. To facilitate the distribution of gas to members (and non-members), a number of retail gas stations have been set up, and this has been one of the factors in the growing opposition to cooperative expansion, particularly in some areas of the Midwest.

"Consumer cooperatives have moved into the field of production," says the Cooperative League of U. S. A., which is the educational and promotional unit of the movement, "for four fundamental reasons: (1) to assure a constant source of supply (cooperatives have at times been discriminated against in this regard), (2) to control the quality of goods distributed through retail cooperatives, (3) to make additional savings where prices from manufacturers are held at artificially high levels, (4) to curb monopoly. In all cases earnings become savings, and flow back step by step to the consumer." In their merchandising as well as production policy, emphasis is placed on quality factors from the consumer point of view; some products carry a cooperative label, after they are tested for conformity to standards, and most of the wholesales have laboratory equipment for testing products obtained from private companies to make sure they come up to coop specifications.

In a statement on merchandising policy approved by the Board of National Cooperatives Inc. (October 12, 1943), emphasis is placed on the importance of presenting the consumer's point of view at all times—"giving accurate, honest and complete specifications and, where in the user's interest, to give the limitations as well as the advantages of a given product; in other words that we earn the right to speak for the consumer. Cooperatives, being owned

and controlled by the member-patrons are the only merchandisers who can come out and speak in their behalf" It is part of their declared policy also to "test check, in advance, where practical, the desirability of commodities to be introduced," and also to "test check commodities after experience is gained to improve specifications or design of commodities," and further, "when our member associations could be better served by commodities or services other than our own, to so advise them"

Many reasons have been given for the apparent lack of interest shown by urban consumers in the cooperative movement until recent years, and even now it is still in an embryonic stage Such reasons include the relative efficiency shown by competing forms of retailing under the highly fluid conditions that obtain in this country, the relative mobility of the population, which weakens neighborhood ties, and the general spirit of competition as a motivating factor in human activity instead of cooperation One practical reason has been the general difficulty experienced in getting local groups started with competent managerial help Some of the locals, and perhaps the whole distributive organization, have tended to rely too much on morale and good will rather than on practical knowledge of business organization and commodity merchandising Indeed, "bad management" was the main reason given for postwar financial difficulties experienced by Eastern cooperative groups by a firm of business consultants, Werner Gabler Co, Inc, when they were called in at the end of 1947 for advice

The Eastern Cooperatives, Inc, (ECI) is the regional wholesale which services about 200 locals from Maine to Virginia, from Boston to Pittsburgh, though these locals have been buying only about 50 to 60 percent of their supplies through the wholesale The Gabler consultants found that in 1946, three fourths of the locals had a weekly volume of less than $2000, and only 8 percent had over $5000, 60 percent were operating at a loss and ECI. had lost an amount since the war approximately equal to one sixth of its capital.

The financial plight of this largest group of urban cooperatives was attributed by the consultants to a number of causes, but special emphasis was laid on bad management at the wholesale, with a lack of guidance in business matters for the locals and generally poor merchandising policy with respect to inventories, buying practices, credit (despite the Rochdale principle of cash transactions), staff organization, and so on They went so far as to suggest that the coops would have to go out of the grocery and general food field into more profitable lines, or effect a complete reorganization throughout the cooperative structure. Such reorganization would involve, *inter alia,* a clearer separation of the general policy making function of

member boards from business decisions of store managers. This would best be brought about, it was advised, if the regional organization were kept under the general control of members through local, area, and regional boards, with managers at the local level appointed by the regional organization instead of as at present, by the local boards. One of the significant points brought out by the inquiry was that consumer demand was not reflected in the merchandising policy of E.C.I. as much as might be expected in a cooperative organization, and as a result there were poorly balanced inventories, many "out-of-stock" items, and so on. What action will be taken on the basis of the Gabler report is still undecided, except for certain personnel changes at the E.C.I.

The necessity for improved managerial practices has been recognized for some time by a number of cooperative leaders, and the Rochdale Institute, a small training school for coop managers and field men has been set up. Emphasis has been given to the importance of merchandising efficiency by the Consumer Distribution Co., which was established some years ago with Filene funds, to promote consumer cooperation in the commodity field. Under this same stimulus, there has been considerable improvement in the layout and equipment of many coop stores, and generally in the face they present to their business competitors and the buying public. The C.D.C. has also been experimenting with department stores organized on consumer coop principles.

One aspect of consumer cooperation to which more attention will be given below, is the promotional and educational work done by the regional and national cooperative leagues, associated with but independent of the wholesales. They have both explained and promoted the principles of economic democracy underlying the consumer cooperative movement as a whole, and this has been reflected in all areas of cooperative activity, including the commodity cooperatives, though, as the Gabler report suggests, it might have led to greater efficiency in operation if this promotional and educational process had been somewhat more practical in character and tied in more closely with the operating function.

This is the one area of our private economy that is outside the profit system. Since initiative remains with the consumer directly, consumption as the object of production is kept more clearly in mind, though there is a great deal of difference in the degree to which individual cooperative members are aware of their peculiar role in the economy, and the intensity with which they look forward to the evolution of the economic system into a cooperative commonwealth.

Witness to the increasing vitality shown by the consumer cooperative movement in the United States is the recognition it is getting from competitive business, though some of this recognition is due to the farm supply rather than consumer goods business, and therefore strictly speaking does not bear on consumer cooperation as such. A contributor to *Sales Management,* in reporting an early postwar interview with the Coordinator of Sales and Advertising for National Cooperatives Inc., declared: "Volume among the cooperatives has grown to such huge proportions that all business is watching with interest the trends in this field; cooperative management and strategy is both smart and far-seeing. Further testimony to the initiative being shown by the cooperative movement was a recent report on the new pre-packaged food industry. Consumer-owned cooperatives have been quick to seize upon this development and are attempting to contract with farmers for packaging at the source."[10]

Their increasing strength is also indicated by the opposition that has developed in some areas. At the present time an organization known as the National Tax Equality Association is carrying on active propaganda against them, its main contention being that the coops are specially favored by government, particularly that their patronage refunds should be treated as capital dividends and taxed accordingly, and that their unallocated surplus should be taxed—this latter issue applies only to coops whose members are predominantly farmers (if they choose to come within the requirements for exemption). Urban coops are not eligible for this exemption for undistributed surplus. With respect to the argument that patronage refunds should be regarded as capital dividends, coop leaders emphasize the difference between a "savings dollar" and a "profit dollar"; they point out that savings refunds (policy dividends) by mutual life insurance companies are also tax-exempt.

Because of the difficulty experienced in incorporating cooperatives under many of the existing corporation laws, special federal legislation (and in some cases state legislation) has been passed to facilitate the chartering of cooperatives, and those with predominantly farmer members have been given a special status exempt from some of the provisions of the anti-trust laws, through the Cooperative Marketing Associations Act (Capper-Volstead), 1922.

At hearings before the House Ways and Means Committee, November 1947, "alarm was voiced" by spokesmen for organized small business at the

[10] See George Mooney, "Independent Test Pre-packaged Food," *New York Times,* January 20, 1946.

growth of what they termed an unfair competitor. One witness, Chairman of a Conference of American Small Business Organizations, saying he represented 600,000 small businessmen, testified that independent businessmen on Main Street are "desperately afraid of what will happen to them when they are confronted by tax-exempt cooperative stores now being established by labor unions . . Small business men are frankly alarmed by the rapid growth of cooperatives and the extension of their activities into all lines of trade, not only marketing and retailing but also wholesaling, manufacturing, refining, processing, canning and other fields"[11] He foresaw that "if cooperatives continue their present rate of growth, by 1950 they will have approximately $25 billion or about one fourth of the total volume of all the business conducted by local merchants"

In view of the fact that in 1939 consumer cooperatives did less than 1 per cent of the total volume of retail trade, this testimony sounds like a nightmare, but there undoubtedly is potential growth in the consumer coops, and in certain areas and lines of goods particularly. The current attack on cooperatives on the grounds of "special privilege" is part of the general opposition by some business groups against any new forms of competition, and their effort to protect their own position through economic and political action. It should be pointed out here that cooperative handling of commodities is only part of the total cooperative business, which includes a rapidly growing volume of consumer credit, insurance, medical care, rural electrification, housing, and so on.

Reference has been made above to political action taken by various groups in the marketing field when their competitive position seemed to be threatened. Some independent retailers, as we have seen, have met the competition of the mass distributors, by developing retailer cooperatives and by taking other measures to increase their efficiency But others have resorted to political action, arguing that the competition to which they are subjected is unfair, or at any rate socially undesirable, and that the public interest requires that it be restrained. Some have been active in both areas

RESTRAINT ON COMPETITIVE FORCES

In this drive to protect themselves from the impact of competitive forces, the retailers concerned have usually acted through the trade association in their particular commodity field, with the support of certain groups of wholesalers whose business is affected adversely by the development of more

[11] *New York Times*, November 6, 1947 See also Committee on Small Business, H of R., *The Competition of Cooperatives with Other Forms of Small Business Enterprise*, 1946

integrated systems of marketing, whether initiated by retailers or manufacturers, and also by certain groups of manufacturers whose bargaining power is diminished by the development of the big retailers It is of the greatest importance that consumers carefully examine the issues involved in this struggle and develop a consumer point of view with respect to them. When consumers buy in one type of store rather than in another, they influence the structure of retailing, in the same way they influence the quality, quantity, and kind of production by selecting some goods rather than others By what criteria can we determine what is the best structure for the adequate performance of the retail function?

This is an area of the economy in which efficiency of operation, in its broadest sense, is subordinated in many minds to the appeal made in favor of maintaining a type of business in which the "small man" with little capital can escape from the wage status and establish himself as an independent entrepreneur The independence of such a role even under favorable conditions is greatly exaggerated in view of the inevitable tie-ins that have to be made with wholesaling and financing interests, and the high mortality rate among the small independents is a measure of the risks run Nevertheless, the risks are run, and when they prove too heavy the case is taken to the public in the name of the rights of the small man In the political arena, as mentioned above, the voting strength of small retailers offsets to a considerable extent the economic strength of the large organizations. But how is this case to be judged in terms of the proper functioning of the retail system in the economy as a whole?

Forcible restraint on new forms of competition is a historic practice Professor Hotchkiss gives some lively accounts of episodes of this kind from the earliest European records—a resistance to change, to the opening up of new channels of trade, or the adapting of old ones to meet changing conditions In our own history we have a considerable record of agitation against innovations in distributive methods In 1895, for instance, at a convention of limited-line retailers, after an exciting debate, a resolution was passed condemning the development of the department store The department store scare was barely over when the mail order houses came into a period of rapid growth and agitation began against them—local retail associations organized "catalogue-burning" parties, and "buy-at your-local store" campaigns.

However, such agitation did not find much expression in political action until the 1930's, when a number of measures were put on local, state, and federal statute books under pressure from organized groups of independent retailers, with some wholesaler and manufacturer support; it was directed

generally against big business and specifically against the chains. The various local measures should be examined in each market area. We shall confine our attention here to the more widespread and significant action by the states and particularly by the federal government. This was a period, it should be recalled, of general business depression.

The Robinson-Patman Act

The Robinson-Patman Act, an amendment of the anti-trust act, was passed in June 1936, following on publication of the findings of the F.T.C. chain store investigation of 1935. The F.T.C. had disclosed instances in which the chains had obtained quantity discounts from sellers, out of all proportion to any savings to sellers from the handling of large orders. This was also said to be a practice not only of the chains but of all the large integrated retail systems who used their buying power to exact special price concessions in one form or another from the sellers.

The F.T.C. had also disclosed a practice by some of the chains of demanding the equivalent of wholesale discounts specifically, or through allowances of various kinds, though they were buying directly for their retail business. These wholesale discounts are distinct from quantity discounts as such. Customarily, processors and manufacturers have charged wholesalers less for the same quantity than they have charged retailers buying direct, since the wholesalers have to resell on a basis that will permit their retail customers to compete with the big retailers. Such a "functional" discount tends to protect the wholesaler against the effects of direct buying by the larger retailer. The Consumers Advisory Board of the N.R.A., in 1933–1934, consistently opposed proposals to protect such functional differentials in the N.R.A. codes, on the grounds that the effect would be to freeze existing patterns by insuring the continued existence of all types of distributors now found in the marketing system.

Under the Robinson-Patman Act, quantity discounts were declared illegal unless they represented an actual reduction in cost to the seller and were available on an equitable basis to all firms dealing under like conditions. The act prohibited the use of advertising allowances and similar payments unless they were available to all customers on proportionately equal terms. It also prohibited the direct or indirect payment of wholesale discounts as brokerage fees to the direct purchaser. Speaking generally, the purpose of the act was to place price differentials in marketing on a cost rather than a bargaining basis, but it has proved difficult to enforce for many reasons,

partly because of obscurities in the act itself, though the net result has probably been to reduce price and service concessions to large buyers.

Resale Price Maintenance

Another line of political action in the marketing field is that of the series of so-called retail price maintenance or fair trade laws which found their way to the statute books of most of the states in the thirties, supported by the federal Miller-Tydings Act, to which reference has already been made above. In the view of its proponents (under the leadership of such groups as the retail druggists), this was a way to protect the operating margins of independents handling certain lines of branded goods against the low-price policy of some of the mass distributors who were in a position to sell well-known brands at loss-leader prices. A number of wholesalers also supported these measures, for they felt the need to protect their margins from the competition of the integrated retailers. The plan, generally, was that the retail price of branded goods should be fixed by the manufacturer at a minimum level that would include a satisfactory margin, or functional differential for the wholesaler.

Manufacturers who are hesitant about adopting resale price contracts can have considerable pressure put on them in states where retailers are strongly organized in trade associations. For instance, in 1935, the Pepsodent Company,[12] after experimenting with a resale price contract under California law, announced its intention of returning to an uncontrolled system of retail prices; Pepsodent products were thereupon put under the counter in nearly every California drug store and in many drug stores in other states until the company was brought to a change of mind. There are indications that the drive to extend the range and number of price-fixed articles will be intensified in the postwar period. Large retailers who are in a position to promote private brands or push substitute products can to some extent resist the movement, but once a contract is signed by any one of their competitors they may find themselves bound by its provisions, and in any case it is doubtful whether or to what extent they will want to set themselves in opposition to the political forces which are behind such legislation.

Referring to price maintenance proposals advanced in N.R.A. days, the N.R.A. Consumers Advisory Board declared: "The principle involved was not that products should pass to the buyer by whatever channels would distribute them most economically, but that products should pass to the

[12] See T.N.E.C. Final Report, 77th Congress, 1st Session, Document No. 35, 1941, p. 245.

buyer at the same price, regardless of the channels by which they are distributed. . . . Such a plan . would beat into a dead level of uniformity any tendencies toward marketing vision and initiative"[13] Mr D E Montgomery, then Consumers Counsel of the U S Department of Agriculture, declared before the T N E C[14] "If it is argued on behalf of this legislation that it is necessary to protect against a monopoly of distribution, the remedy lies with the anti-trust division, or with the Federal Trade Commission Surely we do not cure one monopoly situation by creating another alongside of it." At the same hearings,[15] the Department of Justice asserted that the Miller-Tydings Act "has become a cloak for many conspiracies in restraint of trade which will go far beyond the limits established in the amendment"

In their final report, the T N E.C recommended the repeal of the Miller-Tydings Act. "Many restraints on the free market have developed which impair the functioning of the economy and burden consumers with unwarranted charges. . . . The Miller-Tydings Act which legalizes resale price maintenance contracts in interstate commerce results in some of those economic and social practices to be expected from private price-fixing conspiracies. The legal sanction of such practices tends to undermine the basic tenets of a competitive economy and introduces rigidities into the pricing of certain goods which restrain trade . . ."[16]

Anti-Loss Leader Laws

Resale pricing applies only to branded products, and only to such products as are brought under contract by the manufacturer (or in some cases by the wholesaler) It therefore cannot be extended to such products as fresh fruits and vegetables and, moreover, is not likely to be extended to products that are highly perishable or subject to marked style changes. Special legislation has been passed in some of the states (31 states in 1942) to prevent "loss-leader" selling in such lines, particularly in the food field.

As pointed out above, a "loss leader" is a product sold below cost to attract trade, but it is not at all clear what is meant by "cost"—whether below invoice cost to the retailer, or below invoice cost plus a markup for overhead, or so on Under these circumstances, it is difficult to say what the effect of such legislation actually is on retail prices or on the general efficiency with which the marketing function is performed. However, this attempt to protect the position of particular classes of retailers against competition from others

[13] Persia Campbell, *Consumer Representation in the New Deal*, 1940, pp 154 ff
[14] T N E C Final Report, p 442
[15] *Ibid*, p 121
[16] *Ibid*, p 33

through the political process, this attempt to freeze "into a mould a distributive system which ought to be kept fluid" cannot be dismissed on the grounds that it is ineffectual.

Anti-Chain Legislation

Another line of political action affecting retail distribution is the anti-chain tax legislation, put on the statute books of a number of states during the thirties, and generally upheld by the courts in the first instance. Nearly half the states have at one time or another adopted measures along these lines. An effort to complete this system of punitive legislation through federal action applying to the interstate business of the chains was, however, not successful, the so-called Patman Bill, introduced into Congress in the late thirties, failing of passage, though it was under consideration for a number of years.

Most of the acts provide for graduated annual license fees, based on the number of unit stores operated by a chain company in the state; this provision no doubt had some influence on the chain store trend toward fewer units and larger volume of business per unit. The tax presumably was to be passed on to consumers, thus lessening the differential between retail prices of chains and independents. The Patman Bill was admittedly designed, according to its sponsor, to put the national chains out of business altogether, or at any rate reduce them to state organizations; under it any company owning more than 500 stores in the United States would have to pay $1000 a store, multiplied by the number of states in which it operated. As a result, the A & P, which in 1938 operated about 10,500 stores in 39 states, would have been taxed nearly half a billion dollars a year.

As with the Robinson-Patman Act, anti-chain store legislation was supported, not only by certain classes of independents, including some of the retailer cooperatives, but also by some wholesaler and manufacturing groups. The U. S. Wholesale Grocers' Association, the National Association of Retail Grocers, and the National Association of Retail Druggists were among the leading trade associations opposing chain store development. Many arguments were advanced during the campaign, emphasis differing according to circumstances in the different states. Primarily, there were two points of attack: (1) unfair buying methods, using bargaining power to buy cheaper than their competitors, and (2) antisocial practices such as absentee ownership, lack of interest in local community affairs, low-wage policies, loss-leader policies that were misleading to the consumer and so on. It was generally an emotional appeal on behalf of the local independents who, it was said, would be forced out of business by the chains—"an octopus reaching out its tentacles to

clutch and crush the little independents." There does not seem to be much evidence, however, to show that independents were in fact forced to close because of the chains.

The F.T.C., in its report on chain stores (1935), stated that its investigation had disclosed some abuse of buying power, which the Robinson-Patman Act was designed to prevent in the future; data as to wages were contradictory, but on the whole chain store wages compared favorably with those paid by independents in a field in which the wage level was generally low; chain store prices were on the whole lower than their competitors, and in some cases considerably lower.

By the middle thirties chain store groups in different states were preparing to take action to defend themselves. By 1938, the A & P, which so far had not organized a defense, retained a public relations firm, Business Organization, Inc. (Carl Byoir, President), and made available a large sum of money to reverse the anti-chain store trend, both through public advertising and also through the subsidizing of consumer groups for study and, presumably action. Though the A & P, in a full-page advertisement in some of the leading newspapers, announced that it intended to follow this procedure, the source of financial backing for these consumer groups, later organized into the National Consumer Tax Commission, was not always made known to members, and the whole process was opposed as phony by legitimate consumer organizations who were disturbed by the prospect of a "captured" consumer movement.[17]

However, times were better and the defense showed some success. In some states the tax was repealed or held unconstitutional. In Colorado, the Supreme Court held that the tax applied also to retailer cooperatives, some of which had been supporting the anti chain store drive. And, to date, federal legislation has been held in check. However, it has been charged[18] that the failure of the Patman Bill only led to a change in technique, the National Association of Retail Grocers and others putting pressure on the Department of Justice to institute a suit against certain of the chains, particularly the A & P, under the provisions of the anti-trust laws, as explained above. There seems to be no specific evidence to show that the department, in bringing suit, did so under pressure from these organizations.

Opposition to the big chains, the government argued in its brief against[19] the A & P, resulted in part from their bargaining power acquired through

[17] For fuller discussion of this, see T N E C Hearings, Part 8, 1939, pp 3391 ff

[18] Public Affairs Pamphlet, *Chain Stores, Pro and Con*, No 40, 1940

[19] U. S Brief, District Court of U S, Eastern District of Illinois, 1944, p. 77.

quantity buying—reference was made, for instance, to the fact that "by combining the meat purchases of seventeen eastern units, A & P could control sales of twenty-five million dollars annually by Swift and Company to A & P, and put in jeopardy this large source of Swift's volume and profits." The government also declared that numerous charges had been made against the A.C.C.O. by producer groups, to the effect that growers produce markets are depressed by the A.C.C.O.'s large-scale operations in its dual capacity of buyer for the A & P and seller to the competing trade.

The record, the government asserted, "contains ample justification for these charges as well as full proof of the discounts and preferences A.C.C.O. was able to extort because it was the repository of A & P's concentrated purchasing power in the fruit and vegetable field. . . . An apt example of how occasional overt intimidation of suppliers is sufficient to lead to a more or less permanently cowed attitude on their part is to be found in the action of A & P in listing and treating as satisfactory or unsatisfactory hundreds of suppliers throughout the United States." Those who met A & P's demands were continued and the others were dropped. The latter were to be reinstated as A & P suppliers when A & P's exactions were met. The government was especially critical of the activities of the A.C.C.O. in encouraging growers' cooperatives through which it could buy directly, notably the Cooperative Fruit and Vegetable Association. "The activities of these associations and committees," the government charged, "were designed not only to throw a misleading, altruistic aura around A.C.C.O.'s selfish buying activities, but gave it inside information as to fruit and vegetable supply prospects which A.C.C.O. was not loathe to utilize in its own interest."

As noted above, the government's case rested not only on the "illicit gains" said to result from the A & P's use of its buying power, but also in the charge that these gains were used so as to make it possible to operate at a low gross retail margin, which was said to constitute unfair competition with other retailers. According to the government, A & P profits were derived primarily from its manufacturing subsidiaries, with additional sums obtained, so it was charged, from its "unfair" buying practices, and these, together with stock gains, constituted the profit pool on which their retail policy was based.

By 1942, the government contended, A & P's net retail profit was inconsequential in its profit structure, but, being able to draw from the profit pool, it could sell certain lines "below cost" or sell "below cost" in certain areas, to the disadvantage of competitors.

In its reply to the government, the A & P (in a summary brief of 405 pages)

denied that the company used the profits of the system to sell below cost at retail, except to meet specific competition in a highly competitive field, and then only on orders from headquarters; it argued further that it had never conspired to restrain trade and carry on monopolistic practice, and that direct buying was an advantage to consumers, as also was the company's policy to pass on to consumers the profits of its manufacturing subsidiaries. It was strange, the brief declared, that the Department of Justice should be indicting a company under the anti-trust laws for a low-price policy. The thing A & P was charged with doing in the food field, was exactly what Henry Ford did in the manufacture of automobiles. "Does a man have a right to operate his business on a small margin of profit if he is satisfied with small profits, or do the interests of the public require that he charge all that the traffic will bear? Was it the purpose of the Sherman Anti-trust Act to require our Government to hold an umbrella over inefficient or expensive methods of doing business?" That is to say, what is our national policy with respect to bigness as such?

The A & P brief is based on the assumption that business expansion is not in itself illegal. Throughout the government brief, which in part is bitterly worded, there is an undoubted undertone of antagonism against bigness as such, which the defendants were quick to seize upon, and also antagonism against the trend towards integration of function, which is becoming so dominant a feature of the whole retailing pattern. It is important that consumers bring a considered point of view to bear on this question, which reaches into the fundamental aspects of our economy.

There are many underlying factors in this struggle for power, or survival, in the distributive system, in the course of which the real function of retailing is often overlooked. It is in part a struggle between what has been characterized as a retailer-guided, versus a manufacturer-guided economy, a shift in the source of initiative in production, at least of certain classes of consumer goods. "The struggle between the manufacturer-guided and retailer-guided systems of distribution," declared representatives of the American Retail Federation in 1940,[20] "has been so intense that it could not help spreading beyond the business field into the sociological and political areas. This struggle is responsible for most of the Federal and state laws affecting distribution during the last decade."

In the early part of our history, the initiative in production was taken largely by the wholesaler who gave orders to small producers, and took the risk of finding customers for their products. Later in the century, much of

[20] *Annals*, May 1940, p. 105.

this initiative passed to the manufacturers who took a large part of the risk of miscalculating demand. During the 1920's, manufacturers became increasingly concerned with "creating demand," particularly by direct contact with consumers through national advertising. Moreover, by developing consumer acceptance on a large scale, they could, in part, free themselves from the selective function of wholesalers and retailers with respect to their products, since wholesalers and retailers would be forced to buy products which consumers insisted on getting. However, before national advertising can be instituted on a large scale, products must be identified by brand name, trademark, or so on, and, so far as possible, be made distinguishable by features that are prominent even though functionally of little importance. Hence, the great importance to manufacturers and processors of their brand names (and the great commercial value of some brand names); and one reason, as mentioned above, why so many of them have opposed the development of quality labels. Brands are not only a means for consumer identification of products, they are instruments of power in the hands of the manufacturers by which they hope to control, through national advertising, an area of the market.

With the development of large-scale retailing—mail-order houses, integrated department stores, retailer cooperatives, corporate chains—some of this initiative has passed to the retailers. Some of them not only buy directly from the processors, thus by-passing the traditional wholesalers, but order in advance from them, so that much of the risk of miscalculating demand is shifted forward to the retailer. The tendency shown by multiple-unit establishments to centralize their buying operations, has had important consequences from the standpoint of price-making. One of the reasons why some manufacturers have supported the demands of groups of independents and wholesalers for resale price maintenance and other such legislation has been to protect independent outlets for their merchandise, so they would not become too dependent on the mass distributors. In some instances, large retailers or retailing combinations will take the whole output of a moderate-sized factory, which in effect becomes a producing agent of the retailer. Such a trend not only threatens the position of some wholesalers but of salesmen at both manufacturing and wholesaling levels. The latter are organizing to protect their position.[21]

Further, it has become a common practice for some of the large retailers to attach their private brands to at least some of the merchandise they sell. Through the use of their own brands, retailers can build customer good will

[21] See *New York Times*, March 11, 1946.

for themselves, instead of for the manufacturers. It has been suggested that mass distributors with private brand merchandise were not so much opposed to resale price maintenance as they appeared to be, since it gave them an opportunity to push the sale of their own brands as against the price-fixed manufacturers' brands. The "battle of the brands" is a factor in the larger struggle for market power.

In the opinion of some students of retailing, a retailer-guided economy is more likely to satisfy consumers, since retailers are in closer contact with them, and, therefore, are in a better position to gauge consumer choice, though manufacturers are turning increasingly to market research men to give them this type of advice. Large-scale retailers no doubt at times have taken the lead in trying to provide the customer with goods that are functionally better, or more suited to the consumers' position—some developments made in durable goods at the instance of some mail-order houses may be taken as an example. One advantage that retailers get from their immediate contact with consumers is that they know them as people rather than as statistical units. Also it is argued that the integrated retailer is in a position to avoid the wasteful expense involved in many of the buying and selling operations that take place during the marketing process. On the other hand, even a large retailer, or combination of retailers, cannot provide the volume of orders necessary for the large-scale production that characterizes some of our major industries.

Would the gradual replacement of seller initiative by buyer initiative more fully contribute to material well-being, is the way the question presents itself to the consumer. What is the possibility of expanding the area of direct consumer initiative through the consumer cooperatives?

What we have to keep in mind in studying this subject is that through the years retailing has been dynamic, not static, changing both in structure and function, and it is important from the consumer point of view that no pattern be stabilized through legislation or otherwise unless it is clearly shown to be in the continuing public interest. Historical perspective is an antidote to efforts at stratification.

One of the factors in the drive for legislative pattern-making in the retail field is the losing struggle of many small independents to make a living. For many of them, the position of entrepreneur, even under such circumstances, has value, apart from any purely economic considerations. The difficulty arises when the fate of these small entrepreneurs is made the talking point by trade associations and others in their opposition to the development of large-scale marketing organizations, regardless of whether or not this

development promotes efficiency from a consumer point of view. If it is true, as alleged by some experts,[22] that the average retailer is incompetent and inefficient, his continuance in a business which is unprofitable to himself, also constitutes a serious economic problem. Is it desirable, through protective legislation, to subsidize inefficiency?

An interesting opinion in favor of maintaining the small retailer, regardless of relative efficiency, was that given by Mr. Justice Brandeis in the Florida anti-chain tax case,[23] in which he identified the public interest with the well-being of the small business enterprise. "Through size, corporations . . . have become an institution—an institution which has brought such concentration of economic power that so-called private corporations are sometimes able to dominate the State. Such is the Frankenstein monster which States have created through the corporation laws. By furthering the concentration of wealth and power and by promoting absentee ownership (the chains) are thwarting American ideals, converting independent tradesmen into clerks, and sapping the vigor and hope of smaller cities and towns." He did not, however, recognize that consumers may be adversely affected by penalizing what he admitted might be "a more efficient system of distribution."

The use of public power to protect special interest groups should be made only in the public interest. The difficulty here, however, as in so many controversial issues, is to decide what is in the public interest in any particular situation.

RETAILER EFFICIENCY

Reference has been made above to the relative "efficiency" of different types of retailing. But as a matter of fact, little attention has been given to the meaning or measurement of efficiency in marketing, though marketing costs are a significant percentage of the total costs of a product, and the percentage is trending upward. In an elaborate study of marketing costs in 1939, the Twentieth Century Fund[24] estimated that, on the average, about 59 cents of the consumer's dollar was absorbed in the marketing process, though the figure varies for different products and at different times. The average retail markup (the amount added to invoice price by the retailer) also varies considerably by lines of goods and by different classes of retailers. Any improvement in marketing efficiency which leads to a reduction in cost (assum-

[22] Professor M. D. Taylor, *Annals*, May 1940, p. 147.
[23] U. S. Supreme Court Official Reports, March 1933, pp. 565–569.
[24] See Twentieth Century Fund, *Does Distribution Cost Too Much?*, 1939.

ing this is not at the expense of an essential function) can therefore have an important effect on retail price.

It cannot be assumed that an increasing trend in marketing costs is evidence of inefficiency, since marketing services may be expanding also; the cost of bringing vegetables to Eastern cities in wintertime from southern climates will obviously be high, but this is not to say they will be "too high," if the essential functions are performed as efficiently as possible—assuming that consumers want (and need) fresh vegetables in wintertime. More attention should be given to an analysis of efficiency, as distinct from costs as such, the kind of analysis that has been attempted for the food marketing field by Dr. A. C. Hoffman of the U. S. Department of Agriculture.[25]

Reduction in distributive margins may come from various sources. Much has been said about cutting profits. During the war and postwar period, profits have been relatively high, but, according to the Twentieth Century Fund, average profits for corporations engaged in distribution were little more than 2 percent of sales in 1936, a relatively good "peacetime" year, though there was considerable variation. In 1939, eight of the leading variety chains were reported as making about 8 percent on total sales, but at the same time many other distributors barely broke even and others operated at a loss, so that on the average a cut in profits as a percentage of sales could not be expected to have any considerable effect on price.

There has also been considerable criticism of advertising costs, and many estimates have been made of savings to be expected by eliminating "wastes" in advertising. But again, according to the Twentieth Century Fund, commodity advertising probably averaged less than 3 percent of the price of finished goods, though this also differed considerably for different products. Despite large total sums spent for advertising cigarettes, the average cost for a package selling at 14 cents was little more than half a cent a package. However, though the actual cost of advertising is not considerable, the effect on price is greater than this would indicate, since advertised products are often sold at retail at considerably higher prices than their unadvertised equivalents, and profits on nationally advertised products are larger than on similar goods which are not advertised. On the other hand, it might be argued that advertising in certain fields has helped create the mass market on which the economies of mass production depend.

It seems that reduction in price is most likely to come from improvement in efficiency, both in management[26] and, particularly, from the development

[25] T.N.E.C. Monograph No. 35, 1940.

[26] See Professor M. D. Taylor, *op. cit.*, pp. 46 ff.; also publications of the Harvard Graduate School of Business Administration.

of new techniques in distribution and in the buying and selling function. Dr. Hoffman, in analyzing the factors underlying marketing efficiency in the food field, gives considerable emphasis to the costs of buying and selling at various stages in the marketing process, particularly when the product moves forward by means of a number of such transactions. "The cost of this sort of thing in time and money," writes Dr. Hoffman, "is nothing short of stupendous. Yet it is seldom mentioned when methods for reducing the costs of food distribution are being considered, because most people, including a fair share of the economists, are more concerned with the preservation of competition under old institutional forms than with economic efficiency as we have defined the term." Efficiency of buying and selling at the retail level is also a subject that offers an opportunity for fruitful research. "Economy in selling, based on a thorough knowledge of the market, is in the public interest fully as much as efficient methods of plant operation," and it is important that the efficiency of marketing activities should be continuously appraised from a functional point of view. Keep the field of distribution reasonably open for bold experimentation, advised the Twentieth Century Fund's Distribution Committee.[27] "The greatest hope for improved efficiency lies in the inventiveness, imagination and business ability of distributors themselves."

[27] Twentieth Century Fund, *op. cit.*, pp. 333–367.

Chapter XVI

FACTORS AFFECTING THE FOOD SUPPLY

We have been looking at the retail market where consumers exchange their buying power for consumption goods. The proper functioning of the market is important to facilitate the movement of goods and services from the production to the consumption process with a minimum of waste and effort. However, the market can handle goods and services only after they have been produced, and, if we would optimize our consumption level, we must concern ourselves with the conditions underlying their production. From the consumer position, activities back of the retail market become telescoped, appear less differentiated than they would if looked at, for instance, from the position of the producer or distributor, and this is the way we shall look at them here. We propose to consider some of the more important factors affecting the supply and price, first of food products, and then, generally, of manufactured goods.

There are two general stages in food production which it is convenient to keep distinct, though the distinction is not always clear. First of all, there is the production on the farm, the planting and cultivating and harvesting that brings the food into being in its raw state. Then secondly, there is the processing and marketing stage. We shall try to keep the two stages more or less separate in analyzing the factors that determine the supply and price of food as it comes on the retail market.

Farm Production System

Most of our food supply comes from domestic sources, with a few significant exceptions as, for example, sugar, vegetable oils, and other tropical products, as well as some imported delicacies, usually for the satisfaction of special groups. We should keep in mind, however, that in the past the supply of food from abroad would undoubtedly have been larger and more varied if it were not that we have deliberately kept it out by tariff and other re-

strictions, and this in itself has been a factor in the price tag on our own products, and to some extent has determined, negatively, their quantity and kind. But in terms of existing circumstances, we depend for our supply largely on our own productive resources, and are therefore concerned with their adequacy to meet our needs, and, in view of the foreign situation during the postwar years, the needs of many others too. It is important, therefore, to inquire into the nature of our agricultural resources, and the conditions that determine the use to which they are put, though obviously we can only do this in a rough and generalized way.

American agriculture is a broad term that, as of 1945, covered the activities on some 5.8 million farms, with a total population of some 26 million people. This represents a considerable decrease both in number of farms and of farm population in the past decade; however the size of farm area increased somewhat, so that the average size of farm was larger. Despite the falling off in numbers of farmers and farm workers, the output in 1945 was about 36 percent above that of the year 1935–1936.

Many of these farms, however, produce a number of non-food products, notably cotton and tobacco, and it is not easy to separate food and non-food production or sections of agriculture, partly because products which are primarily non-food nevertheless contribute something to the food supply, as cottonseed oil, or food products may yield industrial by-products as does the meat industry; also the shifts, actual or potential, which may take place on farms add to the difficulty. There is also a tendency for farm groups, generally, to unite to advance their special interests, particularly in the political field, and, as we shall see, politics is an important factor in the food situation. Nevertheless, it is important to keep the distinction between food and non-food output in mind, particularly since cotton, which has many peculiar problems, has come to absorb so much public attention, and also because the greatest poverty among farm groups exists in the cotton belt, where nearly half the farms, according to census definition, are located; figures for cotton farming depress all agricultural averages.

Even with respect to food production as such we must be careful, so far as possible, to avoid the temptation to generalize and average, since this tends to conceal important differences in economic significance and circumstance between different products and regions, and in economic status of different farmers. For American agriculture includes a number of more or less distinct regions, so far as commercial food production goes—dairying in the Northeast, around the Great Lakes, in the Northwest; fruits and vegetables in California, around the Gulf, in Florida, along the East Coast belt; the corn

and hog belt in the Middle West, wheat farther west and north, then the grazing belt, and, in the cotton area of the South, an increasing interest in diversified food production. The average size of the farm varies with the region and type of farming.

Some of our food products are on an export basis, if not regularly, then from time to time, and are therefore affected directly by the international market situation; wheat is in this category. Some, as, for instance, dairy products, are mainly on a domestic market basis and can fairly well be isolated against international market influences through the political device of the tariff and quota systems. At times during the twenties, wheat farmers suffered financially from falling prices abroad, but the dairy farmers, on the average, did very nicely.

There is also a marked difference in status among farmers. We usually speak of the American agricultural system as organized on a "family-farm" basis, using that phrase in much the same sense as it was used by Jefferson when he envisioned the broad acres of the new world tilled by independent farmers, owning their own land in fee simple, beholden to no man, exercising their free democratic rights. And it is true that, with the exception of a relatively few corporation farms which have attracted considerable public attention, most of the farms are organized as family farms, many of them employing no help, except perhaps during the harvesting. Those who do have regular help average not more than one or two hired men.

But there is a great range in economic conditions among the different farmers. Probably about one-third can be classified as subsistence farmers, contributing nothing or very little to the flow of food to the retail markets. Some of these "subsistence" farmers are, in fact, urban workers living in the country; some are retired people pottering around; a large proportion of them are trying to wrest a living from submarginal land. About 90 percent of the commercial food production is produced by about 50 percent of the farmers, and of these some are much better off than others. Moreover, before the war, nearly 40 percent of the farmers were only tenants (including small share farmers in the cotton area of the South); this percentage declined somewhat during the war. Tenancy conditions vary considerably in different areas. Generally speaking however, the short term tenancy contract (frequently one year) is not conductive to good farm practices, since there is little incentive to the tenant to conserve the soil. Again, many farms are under mortgage commitments; part of the heavy mortgage debt was reduced during the war, but, nevertheless, creditors as well as landlords have a considerable interest in maintaining the value of farm property.

This is a factor in agricultural policy to which, on the whole, not enough attention has been given.

In the first section of this book we were concerned with people and their living standards, and from that point of view we were interested in all classes of farmers, as well as other groups in the community, including subsistence farmers. In this section in which we are examining the operations of our exchange economy from the point of view of the consumer, our attention is focused not on all farmers, but only on those who contribute a substantial amount to the commercial food supply, and whose activities are reflected, primarily, in the elaborate production and income curves prepared by the U. S. Department of Agriculture.

Of course, it might be argued that we are concerned with subsistence farming even from the point of view of the exchange economy, in a negative sense, since subsistence farming frequently results in poor land utilization. With modern technological equipment and scientific research, the way to increase total productivity, it is said in some quarters, is to shift large numbers of these small farmers off the land and so make it available for use on a more efficient basis, or take it out of production altogether, thus releasing labor for more effective use in other fields. In 1934, for instance, the National Resources Board estimated that about half a million farmers were tilling land from which they could not hope to make a living, and recommended that some 75 million acres be taken out of cultivation. Even on commercial farms, there was, before the war, a condition of underemployment due to the fact that migration from the farms was restricted by the lack of employment opportunities elsewhere. During the war, migration was rapid, but this trend would probably be reversed should we suffer another depression.

While giving proper emphasis to efficiency in use of resources, we have to remember that a question of values is involved here, of satisfactions to be obtained from consumption that, from the point of view of the individual family, cannot be overlooked. "Many Americans, with opportunities to choose," writes Professor J. S. Davis,[1] "find in farming and farm life intangible advantages which they rate high as offsets to additional income that they could earn if they changed their occupation and residence. Among other things, millions prize being their own boss and what they call the security of farm life—a sure job, a place to live, enough to eat, and limited non-deferable cash requirements—and prefer underemployment to unemployment or indeed to intensive employment." While agreeing that in some areas, particularly in the South, "highly desirable improvement in the real income

[1] *Review of Economic Statistics*, May 1947.

levels of those on farms depends in part on the degree to which the farm population can be drawn into full-time and part-time non-farm occupations there and elsewhere," he maintains, with reference to the farm population as a whole, that "the degree of agricultural overpopulation, the degree of disparity in real earnings, and the degree of misallocation of human resources are all overdrawn."

AGRICULTURAL RESOURCES

In evaluating our agricultural resources in terms of the actual and potential food supply, we have to keep in mind, not only the land system as such, that is the way the land is organized for production, which with us is on the basis of private ownership and the family farm, but also the area of productive land, the fertility of the soil, the climatic conditions, the state of technology and so on.

Our available agricultural area is now, generally speaking, in use, though there may be shifts from one crop to another (as, for instance, from grazing to wheat). There is potential new agricultural land in the areas being rehabilitated by such projects as the T.V.A., or opened up for use by Grand Coulee, and so on, but compared with the extraordinary march westward last century, the available land can be said generally to have been taken up, so that any marked increase in productivity will have to come from improved techniques rather than from an extension of the land area as such. The natural fertility of this land has been amazing, and still is, as evidenced by the record production during World War II.

But we have been wasteful of our heritage. We have destroyed forests, depleted much of the fertility of our soils, thus exposing them to the forces of erosion, and removed the grass covering from the semi-arid plains region, so that it has become a breeding ground for disastrous dust storms. It is now of the greatest importance that we conserve what we have by proper utilization, and that we restore what we have lost by whatever means are at our disposal.

In addition to the basic land resources, an important factor in agricultural production is climate, particularly with respect to temperature and rainfall, and in both we are especially fortunate. The range of temperature means that a wide variety of products can be grown and also that the harvest moves from south to north, so that the overall growing period is long and products do not all come on the market at the same time, which eases the distribution and storage problem. Remarkable developments in transportation and refrigeration have made it possible for us to take advantage of the wide range in

temperature, so that, for instance, we have fresh fruits and vegetables on the markets of the country throughout the year

However, despite the generally good climatic conditions, we are subject to annual variations, periodic droughts and occasional periods of excessive rainfall, which not only interrupt the regular processes of production, but make all forecasting of agricultural production, and hence planning, a very hazardous undertaking More important than the A A A program in cutting production in the thirties were the droughts of 1934 and 1936; the widespread drought in 1945 was a major factor in upsetting reconversion plans.

Some adjustments can be and are made in farming practices to diminish the influence of variable weather conditions, but not completely to offset it, and the weather remains a basic but always uncertain factor in the farmer's planning, and in actual production; it is also a factor in national policy, as, for example, in the ever normal granary plan of the A A A Weather forecasting is therefore a matter not only of great economic but also political importance. However, "we have no present basis for high hopes of achievements in this field."

Technology and Science

In addition to land resources and climate, the state of technology and scientific research affects our capacity for food production In the development of new technological and scientific knowledge as applied to agriculture, the federal and state governments have played a leading role—"agricultural research has not only been institutionalized but also socialized."[2] The important role of government in agricultural research is partly due to family-scale farming, which does not provide the opportunity for much research and experimentation, and partly to the political power of farmers to obtain government help when needed The U S Department of Agriculture is itself a vast research organization, and the federal and state governments cooperate in maintaining the state agricultural colleges and experiment stations. The federal-state county extension service is an extraordinary organization through which a county agent—and usually a home demonstration agent also—is stationed in every agricultural county to acquaint farmers with new developments and help get them put into practice

Agricultural machinery and other supply companies have also taken some part, mainly in developing new machinery and adapting it for use under changing conditions; help is also given in breeding better strains of livestock, developing new varieties of plants, preparing new types of fertilizer, and so

[2] Theodore W. Schultz, *Agriculture in an Unstable Economy*, 1945

on. More recently the farmers' cooperatives have taken some initiative in this field. Farm magazines have stimulated activity among the farmers themselves, as have county fairs and other such organizations.

As a result, agricultural productivity per man-hour and per acre has been greatly increased, though not equally in all branches of farming and all regions. It is generally agreed among students of agriculture that productivity per man-hour could be increased and costs per unit decreased much more if we were able to apply fully what we already know, to say nothing of potential new developments. It has been estimated, for instance, that maximum use of techniques now available would increase output by 25 to 50 percent, and at the same time release much labor from farming, as happened to some extent during the war.

Some of the difficulties experienced in applying the results of science under our system of agriculture can be well illustrated by the machinery field, particularly the tractor—and it must be kept in mind that the impact of technology on economic processes becomes significant only when the new developments are actually put to use. Tractors have in the past been more suited for use on larger areas than those customarily held by the average American farmer, so that the larger the area held, the greater the competitive advantage—though this was somewhat offset during the thirties by the burden of cash costs. However, on the whole, the tractor gave impetus to the trend toward larger farms for commercial production, and tended, at the same time, to widen the gap between the commercial farmers and those primarily on a subsistence basis; today the average farm is about 200 acres, or 20 acres more than in 1940. But the impact of the tractor on the agricultural system has been checked to a considerable extent by the social and political strength of the family farm—*Grapes of Wrath,* for instance, was a protest against the working out of economic processes.

What this means, probably, is that total output of agricultural products is less than it would otherwise be, the costs higher, productivity per man-hour, and therefore average income, less. The issue is one of social philosophy as well as of economic advantage. In response to the "family-farm," maximum-farm-population point of view, machinery companies have been adapting the tractor to use on family-sized holdings, and the small "all-purpose tractor" is coming to be a feature of the country-side. The concept of "optimum size" for the farm plant is one of great importance, and should be analyzed in both its economic and social aspects. Clearly, in a dynamic society, what we have to try to achieve is a kind of moving balance between the forces making for greater per man-hour productivity, and the social factors involved in these

continuing readjustments. This points up the significant difference between "optimizing" and "maximizing" the production of goods and services, and the philosophic conflict inherent in the phrase "maximum output at minimum cost."

Use of the new machinery has had a considerable influence on the number of hired men employed, particularly in the grain and hay belts, where large numbers of "harvest hands" used to be needed during the relatively short harvesting season; now the combines have eliminated much of the need for extra help, and in those cases where the farmer employs a migratory combine crew, the situation is very different than it was formerly. Though machinery as a substitute for horses has, generally speaking, increased the proportion of cash costs, both for gasoline and instalment payments, it has, at the same time, released the land formerly used for horse feed for other purposes.

"If the corn belt were being run by a great corporation," said former Secretary of Agriculture, Wallace,[3] "within 20 years it probably would be producing the present supply of pork and lard with half as much man labor as at present, with 35 million instead of the present 50 million acres in corn, and with probably half as many farms and half as many people living on farms. That is the possibility of efficiency and commercialization pressed to the extreme. May the day of impersonal corporate dominance of a completely efficient and commercialized agriculture never come."

Rural Electrification

Closely associated with improvement in farm machinery has been the extension of rural electrification, due in part to encouragement by the federal government, through the Rural Electrification Administration, working with specially organized farm cooperatives. About 250,000 farms were receiving electricity from 825 cooperatives in 1945, compared with 100,000 in 1919. This has been an area in which the government has pioneered, not only in stimulating organization among farmers to help improve their own conditions but in the constructional aspects of electric power, devising new and cheaper methods of doing what private enterprise was not formerly willing to undertake. Recently the utility companies have been showing more interest in this field.

Electric power not only increases man-hour productivity in farm operations, but is also available for use in the farm home to lighten the burden of productive activities for direct consumption. Largely under the influence of the T.V.A. authorities, both public and private agencies have also worked on the

[3] As quoted in Carl T. Schmidt, *American Farmers in the World Crisis*, 1941.

job of adapting electric appliances for use in the small home, whether urban or rural, so that the impact of electric power on the living standards of low-income families has been greatly increased.

Insect and Disease Control

Another area of agricultural research that is spectacular in its interest is in the field of insect control, pest and disease control generally, both through direct attack and through the breeding of new strains and varieties of plants and animals. The Department of Agriculture and other federal and state agencies have put tremendous funds into this work. Despite the progress made, it has been estimated that the total insect damage to crops and livestock annually in this country alone amounts to some $2 billion,[4] which represents a complete loss of resources in itself, without considering the labor and capital that have been put into control efforts. Although loss figures, given in dollars, may be open to question (since they assume that had the damage not occurred prices would have remained the same), nevertheless the magnitude of loss is obviously very great. If the new chemicals are as successful in destroying pests as it is hoped, the question arises whether, once the postwar food emergency is passed, we shall be able to find a way to absorb into consumption, through market channels, the additional supply of goods thus made available; to farmers, preposterous though it seems from the consumer point of view, disaster may be their economic salvation.

Significant also in increasing efficiency in food production is the scientific work that has been done in improving breeds of plants and animals, with a view to increasing their disease resistance, crop yields per acre, livestock products per unit of intake, and also to improving their quality for consumption. One of the areas in which living standards have definitely been raised during the past century is that of food quality and variety.

Important as are these technological and agronomical developments in their effect on food supply, perhaps no less important are comparable developments in transportation and processing techniques which must be mentioned here in passing. And these changes are continuous—aviation, for instance, is already becoming a factor in the handling of some food products, and we are currently witnessing the development of the frozen food industry in the processing field and prepackaging in distribution. What effect will these developments have on the kinds of food in demand, and in the competitive position of different areas?

[4] See *Science*, August 1946.

Change in Farming Practices

The application of technology and science to food production, has brought about considerable changes in farming practices, though probably more of these changes exist on paper than in the field. Considerable research and educational work has been done by agricultural economists, both official and unofficial, on what might be termed internal farm management; this is also an important subject of study in all agricultural colleges. Suitable adjustment of farm practices to changing conditions and also as a means of lowering costs, is dependent largely, of course, on the managerial capacity of the individual farmer, and the extent to which he will take advice, if good advice is available. It is also tied up closely with market conditions. In fact, we can only intelligently talk of good farm management in terms of cost-price relations (government subsidies also being part of this picture).

The farmer has to organize his total resources in a way that will meet consumer preferences at the lowest cost (from the consumer point of view) or the highest profit level (from his own point of view); this means that under diversified farming conditions he must so organize his varied production that, taken together, it will yield a satisfactory income at prices that people will pay in an exchange economy—if the government subsidizes his income that, of course, is a different matter. As a matter of fact, government aid has been called upon in various ways to offset the influence of the market. For the last 20 years, particularly, there has been a continuous development of government policy directed toward influencing the cost-price ratio in favor of the farmer, or toward encouraging him to continued production by subsidy payments of one sort or another so that his income is not dependent on the cost-price ratio, or else that ratio is manipulated in his favor.

PUBLIC POLICY TOWARD AGRICULTURE

Government aid to agriculture is nothing new, as illustrated by the research and educational activities mentioned above, aimed primarily at increasing farm output. After World War I, however, the problem shifted from one of encouraging production to one of finding markets for agricultural products at a price satisfactory to the farmers. The problem was particularly acute for our export products, that is, products on an export basis, for which the supply is greater than can be absorbed on the domestic market at "satisfactory" price levels. During World War I, there was a rapid expansion in area planted to grains, some of the grazing areas in the West being ploughed

up for this purpose. After the war, with the restoration of European farming and expansion of agriculture in other countries, it became difficult to dispose of much of the American export "surplus" even on a falling market. Prices for export crops, therefore, did not recover after the brief postwar depression as did prices of most industrial products, so that growers got caught in the "scissors" of relatively high industrial prices and low farm prices. However, it should be pointed out here that these price relations were described in terms of prewar conditions, when, as a matter of fact, agricultural prices were abnormally high.

A decade of maladjustment was followed by the depression of the early thirties which intensified but did not originate the difficulties which beset many branches of agriculture. Most of the period between the two World Wars was, therefore, one of panaceas, all involving government action.

To protect industry from competitive imports of foreign manufactures after World War I, Congress was led to increase the tariff rate until, by 1929–1930, it reached the highest point in our history. However, for products on an export basis, as, for instance, our grains, and in the non-food field, cotton and tobacco, tariff protection was ineffective, except perhaps for limited varieties or a limited period of time. The pressure of the "surplus" (such supply as cannot find a market at a "satisfactory" price, regardless of the needs of the people) was too great—it had to seek an outlet. The farmers whose products were on an export basis therefore demanded a "tariff equivalent"; farmers, particularly the dairymen, livestock owners, and wool producers whose products are for the most part on a domestic market basis, already had tariff protection.

The "Outlook" Service

The government was highly experimental during this whole period in its approach to the question of aid to agriculture, and tried many ways, only the more important of which will be mentioned here. In the first place, a Bureau of Agricultural Economics was set up in the Department of Agriculture in 1923. Among other activities, the Bureau developed an "outlook" service, the purpose of which was to advise the farmers on the changing market situation in the hope that they would be guided by this in their production programming; this service is still continued, with modifications. But the farmers during the twenties wanted something more tangible than advice, particularly since it seemed to point to the necessity of contracting their cultivated acreage.

CHEAPER CREDIT

As an aid in reducing costs, provision was made, *inter alia,* for cheaper credit through government agencies, both long-term mortgage credit and short-term credit for both production and marketing purposes, through co-operatives or otherwise. Activities of the government in the farm credit field were brought under a single administrative unit, the Farm Credit Adminis-

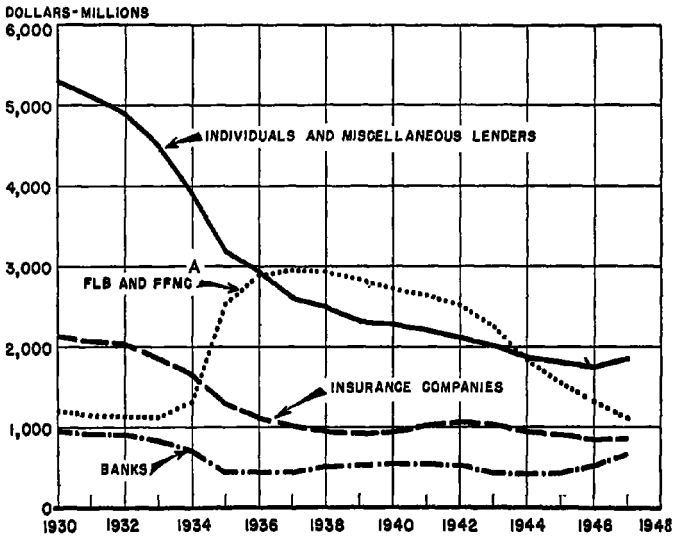


FIG. 4. Estimated Amount of Farm Mortgage Debt Outstanding in the United States, January 1, 1930–1947. Federal Land Bank and Federal Farm Mortgage Corporation (A). (Courtesy of U. S. Department of Agriculture.)

tration, in the early thirties. These activities are extensive and ramify in many directions.

In order to facilitate long-term mortgage loans to farmers, at a cheaper rate than private loan companies were prepared to give, provision was made as far back as 1916 for the establishment of a system of federal land banks, but they did not become important until after the First World War. Contrary to the original intention, which was to make these banks "farmer-owned," they became, in fact if not in name, government agencies, particularly after

the onset of the depression, when it was necessary to assist the banks in a $2 billion bond issue to protect farmers from a wave of foreclosures that was sweeping the country. In the 20-month period, May 1933 to December 1934, mortgages to the amount of $1.5 billion were taken over, representing about one fifth of the entire mortgage debt.

Special provision was also made during the thirties to assist farmers whose insecure position made them ineligible for land bank loans, through so-called land bank commissioner loans, some of which are still outstanding. The last of the government money loaned to the banks has recently been repaid.

Short-term production and marketing credit was also provided for through a system of federal intermediate credit banks set up in 1923; all the stock in these banks is held by the government. Special banks were also set up for loans to cooperatives, the stock being held mainly by the government, with some share in the hands of the cooperatives.

Total loans made during the period from May 1933 through December 1941, and loans outstanding December 1941, by various agencies under the jurisdiction of the Farm Credit Administration were as shown in the accompanying figures.

	Loans Made, 1933–1941		Loans Outstanding, December 1941	
	Number	Amount	Number	Amount
Farm mortgage loans	968,261	$2,594,807,711	1,029,516	$2,394,641,039
Short-term credit	4,221,103	6,777,216,814	1,515,210	623,412,527
Loans to coops	10,108	1,021,563,867	1,802	132,510,312
Net total	5,199,472	7,483,725,232	2,546,528	2,924,546,615

During the period of May 1933 to June 1946, a total of 7,048,000 loans were made by F.C.A. agencies, for $12,402,000,000; the number outstanding June 1946 was 1,834,000, for $1,779,000,000.

But cheaper and easier credit was only one approach to the farm "problem."

McNary-Haugen Proposals

Farm groups themselves during the mid-twenties began to press for some form of price support. A program that appealed strongly to growers whose product was on an export basis, was embodied in the so-called McNary-Haugen Bill which passed Congress in 1927 only to be vetoed by the President, after strong opposition by the State Department; however, it continued to receive support from some groups, and even today should not be looked upon as having only historical interest. Briefly, it provided that an estimate be

made of the quantity of any particular agricultural product that would sell on the domestic market at what was regarded as a "fair" or "satisfactory" price. Any surplus over this amount would be isolated at some point in the marketing process, and sold abroad at whatever the international market would bring. To compensate exporters for the difference between the domestic and the world price (to induce them to export and not throw the surplus on the domestic market), an equalization fund was to be established from fees paid by farmers who would receive a greater total income under the plan, even taking account of the cost of maintaining the fund. A variation of the plan was for the government to buy up the surplus set aside for export at the domestic market price, and sell it abroad for whatever price it would bring, the U. S. Treasury taking the loss.

Marketing Cooperatives

To offset the strong movement in favor of the McNary-Haugen proposals, the administration gave its support to those who maintained that the "farm problem" had its roots in the unequal bargaining position of the producer. Agriculture based on the family farm meant small-scale producers selling to integrated wholesaling and processing groups, who had an unfair price advantage. The solution, therefore, was to organize producers by commodity groups into marketing cooperatives which would control the total output of each particular product and be in a position, given adequate financing, to determine, themselves, the terms of sale.

Various efforts were made during the early twenties to establish marketing cooperatives under the protection of special legislation (the Capper-Volstead Act, 1922) but they were not very successful, lacking efficient leadership and adequate financing. In 1929, therefore, Congress passed the Agricultural Marketing Act, under which a Federal Farm Board was established with a $500 million revolving fund to get marketing cooperatives organized under government sponsorship. It is difficult to say what would have been the outcome of this venture had the depression not intervened before the program got well established. As prices tumbled, farm representatives brought pressure on the board to use their funds to buy up "surplus" products in an effort to halt the fall in prices, but the catastrophe was too great to be headed off by such operations.

Adjusting Production

The new program of the thirties was built around the belief that, in view of the world situation and our own attitude toward international coopera-

tion, it was hopeless to look for markets abroad for our basic commodities, and we must therefore formulate a plan for acreage reduction. Henry A. Wallace, then Secretary of Agriculture, explained the reasons underlying the new program as follows:[5] our agricultural production of export crops must be cut by taking some 43 million good producing acres out of use, unless we were prepared to lower our tariffs sufficiently to admit some billion dollars worth of additional goods from abroad. Other people could not buy our products, once we stopped lending them money to do so, unless we made it possible for them to pay through trade. Since Secretary Wallace was convinced that we would not take the necessary steps to free international trade, he felt there was no recourse but to reduce production by cutting back acreage to about the prewar level. The 43 million acres to be taken out of production (all good land) included about 15 million acres for cotton, 20 million for corn, one-half million for tobacco, and 7.5 million for wheat.

THE PARITY PRICE RATIO. The plan was to adjust production so that supply would be equated to demand at the so-called "parity" ratio level. Parity is the peg on which most of our programming with respect to agriculture has hung since that time, so it is important that it be understood. Under the 1948 farm act, the parity formula is to be changed in 1950. Up to that time it is the ratio between the prices paid by farmers and the prices they receive for their products as of some base date, usually 1911–1914. The idea behind parity is that the relative position of farmers as a group in the national economy should be protected at the level established in the base year. Parity became the goal, as a minimum, despite the fact that it took no account of any change in relative farm costs.

Some economists have pointed out from time to time that what is important to the farmer is not price as such but net income, so that if parity is to be used, it should be in terms of income, not price. For a decade, the parity income position of farmers has been much more favorable to them than the parity price position; perhaps this is the reason why more is not heard about it. When the new parity formula goes into effect, parity price for most agricultural commodities (after a transitional period in some cases) will be determined by "dividing the average price received by farmers for that commodity during the preceding ten calendar years (or during the 10 marketing seasons beginning within this period) by the index of prices received by farmers for all commodities during the same period to obtain an 'adjusted base price.' This adjusted base price is then multiplied by the current index of prices paid, interest, and taxes to obtain the current parity price." Con-

[5] World Affairs Pamphlet, *America Must Choose*, 1934.

sumers might well think that such a complex formula should be left to the experts, but the stubborn fact is that it affects the family food bill directly.

Since farm prices were below parity in the early thirties, a program for adjusting production became one for reduction in acreage planted and livestock bred through machinery set up under the Agricultural Adjustment Act (1933). This involved setting up an overall quota system and the application of that system to individual farms through the machinery of local farm committees. Though the program was on a voluntary basis, efforts were made to secure widespread cooperation through financial payments to those conforming to the quota requirements. This act had a stormy history; its production control features were declared unconstitutional and it was replaced, first by a "conservation" program and in 1938 by a modified A.A.A., with additional provisions for establishing marketing as well as production quotas, financed by government loans up to a designated percentage of parity.

This program did not have any very marked effect on output but it caused concern among consumer representatives, nutritionists, and others for fear that, under a system of controlled production, the quota set with a view to raising price to the parity ratio might actually result in cutting supplies below the level required for "normal" consumption on the domestic market. As a result, an amendment was included in the 1938 act, providing that in adjusting production, account should be taken of the necessity of not reducing supply below current per capita consumption levels; the Secretary of Agriculture was directed generally to give "due regard to maintenance of a continuous and stable supply of agricultural commodities for domestic consumption adequate to meet consumer demand at prices fair to both producers and consumers." The principle of a guaranteed minimum quantity is also included in the provisions of the 1938 act establishing marketing quotas. These minimum requirements, it must be understood, were in terms of current consumption, not of any normative standard.

SUBSIDIZING CONSUMPTION. The existence of widespread malnutrition in the United States, and particularly in many countries abroad, cast a certain shadow of wrongdoing over a policy aimed at a cut in food supply, and turned attention toward the problem of finding ways of moving the plentiful supply we were able to produce into consumption on terms acceptable to producers. It seemed preferable for federal money to be paid to consumers, directly or indirectly, to buy food, than to be paid to farmers to refrain from producing it. This was a novel idea at the time and roused much opposition, but the government did experiment with a "food stamp plan" to provide additional food for those on relief, and with school lunch programs.

With the outbreak of war, the problem became one not of restricting but of expanding production.

In 1939 the farm price ratio was 77 percent of parity (1910–1914 = 100); by 1940, the influence of World War II had begun to make itself felt, and the ratio moved steadily upward until, in 1946, it stood at 120. However, the figure differed considerably for different commodities. Farm income (net income) was much higher, quite apart from subsidies paid to farmers during the war with a view to holding prices down. Parity was no longer the goal of agricultural policy. Government payments to farmers in the period 1941 to 1945 totaled about $3.5 billion.

After mid-1946, retail food prices made a sharp upward turn, until by the end of 1947, they were double the prewar level. Many low-income families found their customary foods beyond their reach, but nevertheless effective demand at home and abroad continued to move supply off the market. The Council of Economic Advisers warned, however, that the high-price level of food products made the problem of meeting human needs throughout the world increasingly difficult. They recommended the reinstitution of controls.

In order to induce farmers to produce to capacity during the war to meet production goals, the government undertook, for most food commodities, to keep a floor under farm prices for a period of two years after the official declaration of the end of war, and this no doubt has had some influence on the continued high production level, though, as a matter of fact, most farm prices have been above the level at which the support program (which is tied to parity) would become operative. Professor J. S. Davis takes the position that during the war, under political pressure, the level of agricultural prices and incomes was pushed higher than was necessary to induce "full production,"[6] but this is a matter about which it is obviously difficult to come to a decision. The price-support period was extended by the 1948 farm act to 1950. The recent drop in some farm prices will involve the government in support payments.

THE COMMODITY CREDIT CORPORATION. An important instrument of government policy with respect to agriculture is the Commodity Credit Corporation, established by Congress in 1933. Part of the function of the C.C.C. is to assist in stabilizing the production and marketing of American farm products and particularly to handle various price-support programs, including loans to farmers to help them keep "surplus" crops off the market; also to purchase supplies on the market when considered necessary to maintain prices at a "satisfactory" level, or in implementing government policy of

[6] *Review of Economic Statistics*, May 1947.

relief abroad. They also handled subsidy payments during the war. The corporation has become a gigantic enterprise, authorized by Congress to borrow up to $4.75 billion on the credit of the United States. Its continuing activity is brought to light by occasional items of news; for instance, buried in a newspaper column[7] giving a report on food prices was the statement: "As egg prices dropped the permissible limit for one day on the New York Mercantile Exchange, announcement was made that the Government was offering for sale to domestic outlets its holdings of 61,000,000 pounds of frozen whole eggs acquired by the C.C.C. during the season of flush production this year under the price-support program."

Looking ahead to the uncertainties of the future, consumers should give careful consideration to various suggestions now being made with respect to a change in our national policy toward agriculture.

"FORWARD PRICING." For some time now a group of agricultural economists have been expressing the opinion that parity should be replaced by a new concept of "forward pricing." What this would involve is not entirely clear to the layman, but an estimate of consumption needs, both at home and abroad, would be made (presumably in cooperation with the U. N. Food and Agriculture Organization) and a price guarantee would be given by government at a level calculated to induce farmers, in view of all relevant circumstances, to produce the required supply. If the market fell below the guaranteed price, presumably the government would either go into the market as a buyer to bring the price up, or would compensate farmers directly or through some international fund, if such a fund were established.

That is to say, the organizing factor in food production would not be the "market"; resources would be put to use according to a predetermined plan sustained by the government—the basic program would not change, having been an integral part of agricultural policy since the thirties. The Department of Agriculture, in cooperation with the states, would continue setting up production goals on commodity lines for farmers, who would be encouraged to cooperate by one means or another in what is in effect national planning on a vast scale, as conditioned by the family-farm system of American agriculture. This is of enormous importance to consumers, whose point of view should be heard at all stages of the planning program. The problem fundamentally, is how to satisfy food requirements and also other requirements met by food production, on terms that will provide the necessary incentives to independent farmers to produce.

At hearings before the Congressional agricultural committees during

[7] *New York Times*, October 31, 1947.

1947, officials of the U. S Department of Agriculture, including the Secretary of Agriculture, endorsed a program for "planned abundance," which in principle seems like that involved in the proposals for forward pricing Instead of reverting to the policy of the early thirties of limiting acreage once the agricultural resources of Europe are rehabilitated, the new program would rest instead on a policy of "sustained demand," both at home, and to some extent, abroad That is to say, the government would make it possible for low-income families to buy more food at prices satisfactory to farmers, through some modification of the stamp plan worked out for relief families during the thirties; the school lunch program would be extended, industry would be encouraged to use more agricultural products as raw materials, and there would be support for a shift in diet to more meat and dairy products which require more acreage per consumer than grain products eaten directly, once the present emergency (which has called for a shift in the opposite direction) is passed

Under such a policy of "organized, sustained, and realistic" abundance, farmers would be guaranteed "fair prices and income parity with the returns of those in other fields of work who make comparable contributions to the general welfare," keeping in mind, however, the importance of "greater efficiency in both production and distribution for the benefit of producers and consumers"[8] Emphasis, it will be noted, is put on income rather than price parity This program might involve holding the price below a level considered necessary to get out enough supply to meet requirements, and making subsidy payments direct to farmers as was done during wartime price control Such a policy is, however, opposed by farm as well as processing and marketing groups. What policy should consumers support?

Cursory as is this review of the factors affecting our food supply on a long-time basis, it highlights the point that not only as a war emergency but as a matter of permanent policy, the government plays a considerable role in the food supply situation Consumer action at the market must be supplemented by action at all points in the political process where these policy decisions are made, if consumers are to exert their influence effectively on the conditions under which food becomes available at the point of production.

MARKETING FOODSTUFFS

Let us now turn our attention to the factors affecting its course from the farms to the kitchens; this involves processing and marketing functions It

[8] See U S Dept of Agric., *Food Supplies and Markets*, October 24, 1947

is often difficult to dissociate the processing from the marketing function in moving food products to the retail level, since processors frequently carry on many marketing functions, and merchants certain processing functions. We need not concern ourselves too much about distinguishing between them. By processing we mean changing the nature of a product; marketing means the handling and movement of the product from producer to final consumer, and arranging the terms of sale. Included in marketing also are the financing and risk-bearing functions associated with the various phases of distribution.

According to a statement by three members of the Department of Agriculture before the T.N.E.C. in 1940,[9] farmers got an income of approximately $6.2 billion for producing foods bought by American consumers; the American consumer spent about $14.8 billion for these foods; the difference went to railroads, truckers, processors, manufacturers, wholesalers, retailers, bankers, and other kinds of middlemen. On the average at that time, the farmer got 42 cents of the consumer's food dollar, and the marketing (including processing) system, got the other 58 cents.

This distribution of costs is not to be taken as fixed, however, the tendency being for the farmer's share of the consumer's dollar to increase as the price level rises, but not proportionately. In March 1947, the farmer's share reached an all-time high at 56 percent; in September 1947, according to the U. S. Department of Agriculture the figure was 52 percent, with the remaining 48 percent covering all marketing and processing charges.[10]

It is obviously to the interest of both farmer and consumer that the processing and marketing of food products be carried on as efficiently as possible with a minimum of waste. The size of the "spread," the difference between the farm price and the price paid by the consumer, is not in itself evidence either of inefficiency or of high profit margins, as pointed out above. Food is brought from greater distances and in all seasons, is prepared in a greater variety of ways, packaged with elegance in small quantities, advertised to the music of string quartets, or with the quips of comic stars. As was stated in the preceding chapter, the cost of a function is not "too high" if consumers want it performed and are willing to pay for it, and it is performed as efficiently as possible.

In its final report, the T.N.E.C. stated:

> During the last 25 years many changes have taken place in the processing and distribution of food products, some tending to increase marketing costs and others to decrease them. In general, consumers are getting more highly processed and

[9] T.N.E.C. Final Report, 77th Congress, 1st Session, Document No. 35, 1941.
[10] See U. S. Dept. of Agric., *Food Supplies and Markets*, September 26, 1947.

serviced products than formerly. All this adds to the cost of marketing and partly explains the increased spread between farm and consumer prices. If consumers want these services and are willing to pay for them, they should be allowed to do so. At the same time, nothing should be done, either by private enterprise or the action of public agencies to prevent the development of low-cost forms of distribution such as self-service retailing, sales of milk through stores rather than doorstep delivery, etc., because to the low-income consumer all possible savings are important.[11]

At various stages along the route from farm to retail store, buying and selling operations take place, either directly or through auctions. Setting the price is facilitated by increasingly extensive news reports by government and the trade, by services such as grading, which makes identification easier, and also by financing, including loans on the product. Decisions as to when and where to ship food products, particularly those subject to fluctuating prices, and when and where to sell, that is to say, where the best markets are according to the best information available, are basic to the whole process. The grower may sell at the farm, or at the local assembling point or auction, in which case his concern in a particular transaction ceases; or he may ship on commission right up to the terminal market, in which case he carries the risk, while he holds the title, both of physical damage and price fluctuation.

For wheat and certain other commodities, an elaborate organization has been developed for shifting the risk of fluctuating prices from growers, processors, and others to a specialized group of speculative operators through what is known as a hedging operation on a futures market, which is conducted under a certain degree of government supervision. For the major agricultural products which are harvested seasonally and therefore have to be stored for considerable periods of time, the trend of future prices is an important but highly uncertain factor. Yet the farmer wants his money for a crop that may not be sold to the final consumer for many months; processors want to be certain that they can get supplies at a future date to carry out contracts, and at a price determined in advance. Through the organized market they can buy the supplies they require for future delivery at prices fixed currently, through operators who will take a loss if prices go up, but will gain if they go down. Under normal circumstances such operations should help to steady the market, though speculative activity under such circumstances as prevailed in 1947 may be a temporarily upsetting factor.

All price decisions made back of the retail market have to be made in

[11] *Op. cit.*, p. 386.

advance of final sale to the consumer, on the basis of the best estimates that can be made as to future consumer behavior. However, marketing and processing problems differ markedly for different products and so does the spread of costs. Students will find it interesting to make special studies of the products of importance in their own locality. As illustrative of some of the problems of significance, from a consumer point of view, in the marketing of food products, let us consider those that arise in connection with the marketing and processing of (1) fresh fruits and vegetables, (2) meat and livestock products, (3) milk.

Fresh Fruits and Vegetables

Fresh fruits and vegetables may come to the retail market from a neighboring locality or from a point thousands of miles away. A trip through the Washington markets in New York City, where fruits and vegetables for millions of people are unloaded nightly, is an excellent lesson in geography. This produce, speaking generally, comes from the farms of a multitude of small growers. It is usually taken from the farms and orchards to the local assembling points or auctions, where it may be sold to independent buyers or brokers, to representatives of mass buyers if they are operating in the particular area, or perhaps agents of canners and other processors who will take their purchases out of the fresh fruit and vegetable channels. Part of the product may be shipped directly by the growers, in which case it is usually handled by agents or brokers on a commission basis.

At the local market it is assembled into truckload or carload lots, sometimes graded, refrigerated if necessary, and started on its way immediately to intermediate or terminal markets. An important feature of the fruit and vegetable supply is that for the most part it is highly perishable and cannot be held off the market for any considerable length of time, unless it is deliberately wasted in an effort to maintain prices. At the terminal markets, wholesalers or jobbers assemble quantities of different kinds of fruits and vegetables (unless they are specialists), frequently grade and otherwise prepare the produce for sale to retailers, smaller wholesalers, institutional buyers, and so on. Commercial grading according to United States standards is a common practice in the trade, though recently an official of the U. S. Department of Agriculture (U.S.D.A.), speaking before members of the National Association of Marketing Officials (including state and local members), emphasized the need for more quality labeling from the farmer to the consumer; then, he said, "Our distributive system will move the right quality to the right market or use, outlets will be expanded, farmers will be

remunerated in accordance with the quality they produce, consumers can get what they want and are willing to pay for, and the distributive system will function more efficiently."[12] Commercial grading facilitates arbitration proceedings if controversies arise between buyers and sellers; it also facilitates financing.

The conduct of the interstate business of handling fresh and frozen fruits and vegetables is governed by the federal Perishable Agricultural Commodities Act (1930), which requires that all dealers, commission merchants, and brokers be licensed (23,953 licenses were held in the United States at the end of 1947); licenses can be suspended or revoked by the Department of Agriculture for unfair practices, though such action would be most unusual. The department does, however, use its authority to help in settling complaints, etc.

For the most part, the business is conducted by small operators, though there are a few corporations doing a considerable volume of trade—as, for example, the American Fruit Growers, Inc. As pointed out above, mass distributors may buy directly from the growers, or at the local or terminal markets; however, the extent of their activities should not be exaggerated—for instance, as pointed out in one of the T.N.E.C. monographs,[13] the A & P's Atlantic Commission Co., the largest buyer, handled quantities ranging from 3 percent of the peach crop to 75 percent of the onion crop, though in certain areas the proportions were larger.

This is also a field of considerable activity for growers' marketing cooperatives, which in some cases retain title to their product up to the terminal markets, and at times even to the retail level, though they have been impeded in this by monopolistic elements at the markets. The most notable example of cooperative marketing is in the case of California citrus fruit, the greater part of the California crop being so marketed; most of this is handled by the California Fruit Growers Exchange. The exchange has an organization reaching into all major terminal markets in the country, and so is in a position to know the price situation at all these points; as a result, it diverts carloads en route from one point to another to take full advantage of market differentials; it also maintains subsidiary processing plants and is able to support the price of its produce on the fresh fruit market by withdrawing quantities or grades for processing. This is what is generally known as "orderly marketing" procedure. Competition from other citrus areas protects the market, at least to some extent, from effective control by the

[12] U. S. Dept of Agric., *Marketing Activities*, May 1947.
[13] No. 35, 1940.

exchange, though the exchange, through advertising its brand, has perhaps gone further in building up a non-competitive market for its branded products than any other cooperative in the field of fresh fruits and vegetables.

DISTRIBUTION COSTS. The Federal Trade Commission, in an inquiry into distribution costs, initiated in 1943, traced the movement of some 20,000 separate carload shipments of various fruits and vegetables from producing regions throughout the country to 11 large terminal markets distributed territorially from Dallas, Texas, to Minneapolis, Minnesota, and eastward to the Atlantic seaboard. The distribution of the consumer's dollar, on an

TABLE 21. Distribution of Marketing Costs

Product	Proceeds to Grower (Cents)	Packing, Loading, Storage, etc. (Cents)	Transportation (Cents)	Wholesale Distributors Margin (Cents)	Chain Store Retail Margin (Cents)
Table grapes	28.04[a]	10.95	28.20	7.29	25.52
California oranges	36.70[b]	8.99	21.77	2.59	29.95
Florida oranges	29.65[c]	19.56	14.44	3.88	32.47
Florida grapefruit	23.69[c]	20.61	17.72	4.30	33.68
Georgia and Carolina peaches	31.15	12.03	21.65	4.63	30.54
Pacific Northwest apples	21.37[b]	17.70	23.33	6.33	31.27
Maine white potatoes	43.10[b]	8.25	21.13	3.55	23.97
Eastern Shore new potatoes	53.91[d]	9.76	13.89	3.72	18.72
Tomatoes	23.92[d]	10.66	16.51	4.53	44.38
Texas onions	12.21[e]	11.82	28.03	6.47	41.47
Pacific iceberg lettuce	19.88[b]	14.45	26.39	5.77	33.51
Texas cabbage	14.45[b]	11.15	35.93	2.93	35.54
Florida cabbage	11.29[f]	14.98	27.44	6.07	40.22

[a] Picked but not packed.
[b] At receiving doors of packing houses.
[c] For fruit on trees.
[d] Potatoes at loading point not packed or loaded.
[e] Onions on surface of field pulled and clipped.
[f] Cabbages standing in the field.

average basis, for certain fresh fruits and vegetables sold through chain stores is shown in Table 21.

In commenting on certain of these cost items, the F.T.C. drew attention to transportation costs, which, it will be seen, are a significant percentage of the total, though they vary considerably according to the method of transportation used, the distance transported, and the degree of competition between rail, water, and other methods of transportation. Since basic transportation rates are determined by the Interstate Commerce Commission, the F.T.C., in considering the possibilities of reducing costs, seems to assume that these rates are not subject to change; from the consumer point of view, however, the basis on which rates are fixed is as open to question as

any other element of cost Transportation charges are, of course, factors in the cost of production on the farm as well as in the secondary process of bringing the food supply to the consumers On the other hand, it must be noted that remarkable improvements in transportation facilities have contributed enormously to the effective distribution of these products, both in speed of delivery, improvements in refrigeration techniques, and so on A factor of considerable importance in the movement of fresh fruits and vegetables has been the development of the trucking system for long hauls, which has also eliminated some of the stages in handling the produce As a specific area of transportation where there is considerable waste and inefficiency, attention should be drawn to intracity cartage of perishable food products—"the most notable example of transportational waste and inefficiency in food distribution"[14] This is tied up with conditions at the terminal markets.

THE TERMINAL MARKETS One of the significant factors in the marketing of fruits and vegetables, has been the wasteful and costly practices at terminal markets, where monopolistic controls are also a factor In its recent report on distribution costs, referred to above, the Federal Trade Commission said·

> Investigations have established the fact that in some large wholesale markets, distribution charges assessed against the selling price of produce, are determined by agreements among cooperating terminal receivers, commission merchants and handlers who control limited rail, water and truck receiving and marketing facilities through which large volumes of produce must be wholesaled Monopoly charges so fixed generally are on a quantity basis and bear no relationship to the selling prices of the commodities affected The effectiveness of the enforcement of these schemes generally depends upon the extent to which receivers and handlers and unions of employees, cooperate to protect and perpetuate their monopoly position and charges Entry of non members into such markets is prevented by rules which, from time to time, are enforced by threats, sabotage and even violence In order to maintain prices, in some markets, produce may even be destroyed.

One of the advantages of mass distributors is that by direct buying they are able to eliminate the excessive cost factors in some terminal market operations, and to provide a competitive element in that situation; generally speaking, they also get their produce into the retail stores 12 to 24 hours sooner than through regular channels.[15]

[14] TNEC Monograph No 35, p 70
[15] *Ibid*

Not only monopolistic practices, but inefficient handling at the markets, due partly to structural inadequacy, is also a cause of excessive costs. The U. S. Department of Agriculture has said that "a great deal of waste and spoilage could be avoided. . . . But many terminal markets have no refrigerated storage for highly perishable commodities and sometimes not even an awning or roof to shade the products from the direct sunlight."[16] This point is also emphasized by Dr. Hoffman:

> The wholesale produce markets of most large cities are antiquated, decentralized, congested and altogether inadequate for the proper handling of perishable products. Buyers and sellers who use the markets are subject to costly delays and inconveniences . . . many of the markets do not have direct rail connection, which adds to the cost of terminal cartage. . . . The situation has been such as to provide an opportunity for associations of truck owners and drivers to impose costly regulations and restrictions upon the free movement of produce within large cities. Intracity cartage costs in N. Y. C. amount on the average to 4 to 6% of the retail price of fresh fruits and vegetables. . . . A considerable part of this could be saved by proper arrangement and location of the wholesale markets, so that it cannot be said that this source of inefficiency is necessarily inherent in the regular marketing system.

The Department of Agriculture has described one newly built city market in which much of the waste effort and food spoilage that had occurred in the obsolete buildings formerly used was eliminated: "From the railroad track in the rear, cars are unloaded directly into the storeroom. The office is of the balcony or mezzanine type that leaves the entire floor free for storage and display. Convenient elevators serve the refrigerated storage rooms in the basement; perishables held overnight can be kept at proper temperatures. Because the front platform is tailgate high, there is no need to lift products when loading and unloading trucks. This platform can be enclosed and heated in winter so as to protect displayed products before they are loaded."[17] A Marketing Facilities Branch in the U. S. Department of Agriculture offers assistance in the development of new or improved markets by public or private agencies. A trip by students to the nearest terminal market seems to be indicated.

The supply of fresh fruits and vegetables coming on the retail market depends, not only on the quantities produced but also on the quantity that flows through the marketing channels and the rate at which it flows. Produce may be left to waste on farms, if the price situation is not satisfactory, or it

[16] *Marketing Activities*, January 1946.
[17] *Ibid.*

may be jettisoned along the way, whoever holds title to it at the time taking the loss. Individual farmers and handlers are not usually in a position to affect the price of their produce when acting alone, and even through cooperatives are rarely in sufficient control of supply to be a major price determining factor.

MARKETING AGREEMENTS. It was because of this situation that cooperatives and most of the other handlers supported the proposal, embodied in the first Agricultural Adjustment Act (1933), for marketing agreements between the Secretary of Agriculture on the one hand, and farmers' associations or handlers or processors of food products on the other, to provide, *inter alia,* for control of the rate of flow to market of certain farm commodities, including fruits and vegetables, as a way of maintaining price. The marketing provisions of the A.A.A., in modified form, were enacted as separate legislation in the Agricultural Marketing Act (1937), which is still in force.

Under special circumstances, in order to prevent a minority from blocking the efforts of a majority to establish "orderly marketing procedures," or maintaining a fixed-price pattern, the Secretary is empowered to require the minority to abide by the terms of a marketing agreement—under the original act he could enforce this provision by issuing and revoking licenses, but this coercive device was later replaced by "orders" of a less drastic character. Agreements made under the act for the "orderly marketing" of certain fruits, nuts, and vegetables have tried to support price levels by: (1) determining the market supply that will yield a satisfactory income and then prorating this supply among shippers; (2) suspending shipments when markets are glutted; (3) preventing low grades from reaching markets or at any rate the principal markets.

In 1940, more than 40 agreements were in operation affecting about 1,300,000 farmers in varying degrees; a large number of these agreements covered fruits and vegetables. During the war, with demand for all farm produce at a maximum, in processed if not fresh form, and with prices well above parity, "orderly marketing" lost some of its significance, but an unfavorable turn of events for farmers might very well bring the agreements program into full operation again, as an important aspect of fresh fruits and vegetables marketing. It should be noted that the objective of the agreements is to maximize farm prices, which is not necessarily inconsistent with lower prices to consumers, but there is always a danger in such marketing programs that the interest of the consumer will be lost sight of. "Here, too, as in the case of major crop programs, the main emphasis has been on restriction of

market supplies. Although . . . the social efficiency of agricultural marketing could be raised, to the advantage of both consumers and farmers, little has been achieved in this direction by the agreements."[18]

Milk and Other Dairy Products

Let us now turn our attention to milk. Milk provided about 18 percent of total cash receipts from farming in 1940, and 14 percent in 1945. It is the main source of income for about one-sixth of our farmers and a secondary source for about another two sixths For consumers it is one of the basic foods.

Speaking generally, dairy products are on a domestic market basis; that is to say, they are not forced to seek international markets, except in a few instances, at certain times. As a result, they can be protected from international competition by tariffs.

Dairying is scattered all over the country; in the great metropolitan milksheds, its product is used mainly as fluid milk but in other areas, notably in the North Central area, it is primarily processed into butter, cheese, evaporated milk, and other milk products. In 1940, about three-fifths of the milk produced in the country was used as market milk and cream; the remaining two-fifths was manufactured into butter, ice cream, and other products. The returns to producers is normally higher for fluid milk, but the profits on invested capital are higher for the processed products. Profit figures for 1940 as given by the Federal Trade Commission were as shown in the figures presented here.[19]

No. of Companies	Business	Rate of Return on Investment (percent)
18	Evaporated and condensed milk	20.1
27	Ice cream	16.7
13	Butter	10.4
4	Cheese	13.1
82	Fluid milk distributors	5.4

The 62 processors of milk averaged 14.7 percent on their investment, compared with 5.4 percent for the 82 distributors of fluid milk. The highest rate

[18] Carl T Schmidt, *op. cit.*, p 179.
[19] See *Distribution Methods and Costs*, June 18, 1945.

of profit for the year among the 62 products manufacturers was 146 percent, as compared with 26.9 percent for one company among the 82 milk distributors.

For the most part dairy farmers, particularly those in the big milksheds, are organized into bargaining or marketing cooperatives, the most outstanding, from the point of view of volume handled, being the Dairymen's League of New York. The league is primarily a bargaining agency, arranging the terms of sale for the milk produced by its members but it also distributes some milk directly and has established a number of processing plants for handling "surplus" milk, or milk which will not sell on the fluid milk market at the customary price (or without bringing down the price of all milk sold). The Dairymen's League has at times been charged with a greater interest in the companies with which it does business than in its own farmer members; it has not shown any sympathy with consumer movements designed to reduce distributive charges in order to lower retail price and expand consumption.

LARGE-SCALE MARKETING ORGANIZATION. Since the twenties, a period of rapid growth in corporate mergers, the business of milk distribution has come to be highly concentrated in the hands of a few large companies, particularly in the metropolitan areas. During the 1920's the National Dairy Products Co., after absorbing the Sheffield Farms Co., expanded to a national basis. In describing the operations of National Dairy in 1934, a T.N.E.C. report stated that the company handled 9.4 percent of the total volume of milk moving into commercial channels in the United States: "But for certain products and in some market areas, it is much more important than this percentage would indicate, e.g. it is estimated that for the U. S. as a whole, it is handling more than 21 percent of the total volume of ice cream consumed, and in some states as much as 40–50 percent. Through Kraft-Phenix, it manufactures and sells approximately one-third of the total supply of cheese in the United States. In the case of fluid milk, the corporation is estimated to be distributing about 10% of the total volume for the country as a whole, with the percentage running up to 30–50% in most cities in which it has distributive facilities. . . ."[20]

The F.T.C., in its 1945 report on food distribution, pointed out that in the case of fluid milk, distribution in most city markets is much more centralized than is indicated by figures for the country as a whole; for instance, in 1937, the percentage of total class one (fluid milk) sales made by the three

[20] A. C. Hoffman, *Large-Scale Organization in the Food Industries*, No. 35.

largest handlers in Boston was 63 percent; Phoenix (Ariz.) 84 percent; San Diego (Cal.) 90 percent.

The distribution of butter is less centralized and more competitive, though some of the big milk companies and also some of the meat packers handle it; marketing cooperatives play a considerable role in this field, notably the Land O' Lakes cooperative, which acts mainly as an assembling and distributing agency, but also advises its members on production methods and quality standards, and does considerable advertising for the butter it sells under its own brand. Cheese production is scattered, local cooperatives producing a significant proportion of the total, but its distribution is highly centralized.

With the canned milk industry, the picture is different again, production and distribution being, from the first, highly integrated, with a few competing companies, including those promoting the White House (A & P), Pet, and Carnation brands. Referring to canned milk as it now comes on the retail store shelves, as a high quality product at low price, Professor Bartlett in his recent study of the milk industry, has said: "The situation squarely refutes the notion of some people who have believed that the only cure for exaction of monopoly prices was to subdivide industry into smaller segments; in fact, for some commodities, bona fide competition between large-scale industries is probably one of the best ways to improve living standards for the mass of people."[21] But the industry yields a high rate of profit. It also provides some competition for the fluid milk distributor.

MILK DISTRIBUTION COSTS. The distribution costs for milk include handling at the local assembling or receiving plant in the country, cooling and preparing the milk for bulk transport to the pasteurizing plant, bottling and final distribution to the doorstep of the individual consumer in small quantities, or to the institutional user or retail store. As pointed out by the Twentieth Century Fund,[22] because of the local nature of the milk business, national figures on costs would be rather meaningless averages; sources of supply, local regulations, distribution methods, and cost accounting practices, vary so widely from market to market that it is a question whether any set of figures can ever be considered as typical. The accompanying figures show a breakdown of selling price of Grade B milk, of the Sheffield Farms Co., as of 1931.[23]

[21] Roland W. Bartlett, *The Milk Industry*, 1946.

[22] *Does Distribution Cost too Much?*, 1939.

[23] From the report of Joint Legislative Committee to Investigate the Milk Industry State of New York, April 10, 1935, p. 191.

	Cents per Quart	Percent of Selling Price
Selling price	14.26	100.00
Cost of milk	5.68	39.8
Distributors spread	8.58	60.2
Total distributors costs	8.28	58.1
Delivery costs	5.03	35.3
Other operating costs	3.25	22.8
Profit	0.30	2.1

STORE SALES. It will be seen that in 1931, a large part of the cost of milk distribution for this company was in the last stage of the process, from the pasteurizing plant to the consumer doorstep, and, despite the time element and local variations, this proportion seems to be more or less typical of the industry. The traditional method of delivery is at the doorstep, but in an effort to cut costs to the consumer, there has been an increasing tendency toward store delivery; this development has constituted one of the significant areas of conflict in the industry. Store sales have been restricted and impeded by the big companies, with or without the support of government agencies, either by limiting deliveries or restricting the differential between store and doorstep prices, regardless of differences in cost. The position taken by retailers interested in building up a milk business, and by consumer groups, has been that if consumers are willing to go to the store for the milk, they are entitled to a full cost differential; moreover, as consumers have pointed out, milk is a product which, despite its basic nutritional importance, is subject to both price and income elasticity, so that if the price were reduced through store sales, consumption would increase. The milk drivers' union has opposed every move to cut down doorstep delivery.

A project to be recommended to students would be a study of local milk marketing techniques, the proportion of store to doorstep deliveries, the differential between the two, and factors affecting it. This is one of the interesting cases of consumer choice between the convenience of doorstep delivery and the cheaper product (if it is proportionately cheaper) to be obtained at the store. In New York City, where per capita milk consumption is considerably higher than the national average, two-thirds of the milk sold in 1940 was sold through retail stores, at an average differential of three cents below doorstep delivery (14 cents to 17 cents).

CONSUMER-FARMER MILK COOPERATIVE. A factor stimulating consumer interest in store sales in the New York City area has been the activity, since

1937, of the Consumer Farmer Milk Cooperative, representing both cooperating farmers and consumers The cooperative does no home delivery business From a daily volume of 9000 quarts in 1937, it has built up a business of some 40,000 quarts daily, despite bitter opposition that has expressed itself at times, particularly in the early stages of its development, in hijacking techniques This is not a large percentage of the four million quarts daily coming into the city, but the significance of the cooperative is much greater than this percentage would indicate because it is consumption-minded, and engages in educational activity directed toward securing support for all proposals designed to reduce distributive costs, to the advantage of both farmers and consumers It also is in a position to know what is going on in the industry and so can bring to public attention any policies or activities which it believes contrary to the public interest

The expansion of store sales has been associated, but not exclusively, with the development of the paper container, as distinct from the milk bottle which is still used predominantly for home deliveries Particular mention is made of this to draw attention to the possibilities of technological improvement in distribution techniques with a view to increasing their efficiency

Meanwhile, attempts have been made to reduce the cost of doorstep delivery, partly under the pressure of war controls—as, for instance, every-other day delivery, the adoption of two quart bottles, and so on

GOVERNMENT CONTROL The production, distribution, and final sale of milk has long been subject to various degrees of government control, so that the industry might properly be spoken of as having the status of a "quasi-utility" This control has related to the quality of the product, to supply, and price. Governments at all levels have been involved

It is customary for local health authorities to require that dairy farms servicing their communities be inspected to ensure that neither the animals nor the personnel handling them have contagious diseases, and that operations are sanitary Milksheds are established (areas from which milk is drawn) to facilitate inspection, but also have come to serve as a way to protect those who are inside from the competition of those without This has been the way, for instance, by which cheaper Wisconsin cream has been restricted on the New York City market. Sanitary regulations, it might be pointed out here, have on different occasions provided the vehicle for monopolistic control of supply.

Regulations are also drawn up, usually by local governments, with respect to the milk content (the proportion of butterfat required) and to the maximum bacterial count permitted Inspectors customarily check up on

samples at various stages of distribution; in large centers pasteurization is required and plants are investigated. One of the marked steps forward in our nutritional standards has been the general improvement in the quality of the milk supply during the last half-century; this has been an important factor in the decline of infant mortality.

It is necessary, however, to reexamine the regulations from time to time, since conditions change, and outdated regulations may prove to be a hindrance rather than a help in improving living conditions. For instance, as noted above, New York City gave up its officially recognized two grades of milk when the quality difference between them ceased to be significant, and established one "approved" grade. The cost of milk inspection is borne by the taxpayer rather than the consumer directly.

With respect to price control in the milk industry, it has to be understood that pricing milk is a highly complex affair. Higher prices are usually obtained for fluid milk than for milk products and some arrangement has to be made for equalizing payments to farmers from a single milkshed, regardless of how their milk is used. As dairying has been customarily carried on, more cows are brought into milk in the spring and summer than in the fall and winter, and though varying suggestions have been made for stabilizing milk production throughout the year, not much has actually been done about it. As a result, a large part of the summer supply is drawn off into milk products of various kinds, so that seasonal readjustments have to be made. The main function of dairy cooperatives, as pointed out above, has been to work out bargaining arrangements with the distributors for payment to farmers, in the light of these pricing problems. As a matter of fact, what we have in the milk industry is something that approximates "bilateral monopoly," with the big cooperatives and the big distributors tending to make a deal between them that often is not calculated to stimulate greater efficiency and lower retail prices.[24]

A possible weakness in this situation from the point of view of the industry, is the non-cooperation of the small independent. Professor Bartlett suggests that some of the smaller dealers have reduced their costs below that of their large competitors, despite the difference in volume handled, and are in a good position to compete in the retail markets. But through the establishment of trade associations the big companies have increased their influence over their smaller competitors. Professor Bartlett says:

The growth of trade association monopoly with its consistent pattern of the larger dealers forcing smaller dealers to follow trade association edicts, has accompanied

[24] T.N.E.C. No. 35.

the growth of the national and regional dairy chains . . . though there are over 18,000 milk dealers in this country, probably 90% to 95% of them must conform to price rules imposed by the few large dealers. . . . In the larger cities, the larger volume dealers usually own a controlling interest in the milk bottle exchange and not infrequently use this exchange as the vehicle for enforcing the price edicts of their trade association . . . fifty years ago, the usual monopoly was controlled by a single company; the modern monopoly, however, may consist of two or more larger companies operating through a trade association. . . .[25]

BARGAINING AGREEMENTS. During the thirties, both the producers' cooperatives and the larger distributors sought to "stabilize the pattern" of the industry more effectively through government action. In many states, milk control acts were passed with varying provisions, but tending toward a fixed price structure—that is to say, with farm and retail prices fixed, thereby ensuring the distributor's margin. The important question in such cases is, of course, on what basis are the prices fixed? Do they protect inefficiencies? Is attention "centered on the protection of dividends on capital invested with but little regard for the efficiency of its use"?[26] Is the object to maximise consumption and so provide an expanding market for the industry?

In a number of milksheds, marketing agreements were arranged between the federal government, milk distributors, and, in some cases, producer cooperatives, under the provisions first of the A.A.A. (1933), and later of the Agricultural Marketing Act of 1937, referred to above. These agreements usually were made with the cooperation of the individual states concerned. Many of them provided for a fixed price to producers. Under the original A.A.A., minimum retail prices could also be fixed, but this provision was deleted in the 1937 legislation; in some instances, however, special state legislation provides for the fixing of minimum retail prices. Once an agreement is reached with a distributor, all handlers are required to comply. The general objective of these various agreements is to ensure "satisfactory" prices to farmers and distributors. Milk prices are tied in with the general agricultural program, and during the war various subsidies were paid by the federal government to lower production costs (as, for instance, feed subsidies) and to enable distributors to pay higher prices to farmers without raising retail prices proportionately.

The prices of different dairy products are interdependent—if butter prices are relatively high, for instance, there will be a tendency to shift milk from fluid use to butter production. In some areas, the supervisory government

[25] *Op. cit.*, p. 64.
[26] *Ibid.*, p. 51.

agency—as, for instance, the Milk Market Administrator in New York—is empowered to fix the minimum percentage of milk to be sold as fluid milk.

Dairying is an essential industry, milk and milk products being highly nutritive, and an important question that emerges from time to time is how far government should go in making them available at cheap rates to families who cannot afford to pay current prices. Various experiments have been made in some metropolitan districts with bulk-milk stations, where families could get milk cheaper than at the retail store; milk has also been provided with free or subsidized lunch programs. Nutritionists have promoted the use of evaporated and dried milk among families who could not afford the milk in fluid form. We have not, however, solved the problem of how to ensure a minimum milk consumption for everyone in the United States, to say nothing of other peoples.

BUTTER VERSUS MARGARINE. As pointed out above, prices of dairy products are protected to a considerable extent from foreign competition by high tariffs which deprive consumers of the opportunity of getting these highly nutritive products at a cheaper price from other sources—for instance, if there were no tariff, good butter could be imported from New Zealand and sold at a much cheaper price than the local supply. Producer cooperatives, as well as processors and distributors, maintain lobbies in Washington, a large part of whose activities is taken up with keeping their tariff dikes in good repair. However, there is certain competition from substitutes that has to be met, particularly from vegetable-oil products, though efforts have been made by the dairy interests to minimize any cost advantage for competing products, particularly margarine, by tariffs on imported oils, and by federal and state taxes and other regulatory controls over domestic margarine, colored and uncolored, with higher rates on the colored product. Some states prohibit the sale of colored margarine. Since consumers show a strong preference for yellow table fats, special discrimination against colored margarine has meant many hours of labor for the housewives of the country, coloring matter being provided by the processors.

Large and growing interests, notably peanut, soybean, and cotton growers, are now promoting the sale of margarine so that powerful contestants are ranged about the issue. Consumer opinion is unanimous in opposition to the dairy group on this matter, particularly since the enrichment of margarine by vitamin A has made it an important item in the diet of low-income families. At hearings on the margarine issue before the H. R. Committee on Agriculture, March 8, 1948, the Undersecretary of the Treasury, Mr. A. Lee Wiggins, declared:

The basic issue raised by the oleomargarine taxes is the propriety and desirability of using the tax laws to affect the relative position of competing industries, both of which use domestic agricultural raw materials In the case of oleomargarine, the taxing power is used as a punitive measure against one industry to advance the interests of another In the process, the public is deterred from the free exercise of its consumer preferences In general, the use of the taxing power to affect the competitive position of industries interferes with the optimum utilization of national resources From the viewpoint of the country as a whole, the principal economic effect of these taxes is to impose direct and indirect burdens on consumers and on distributors which in the aggregate tend to fall with particular weight upon low income groups [21]

A bill to repeal much of the discriminatory legislation at the federal level passed the House of Representatives in 1948, but was lost in the Senate.

MEAT

The meat industry has been the subject of a number of public investigations for more than half a century, mainly because of the conspicuous position held by a few large packers

The development of refrigeration and refrigerated transportation after the Civil War brought about a significant change in the processing of livestock. Instead of being driven on hoof or shipped to local markets, where it was slaughtered for quick delivery, livestock could now be shipped to commission firms at terminal stockyards, which were gradually brought under federal control as to charges, commissions, and so on, the Supreme Court upholding federal jurisdiction Bought by packers at the yards, the livestock was now processed on a large scale, and the meat distributed under refrigeration to distant points The scale of operations made it possible to develop by products industries also.

Immediately following World War I, the FTC found that the meat industry was dominated by five big packers, Swift and Co., Armour and Co., Wilson and Co, Cudahy Packing Co, Morris and Co. In 1919 they handled between them from 61 to 86 percent of slaughtered animals, the percentage varying with the type Moreover, each of the companies seemed to have a tacit agreement to maintain about the same pro rata share of the market. They also had a controlling influence in refrigerated cars. The packers were integrating various marketing functions, reaching back in some cases to buy directly from farmers and reaching forward toward the consumer; some had established extensive distributing facilities, with their

[21] See Treasury Release, *Oleomargarine Taxes*, March 8, 1948

own branch warehouses, for making deliveries direct to retailers, and some of the companies had even set up their own retail outlets, with a "friendly understanding" not to cut prices. Some of the big packers had developed a considerable business in butter, eggs, and cheese, and some had established canning plants for fruits and vegetables, using the same sales channels for these various products.

There were also a number of small packers doing mainly a local business, or selling through intermediaries, but apparently not setting up any very active competition with the big companies.

The "Big Five"

As a result of its investigation, the F.T.C. charged that not only were the big packers operating pools and other illegal arrangements in restraint of trade, but that their other operations such as canning, warehousing, and wholesaling of unrelated food products "were threatening to disrupt the entire distributive system for food products." To avoid indictment, the "big five" entered into a consent decree in which they agreed, *inter alia,* to dispose of their holdings in public stockyards, railroad terminals, market newspapers, public cold storage warehouses for products other than meats. They also agreed to discontinue their retail meat stores and to quit the wholesale distribution of products unrelated to meats, notably groceries. They were allowed to retain their distributive facilities for meats, which included refrigerator cars, cold storage plants, and branch warehouses. They also were permitted to continue handling dairy and poultry products, cottonseed oil and oleomargarine.

The F.T.C. has charged from time to time that the companies were dilatory in carrying out the consent decree, but at any rate it had the effect of checking further corporate expansion, except for a merger between Morris and Co. and Armour's in 1923, so that the "big five" became the "big four." Since that time there has been little change in their structure and relative position.

Some new elements have entered the picture. Development of the motor truck made it possible for local slaughterers to set up interior packing houses, buying directly from the farmers and shipping their dressed meat directly to retail outlets in the country towns, and there was considerable expansion of this during the last war. To some extent the big packers have done likewise, the bulk of their hog supplies now being obtained directly from farmers, though the bulk of cattle and calves are still bought through commission firms at the stockyards.

The grocery chains have also brought in a new competitive element: some of the larger chains have established their own wholesale warehouses for meats, and have brought pressure to bear on the packers to distribute directly from the slaughteryards to the chain warehouses and to give them price discounts in line with the lower cost of direct shipment. Some chains have also been developing a business with the local independent packers and in a few cases have set up their own slaughteryards. As a matter of fact, some of the big packers have petitioned the federal government to release them from the provisions of the consent decree restraining them from establishing direct retail outlets in competition with the chains. In view of criticism by the F.T.C. on the activities of the big packers, comments made in the T.N.E.C. Monograph No. 35, written by Dr. A. C. Hoffman of the U. S. Department of Agriculture, attract attention.

In an analysis of the elements that have entered into what are referred to as persistent efforts of the big packers to make pooling arrangements and expand their activities, the Monograph suggests that much of this was due to a drive for greater efficiency and reduction of costs in an industry in which competition had led to a considerable overexpansion of both slaughtering and distributive facilities: "It is now universally recognized that competition in the railroad industry leads to intolerable waste and duplication of railroad facilities, and this in turn to ruinous rate competition and discriminatory practices . . . but it is not generally understood—or at least it is not admitted—that the same holds true for the meat-packing industry."

Doubt was expressed as to whether the big packers had much control over the price of dressed meat, even though they handled a large percentage of it. This, according to the Monograph, was because the overall supply was determined, not by the packers but by the livestock producers and the associations to which they belonged; in support of this argument, attention was drawn to the difference between the comparative rigidity of prices of cornflakes during the depression (the supply of which could be closely controlled by processors) and of pork, the price of which dropped nearly 50 percent during the same period.[28] "The important thing is whether output is directly related to agricultural production." As to profits, it was stated that, in view of the by-products industries and other factors, data for meat are difficult to obtain and to analyze, but on the whole profits were the lowest to be found anywhere in the food industries, and even lower than those of the small packers with whom the "big four" were in competition.

GOVERNMENT REGULATION OF MEAT. The meat industry has been subject to

[28] P. 115.

government supervision and control at various points for a long time Apart from federal control of stockyard charges, the most important area of government activity is federal inspection at the slaughterhouses of meat that will pass or may pass in interstate commerce In addition, the federal government, before the war, had developed a voluntary system for grading meat, and marking it according to grade, this grading service being widely used in the trade and in sales to institutional customers, but not to individual consumers As mentioned above, this grading service became compulsory as part of the price control system, not only for the trade but also as a guide to consumers in retail buying and an aid in the enforcement of ceiling prices at the retail level Compulsory meat grading was abandoned with price control

Intrastate slaughtering is under the control of state or local governments both with respect to slaughtering and distribution. Much of the kosher trade comes under these local ordinances, since kosher meat is sold fresh without refrigeration, though in centers like New York City, where fresh meat can be readily shipped into neighboring states, federal inspection is provided.

Meat and meat products are protected against competition from foreign imports by high tariff barriers, sanitary controls, and other protective devices. These devices are generally applicable against all foreign imports though they have had the most significant repercussion in the case of Argentina, particularly in the case of Argentinian refrigerated meats which are excluded under quarantine regulations, because of the alleged danger from foot-and-mouth disease This has become an important political issue

MARKETING EFFICIENCY

Enough has been said with respect to fruits and vegetables, milk and meat, to illustrate the variety of channels through which different food products pass to the consumer, with varying factors affecting the spread between farm and retail prices Despite these differences, there are some general considerations to be kept in mind. The extent of the spread, for instance, will be affected by the efficiency with which the function of marketing and processing is performed, and by the charges and profits of different individuals and groups performing it. Excessive costs may result from inefficiency of operation, or unfair charges or profits, or both. With respect to efficiency of operation, as pointed out above, this can be measured only in terms of function. Duplication of effort, unnecessary haulage, spoiled products, are a waste. Consumers should not have to pay for services they

do not want, or that could be provided satisfactorily in a cheaper way. There is considerable difference of opinion as to the extent of monopoly practices in the processing and marketing of food products, partly because "big business," in terms of large volume, or integrated functioning, tends to become identified with monopoly or concentrated control. It will be noted how large a role government has come to play in all aspects of food production and marketing, and how frequently private enterpreneurs, while denouncing government protection for others, seek it for themselves.

What should be the consumer attitude toward these various practices, policies, and problems affecting the supply and price of food products? There is great need to "develop public policy on the basis of careful and intelligent thinking about consequences as well as about methods." From the consumer point of view, these consequences should be thought of in terms of consumption levels, obtained through the optimum use of resources. However, at the present time our national food policy is tied up so closely with our foreign policy, we shall postpone further consideration of it until we take up the question of international relations.

Chapter XVII

THE FLOW OF INDUSTRIAL PRODUCTS

What are the factors conditioning the supply and price of the extraordinary array of non-food items that line the shelves of the retail stores? What determines the allocation of resources for the production of particular lines of goods? Does this result in the best use of resources from the consumer point of view, and at lowest cost?

Most civilian production in our economy in "normal" times is the result of a multiplicity of decisions made by entrepreneurs, if we have our mind on new enterprises, or by managing directors, in the case of "going concerns." In our system of private enterprise, productive activity is regulated but not initiated by government, except with respect to defense materials and limited areas of civilian supply. If a person or group of persons want to set up an enterprise of any kind, not in itself illegal, they are free to do so. What is the motivating factor that induces the individual entrepreneur or the company to undertake or to continue production of particular lines of goods—that is to say, what motivates them to organize resources for consumer use?

PROFIT AS THE ORGANIZING FACTOR

This is usually explained in terms of "profit," but the meaning of this word is not always clear. It is generally used to mean any return to the owners of capital who take the risk of investing in an enterprise for the production of goods; it is net income after all costs except return on capital are met, though as a matter of fact in our modern corporations, a considerable part of this income may be set aside as "reserves" and not paid out to the equity investors in any one year, if at all. Usually more than 60 percent of profits are paid out in dividends; in the first part of 1947, only about 36 percent was paid out.[1] The Treasury has recently interpreted the tax law

[1] See Sumner Slichter, *New York Times*, November 30, 1947.

to require corporations to pay out not less than 70 percent or pay an additional tax.

Profit is sometimes used, however, particularly in economic theory, to mean an amount in excess of what is necessary to bring out the required capital for productive purposes (or the "necessary cost" of capital), and in this sense it is always excessive and becomes synonymous with profiteering.

We should make a further distinction here between profit as a return on capital, which is said to be the motivating factor in initiating production, and profit as a percentage of sales, of which we have heard a good deal during the war and postwar periods. The rate of profit expressed as a percentage of sales for any enterprise may seem very low, but expressed as a return on capital it may be high. Profit on sales is an important figure if we are thinking of the extent to which a cut in "profits" will affect prices. Profit on capital invested is significant from the point of view of bringing out supply, though at any one time the rate of return may be higher than is necessary to bring out the available supply, or an increased rate of return may be ineffective in bringing out additional supply, because of other limiting circumstances.

The role of profit, if that is thought of only in terms of return on equity capital, without reference to entrepreneurial or managerial fees, has been exaggerated as the motivating factor in the productive process. It used to be assumed that the person with capital was the entrepreneur, who took the initiative in organizing resources but, as a matter of fact, nowadays, in our corporate economy, the entrepreneur is not necessarily a capitalist, though he must be in a position to obtain the use of capital in the same way he must be able to assemble labor and equipment and other necessary resources, and meet the terms on which they are made available, before he can get any financial return for himself. However, since production is for the most part in advance of final sale, someone has to take the legal responsibility for loss, if the goods produced do not exchange at a price that covers costs. Since our modern economy is organized mainly on the basis of the corporation, this responsibility falls ultimately on the equity investors, but only to the limit of their legal obligations; for concerns that operate largely on credit rather than on equity capital these obligations are relatively small. Since the equity investors are the legal owners of the "means of production," and profit is the inducement that leads them to assume the risk of loss, then profit can be described as the motivating factor in production. Unless the prospects of financial return from production satisfy those individuals who engage in it, goods will not be produced; or if production

is undertaken, it will not be continued, however much the goods may be "wanted" or "needed" by consumers.

Under these circumstances, the only way to get such goods produced is through government, or cooperative enterprise, though any attempt to extend such activity is usually opposed as contrary to the private enterprise principle of organizing the economy. On the other hand, goods which, according to normative standards constitute "illth," will get produced, providing there are enough consumers who will pay a "satisfactory" price for them. Financial returns are the guide which determines the allocation of resources.

What consumers are concerned to learn is whether this guide does in fact bring about the optimum use of resources, both in terms of the overall supply and the way in which it is divided.

As noted above, under a system of private enterprise, consumers are said, theoretically, to determine what will be produced by selecting or rejecting goods that are offered for sale at the market. But they do not have control over their buying power, which is determined as part of the process of production. Nor can they exercise choice with respect to goods that for one reason or another could be but are not produced. The role of the market in regulating the use of resources is limited by the extent to which various controls, operating in the economic process, prevent the most economical use of resources in the production of industrial goods, so that, in terms of comparative quality-price factors, the consumer does not get an opportunity to express a proper choice.

THE STRUCTURE OF INDUSTRY

There is no question that the actual output of industrial goods has increased remarkably over the years. But how far has it fallen short of potential output? Why do we have idle capacity as a continuing feature of the economy, except under the emergency conditions of war, with waste of resources? What we want to know is the nature of the controls exercised in industry and how they operate to restrict rather than expand the supply of goods, contrary to the consumer interest. Before we can discuss this matter, however, we must examine the structure and functioning of our industrial system.

There is a considerable amount of material available on this subject. Investigations and analytical studies cover more than half a century. Of more recent years, the National Resources Committee, set up by the President during the thirties to report, *inter alia*, on our total resources, issued a number of illuminating reports bearing on this subject. A search for the

causes and cures of depression phenomena led to a two-year inquiry by the Temporary National Economic Committee, established in 1939 by the Congress; the committee held lengthy hearings and also arranged for the preparation of a series of special monographs by individual experts. During the war further material was accumulated through a number of committees, particularly Senate committees, including the Bone Committee on Patents, the Truman Committee on the National Defense Program, and the Subcommittee on War Mobilization (the Kilgore Committee).

The Corporate Economy

Controls in industry are made possible by the corporate character of the economy (exclusive of farming) The TNEC pointed out in their final report: "No clear understanding of the modern economic problem is possible by any one who does not first realize that the commercial and industrial life of the modern world is carried on, not by men in their individual capacities, but by men in their group or collective capacities. Most of the goods, commodities and services which the people of this generation want cannot be produced or offered by individuals, but must be produced and offered by groups of individuals, that is to say by industrial and commercial organizations."[2]

The corporation is a remarkable social invention It facilitates the accumulation of large funds, directed by an increasingly powerful managerial group It is a form of business enterprise, set up on a contractual basis through the instrumentality of a state charter. Attempts have been made from time to time, without success, to get a federal incorporation law on the statute book as an instrument for government regulation of interstate activities of large enterprises, or at least for hedging them about, as the anti trust and other such acts have tried to hedge them about.

The charter represents a public grant of power made, presumably, for the carrying out of a public function, which in this case is the production and marketing of goods and services required by the public. The basic responsibility of the corporation would therefore appear to be to the public, though, as a matter of fact, as usually interpreted, the "public" responsibility of a corporation is limited to its legal owners, the capital investors, to whom its annual report is made.

Since the charter is of the nature of a contract, it possesses all the "inviolable" rights attached under our system of law to contract, so that unless provision is made in the incorporation laws for modification of charter

[2] 77th Congress, 1st Session, Doc No 35, 1941, p 6

terms, they are protected from further action by the state, except under the most extraordinary circumstances. What are the provisions of the different state corporation laws, that affect business operations? This is a subject worth looking into, since they determine the powers which corporations can exercise, and therefore the ways in which they function, whether in price-making or otherwise.

Through decisions of the Supreme Court, the corporation has acquired the rights and privileges of a legal "person" under the Constitution, particularly under the 5th and 14th amendments; government cannot interfere with its property rights, including the right of contract, without "due process of law." The corporation functions therefore not only under protection of a state charter but also of the Constitution. It was mainly because of this that for some 20 years, from the turn of the century onward, nearly all early social legislation aimed at establishing and maintaining a minimum level of living for workers—workmen's compensation, maximum hours, minimum wages, etc.—was declared unconstitutional, as an invasion of property rights.

One aspect of the corporate form of business which has particular significance in our analysis is that which facilitates the raising of capital for new and expanding business. This is done by the legal establishment of what might be called fractional ownership and creditor status in the enterprise through the instrumentality of stocks or shares of ownership, and bonds, or loan certificates. Investment banking houses have played a significant role in channeling savings from different sources, through these instrumentalities, into large pools of capital for industrial enterprises. As a result, representatives of the banks on boards of directors or as financial counselors have acquired a position of considerable importance in the economy.

The flow of savings into investment is one of the determining factors in the allocation of resources. If savings flow into one enterprise rather than another, in expectation of earnings, this, of course, affects, if it does not determine, the character of production, though capital expansion does not altogether depend on public investment in stocks and bonds. There are instances of companies growing to huge size without recourse to outside financing, and since the twenties a considerable number of companies have been building up reserves from undistributed profits—which means, of course, that their investors are not getting the extra dividends which they might prefer to allocate to other purposes, as, for instance, increased consumption rather than investment; it also means that the cost of future expansion is carried by current prices. Internal financing also leaves the

board of directors freer in their decisions than if they had to resort to public financing under the supervision of the Securities and Exchange Commission. Some economists feel that these large accumulated reserves are a cause of instability in the economy, intensifying the imbalance of savings and consumption that seems to be a feature of depressions. This was the argument for the special tax on undistributed profits that was part of the early New Deal program, but was later abandoned.

Managerial Control

Through the distribution of share capital, equity holdings in large industrial enterprises are frequently widespread. One result of this is that greater power has come into the hands of management, since the shareholders frequently are not able, or do not want, to exercise their ownership rights by attending annual meetings and taking part in the determination of overall policy, at any rate while they are satisfied with their dividends. In large corporations, even dividends have come to be stabilized over long periods. An examination of the ownership of the American Telephone and Telegraph Co. (A.T. & T.) in 1935, showed there were 659,000 stockholders on the books of the corporation, and that the 43 largest stockholders, each owning 10,000 shares or more, together owned only 5.2 percent of the total stocks.[3] Under such circumstances power is concentrated in the management. On the other hand, in some large companies the stocks are closely held by a few investors who exercise close control over the business. Generally speaking, there has come to be a sharp division between ownership and management. This finds recognition, for example, in the current practice of referring to "labor-management," rather than to "labor-capital" problems. Ownership by stockholders, though legally established, has, in fact, over wide areas of industry, come to lack reality in terms of control.

The management also tends to become self-perpetuating. Moreover, through a system of interlocking directorates, business leaders frequently sit on a number of different boards, the result of which presumably is to bring about harmony in business policies, particularly among certain groupings that seem to dominate the structural pattern. These groupings tend to include, in addition to actual production enterprises, finance and legal, and, increasingly, market research and public relations companies. Generally, the "corporate community" is said to foster a common attitude toward some of the basic problems that arise in such a complex system as we have in the United States, with so many conditioning factors.

[3] National Resources Committee, *The Structure of the American Economy*, 1939.

This concentration of managerial power has gone along with the growth of "big business" so that setting policy within industry has come to be concentrated in relatively few hands, with respect at any rate to a large volume of the supply coming (or not coming) on the market. In small enterprises where the owner is the manager, or even in small corporations with a few investors, the situation is different, but though there are a large number of such companies their total volume of business is small and therefore their significance in terms of supply is small Our industrial scene, like a great metropolitan city, is dominated by a few large structures towering against the skyline, with a group of middle-sized buildings and a mass of smaller ones filling in but not determining the general pattern; however, as functional units, they are not to be overlooked. This brings us to the question· "What precisely do we mean by the dominance of large scale industry in our economy?" What is its significance in terms of the market? But before taking up that question, let us consider the background of government policy toward "big business"

PUBLIC POLICY TOWARD BIG BUSINESS

There has been a long history of political agitation against the development of big business. In our early history there was a prevailing fear among Jeffersonian democrats of the possible emergence of a new aristocracy based on grants of corporate privilege—"paper and patronage," as expressed forcefully by the economist, John Taylor After the Civil War, not only was there a considerable development of the corporate form of business but, as noted above, the status of the corporation was greatly enhanced by its recognition as a legal person, protected both by charter and Constitution from "encroachment" by government

During the 1890's with the expansion of population and the development of transcontinental railways establishing effective national markets, the trend toward corporate structure steepened Rising out of this foundation were a few powerful companies—railroad, oil, sugar, meat, and other companies—which, though it could not be said that they set a pattern for the economy as a whole, nevertheless were sufficiently powerful and exploitive of their power, to arouse the resentment and fear of a large section of the population Small businessmen were afraid of unfair competitive practices, farmers were afraid of high costs in a period of falling prices, somewhat vague liberal and socialist groups were fearful of the effect of economic power on political democracy. Under this public pressure, two principles of government control were adopted, first by a number of states, and later by the federal government as the interstate aspect of business activities became more marked;

and these two principles, as modified through the years by subsequent amendments, extending or clarifying the provisions of the original act, still underlie government policy toward concentrated control of business enterprise.

The first principle adopted was embodied in the Interstate Commerce Act of 1887 which set up the Interstate Commerce Commission to "regulate" the railroads. The theory underlying this type of control is that in some areas of business activity, the nature of the commodity or service is such that it can only be efficiently produced under monopolistic, or at any rate, non-competitive, conditions; the public cannot rely for the protection and promotion of its interests on competition and must therefore ensure fair products at reasonable prices through government intervention. More attention will be given later to this regulatory function of government.

The second principle was embodied in the Sherman Anti-trust Law (1890) which, with its subsequent amendments still represents basic government policy toward the vast area of business outside the public utility field, though the dividing line seems at times rather tenuous. In this area the regulatory factor is to be that of competition, and the role of government is to force men to compete and to prohibit them from using unfair competitive methods. Experience has demonstrated to be false the assumption made by the classical economists that, free of government control, businessmen would naturally compete, and through the process of competition, ensure the survival of the most efficient in serving the consumer, with price as the regulatory factor. Laissez faire was abandoned in the hope of preserving the competitive character of the economy on a "fair" basis, and, in this way, limiting the area within which government would have to extend the regulatory principle. "Regulation to restore and preserve price competition may truthfully be described as regulation to prevent regulation, since if it is successful, control by government of industry is unnecessary." "Big business" necessitates "big government."

The Trend Toward Bigness

The Sherman Act was given only limited or sporadic application, however, and the trend towards big business continued, with two periods of very marked activity,[4] one in 1897–1903, and the other in 1925–1929. The first period followed the depression of the early 1890's which brought to an end a long downward trend in prices; it was stimulated by the optimism engendered by the Republican victory of 1896, the Spanish-American War, and the upward price movement.

The period was characterized by active security markets and the emer-

[4] See T.N.E.C. *Monograph No. 27, 1941.*

gence of groups of financial promoters interested in expanding industrial capital and enlarging business structure through new forms of mergers, holding companies, and so on, largely through corporate acquisition of stock in separate and competing companies. "Finance capitalism" took the place of the "industrial capitalism" of an earlier period when the promoter was an industrialist rather than a banker. To Theodore Roosevelt, big business was inevitable, and the role of government was not to set itself against the trend, but to differentiate between good and bad big business, to find some criteria of evaluation; this point of view was expressed also by the Supreme Court in 1911 in its so-called "rule of reason." Roosevelt was not afraid of big government, so he could contemplate the emergence of big business with an equanimity which Woodrow Wilson, the Jeffersonian, could not share.

To Wilson, the apparent trend toward a highly complex and integrated industrial system was nothing short of calamitous; size to him was inevitably associated with monopolistic practices, though his concern was less with the effect of this development on the actual standard of living, than with preserving the opportunity for independent entrepreneurship for the "little fellow," as a desirable way of life in itself. Moreover, Wilson had a profound belief in the efficiency of the little fellow and his capacity to compete successfully with large companies, providing he was not subjected to unfair competitive practices. He therefore supported the Clayton Anti-trust Act of 1914, clarifying and extending the provisions of the Sherman Act. This conflict of ideas between Roosevelt and Wilson with respect to the structure of industry and the proper role of government in regard to it, is still reflected in public opinion and results in a vacillating and uncertain public policy and confusion as to criteria of evaluation. This gives special value to the functional, or consumer, approach.

The second surge forward in corporate expansion took place during the twenties after the first shock of postwar adjustment was over—and despite the anti-trust laws. The Clayton Act had, *inter alia,* restricted corporations from acquiring the whole or any part of the stock of another corporation where the effect of such acquisition was to substantially lessen competition, but it did not restrain acquisition of physical assets as distinct from capital stock, and this was now taken advantage of. The twenties were on the whole a period of vast business optimism. There was a marked increase in per man-hour productivity, prices were fairly stable, and, as usual in such a period of business expansion, the percentage of national income returned to capital was above average; a prevailing belief in perpetual profits sent stock market and real estate prices soaring for a few years. Investment banks

were active again, not only in the development of new industries but also in promoting consolidation of companies by various techniques. Consolidation was promoted, not only in the manufacturing field but also in the service industries (as, for instance, motion pictures) and in marketing (as, for instance, department store mergers and the chains). There were warnings of increasing technological unemployment and of difficulties in making sales, but the depression of the thirties came abruptly rather than as an anticipated event.

The T.N.E.C. data indicate that the trend toward big business, stimulated by the feverish activity of the twenties, continued during the thirties, that is, in a period of depression, and into the war years.

There seems now to be in the making a third period of intense activity in concentration of control, despite the anti-trust laws. It is urgent, therefore, that the effect of such control on the supply and price of consumer goods be examined from a consumer point of view and appropriate action taken to protect and advance the consumer interest. There is considerable confusion in most of our public discussions on this question, partly because we do not give sufficient attention to the meaning of "size" as such.

THE SIGNIFICANCE OF SIZE

Let us therefore now ask, more specifically: "What do we mean by big business?" What is the significance of size as such, with respect to the supply and price of consumer goods?

A first distinction to make is between a unit establishment or plant, and a business or company which may control only one establishment or, as in one case investigated by the T.N.E.C., over 400 separate establishments. Two companies doing about the same volume of business may have entirely different manufacturing structures, one operating only one very large plant, and the other a large number of small plants. When we speak of large-scale industry do we include both? When emphasis is laid on the "efficiency of large-scale industry," is the efficiency of size in the operating structure meant, or in volume of business handled, or capital assets, regardless of structure, or both? For instance, in the actual production process, with the assembly line, size of plant may be all-important; in financing and marketing, volume and variety may be considered essential for "efficiency," regardless of the size of operating plant.

The statistical data show that the number of manufacturing establishments (that is, "unit" plants, regardless of the type of control under which they operated), reporting to the Bureau of the Census in 1919, was 290,105; of

these 65,490 or 23 percent did less than $5000 annual volume of business, and together produced less than 1 percent of the total value of manufactured products. Thereafter, the bureau eliminated from its returns establishments doing less than $5000 business as being insignificant and, in terms of their share in total supply they are, though, as with subsistence farming, the existence of these "little fellows," eliminated from the census, cannot be ignored by those who are concerned about the entrepreneurial way of life.

The number of establishments doing an annual volume of $5000 or more at different periods was: 1914, 173,656; 1919, 224,615; 1937, 166,704; 1940, 184,230. The 1919 figures undoubtedly reflect a certain abnormal expansion due to the war, and the 1937 figures show a certain abnormal contraction due to the depression with a number of "disappearances," some businesses having dropped into the "below $5000" class and therefore out of the official returns. However, the long-time trend certainly is not toward any increase in the number of establishments, despite the great increase in population and in volume of production over this period.

Has there been a trend toward larger size of unit plant? As size of plant increases, the capital required to enter an industry is likely to increase, so size affects not only operating efficiency but also the "ease of entry" into an industry, which is a factor in competition. But first let us consider how one measures size of plant. If it is done by wage earners employed, then an establishment which is replacing wage earners by machinery would appear to be declining in size though its volume of output might be increasing.

Value of production as a measure of size has to be discounted for price changes, and moreover in some establishments a wide variety of goods are produced and their relative importance may change, which would be concealed by overall figures. Capital investment may be taken as a measure, but it will remain constant whether or not the establishment is in production.

Since much of our public policy hinges on size, we ought to be clear about the definition. With the qualifications noted above, on the basis of wage earners employed, or value of output, there seems to have been some trend toward increase in the average size of plant since 1914. But such statistical averages conceal very marked differences between industries and groups of industries; for example, according to T.N.E.C. reports, in 1937, in eight industries, the individual plants averaged over 500 wage earners employed. At the other end of the scale there were 15 industries in which the plants averaged nine or less and these were not necessarily the unimportant industries; for example, in book printing and publishing there was an average of 15 employees per establishment, in clothing (women's, misses',

and children's), 38. Moreover, in terms of trends, as the T.N.E.C. pointed out, on the one hand there is a group of industries on the decline, both in value of output for the industry as a whole and in size of the operating unit, for example, ice manufacturing. On the other hand, there is another group of industries which is becoming more important and in which the size of establishment is increasing—for example, iron and steel, motor vehicles, electrical machinery, chemicals.

The T.N.E.C. suggests that the apparent trend in increased size of manufacturing plant is largely due, not to a general increase in all industries, but to the rapid increase in size of plant of some of the new and expanding industries, and of old industries which have adopted new technological processes, particularly those using electrical power. For the most part, these establishments employ large numbers of workers, and because of labor-management problems come frequently to public attention. For instance, less than 2 percent of all plants reported in the 1940 census employed more than 40 percent of the workers, and the majority of these plants were in the expanding industries. But having said so much, one turns back to the statistics of 1914 only to find that the concentration of workers in a comparatively few large plants was also marked, 3.4 percent of establishments employing about half the workers.

The trend in size is less marked for the individual establishments than it is for individual companies which through mergers, consolidations, and in other ways have acquired control of a number of establishments. These establishments are then operated as a single enterprise through a central office (referred to by the T.N.E.C. as central office groups). While the T.N.E.C. seems to have accepted the trend toward larger unit plants in some industries as related to efficiency in operation, they seem to regard the trend toward central office groups as, on the whole, a trend towards restraint of competition and towards monopolistic power, and therefore more likely to result in inefficient than efficient operation—if efficiency is interpreted in terms of costs per unit of output.

Multi-plant Enterprises

These central office or multi-plant enterprises present a great variety of structural types. Some show horizontal integration, that is, the separate establishments are all engaged in the same stage of operation of the same products as, for example, companies which operate a number of bread baking establishments which may be scattered in different population centers. There are also combinations that are vertically integrated from the raw material

to the finished product and even through the distribution process to the consumer, as are the large copper companies. Some companies may operate different plants for the processing of a series of products from one raw material, or a series of by-products; or for the manufacture of different products developed from central research activities; or for the assembling of a "full line of products" in order to spread marketing costs, both of warehousing and selling operations—or any combination of these.

In 1937 there were 5625 multi-plant companies controlling 25,699 of the total 166,794 establishments, that is 15.4 percent; but they paid 55.3 percent of the total wage bill, and produced 61 percent of the total value of all manufactured goods, so that, though there were notable exceptions, establishments operated as multi-plant concerns were "big" business, compared with those of independently operated units. The T.N.E.C. made a detailed study of the largest 50 companies reporting to the Census Bureau, all of which proved to be multi-plant concerns. These 50 companies operated 1.7 percent of the total number of establishments reporting, but accounted for nearly 30 percent of the value of all manufactured products, and 20 percent of the value added by manufacturers. But these companies, which together represented vast industrial power, varied considerably in size among themselves, the largest, which operated 497 establishments, having a value of output roughly 20 times as large as the 50th company, though that itself might be considered a giant concern.

These largest companies tended to be more heavily concentrated in some industries than in others; for example, on the basis of their predominant activity ten were classified in the iron and steel group, seven in the food and kindred products, seven in the products of petroleum and coal group, five in the transportation group, and four each in the chemicals group, the nonferrous metal group and the machinery group; they comprised a significant proportion of the value of products in 10 out of 15 industry groups covered by the census, but were relatively insignificant in other groups. The question was raised during the T.N.E.C. hearings as to whether this pattern suggested that there is something in "the nature of the products or in the technology under which they are produced that leads to extensive aggregates of resources for optimum operation"—that is, they are related to efficiency, but, if so, whether this is due to the size of plant, or size of company, or both is not clear.

Suppose, for instance, those companies were dissolved into single-plant enterprises, what would be the effect on efficiency, both in production, in obtaining the raw materials, and in marketing the finished product? It must be remembered that these concerns are buying as well as selling and their influence will be felt in both directions.

Another point of significance indicated by the T.N.E.C. statistics, was that some of these large corporations, at least in some lines, were in active competition, or apparently active competition with each other, while others were apparently in collusive agreement not to compete. Size as such, therefore, does not necessarily mean collusion, or competition.

Product Control

Another significant aspect of size to be considered is the proportion of total output of a product that is under the control of a single company. As pointed out above, most of these 50 companies made a variety of products, and in distinguishing size as such from monopoly, we have to think in terms of products, that is to say, what is important is the extent to which a company dominates the output of a particular product, or the extent of its market control of a product. Some large companies, for instance, may make small quantities of a wide variety of products, and would not have a dominant position with regard to any of them. Though these 50 largest companies were classified according to the product representing their dominant interest, they were in fact manufacturing 2034 different products, and some of them were also interested in other lines, such as agriculture, mining, transportation, public utilities. Of course, some single-unit companies also produce a number of different products—that is, we have to differentiate between multi-product operation and multi-plant operation.

A smaller single-product concern may have much greater control over the market for that product than a giant multi-plant corporation producing a number of different commodities, but not a predominant proportion of any one—though, as a matter of fact, this would be a rather unusual situation, particularly with respect to the large multi-plant companies which tend to assume leadership in at least one or two if not more of their products. Moreover, a multi-plant company is in a position to follow somewhat different marketing policies with respect to both the raw materials it buys and the finished products it sells than a single-product company, since it is usually concerned with overall results rather than the profit position of a single product, or activity, even if this could be properly determined (it will be recalled that one of the charges made against the A & P was along these lines). Moreover it is in a better position to establish good will through institutional advertising. Nevertheless size, in terms of the proportion of output of a particular product, is an important aspect of our problem to have in mind, and the T.N.E.C. did pioneer work in the field.

Since they were using data from the Census Bureau, which precludes the disclosing of any individual company's position, the T.N.E.C. analyzed the

degree of concentration of control over output of a particular product in terms of the position of the leading four producers. If these leading four companies produced less than 50 percent of the total national output of a product, the degree of concentration of control was said to be low (low concentration rate); if they produced more than 75 percent, it was said to be high (high concentration rate). They came to the conclusion that concentration of industrial control on a product basis was greater even than indicated on an industry basis, though here again conditions varied widely between industries, and for particular products. Thousands of fabricated products, "tend to be manufactured by so few producers that each producer is in a position to influence price by adding to or withholding his supply of the product from the market . . . the extent to which manufactured products are produced by a few sellers and the manner in which this control may be exercised lies close to the heart of the problem of concentration of economic power. The number of producers and the amount of products which each is able to put on the market thus become an integral part of any description of the structure of the market."[5]

A cross section of some 1807 products, covering more than one half of the total value of all manufactured products was analyzed. Results showed that "approximately three-fourths of the total number of products had concentration ratios above 50 percent, about one-half of all the products analyzed had concentration ratios above 75 percent, nearly one-third above 85 percent."[6] Moreover, for 328 products, production was concentrated in the hands of so few producers that the actual figures could not be published because they would reveal the operations of individual companies. But indications were that by far the largest number of them had concentration ratios above 90 percent—that is to say, for this group of products, the production of the leading four producers of each of these products made up over 90 percent of the United States total value of the product. However, these products with such high production control, are not necessarily products with a high annual value; the situation varies greatly with different products. A summary T.N.E.C. statement declared:

> . . . there was a tendency for the majority of the number and value of products in the food group, in the textiles group, in the forest products group, in the paper group and in the petroleum and coal group to be products in which the leading producer contributed a relatively small percent of the U. S. total value. On the other hand, in the machinery group and in the chemicals group there

[5] T.N.E.C. Monograph No. 27, p. 408.
[6] *Ibid.*, p. 273.

were large numbers of products and a relatively high proportion of the total value of products bunched in the classes in which the leading producer accounted for a high percentage of the total value of the individual products. For many products in these last two groups, some one producer occupied a relatively important place as a manufacturer of the products while in the former groups the leader was relatively less important in the control of the production of each commodity.

There was further analysis of the sample data to discover the degree to which the same concerns dominated the output of a number of different products, and also the extent to which multi-plant concerns played a leading role with respect to the output of individual products Sample data were also analyzed with a view to determining whether and to what extent the nature of the product influenced the production structure and type of control, products being classified for this purpose under a number of headings, including (1) type of immediate purchaser, (2) type of ultimate user, (3) degree of durability, (4) degree of fabrication, (5) type of market, (6) source of raw materials, (7) construction materials, (8) producers supplies, and so on.

The results of such a limited study were admittedly tentative, though certain points seem clear; for example, for the most part, products processed from agricultural materials showed a significantly different pattern from that of products fabricated from minerals, the former, in terms of both number and value of products tending to have a relatively low concentration ratio, and that from minerals, high The chief significance of this tentative study is that it draws attention to the fact that problems of size have to be carefully examined before any decision can be made as to whether or not size as such in its various interpretations, is contrary to the public interest.

However the data presented leaves no doubt that the great majority of manufactured products are produced under conditions of relatively high concentration, that is, with a few producers accounting for the major portion of the output. This directs attention to the economic implications of size both in relation to efficiency and also to control. Size inevitably carries with it power, though, as we have seen, competition may be active between big companies whether operating on a unit or multi plant basis; or it may not. In his study, *Price-making in a Democracy* (1944), Dr. E. G. Nourse, after estimating the number of "active managers" in the economy, declared that responsibility for determining the direction of the nation's economic life today, and of furnishing both opportunity and incentive to the masses, centers upon some 1 or 2 percent of the gainfully employed.

In estimating the effect of size of operation on the supply of goods, we have,

therefore, to consider such questions as the relative efficiency in production and marketing of large versus small plants, and of large versus small companies, with single-product or multi-product output.

To what extent do technological necessity and organizational efficiency dictate retention of large-scale plants or even multi-plant companies? On this we have only scattered data, though particular cases are studied by efficiency engineers.

Size and Efficiency

There is a certain assumption that large-scale operation promotes efficiency. But on the other hand there are those who would agree with Mr. Wendell Berge, formerly Assistant Attorney General in charge of the Anti-trust Division of the U. S. Department of Justice, when he says:[7] "I believe we could go through practically every major industry and that, in so doing, we would be revitalizing capitalism if those industries were separated into more competing units. We would also get a more efficient industry."

What we need, and what consumers should urge, is a comprehensive study of the relative efficiency of operation of enterprises of different size (however size is interpreted), if it is possible to make this subject a matter of objective study rather than of opinion. If increased efficiency can be shown, or in those cases where it can be shown, to be associated with bigness, are its advantages offset by disadvantages arising from the exercise of market control? If so, is it possible to work out a way to take advantage of the efficiency of size, while eliminating the factor of control?

MARKET CONTROL

But before going on with that question, let us first ask: "What is meant by market control?" In their study of the structure of the American economy, the National Resources Committee (1939), declared that "because the term control involves a relatively new concept, it is important to give it the greatest possible clarity"—though it must be admitted that this clarity is still to be sought. The committee pointed out that in the production of any commodity a manufacturer is conditioned in his policy by a whole structure of controls, some definite, some indefinite, some formal, some informal. Government regulations constitute a definite, formal set of controls; banking houses and law firms provide a less definite and more informal but none the less significant set of controls in terms of which they provide capital and legal advice; there are also the legal and customary rights of stockholders;

[7] See University of Chicago Round Table, No. 477, May 11, 1947.

labor unions in their growing strength are establishing a whole new set of controls within which production has to be carried on; and raw material suppliers, if they are in a position to bargain, and also distributors, have their say. A final set of controls is established by consumers at the market in terms both of their wants and buying power. And surrounding all is a framework of customary attitudes and practices that also acts as an overall conditioning factor. A change at any of these points may affect the conditions under which supply comes on the market, and the terms on which it moves or fails to move into consumption channels.

When we speak of market control by businessmen, therefore, what we refer to is a special type of control exercised within this general control structure, and we imply that the nature of this control is such that the terms on which goods are offered on the market are different from what they would be if the control did not exist, and generally speaking are less favorable to consumers, since they usually take the form of higher or what has come to be known as "administered" prices, maintained for the most part by a limitation of supply. This is the narrower meaning of "business control." A broader meaning suggests that big business becomes so powerful in all aspects of community life, particularly the political, that it is able to determine to a large extent the total structure of controls within which it operates. For the moment let us concentrate on the narrower meaning, which seems to be the one most frequently used in this connection.

Administered Prices

Let us examine first the meaning of "administered" prices. Now of course all businessmen make decisions, and we have to be careful not to treat decision-making and control as synonymous, or not necessarily so. The absence of "control" in price-making is indicated when nothing the individual producer does has any significant effect on the total supply and price or price range of a product on the market. When we speak of control, we imply that in making their decisions, businessmen are in a position to exert a calculated influence on price, directly or indirectly. An "administered" price, implies some measure of control; price is not allowed to find its own level on the market.

"Administered pricing" is not the same thing as "advance" pricing. When we go to the retail market, the price tag is already marked; for some products, say automobiles, or mail-order catalogue products, the price may have been set six months in advance; for others, as fresh fruits and vegetables, it may be changed during the day, and perhaps two or three times. It is impractical to

reprice many products on a day-to-day basis, responding to the short-run ebb and flow of demand and supply. As pointed out above, anyone familiar with the enormous waste of time and temper involved in higgling over prices in some foreign markets, will not be likely to cavil at this system of advance pricing. The question is whether it is a reasonable attempt to anticipate the market, that is, to set the price at approximately the figure that would be established by higgling, assuming that both parties to the bargain were reasonably well-informed. Behind the retail area there are large areas of advance pricing, though frequently the lists are modified for individual buyers or classes of buyers, subject to various legal restrictions, as, for instance, the provisions of the Robinson-Patman Act; on the other hand, market pricing tends to dominate at the raw material level, at any rate for agricultural products.

Administered pricing, as used in current discussions, seems to imply that advance prices are fixed at a level calculated to be higher than what the market might otherwise be expected to bring, with a view to maximizing profits. But such a practice would result in surpluses over any considerable period of time, unless demand were inelastic. What is really implied in a discussion of administered pricing, therefore, is that producers exercise control over supply either of the actual output, or of the rate at which it moves onto the market, in order to maintain price at a higher level than would otherwise be the case. Prices are, in fact, what the market could be expected to set given the supply and demand situation, supply being controlled with a view to maintaining a calculated price. Under these circumstances productive capacity will presumably not be in full use, or else it will not be expanded at a rate called for by the general growth of the economy—for instance, one reason for the shortage in basic steel products at the present time, is that steel capacity has not been expanded in proportion to the capacity of manufacturing as a whole, and to the durable goods industries in particular.

Moreover, "adjusting supply" may involve not only decisions with respect to the operations of a particular company, but actions taken to bring about restriction on the competition of substitute products (as, for instance, taxes on margarine), or imports of the same or substitute products from abroad.

This kind of control can never be absolute in our economy, because of price elasticity and the existence of substitutes, or even potential competition in the same line. It differs, therefore, from what Dr. Nourse refers to as "authoritarian or government regulated prices," but obviously if conditions exist which make it possible for a producer or group of producers to limit the supply of a product in order to maintain its price at a higher

level than would otherwise be the case, this is a matter of great concern to consumers.

One of the reasons for corporate mergers, consolidations, and acquisitions is to get a controlling volume of supply The question is—how much control can be exercised and to what extent is it exercised? This is an area of controversy. If it can be shown that the structure of industry has become such that over a significant area of production, business leaders are able and in fact do limit supply in order to maintain price above what is necessary to ensure the flow of goods to market, this is in conflict with the consumer interest.

Data are available bearing on the subject, but their interpretation is not always clear We have also to differentiate between the power to control and the exercise of control The Department of Justice now seems to regard both as equally illegal under the anti-trust laws, but the effect on the level of consumption is not necessarily the same When asked recently: "Then you do think that size alone is an economic evil, as well as a political evil when it gets too great?" Wendell Berge replied, "Yes"[8] But what is too great?

According to Dr Nourse, the area of administered prices embraces the major part of modern industrial life, that is, a large part of the American economy. "The ability to administer a block of resources of significant size under an integrated production and price policy," he writes, "gives many large industrial executives a power of control akin to that of a public agency engaged in authoritarian price-making"

Single-Company Control

We might now ask "How is this control actually achieved?" It might result from the dominant position held by one company, or by agreement between a number of companies If an individual company is the only significant supplier of a product, in the particular market under consideration, which may be local, regional, national, or international, it is in a position to plan its production and sales program with a particular price level in view, though it must keep an eye open for present or potential competitors (unless it has full patent protection), and for consumer reactions, which will be reflected in price elasticity with respect to the product. This is the original meaning of "monopoly."

In a suit against the General Electric Co in 1946, to take one example, the government charged that the company exercised such power with respect to electric light bulbs, since it controlled the manufacture and sale of all those

[8] *Ibid.*

made in the United States, and 88 percent of all bulbs sold here.[9] The government charged that the position of leadership held by the company arose from monopolistic activities. The company, on the other hand, maintained that it was the result of "continuing research, engineering development and competitive enterprise, which has made it possible to double the performance of the bulb while reducing the price to the consumer to 6 percent of the original cost."

Data obtained by the Kilgore Subcommittee on War Mobilization, was said to indicate that the company had reduced the life of flashlight lamps, "taking care to produce a product that wears out well."[10] It was also said that in 1937, the company had cut the life of a certain bulb by one-fourth and, in 1939, of another bulb by one-third, without reducing the price in either case, and without giving any publicity to the change. A further charge was that the company, in cooperation with the utility companies, had restrained the development of fluorescent lighting. Estimates of the Justice Department indicated that from 1935 to 1939, the company "averaged a net profit of 64 to 88 percent of all costs and expenses in bulb making."

In its anti-trust suit against the General Electric Co., the government declared that the company had made international agreements with dominant foreign concerns parceling out parts of the world market and arranging for the exchange of products and technical information. The company's reply to this charge was that such agreements were necessary to enable American commerce to break through economic nationalism abroad and permit the companies to increase their foreign business and obtain foreign technical development for the benefit of American industry. The role of patents in this connection is obviously very important, particularly in those fields where advanced machine technology or processes are involved.

Monopolistic Competition

Effective, though limited, control can also be established over an area of the market by a company which does not dominate the output of a product, but is able to differentiate its particular line from that of other producers by establishing in the public mind an acceptance for its brand or trademark; in this way, it can adopt a price policy and give the policy some degree of force through its control of volume of output. This is what is usually referred to as "imperfect competition." "Competition," said one of the T.N.E.C. ex-

[9] For a summary account of the charges, see *New York Times*, March 12 and 13, 1946.

[10] For a popular account, see Darel McConkey, *Out of Your Pocket* (with a foreword by Senator Kilgore), 1947.

perts,[11] "is something of which producers have only as much as they cannot eliminate. That is true all the way around the circle. We all try to establish some little niche for ourselves and hope that nobody else can merchandise the same product."

Despite the price differential that developed between a number of national brands and private brands as a result of resale pricing, the national brands in many cases continued to sell even when placed side by side with the cheaper private brands of apparently equal quality. As mentioned above, this is one of the significant aspects of the opposition to grade labeling. Under these circumstances, administered prices depend on differentiation of product rather than on standardization, and, from the consumer point of view, it is important to note that this differentiation may not represent important functional differences. Though the drive for differentiation may lead to new research and developments, it is more likely to result in an emphasis on the trivial and superficial. Successful differentiation of product and its acceptance by consumers, is also significant in the bargaining process between manufacturers and various channels of distribution, as discussed above.

Control by Agreement

That is to say, market control may, to a greater or lesser extent, be exercised both through the establishment of a monopoly position by one company, and through the process of product differentiation under a condition of imperfect competition. Or it may result from agreement among a number of producers, no one of which is able to exercise a dominating position. Such an agreement may be made in an industry where there are only a few large producers. In a suit against the country's six largest ball bearing companies on criminal charges of price-fixing in violation of the anti-trust laws, the government charged[12] that the companies held secret meetings in Chicago and other cities where they agreed on the prices for which they sold about $200 million worth of ball bearings a year. There was also a charge of international agreement and interlocking arrangements with foreign companies, through an extensive cartel system. Similar agreements of a formal or informal character are believed to exist in a wide area of industry, despite the anti-trust laws.

Usually when price competition is eliminated by agreement, competitive selling continues but with emphasis on non-price factors—as, for instance, quality factors, or, more usually, it takes the form of intensive advertising campaigns to attract consumer attention to a particular brand. Non-price

[11] T.N.E.C. Hearing, Part 25, 1940, p. 13038.
[12] See *New York Times*, March 12, 1946.

competition is not a satisfactory substitute, from the consumer point of view, for price competition, unless in fact it leads to improvement in quality which is usually not the case, and even if it were, a "high-price, limited-supply" policy is not the road to abundance.

Another type of control is that exerted through cross-licensing of patents, as illustrated in a recent decision by the Supreme Court against the U. S. Gypsum Co. and six other concerns manufacturing gypsum board.[18] They were charged with violating the Sherman Anti-trust Act by cross-licensing their separate patents in agreements which also provided for fixed prices for the patented products.

Trade Association Activity

But size is not a requisite for control. Control may be exercised in an industry which is operating on the basis of relatively small plants and small companies, if agreement among them is reached; this is usually done through the device of the trade association. In this case, control is not associated with size, either of plant or company, but with a "completeness of understanding" established within an industry. To abolish big business therefore would not necessarily put an end to market control. Usually with small enterprises, however, effective control of supply coming on the market involves special measures for keeping the recalcitrants in line. In the garment trades, for instance, which statistically are shown to be based predominantly on small-scale enterprises, the companies are highly organized through industry associations which work in close cooperation with highly organized unions to limit the number both of garment companies and garment workers, with a view to preventing a return to the "demoralized" conditions which previously prevailed when the industry was on a competitive basis. So far, they have been successful in maintaining that their actions are not in restraint of trade within the meaning of the anti-trust laws.

The extent of trade association activity in industry was not realized until N.R.A. days. These associations have a number of functions varying with different industries and the particular association; they usually include the restriction or prevention of unfair trade practices, which, broadly interpreted, might be taken to mean any competitive device. There are apparently many ways for reaching an understanding within the law. The mere "reporting" of prices may become an instrument for "fixing" them. The practice of "identical bids" for public contracts has shown how widespread such agreements are. "The central question in an anti-trust indictment," said Thurman

[18] See *New York Times*, March 9, 1948.

Arnold, "is whether or not there is a combination or agreement to restrict production or raise prices." Such agreement may be for the purchase of raw materials as well as for the sale of finished goods.[14] It must be kept in mind that private economic planning is for different ends than public planning.

Price Leadership

Even in the absence of agreement or formal association there may be an understanding among members of an industry to follow the price leadership of one of their number. This seems to be the case in the steel industry where U. S. Steel prices are generally followed by the rank and file of small companies who, as a result, live in peace, clustered around those who in fact determine policy. This has been described as the spirit of "live and let live," regardless of the effect on consumer welfare. The "little fellows" are usually as eager as the "big fellows" to abate the pace of competition. This accounted to a large extent for the comparative price stability of the industry during the period of falling prices in the thirties, when production was cut to maintain price. Further, the steel industry adopted the "basing point" price system which nullifies the competitive advantages of different geographical areas. Recently the Supreme Court ruled against the basing point system; it is too soon to say what effect this will have on price policy in the steel industry.

Informal methods of reaching agreements on supply and price policy, are at times facilitated by the relations between investment banking firms and their clients; also the corporation lawyers, engineering firms, advertising and public relations counselors help to create a climate of opinion favorable to the making of corporate agreements. The chiseler becomes "the man who sells below his neighbor." Business is looking for "security" for itself—that is, a protected profit position—and in so doing, seeks to restrain the forces of competition on which, however, the effective functioning of a private enterprise economy depends. Theoretically, this is a "profit-and-loss" economy and ceases to function as it is supposed to function, when it becomes a "protected profit" economy.

THE COST OF "PROGRESS"

One factor militating against the full use of resources is the tendency of certain vested interests to restrain the application of knowledge, and, even more, the development of new knowledge, mainly because, under our system of economy, some groups always lose materially by change, while others gain.

[14] See Dr. T. Kreps, T.N.E.C., Part 25, p. 13038.

A private enterprise economy is one of "profit and loss," but it is easy to understand why those who stand to lose by "progress," whether workers or investors, will try to check it, so long as they have to carry the burden of it. In their important study of freedom of the press, the Hutchins Committee declared: "The fullest use at lowest prices of radio telegraph was retarded and still is retarded because of the huge investment in ocean cables and land lines. . . . Linotype machines which can do the job of four or five ordinary machines are held back by the opposition of the unions. . . . It is admitted that frequency modulation (FM) radio has been delayed not only by war priorities but also by AM (standard broadcasting) owners and by the unions. It remains to be seen whether similar delays will be encountered, for similar reasons, by television and the facsimile newspaper."[15]

It is not always clear where the public interest lies in some of these situations. The rapid introduction of new materials, new processes may make much existing capital equipment obsolete, or violently disturb human relationships. It is a question of tempo, of the adequacy of social insurance, of provision for training, and so on. In the past, there has been a relatively long lag between the development and application of major inventions, which has given some opportunity for adjustment, but with the revolutionary changes now taking place in science, the time factor may be speeded up.

During the T.N.E.C. hearings, a question was raised on different occasions as to the number and significance of inventions that were bought up and filed away by companies in order to protect their existing investment. Business representatives, generally, declared that there was not much of this, though consumers, generally, believe that "not much" is a great deal, and it is one of those matters on which we have much debate and little data. It seems clear, however, that our potential in the field of applied knowledge is much greater than that which is in actual use. And this is true, generally, of all our resources, save in exceptional times, such as the present, when we seem to be operating near maximum capacity, according to present standards. Idle men, idle plants, idle reserves of knowledge plagued us even during the relatively prosperous twenties and became a tragedy during the depression of the thirties. Fear of such "excess capacity" has been a major factor in restraints on production.

These restraints on production, this clinging to scarcity for fear of abundance, is so pervasive as to be characteristic of our economy under "normal" conditions. Even in the early days of the war, business hesitated to expand production, farmers also hesitated, until government took over most of the

[15] R. M. Hutchins and others, *A Free and Responsible Press*, 1946.

risk of a surplus, either by direct financing, by underwriting income or profits, or in other such ways. When government did take over the risk, we were able to expand the volume of output rapidly, despite the fact that some 12 million persons—and the most physically able—were mobilized for war duty. That is to say, given an assured market for goods, or an assured income for producers, under a modified private enterprise system, we have been able in the past to expand our productive capacity,[16] though we probably reached our peak, under existing circumstances, about 1943–1944 and have stayed close to it since then. This could probably be increased now if we were to divert an increased part of our effort from consumption to capital goods, since the slow rate of increase in per man-hour productivity in the postwar period is no doubt largely due to the poor quality or inadequacy of existing equipment. However, under present circumstances at home and abroad, this would itself cause many difficulties.

Fear of Abundance

Why has the private enterprise system come to be characterized by restraint, by scarcity? One answer is that this is the way to maximize profits, and that businessmen are by nature profiteers, exploiting the public for their own advantage, contrary to the grant of corporate privilege in the charters under which they operate. But this is too easy to answer, though no doubt it is an element in the situation. More fundamental is the fear of plenty widespread throughout the economy; it is the fear of recurring depressions.

Economists differ among themselves as to the cause of depressions, and the possibility of predicting and controlling their occurrence. This is one of the difficulties students find themselves in when trying to analyze the economy from a consumer point of view. A central problem for consumers is obviously to find a way by which our system of production can be organized for optimal output on a continuing basis, so that abundance ceases to be a threat and becomes a goal, not only in general terms but as a guide to operating policy for the individual company.

As pointed out above, by abundance we do not necessarily mean maximum output, since we might prefer more leisure; it does, however, mean the optimum use of our resources with least waste, so that the masses of people can obtain maximum satisfaction from consumption. If we have in mind the people of the world, then maximum output is probably a necessity for a long time to come, since it seems clear that a rising level of actual consumption goods and services is necessary to an increase in general well-being. If we

[16] See Mordecai Ezekial, T.N.E.C. Final Report, p. 417.

are to optimize consumption, we must find some way to keep our economic system going at the level necessary to achieve this end. This underlies the demand for "full employment."

Controlling Depression

Despite the differences of opinion as to how this can be achieved on a continuous basis, there seems to be widespread agreement that it is going to require a degree of flexible planning, distinct from the operation of so-called market forces, the character of which will change with circumstances. Remedies that seemed to be necessary during the thirties, may not be suitable for the postwar malady. Some of these remedies can be applied by businessmen directly, or through employer-labor agreements, and others call for administration by government; generally, cooperation among all productive factors is contemplated. It is important that a consumer point of view be brought to bear in all these decisions, lest the goal be lost sight of.

THE SAVINGS-SPENDING BALANCE. One of the prominent theories as to the causes of a depression has to do with a developing imbalance between savings and spending. We should give some attention to this since it is embodied in the Full Employment Act of 1946. As pointed out above, a large percentage of buying power is concentrated in the hands of the upper-income groups and an increasing proportion of this buying power is saved from one income class to the next. If the sum of savings comes to exceed the amount that business is willing to invest, in view of general market conditions, an imbalance will develop between savings and spending, and inventories will begin to pile up. Unless government steps in, the result will be restricted production and unemployment. According to the theory underlying this argument, if the full amount of savings is not invested by business or government, the level of national income will fall "until the reduced saving out of the reduced income is equal to the desired amount of investment." Private enterprise as an economic system does not work automatically to achieve a proper balance between saving and spending, so government must play a role in maintaining this balance.

The savings-spending balance is not static. When a country is going through a period of industrial expansion as, for instance, was the United States at the end of the nineteenth century, large amounts of capital investment are needed to build transportation systems, power systems, manufacturing plants, and so on, and during such a period emphasis will be on the importance of saving. But when the plant is assembled, when it is ready to go into production, then the goods and services which flow or could be made

to flow from it, must pass into consumption channels or the system will bog down under the weight of its inventories If again capital equipment becomes depleted, as it has in the postwar period, relative to the demands made on it, then savings must be built up for that purpose or the price level will rise too high for economic stability—though, as pointed out above, any considerable diversion of productive effort from consumption to capital goods under present circumstances, may not be advisable

But generally speaking, according to this line of thought, national income must be spent somehow—by individuals for current consumption, by business for investment, or by government, if stability is to be maintained.

PURCHASING POWER THEORY Our present system of income distribution, some argue, tends over a period of time to accentuate this imbalance. If a larger percentage of income were distributed among wage-earning groups—that is, among the masses of people—this would tend to cut down savings and expand the market for goods that can be produced with our present capacity, but which, under the circumstances that prevailed in the twenties and thirties, could not find a market, when the abnormal war and postwar period is over, we may again find ourselves in a similar situation.

This "purchasing power theory" was given considerable attention during the thirties when emphasis was put on the importance of sustaining and expanding the "market" in the business sense There was not enough buying power in use to take available supply off the market at a "satisfactory" price.

Theoretically (that is, according to the theory of the private enterprise system), relative shares in the product of industry should be determined by the value of each productive factor, determined on a competitive basis. However, under existing circumstances, there is no guarantee that the pulling and hauling that takes place in the test of bargaining strength will bring about an acceptable solution, in terms of the purchasing power theory. Some other principle has to be deliberately applied The wage-profit-price relationship is to be evaluated in terms of the ends we seek

During the early thirties, when the economy approached a state of collapse, the New Deal Administration, in trial and error fashion, set itself to build up mass purchasing power in various ways, as discussed above. To some extent the measures taken to put a floor under wages—social security, minimum wages, etc—are a continuing protection to business in so far as they guarantee a minimum market They are a step toward underwriting consumption. Underpinning the purchasing power of the masses will free business, it is argued, from the well-founded fear of business depression, a fear that has in itself tended to bring about this condition, a fear that throws

a shadow over the postwar "boom." Toward the end of the war, when there was general anticipation of a postwar depression, Chester Bowles, an administration spokesman, argued[17] that the lowest third of our families who in 1940 received only 9 percent of the total income, by the late forties should be getting at least 13 percent, the share of the middle third should be raised from 24 percent to about 27 percent and that of the upper third reduced from 67 to 60 percent. By 1960, the relative shares might be something like 17, 33, and 50. However, because of the stimulus to industry resulting from confidence in a mass market, the total output would increase so that 50 percent in the 1960's would represent more than 67 percent of the 1940 output. This redistribution, according to Chester Bowles, would have to be brought about by conscious effort, and he hoped by agreement among all concerned, because of the advantage to be gained by all groups in the community.

The postwar situation with its strong inflationary, instead of deflationary, forces, has shifted attention to the importance of maintaining (as distinct from increasing) purchasing power and consumer leaders have consistently supported administration proposals for reinstituting price control and rationing for scarce items; labor leaders have also supported controls, since they realize that increased wages to catch up with movements in the cost of living have usually turned out to be a case of dog-chase-tail. But present tendencies, stimulated by European need and the rearmament program, will, consumers must hope, not be long-continued, in which case the importance of expanding purchasing power to absorb the output of goods and services and raise the level of consumption, will again force itself on public attention.

SHARING PRODUCTIVITY INCREASES. One proposed technique for increasing the purchasing power of the masses is to have wages rise with productivity. This is supported by Walter Reuther, chairman of the powerful United Automobile Workers union. He urges[18] that prices be kept stable and wages increased with the increase in per man-hour productivity—per man-hour productivity being the average amount produced by those actively employed in production for each hour of work.

In 1948, the United Automobile Workers union made contracts with certain automobile companies providing for wage increases on a combined cost-of-living and productivity basis.

Productivity has come to be expressed in terms of man-hour units, but it could be expressed in terms of capital invested, or power used, or other units of input; and it has to be kept in mind that capital costs may rise as pro-

[17] *Tomorrow Without Fear*, 1946.

[18] See U.A.W.-C.I.O. Pamphlet, *How to Raise Wages Without Increasing Prices.*

ductivity increases because of an increased use of machinery. An increase in per man-hour productivity is not necessarily due to increasing capacity in the individual worker as such; it may be due to more extensive use of machinery, or a change in work organization, or improved financing, or overall management, or so on.[10] One of the reasons for an overall increase in per man-hour productivity in the twenties, for instance, was the rapid development of the mass-production industries. It is generally estimated that the increase in productivity over the years has been at an average rate of somewhat less than 2 percent per annum, though it was considerably higher in the twenties, and probably is less than anticipated in the present postwar years.

Part of the increased productivity could be taken out in leisure, rather than goods and services, as it has been in the past, if the actual minimum standard of living comes to approximate the acceptable standard; leisure as an alternative to goods should not be confused, however, with underemployment as part of a "share-the-work" program in periods of depression.

PRICE REDUCTION. Another approach to the problem of expanding the domestic market is by way of lowering prices rather than by raising wages; prices would be lowered as costs are reduced, due to increased productivity. *The New York Times* (November 6, 1946), in an editorial, supported a statement by E. G. Grace, chairman of the Bethlehem Steel Co., to the effect that gains in productivity should be passed on to consumers generally by lowering prices, rather than by increasing wages, since an increase in wages gives a preferred position to those workers in expanding industries, but does not help others—it might be pointed out in passing that Bethlehem Steel has shown no disposition to put its chairman's suggestion into effect. "Lower prices benefit all groups in the community," declared the *Times* editorial. "Price reductions mean more goods and services for the same income. In this way, most people can share in the benefits of improved productivity. . . . For many products a policy of reducing prices will also act to expand demand, thus increasing employment opportunities for workers in the industry which cuts prices, as well as in the other industries in which the savings in cost are spent. . . . Unfavorable price-income relationships will be more easily and more equitably corrected by reductions in prices than by attempts to raise incomes, a process in which many persons inevitably cannot have a share."

This general argument is along the lines advanced by Professor E. Nourse of the Brookings Institute, now chairman of the President's Council of Economic Advisers, in his *Price-making in a Democracy*. In arguing for a

[10] See T.N.E.C. Monograph No. 22, 1941, p. 223.

low-price policy, what he has in mind is the passing on of productivity gains through reduced prices, rather than through higher wages to a particular group of workers. One of the difficulties in such a proposal is that so many of our attitudes and practices are bound up with the notion that prosperity is associated with rising prices. This is part of our agrarian heritage. The value of a labor leader to his union is measured, or has in the past been measured, largely by his capacity to increase the pay check, though many union leaders have had a good lesson the past few years in the meaning of real wages. Business regards profits as more assured in periods of rising prices because, for one thing, their inventories accumulate value and they do not see the connection between this situation and the enormous losses of a depression. Moreover, the vast public debt would become relatively heavier with a falling price level—but if this is the way to a fuller use of our productive capacity and an expansion of national income then the real burden of the debt would, in the long run, become less.

Dr. Nourse refers to the "constructive principle of price reduction" as practiced by certain pacemakers in contrast, for instance, with the policy of "administered" prices. In view of the tendency among the "corporate community" to maintain a relatively rigid price policy and to adjust production up or down as demand changes, the low-price policy represents, for the most part, a radical departure. Dr. Nourse is aware of the fact that in view of the varying attitudes toward a policy of price-reduction an increase in purchasing power via wage adjustments is likely to be easier, though more likely to be nullified through upward price movements. He refers to the "fundamental contradiction: while technology on the one hand creates tremendous economic problems through the displacement of labor, on the other hand it induces concentration, thereby impeding the operation of the compensatory force of price reduction." Referring to the argument that increased productivity should be passed on to labor in increased wages, he points out that even during periods of the greatest increase in wages, the advances in average hourly earnings were generally exceeded by still greater increases in output per man-hour, with the result that the relative share of labor declined instead of expanding. "The price structure," he argues, "must be fitted to the income structure in order to facilitate the maximum productive activity."

ROLE OF GOVERNMENT. A different approach to the "problem of abundance," involves a much larger role for government in the peacetime economy, than has generally been allowed it in the past within the framework of a private enterprise economy. That is to say, it would involve a larger degree of overall planning, particularly fiscal and monetary planning, in addition to the under-

writing of consumption levels. However, before proceeding to examine the various proposals for increased government participation in the economy, we should perhaps give some attention to the nature of government and its customary functions in our society. What we are concerned with here is the effect of these various conditions on the flow of supply to market, its quality, and price.

Chapter XVIII

GOVERNMENT IN THE ECONOMY

The vast complex of government in the United States, comprising the totality of our political institutions, has become a factor of the greatest importance in our economic life, in peace as well as in war. This is contrary to our traditional belief as to the proper relations between government and the economy, and, enslaved by our slogans, we tend in our thinking to minimize its importance, perhaps hoping, by ignoring it, to diminish its significance. Consumers will do better to recognize the fact that the influence of government is all-pervasive, and that all aspects of the economy are affected by its power, whether or not it is exercised directly with respect to them.

Clearly consumers must not only act wisely at the market place, but responsibly at the polls and at all points in the political process which have an impact, or may have an impact, on our economic circumstances. It is important, then, for consumers to be familiar with those aspects of the structure of government, and of the interrelationships of its various parts, which influence the exercise of political power. Let us therefore turn our attention first, in an introductory way, to the structure of government and the way it functions in the United States. One of our difficulties in such a study is the very complexity of our political institutions, and their interrelationships.

THE STRUCTURE OF GOVERNMENT

Local Government

The closest point of contact between the individual and government is at the local level, the city, town, or county governments, but, as a matter of fact, the importance of local government activity is often underestimated or even overlooked by students, particularly as federal power assumes more dramatic proportions.

Much of the law-making process that has an immediate effect on our consumption level, particularly in the large urban areas, takes place at the local

level. The powers of local government, however, are derived entirely from the states, so that even in a great city like New York, the city council cannot act outside the limits of power devolved upon it by the state, in its special charter, as provided for in the state constitution. For instance, the city's taxing and borrowing powers are limited, and this is one of the reasons why the sales tax was adopted to meet the emergency demands of the thirties; it underlay the recent controversy as to whether the subway fare should be raised to make the city-owned subways self-supporting.

Local education, health, and housing policy are all tied in with state policy, not only in terms of financing but generally, with respect to the proper powers to be exercised at the local level and the proper basis of coordination in dealing with any particular subject. Is our system of local government with its designated powers and functions best suited to our needs, and is there proper integration between state and local programs in particular fields, to bring about the best results?

The State Level

The states are the foundation of our political structure and, historically, when one spoke of "the government," the government of the state in which one resided was indicated. Now when "the government" is mentioned, it is usually the federal government one has in mind and teachers generally find that it is the state, not the federal government, which seems remote to students. Nevertheless, the state governments exercise very considerable powers affecting the economy and maintain important administrative departments to carry out the provisions of state legislation. It would be a fruitful exercise for students to list the various administrative departments in their states whose operations have a direct impact on the economy, analyze their functions, examine the appropriation lists, and estimate the economic effects of their activity.

From time to time we hear vigorous arguments asserting states' rights, advanced for the most part by groups who believe their interests will be better safeguarded or promoted through the exercise or non-exercise of state rather than federal power. As pointed out in one of the T.N.E.C. monographs,[1] "One of the chief techniques by which pressure groups get and maintain their power is by insisting that a certain function legally belongs to the states, even though it is clear that the state cannot handle it adequately. By insisting that it belongs to the states, they manage to preclude the possibility of effective action. The long struggle of the insurance companies against

[1] Dr. D. Blaisdell, *Government Power and Political Pressures*, No. 26, 1941.

an extension of federal regulatory authority over their activities, though finally unsuccessful, is a prominent case in point."

There has been a certain development of the regional principle for particular purposes, through voluntary agreement between neighboring states as, for example, the New York Port Authority, and between a group of states in cooperation with the federal government, as in the Tennessee Valley Authority, for the more effective use of some of our area resources; we shall probably see more of this type of activity in the future.

Federal Power

Today, dominating our political structure and focusing our loyalties, is the federal government, whose power rests on the appropriate provisions of the Constitution as amended from time to time, and as interpreted by the Supreme Court. The interpretive rather than the amending process has perhaps been the more important in extending federal power to embrace an ever wider range of economic functions as the population has grown to its present large proportions, and the economy become increasingly industrialized and organized on a national scale.

This expansion of federal power, which has taken place primarily in the economic field, has been due partly to acceptance by the Supreme Court of arguments that under changing economic circumstances, promotion of the general welfare called for intervention by the federal government, even though such intervention abridged private property rights, including the right of contract, or even the traditionally exercised functions of the states. We have had to choose between the hazards of unregulated private enterprise on the one hand, and of expanded government authority on the other. Thus, we are confronted with the shifting problem of establishing a proper relationship between private and public activity in the economic field, under conditions of dynamic change. One curious aspect of this relationship is that it is the government which tries to make business compete, though it is business which is always proclaiming the efficacy of the free market.

One of the interesting developments in some of the war agencies, was the decentralization of administration, so that, though set in motion at the federal level, power seemed actually to be exercised at the local, but in a way that was distinct from the exercise of power by the local government itself. A considerable degree of decentralization proved possible in the administration of the O.P.A., through the local price and rationing boards as described above; however we should take note of some criticism of this administrative decentralization as the cause of certain inefficiency in opera-

tion. In New York, the O.P.A. was supported by specific state and city legislation, and there was a close interplay between federal and city authorities on a community basis, except when considerations of party or personal politics intervened.

Coordination Of Political Power

The extension of federal power into the economic field, including social services, has led not so much to a weakening of state and local power, though perhaps there has been something of that, but more to an overlapping of authority, so that consumers must concern themselves less with the question of what is the proper line of division among federal, state, and local authorities, and more with promoting a proper functional union between them in different fields; it is a problem not so much of differentiation as of coordination of function. For instance, in the social services, attention has been given to the need for greater functional harmony, notably in education, housing, and health, though political ambitions, as well as jealousy of the prerogatives of office, can prove stumbling blocks in the way. The relationship that seems to be developing is one where the federal government helps in financing through grants-in-aid, and establishes standards of operation, but the administration is in state or local hands.

In examining the structure of our political institutions as part of our analysis of government functioning with respect to the economy, we have to keep in mind, not only the relations between the different levels of government but the so-called distribution of powers among the different agencies of government at each level. At the federal level, for instance, we have the legislative, executive, and judicial agencies, set up in a way designed to provide a system of "checks and balances" based on dispersion rather than concentration of power, which to our forefathers was synonymous with tyranny. In comparison with business, "government appears to be almost completely lacking in cohesion. . . . Can our federal system with its division of powers, its system of checks and balances and its geographical basis of organization ever cope with the present concentration of economic power? The future political development of the nation turns upon the answer to this question."[2]

Congressional Committees

The organization of Congress, the law-making, money-raising, money-appropriating body, is itself a significant factor in the political process. Take,

[2] *Ibid.*

committees representing different points of view, to consult with responsible officials of the different departments or other agencies of government. The most outstanding instance of this was during the N.R.A. experiment (1933–1935) in the making of industrial law by administrative process. Advisory committees representing industry, labor and consumers were given a recognized role in formulating the codes. Somewhat similar committees were set up to advise the O.P.A. in the latter part of World War II, and various other agencies and departments have set up advisory groups associated with the major field of interest of the agency or department involved—for instance, the farm group working with the Department of Agriculture or the business group with the Department of Commerce. There is at present no official machinery set up for bringing consumer opinion to bear at any point in the administrative process except the Consumer Advisory Committee to the Council of Economic Advisers, a matter to which we shall give more attention below.

It is to the public interest to have good laws well administered. The former Director of the Budget, Harold D. Smith, on resigning from the government, stated that "citizens of the United States may justly consider themselves members of the board of directors of a gigantic business enterprise,"[3] doing a business of some $40 billion a year. He emphasized the size and complexity of administrative organization, and the importance of having men qualified for the job that has to be done. "There has never been a time in the history of this nation," he said, "when it had greater need for managerial talent, when the wise management of programs involving the expenditure not of millions but of billions of dollars is of paramount importance . . . the question is not whether the Federal Government can afford to bid against private enterprise for managerial ability, but rather whether it can afford not to do so." If consumers are to support a policy of greater participation of government in the economy, they must concern themselves about the ability and character of the officials charged with carrying this out, and the conditions under which their services are obtained.

Clearly, there are many and diverse points in the administrative process at which the consumer, alert in the public interest, should be ready to make contact with the administrators, both informal personal contacts and those made at highly formalized hearings. It takes knowledge and experience on a continuous basis to bring opinion effectively to bear on the vast range of

[3] *New York Times*, July 14, 1946.

operations that affect the consumer interest, but as yet consumer opinion is not sufficiently well organized to make itself felt on any sustained basis.

Judicial Economics

The third branch of the federal government is the Supreme Court, one important function of which is that of judicial review, the hearing and determination of cases bearing on the constitutionality of acts of government, whether federal or state. Though the right to challenge the authority of government with respect to a particular piece of legislation that infringes on private interests is a fundamental part of our political tradition, nevertheless it creates many problems which have increased in recent years, particularly in the economic field as the role of government in the economy has been extended, and corporations have taken action to protect what they consider their property rights. Litigation is in itself a disturbing factor; while it is in process, which may be a matter of years, administration of an act that is being challenged, has to be carried on "in an atmosphere of uncertainty and political manoeuvring which is not conducive to effective operation." If the Court invalidates a piece of legislation, the whole congressional and administrative process that brought it into being is nullified.

The courts are also engaged in hearing and adjudicating cases brought against individuals (including corporations) for breaking the law, and since many statutes affecting the economy are obscure in meaning, though fraught with great significance, the court decisions affect both the nature of law and its enforcement. This has been especially true in connection with cases brought before the courts under the anti-trust laws, though since the court's attitude has itself fluctuated, it can hardly be said to have led to clarification —it has fluctuated, for instance, from the "rule of reason" decision in 1912, which seemed to differentiate between good and bad big business, to a recent decision against certain tobacco companies, when the existence of power to monopolize was in itself declared to be harmful, whether or not the power was exercised. It is obviously important that all relevant facts bearing on a case should be before the Supreme Court when it is making decisions of this character, including facts that will aid in identifying the public interest.

Despite the apparent lack of cohesion among the institutions of government, when public opinion is united in a crisis a tremendous power of action is generated, as witnessed during the war. Such unity usually comes under Presidential leadership, and there are some who anticipate a greater

degree of "Presidential government" as an inevitable result of the trends taking place in the economy toward large units both of industry and labor, while others fear it. Bringing a consumer point of view directly to bear on Presidential decisions, is part of a technique for consumer action.

So far, we have been looking at the institutions of government mainly from the point of view of their architectural arrangement and the interrelationships based upon it. However law is a living thing. Governmental structure is only a channel, or rather a connected series of channels, through which the stream of political activity flows from the many springs that give rise to it, until it reaches the great body of public law. The nature of the channel conditions the flow, speeding it on here, retarding or even obstructing it there, and the channel itself is constantly being modified and shifted by the force of the law-making process; but the two should not be confused in our thinking. If they are to influence the law-making process, consumers must also understand the source from which the stream of activity flows—what the initiating force is that sets the process in motion.

POWER GROUPS

The Political Party

According to the theory of democracy, the will of the people is the source of law. Not being totalitarian in philosophy, what we mean is the sum of the wills of the people, but since these wills are diverse and often inarticulate, what the people want at any one time, or what even a majority of them want, is not easy to determine, though the public opinion polls have tried to develop techniques for finding out. In the early town meetings, individuals proposed and the group decided and so they got political action. In the complexity of our modern society, the law-making process is usually initiated by organized groups, working through the political parties or directly on individual legislators or administrators. Government agencies themselves act as organized groups in this connection.

Traditionally, one of the major functions of the political parties is to harmonize various points of view (at any rate, to an extent necessary to obtain majority support), through the means of the party platform. Any group that wants to obtain party support for its particular program, can try to get an additional plank into the party platform, or get an existing one changed, and success in this will depend largely on the number of votes which the group represents. Or it can draw up a new platform and take action leading toward the setting up of a new party, as has been done from time to time throughout our history.

By and large, our two major parties represent broad cross sections of the public, rather than any special group or class. There are, therefore, many varied interests represented within their ranks, all of which have to be held together if the party is to ensure enough votes to get its candidates into office. The parties are organized, as Congress is organized, on a geographical basis, with the organization reaching down into the neighborhood through district committees. It is here at the "grass roots," so to speak, that interest groups, including organized consumers, must make themselves heard, if they are to develop sustained political strength When consumer organizations send representatives to interview legislators or administrators on some particular issue, the question always comes up· "How many votes do these people have back home?"

As Professor Selig Perlman has pointed out, the political party in the United States is a "politician's party" not a "class party."[4] In the center there are a group of managers—they study the political market, just as any entrepreneur does, and then they try to attract the customers to sign on the dotted line on election day Because they must attract different groups of customers—the South, the unorganized metropolitan populations, the reformers, business and labor groups, and so on—the result is a "collective bargaining process" within the party, so that its position on any particular issue, in so far as it can be determined, is the result of compromise, and therefore on the whole likely to be more broadly based than the point of view of any specialized interest group Organized groups try to bring pressure on the parties to incorporate their policies as planks in the party platforms. "Here," says Professor Perlman, "is clearly indicated a method of consumer cooperation or consumer control in politics, at the source of the political process. The labor movement, the farmer's movement, the other types of movements with particular social objectives, have leaders or spokesmen who engage in collective bargaining with the managers of the political enterprise, striving to influence the decision made by these political entrepreneurs as to the kind of political goods to be manufactured As you see, that is the standard American method, the method of collective bargaining in politics." In Professor Perlman's opinion, it is undoubtedly more suited to the United States than parties organized on class lines with sharp cleavages of opinion, based on special interests, and facilitates the "essentially political process of compromise which is greatly to the advantage of minority groups, since leaders have to deliver at least part of the promises."

[4] Selig Perlman, *Labor in the New Deal Decade* (three lectures given at the I L G W U Officers' Institute, New York, 1943–1945), pp 29–31

However, in the opinion of some political analysts, the political party is losing some of its significance in organizing opinion as a preliminary to legislative action. It is losing as the pressure groups, or the "citizen group movement," gain. As a result, in the opinion of some observers, "the real significance of the platform on which the party nominees run for election can be found only in the stated or implied desires of the groups supporting the candidates. . . . Members of Congress are elected by parties, but in their votes they tend to respond as a rule more to the voice of groups than to that of the party. Control of legislation and offices thus has shifted in large measure from the parties to the lobbies and allied organizations."[5] This statement exaggerates the shift, and the political party, as such, still exercises great political power. But it does serve to draw attention to the ever-increasing importance of pressure groups in the political process, and to the techniques by which they seek to attain their specific goals.

Pressure Politics

The pressure groups represent an extraordinary variety of interests, reflecting all aspects of social life, so far-reaching has the power of government become. Some of these groups have a continuous existence, and some are organized for a particular purpose, or in response to a specific situation—one of the most dramatic developments of the recent past, for instance, was the emergence of the atomic bomb scientists as a pressure group.

The most powerful of these groups are those whose interests lie in the economic field—the farm groups, labor, commerce, and industry in all its branches. Their techniques vary. But, speaking generally, they maintain a representative or representatives in Washington; they may also be represented at state capitals, and for local issues, at metropolitan centers. Washington offices will be staffed by paid lobbyists—often highly paid—whose business it is to contact individual legislators and administrators, in government lobbies, in offices, or on social occasions. They also are expected to prepare and present briefs at hearings, and should the occasion warrant it, they will obtain suitable legal talent—in fact, on important issues, business representatives nearly always appear flanked by an array of lawyers.

Some groups have no permanent lobbies, but send representatives on occasional forays to the centers of political activity. Lobbying, however, is only one aspect of pressure politics. Increasing attention is being given to influencing public opinion, so that pressure can be brought to bear on individual legislators through letters, telegrams, telephone calls, etc., without

[5] T.N.E.C. No. 26.

necessarily disclosing its real source. Propaganda is directed to the electorate through the press, radio, public meetings, information sheets, and other opinion-forming instruments. It must, of course, be directed in a way that establishes identity between special objectives and the public good. The legislators can then be made to feel that the public wants what the special group is asking for.

The factors determining the power of a pressure group are many. According to a listing made in the T.N.E.C. Monograph referred to above, one of the most important is the length of life or staying power of the organized group. Since the contest for political control is a continuing one, an organization which functions over a long period of time acquires experience, familiarity with the problems at hand, and awareness of the many potentially useful points in government at which contacts might be made. This is an area in which power grows with use.

A second factor is cohesion within the pressure group itself, for, obviously, the more an organization suffers from disunity or internal dissension, "the less it is able to direct its strength toward any particular goal and the more easily its aims are defeated."

Thirdly, the extent to which the activities of the contestants ". . . are invisible to the general public or to other groups often determines the outcome of a particular manoeuvre or a whole phase of the battle." A part of the struggle for power is carried on more or less openly, although even then it may be disguised, as propaganda frequently is.

Further, as a factor in successful pressure techniques, the importance of financial resources is obvious—propaganda is expensive, law suits are expensive, lobbies are expensive. It is true that a zealous group without substantial funds can make itself effectively heard, but it is a difficult burden for the long haul. The lack of adequate financing has been one of the difficulties experienced in making the consumer position known on particular issues.

The interests of some of these organizations are more general than those of others—of the U. S. Chamber of Commerce, for instance, than the Edison Electric Institute (representing the electric utilities), but their political activity follows much the same pattern. The main purpose of the U. S. Chamber of Commerce, is to crystallize business opinion on important issues, discovering and expressing such opinions, rather than putting pressure on Congressmen and Senators to give effect to it, though this role should not be overlooked. The Chamber of Commerce canvasses membership opinion by referenda and, once formulated, this opinion is available for use by its

constituent members, acting independently or through other groups. If students are interested in finding out generally what "business thinks" about particular issues, the quickest approach is through the Chamber of Commerce material. The National Association of Manufacturers performs a somewhat similar function for certain business groups. One thing to be noted is that the expenses of opinion-forming, as of advertising, are regarded as legitimate expenses of business, deductible before net income is figured for tax purposes.

Lobbying as such has come to have something of an evil connotation, suggestive of political agents scurrying through Congressional corridors, engaging in corrupt practices. Certainly it has been abused. Nevertheless, the representation of special interest groups has become an integral part of our extra-legal machinery of government. Major agencies like the O.P.A. found that contact with organized groups, which that agency regularized on a permanent basis, was very valuable as a two-way channel of communication.

As Madison declared in the Federalist Paper No. 10, some 150 years ago, the only way to get rid of special interest groups is to suppress liberty, or to indoctrinate the public with a single point of view, neither of which is consistent with democratic principles. A constructive approach is to take advantage of the existence of organized groups, while restraining them from securing undue control over political power. Under the recent Congressional Reorganization Act, a step has been taken in this direction by requiring lobbyists to register.

The T.N.E.C. monograph referred to above, declares that the "main reason why the consumer point of view has not been more consistently reflected in legislation is because the consumer interest has been largely unorganized. If the interest of the general public in the economic field is to be brought to bear in an effective way, it must be organized as a specific factor in pressure politics, otherwise as a general amorphous power it will be no more effective in the future than in the past." One difficulty in this situation is that there is no administrative unit in the government closely aligned with the consumer point of view—that is to say, there is no Department of the Consumer as there is of Agriculture, of Commerce, of Labor. This is especially important in view of the fact that the administrative agencies are themselves an initiating and molding force in the political process. They tend to develop distinct attitudes that take on the quality of specialized interests—not necessarily in line with the public interest. Their interests and sympathies come to be bound up with the special group with which they are associated. The Department of Agriculture, for instance, with ramifications through all levels of government and out to the farms,

undoubtedly reflects the farmer's point of view, but in a more generalized way than it would be reflected by any one of the farm organizations. There is no doubt that we have come to look on the major departments as not only reflecting certain interests but also of promoting them, and this makes all the more significant the fact that there is no department servicing the consumer, though, as noted above, occasional and limited experiments in consumer representation within the administration have been made.

Public Opinion

Political parties, pressure groups, government agencies—all are bringing influence to bear to mold the political process to their own liking. But they must always take account of that vague but powerful force called public opinion, which itself is in constant process of change, due to many causes—trends in population, in urbanization, in science and applied technology, the relations within and between nations, and so on.

In his message to Congress on January 3, 1946, President Truman declared: "I was a member of the Congress for ten years. I am familiar with groups of all kinds representing special interests. . . . But there are those who, when they decide to make themselves felt, are the most powerful pressure group in the world—I mean the American people—the great mass of our citizens who have no special interests, whose interests are only the interests of the nation as a whole. The only difficulty is that the great public body of American citizens who are not organized, find it difficult to make themselves heard." The President, by virtue of his office, formulating and recommending policy, is, theoretically at any rate, the spokesman for this inarticulate mass opinion. It is his business to bring the jarring special interests into a degree of harmony necessary to hold a society together. He should be helped in the task of identifying the public interest in all its aspects, including the consumer aspect, by those concerned with promoting the general welfare.

When we speak of the role of government in the economy, we have to keep in mind that "government" is a curious complex of institutions, processes, and relationships, dynamic in character, through which organized society tries, in a trial-and-error fashion, to adjust to changing circumstances, resolving the various conflicts that take place within it, to a degree necessary to maintain its organic unity. What then is a proper role for government in the economy?

PUBLIC ECONOMIC POLICY

The most ardent advocates of laissez faire have been among the most eager for the exercise of government power when it seemed to be to their

own advantage. The result is that we have an extraordinary amount of special interest legislation, wrapped in terms of the general welfare. The question we must ask ourselves, therefore, is not should government power be exerted in economic affairs, but under what circumstances and to what ends.

The primary role of government in society may be said to be to protect person and property from marauders at home and abroad. But within this framework of physical security, its functions are in fact manifold. Most of its economic functions can be included in a few broad categories, which can be conveniently classified as promotional, regulatory, entrepreneurial or operational, and fiscal, though there are no clear lines of division among them.

The Promotional Function

By promotional role, is meant action taken to encourage the efforts of private individuals or groups, or assist them in undertakings they themselves have initiated. Alexander Hamilton, in his *Report on Manufactures,* in which he urged the adoption of a protective tariff, took the position that the government should actively promote economic progress, be an "instrument of progress," not just act as a policeman keeping the ring. It is arguable whether the tariff did in fact promote industrialization, but at any rate it was promotional in intent. By way of illustration of this role of government, let us consider briefly its work in the field of scientific and, to a less extent, social research.

SCIENTIFIC RESEARCH. Many government agencies engage in research directly or indirectly. The War and Navy Departments, for instance, employ research staffs, and some of their research has spilled over into the civilian field. Government research has been especially significant in connection with agriculture, enormous funds having been made available for that purpose. The government has also done a considerable amount of research to assist industry in production and marketing; the consular service is continuously exploring and promoting markets abroad. The Small Business Committee of Congress has urged that more research of a basic character and applied research, be undertaken to assist the small entrepreneur who is not in a position to set up scientific laboratories in any way comparable to those maintained by the large enterprises, with an annual income of millions of dollars, with the result that the latter are able to accumulate increasing power through invention and patent controls. Only through government research, the committee has argued, "can technology be harnessed to meet democracy's needs."

The T.N.E.C. Monograph No. 26, explains this point of view:

The control over applied science which business holds is the key to the explanation of its dominant position in the process of government. Two interacting factors make this position possible. Business, enabled by the corporate mechanism to raise large funds necessary for mass production, to concentrate control over their use in a few hands, and to build up its research laboratories, has worked its way into a dominant position in economic life. By its control over technology it is able to perpetuate that position . . . to a great extent industry's political formidability can be traced to its dominant position in scientific research . . . for the student of politics and government it ranks as a primary factor of highest significance; he must recognize the invention of the art of invention as a political factor of primary importance. . . . The controls centralized in the business community extend to both pure and applied science. . . . It is a resource of the first magnitude, endowing business with unique influence in the social process, and making its political strength almost unassailable.[6]

In 1944, President Roosevelt asked[7] Dr. Vannevar Bush, Director of the Office of Scientific Research and Development (O.S.R.D.), set up during the war to coordinate research work throughout the country, to advise him on how the experience in coordinated research which proved so valuable during the war, could be carried over into the peace. "New frontiers of the mind are before us," said the President, "and if they are pioneered with the same vision, boldness and drive with which we have waged this war, we can create a fuller and more fruitful employment and a fuller and more fruitful life."

In his report, Dr. Bush urged upon the President the importance of continuing and expanding government financing for basic scientific research, particularly in the universities, colleges, and research institutions, and for training students who showed promise in this field; he recommended that a National Research Foundation be set up at the federal level to coordinate the program and take responsibility for distributing grants for research to institutions and individuals. "Progress in the war against disease," wrote Dr. Bush, "depends upon a flow of new scientific knowledge." To maintain full employment, he argued, "we must make new and better and cheaper products. But new products and processes are founded on new principles and new concepts which in turn result from basic scientific research—which is scientific capital."

He pointed out that, with few exceptions, most of the research done by industry was an application of knowledge already pioneered elsewhere. The

[6] *Op. cit.*, p. 22.

[7] See Vannevar Bush, *Report to the President on a Program for Postwar Scientific Research*, 1944.

scientific work done in different agencies of government is generally carried on as an adjunct of administration, not in terms of pioneering unknown areas of knowledge The government's role in expanding science, he said, should be largely one of coordination and financial aid. "Penicillin reached our troops in time to save countless lives because the government coordinated and supported the program of research and development on the drug" The government should accept responsibility for promoting the flow of new scientific knowledge and the development of scientific talent in our youth "These responsibilities are the proper concern of the government for they vitally affect our health, our jobs and our national security" This is the modern way, he said, to open new frontiers, and the promotional work should be undertaken by a specially constituted government agency

Various Congressional proposals have since been made with respect to the establishment of such a foundation as Dr Bush suggested, but they have given rise to a number of controversies For instance, with respect to patent rights, if government money is given in support of basic research or any particular project, should private patents be issued to protect the results of such research? If so, what would be the effect on industrial concentration, on supply, and on price of goods produced? This was a matter to which the T.N E C gave considerable attention during its 1939–1941 inquiry, particularly in connection with the relation between patents and concentration of control in industry

With the establishment of the United States Atomic Energy Commission for the control of atomic energy within the nation, the federal government assumed primary responsibility for developmental work in this basic field of research, of such incalculable significance to the welfare of all people There is no clear line, obviously, between what we have called promotional and entrepreneurial activity in the actual conduct of research, though it may well be promotional of private initiative in the application of its results to industry, as in the case of agricultural research The preamble of the Atomic Energy Act reads "It is reasonable to anticipate that tapping this new source of energy will cause profound changes in our present way of life. Accordingly it is hereby declared to be the policy of the people of the United States that, subject at all times to the paramount objective of assuring the common defense and security, the development and utilization of atomic energy shall, so far as practicable, be directed toward improving the public welfare, increasing the standard of living, strengthening free competition in private enterprise and promoting world peace"

The Atomic Energy Commission—a civilian commission with a military

liaison committee—will be a great research and operating agency, carrying on "the most stupendous business in the world." Nothing could be more important to consumers than the proper administration of this great trust, the results of which, as the preamble states, are likely to revolutionize the whole basis of our standard of living, and this, of course, is irrespective of its influence on international relations.

David E. Lilienthal, chairman of the commission, declares:

> Every new invention creates new problems Sometimes these are not recognized, and no attempt is made to solve them until new technological discoveries have made them obsolete In a way we are still wrestling with the problems created by the invention of the steam engine. Now we have atomic energy. We must do what we can to foresee and prepare for the changes it will bring. . . . We must use, and encourage, the efforts of a great number of physical scientists, but we cannot depend on these alone The law under which we operate takes a strikingly wider view. It directs us, for example, to report to the President our estimate of the social, political, economic and international effects of any new nonmilitary use of fissionable material or atomic energy. We shall need the help not only of military men and scientists but of industrialists, economists, and sociologists. The first three have already been brought together I don't believe they have ever before been brought together with the last two We are pioneering here just as we are in the field of discovery and application—and it is at least as important a field.[8]

It has to be kept in mind that in terms of changes in the standard of living, at any rate in the actual standard of living, new scientific discoveries become significant only as they are applied—which may take a considerable period of time. But discovery comes first, and the conditions under which it is applied, or not applied, are a matter of great concern to consumers, though they are usually not in a position to have a direct voice in its determination.

On December 24, 1947, the President set up an Interdepartmental Committee on Scientific Research and Development to coordinate all federal scientific activities—"the manifold and growing scientific operations of the Government, ranging from crop improvement to atomic energy."[9] In announcing the establishment of the committee, the President said. "The relationship of the Federal research program to our national welfare, and the great sums annually spent for research by the Government, make the establishment of such a group a matter of national importance." One argument in favor of a consumer agency in the government is that the consumer

[8] *New York Times*, November 17, 1946
[9] *New York Times* December 25, 1947.

point of view should certainly be brought to bear on the deliberations of such an interdepartmental committee.

SOCIAL RESEARCH. In addition to scientific research, there is a tremendous amount of economic research, much of it of a statistical character, carried on by the administrative departments of government, some of it as an adjunct of administration, but some also as a service to particular groups or the public at large. The results of much of this research are analyzed and interpreted by trained personnel and used as a basis for discovering trends and predicting developments as a guide to action; they are used also for answering a stream of inquiries from people who, "when they want to know anything, write to Washington." All major departments of government and the semi-independent agencies engage in this activity to a greater or lesser degree.

Nevertheless, despite the amount of effort that goes into economic research, it is not enough, or it is not of the right kind or quality, to provide answers to many of the baffling problems that confront consumers. It is important in this as in other areas that our resources in personnel and equipment be used to best advantage, and that a periodic review be made of the type of work done and its significance. United States official statistics have a general reputation for reliability; that is, for being both reasonably complete in the field they cover, and free of partisan maneuvering, though political considerations do affect the types of research undertaken, or not undertaken.

The heated attack made by labor leaders during the war on the B.L.S. "cost-of-living" index, as explained above, served to underline the importance of this area of government activity, the need to develop criteria for its evaluation, and to secure adequate funds for the expansion of research of a significant character. There seems to be a feeling among some Congressmen that the less that is known about what is going on the better. One area of research that would have immediate practical value for consumers at the market would include analysis and measurement of quality characteristics of consumption goods. People in their capacity as consumers do not have the resources to conduct extensive research into matters of concern to them, and, as farmers and small businessmen have done in the past, might well ask for further help from the government in this important field. In the future, as we are confronted with the problems of adjustment to a new age, consumers are going to have need of much greater help in the proper exercise of their functions than they have had in the past from government.

In this connection, it is well to remember that all government information made available to the public has to clear through the appropriate publicity

director before it is released; one of the greatest difficulties that confronted consumer representatives in the N.R.A. and the A.A.A. in the thirties, and in the early days of the O.P.A. in the forties, was to get the material they considered of importance to the consumer, cleared through the publicity offices.

The Regulatory Function

A second major aspect of government function which we have classified as regulatory, is exercised at all levels of government. A listing of regulatory activities would be a formidable task and a constantly expanding one. They vary from traffic signals at the local level to supervision of stock issues by the U. S. Securities and Exchange Commission. Exercise of the regulatory function of government is attended by much controversy. In view of constantly changing conditions, regulations designed to meet one set of economic circumstances, may become out of date before they are modified; thus citizens have to be constantly alert to ensure that development of a kind that will genuinely promote the general welfare, will be furthered and not retarded by the exercise of this function of government.

Some of the regulatory activities of government are of more direct concern to consumers than are others. Reference has been made above to regulatory acts affecting monopolistic practices of business. Attention has also been drawn to some aspects of the work of the Food and Drug Administration and also the Federal Trade Commission. The regulatory work of these agencies offers an opportunity for direct consumer cooperation which should be encouraged. As exemplifying this aspect of government functioning, let us give some further attention to the work of the Food and Drug Administration.

THE FOOD AND DRUG ADMINISTRATION. In 1906, after a long and bitter struggle, the first federal food and drug act was passed. The drive for federal legislation was led by Dr. Harvey W. Wiley, a chemist in the U. S. Department of Agriculture who, with his famous "poison squad" (young employees in the department), tested in their own diet, the effect of preservatives that were being used to an increasing extent in food processing. He was supported by members of the "muckraking" press and by a shocked public opinion after the publication of Upton Sinclair's *The Jungle*. Though some businessmen supported regulation, most of them foretold ruin for the food and drug industries. In view of this, it is interesting to note that the 40th anniversary of the passing of the original act was celebrated on June 25, 1946, at a day-long conference called by the Food, Drug

and Cosmetic Section of the New York State Bar Association, the chairman of which was also counsel for both the Grocery Manufacturers of America, Inc., and the American Pharmaceutical Manufacturers Association. Leading food and drug manufacturers without exception referred to the act as an invaluable aid to their industry. Referring to the "miracles" that have taken place in food processing and storage, the Chairman of the Board of General Foods Co., said, "We must give greatest recognition to the Food and Drug Act in setting the stage."

Nevertheless, despite various attempts to amend the act to afford further consumer protection, and also to extend its provisions, particularly to include cosmetics, no significant amendment was passed until 1938, and then only after five years of acrimonious hearings and debates. It was with a view to shocking public opinion again into the necessity for action, that Ruth De Forrest Lamb wrote *The Chamber of Horrors,* a lurid series of true stories of persons blinded, disfigured, or otherwise injured by use of harmful cosmetics, and various drugs and devices. A series of deaths resulting from the use of a particular sulfanilamide compound, gave the final stimulus to action.

The basic provisions of the act as amended might be summarized as prohibiting the sale in interstate commerce of food, drugs, and cosmetics that are injurious to health or adulterated, or that are mislabeled or not labeled as required under the act. To facilitate the enforcement of this section, authority is given the Food and Drug Administration to formulate and issue regulations establishing, for any food, with certain exceptions, a reasonable definition and standard of identity, fill of container, and minimum standard of quality. Provisions empowering the F.D.A. to establish comparative grades were deleted during the course of Congressional debate.

Some account has been given earlier of these regulatory provisions as applied to foods; most of them apply also to drugs which must in addition conform to certain special requirements. New drugs have to be kept off the market until permission has been received from the F.D.A. following an examination of the product, and in some cases experimental testing. Special provisions also apply to cosmetics—for instance, all coal-tar colors, except those used in hair dyes, are subject to compulsory listing and certification, designed to insure their harmlessness. Exclusion of hair dyes was due to a strenuous fight put up by the trade; the only protection in the case of such dyes is a requirement that the label bear a conspicuous warning that the products contain ingredients which may cause skin irritation on certain individuals and directing a preliminary skin test.

The act also regulates labeling, including all written or printed matter accompanying an article, as well as that in or upon the package or immediate container, but not the advertising relating to it, which is under the jurisdiction of the Federal Trade Commission

An act of this kind, however stringent its provisions seem to be, has little significance unless it is properly enforced, which requires adequate appropriations For the vast responsibility involved in supervising the total interstate movement of food, drugs, and cosmetics, of such vital concern to the health of the public, the F D A had in 1942 a total staff, including inspectors in the field, technical experts for laboratory analysis, clerks, and helpers, of 900 persons, of whom 600 were in the field service and 300 in Washington The difficulty is especially acute when the staff has to be called off all routine work to cope with an emergency, as happens, for instance, when it is discovered that a dangerous drug or poisonous food has been widely distributed The F D A needs public support in securing funds necessary for its work Violations that come to the attention of individual consumers should be reported to it

The F D A is now established for administrative purposes in the Federal Security Agency The administration of the act is decentralized, district and local inspection stations facilitating closer ties among federal, state, and local agents working in the food and drug field In some instances, state officials are commissioned to conduct examinations and investigations in connection with the enforcement of the federal act The field stations, it might be pointed out here, also provide an excellent opportunity for contact between members of the public and the F D A staff, particularly in the large metropolitan centers

Cases from the monthly F D A publication, *Notices of Judgment,* were quoted above with respect to food, no less disturbing cases can be quoted at random from the drug and cosmetic sections of the same publication

PUBLIC UTILITY REGULATION Another type of regulatory control by government, to which attention should be called here, is that of rate regulation in the public utility field Rate fixing, or price fixing, by government authority, has been applied on different occasions to various areas of economic life, sometimes in terms of maximum rates, in the interest of consumers, sometimes of minimum rates, in the interests of producers and distributors. Sometimes, as seems to have happened in the public utility field, we have fixed rates. at first, in the interest of consumers, but somewhere along the years attitudes changed, so that, generally speaking, rates came to be protective of a particular producer group. With respect to public utilities, the

principles of competition do not apply; in fact, once they come under public regulation, they are protected from competition, at least within their own field, by the public issuance of a license to operate.

As first developed, rate regulation was exercised primarily with respect to the railroads, at the instance mainly of the farm groups who felt they were being exploited by monopolistic railroad practices. During the 1870's, the states of the Middle West, under authority of the Granger laws, experimented with rate-fixing, and with the passage of the Interstate Commerce Act in 1887 and the setting up of the Interstate Commerce Commission, the federal government assumed jurisdiction over the interstate aspects of railroading.

Since World War I, however, the motivating factor in railroad rate regulation seems to have been less that of holding costs to a minimum than of protecting the railroad financial structure. In the early days of the depression, large sums of R.F.C. money were advanced to the railroads to protect them from default for many obvious reasons, one being that trust funds are involved on a large scale, and another that for defense purposes, the government must see to it that the vast railroad system is adequately maintained. This has been a factor in the extension of I.C.C. control over other means of interstate transportation—buses, trucks, inland waterways.

Consumers have a large stake in the transportation system and in its efficient operation, since quite apart from passenger travel, transportation costs underlie nearly all retail prices. Rate differentials can give preference to one commodity as against another, and one area as against another. It is particularly important that new methods of transportation should not be unduly hampered in the interests of the status quo, if they promise improved and cheaper services. The U. S. Department of Justice has been in conflict with the I.C.C. over the practice of conferring with the Association of American Railroads (a national association of railroad companies) on the question of rates in a way that suggests monopolistic rate-fixing rather than government rate regulation. The 1948 Congress acted (Reed-Bulwinkle Bill) to give the carriers protection from the anti-trust laws to the extent that their acts and procedures had obtained prior approval from the I.C.C. Where does the public interest lie in this matter?

Another important field of rate regulation is that of electric power. The development of electric power is one of the great sagas of modern history; it has been a basic factor in the marked increase in man-hour productivity in mass-production industries; it promises even greater benefits in the home and farm if the price is brought within the reach of the masses of people,

and suitable appliances for its use are made available at a cost people can afford.

There is a long history of control of utility rates, mainly by state commissions. In the past, regulatory control by the federal government has affected the structure of utility companies, rather than their rates as such. Federal control developed largely because of the emergence of the utility holding company during the 1920's. This period, as noted above, was one of high profits, speculative stock market activity and promotion of central office companies of various kinds, including holding companies. These companies, mainly organized through investment houses and pyramided one on top of the other, would buy a controlling share of stock in operating companies, as a result of which a holding company with a relatively small investment might come to control a number of subsidiaries with very large operating capital. By 1929, three holding company groups controlled about 45 percent of the electricity generated. Through an investment of $10 million, the Electric Bond and Share Co., was able, for instance, to control the American Power and Light Co., with its subsidiaries, having a total capitalization of $729 million.

It was argued that such development, which usually involved interstate operations, led to better interconnections between generating and distributive systems, or between different generating and different distributive systems, regardless of state laws, which increased the efficiency of operation; and also that it made possible a higher quality of managerial and engineering services. It is, in fact, generally admitted that there is a "total lack of relationship between a workable power map of the country and existing political subdivisions." However, the record seems to show that any efficiency that might have been gained by improved interconnections, was more than offset by the burden of excessive overhead costs and speculative profits which the operating companies had to carry as a result of this superstructure. Moreover, it was successful in lifting a large part of the power system out of the jurisdiction of the states, and into an interstate arena that had not yet been brought under federal control—this perhaps was its greatest advantage in the eyes of the utility leaders concerned. When the stock market collapsed in 1929, the utility structure was found to be financially unsound; investors in many of these companies, notably those in the Midwestern Insull group, lost very heavily, and their outcry strengthened the hand of the government in its determination to establish some effective control over the kind of activity they represented.

Though opposed by one of the most powerful pressure groups, an act was

finally passed in 1935, limiting the scope and prohibiting the pyramiding of holding companies. The constitutionality of this act was not finally established until November 1946,[10] when the Supreme Court gave a unanimous verdict supporting it—"We concur" they said "in the belief that the social disadvantages of these corporate devices in all too many cases nullified the practical advantages claimed for them. . . ." In the same year, the Federal Power Commission, established in 1920 with limited authority to license the use of water power, was authorized, *inter alia,* to regulate the rates of electricity sold in interstate commerce; and also under certain circumstances to order certain interconnections and regulate interchange agreements. With state commissions functioning within the states, and the Federal Power Commission interstate, some degree of coordination in their activities is necessary, if a proper rate structure is to be developed.

It cannot be assumed that the process of rate-fixing as it has worked out in the past, ensures the best rate structure from the consumer point of view. The basis of rate-fixing has, in fact, been determined not by the legislatures but by the courts—it is another case of "judicial economics." Decisions of the courts in rate cases have been given for the most part on appeal from the companies under the 5th and 14th amendments, safeguarding private property rights. Decisions have been full of ambiguities, but generally speaking they have followed the "Smyth and Ames" ruling of 1898, requiring that rates be fixed so as "to provide a fair return on a fair valuation"—that is to say, a fair return to the stockholder. But what is a fair return, and what is a fair valuation?

In arriving at their decisions the commissions have, for the most part, taken the position that they had no authority to question whether costs were too high. There have been occasional exceptions to this—a fairly recent example was the criticism directed by the N. Y. Public Service Commission[11] against the dominating Consolidated Edison Co., for not taking advantage of low interest rates to refinance securities so as to save on interest and dividend charges; Consolidated Edison did some refinancing following this criticism. But, by and large, the regulatory commissions have interpreted their function more narrowly—first, they arrive at an agreement as to the fair valuation of the property; then, given the costs of operation, they fix a rate calculated to yield 6, 7, or 8 percent, regardless of the average rate of return on capital. According to Professors Bowman and Bach, "The rate of

[10] *New York Times,* November 27, 1946.
[11] *New York Times,* June 5, 1946.

return has been consistently higher than the return generally available in other investments of comparable risks."[12]

Any attempt to fix a "fair valuation" of utility property is beset with difficulties. Does it mean the actual capital invested, or the book value of assets, whether or not it includes watered stock, or what a "prudent man might have been expected to invest," or replacement value? There has been no consistency in approach to this problem. The process of arriving at a valuation usually involves a physical appraisal of the properties, about which there is generally disagreement, and whenever prices and costs or other conditions change materially, a new physical evaluation may be necessary. "Practically every step in appraisal involves opinion and judgment on the part of the appraiser, including even the apparently simple matter of preparing the inventory, estimating the reproduction cost of the items finally listed, then allowing for depreciation on each item, etc.—and there is enormous equipment in the electric power field."

When rate cases come up before public utility commissions, the companies have their own highly paid experts giving testimony. The public counsel, who usually presents witnesses on behalf of the public, is in a very different position, and usually there is no consumer interest shown, or very little, since the proceedings are conducted on a highly technical basis, frequently prolonged over many months or even years, and then possibly followed by court appeals. Nevertheless, the power rate is of great importance in determining the level of consumption. Even when a valuation figure is finally arrived at, there is still the further problem of deciding what rate will return the agreed upon profit on valuation, since this depends on consumption "as to which experience of the past may be no guide to the future especially if you alter the rate schedule under which that experience was acquired." The commissions, generally speaking, have not adopted the point of view of the T.V.A., that rates should be fixed on the assumption that lower rates will increase consumption.

It is impossible to say whether under commission control utility rates are lower or higher than they would have been had the control not been exercised. One complication is the fact that there is not one rate but a rate structure, with one rate for household use, one for commercial, one for industrial, etc., and the structure can be so arranged as to be more favorable to one class of user or another.

One of the difficulties in utility rate regulation as it has developed, is that

[12] *Economic Analysis and Public Policy*, 1943, pp. 415–435.

the commission has come in most instances to regard itself as a court, making decisions on the basis of evidence presented. If the "public" is not in a position to assemble relevant facts in favor of the low-price, large-volume point of view, the commission, on this interpretation of its function, will, of course, be impressed by the company's position. An experiment was made in Washington, D. C. some years ago providing for a special Consumers Counsel attached to the Public Service Commission; the Consumers Counsel was to take responsibility for seeing that all relevant material from the consumer point of view would be placed in evidence, with the Public Service Commission acting as a court.

What is the proper role for the regulatory commission—to represent the public or act as a court? Should the commission take initiative in examining rates or wait for complaints? In the opinion of Dr. John Bauer,[13] a recognized authority, the public's side in rate cases has gone largely by default. There are, of course, instances where the commission, on its own account, has made limited investigations from the public standpoint. But, generally speaking, the commissions are not in a position to carry on extensive investigations, even if they considered it their function to do so.

A number of municipal power plants have been set up, but circumstances are usually such that no reliable measure of comparative efficiency between public and private plants can be made, though in a study sponsored by the Twentieth Century Fund,[14] Professor Bonbright asserted that the figures warranted belief in the greater efficiency and total public advantage of the publicly owned plants. Rate comparisons have been facilitated in recent years by the practice adopted by the Federal Power Commission of publishing rates of the power companies throughout the country on a comparative basis, the rate differential between some areas being very marked.

There are many problems connected with a proper coordination and development of this basic power resource. Some suggestions have been made along the lines of favoring regional development of power with distribution through independent companies or local government agencies on a state or local basis; this would take account of the advantages of large-scale production while keeping distributors in close touch with consumers. This would call for some reorganization of the utility industry, on the basis of a "sensible power map of the country." It also would call for some understanding between the Federal Power Commission, the Securities and Exchange Commission, and the state authorities, as to their respective jurisdic-

[13] John Bauer, *America's Struggle for Electric Power*, 1935.
[14] *Electric Power and Government Policy*, 1947.

tions The servicing of all families and enterprises in the country with electricity, sold on the basis of a low-cost, high-volume policy, is a subject of great importance to which consumers should bring a constructive contribution; it is the sort of problem with which they will be increasingly confronted as they go forward into the technological age.

There are those who, discouraged by fruitless efforts in the past, feel that effective regulation in the public interest of such vast resources as those controlled by the large utility companies is impossible, and they advance various proposals for public ownership But this takes us into the entrepreneurial function of government, the third major aspect of government functioning according to our previous classification

The Entrepreneurial Function

We often fail to realize how considerable is this role of government in the economy, even in peacetime Much of this activity has been in the field of basic public works as, for instance, road building, port, and river development, and, in more recent years, in the great valley projects like T V A There has, however, been an increasing trend toward government initiative in the production (direct or under contract) of consumption goods and services made available directly to consumers, either on a subsidized basis, as in the case of public housing, or as "free" goods, as in education, parks and playgrounds, garbage collection, and so on Extension of government activity into some of these areas has been bitterly opposed at times, and is still bitterly opposed by some groups as being competitive with private business, though, as a matter of fact, it has usually developed in an area in which businessmen have been unable or unwilling to enter.

Such activity is regarded by some of its proponents as a necessary means for bringing about a redistribution of income, though it is not clear that funds for these programs are in all cases obtained from "taxes on the rich" It is also not clear who benefits most from an extension of free goods, that is to say, whether it is the lowest-income class or other groups in the community. As mentioned above, Professor Hoyt suggests that perhaps the middle-income rather than the low income classes have taken most advantage of these services It would be valuable to have a study of the productivity of public funds spent on consumption goods and services, particularly those made available on a free basis

A further extension of government activity in this area of production is regarded by some students as even more desirable, or at any rate more feasible, than a proportionate increase in wages, though, of course, in the

latter case, the consumer exercises choice directly at the market. It is also supported as a necessary means for offsetting any decline in the volume of private business if full employment is to be maintained. This "compensatory" function of government was undertaken on an experimental basis, without much preparation, during the thirties, when the W.P.A. projects were organized. The plan is for workers, as they are put off their jobs in private industry, to be taken onto government pay rolls (providing no other jobs are available); as private enterprise again became expansive, government pay rolls would contract. This entrepreneurial role proposed for government to prevent a "recession" in business from working itself out in mass unemployment and distress, does not involve any overall planning of the economy. It involves only the planning of projects to be undertaken when an increase in unemployment rolls indicates that the time has come for government to take action. It is a plan for underpinning the private enterprise system.

Such a proposal raises many special problems, some of which proved acute during the W.P.A. period. For instance, is government to be responsible for offering the same type of jobs to unemployed individuals as those to which they are accustomed, and if so, to what extent will government be considered a competitive rather than a compensatory factor in the economy.

Another type of proposal, again involving government action either for the purpose of redistributing income or as a stabilizing factor in maintaining the continuous use of our productive resources, contemplates a larger role for government, not in the production of goods but in their distribution among people who are not in a position to take them off the market at a price satisfactory to producers. During the thirties the government became an active buyer of agricultural products in an effort to maintain satisfactory prices to farmers, since control of production as a means of cutting down the burden of surpluses proved difficult. Part of the government purchases were distributed in one way or another to consumers, though there was considerable waste; out of this experience there slowly developed the concept of "underwriting minimum consumption." According to this proposal the government would see to it that every family had minimum purchasing power under all circumstances, or would itself undertake the direct distribution of consumption goods to maintain a minimum agreed standard, presumably through such schemes as free school lunches, etc. As pointed out above, the Secretary of Agriculture has publicly endorsed the underwriting of consumption of food products, his interest of course being primarily in main-

taining agricultural prosperity. As he sees it, it is to be a "policy of organized, sustained and realistic abundance."

An even larger role for government, perhaps involving some degree of overall planning, is suggested by the principle embodied in limited form in the Employment Act of 1946. Under the act, the President is directed to report regularly to Congress, on what appear to be the major economic trends, and particularly to present a "national budget" showing anticipated spending by consumers, business, and government, in relation to income received, with a view to revealing any imbalance between saving and spending for the economy as a whole, as explained above. If, for any reason, the indications are that consumers and business are not spending enough, then government will presumably make up the deficit by expanding its operations, though no provision is made for such action in the act itself. The whole purpose underlying this legislation is to find some way to maintain the economy in full production on an expanding basis, though the postwar boom has tended to divert attention from such problems. A fundamental question here is whether this can be done on a cooperative basis between the government and the various groups concerned, within the framework of a democratic system and in a way to promote the consumer interest; such cooperation has been exemplified in a remarkable way in the T.V.A. development.

The expanding concept of government as an instrument in the hands of organized society for bringing about the full utilization of economic resources will mean, if this development continues, that the market will become, or is likely to become, even less important than in the past as an organizing factor in the use of resources, so that if consumers are to have a determining voice in the supply and price of goods, they will have to become more active politically.

The Fiscal Function

These various activities of government involve the use, to a greater or lesser extent, of its fiscal power, an essential instrument in carrying out any form of economic planning adopted. The total fiscal program of government is, therefore, of significance not only in terms of its effect on the immediate spending power of consumers, but also in terms of its effect on the economy as a whole. In fact, particular projects undertaken by government can only be evaluated, from a consumer point of view, after we know how they are to be paid for.

Government revenues are raised mainly by: (1) taxes, direct and indirect; (2) borrowing from the savings of individuals and institutions on terms

agreed to in advance; (3) creating "new money" either through government printing presses as was done with the greenbacks in the Civil War, or, in the more sophisticated modern method, by borrowing from the banks The effect on the economy as a whole and on individuals and groups will be different according to the proportion of the total revenues that are raised by these different means, and the ways in which they are raised

Technically, the policy of government with respect to the tax system as such, can be discussed separately from its borrowing and money-creating policy, but from the overall consumer point of view, it is apparent that they are interrelated parts of the total fiscal program, which must be considered as a whole and examined in the light of the purposes for which the money is raised

THE TAX STRUCTURE. Before going on to consider some general questions with respect to fiscal policy as a whole, let us look briefly at the tax structure One of the complications here is the multiplicity of taxing authorities, federal, state, and local It is said that no less than 175,000 local government units in the United States, in addition to the several states and federal government, have the power to levy taxes, each unit having its own system with its own rates Tables 22 gives estimates by the Census Bureau of the income derived by federal, state, and local governments from different tax sources

Except for the customs tariff, every major tax is used by more than one of the three levels of government and some by all three for instance, the federal government, each of the state governments, and even some local units use the gasoline tax; the local governments depend heavily on the property tax, but some of the state governments use it too, the federal government depends heavily on the income tax but a majority of the state governments also derive revenue from it Not only do these programs overlap but they are at times actually in conflict During the depression, for instance, when the federal government was basing its policy on the need to increase purchasing power, the states, and even some local units, were imposing increasingly heavy taxes on consumption—partly for lack of other sources of revenue, and partly in an effort to maintain their independence of the federal government. What is the cost, it might be asked, of this lack of coordination in the tax structure?

One development that has had some influence on this problem of conflicting jurisdictions has been the increasing trend toward grants-in-aid by the federal government to the states and, through them, to the local units for various purposes, particularly welfare and educational services. Other complications arise from conflicting aims or standards in the use of different

types of taxes, as, for example, a tax for revenue or for social control and the use of the principle of "ability to pay" or "benefits received." There are conflicting ideas also about maintaining the status quo in group relations or bringing about a redistribution of real income by taking from the well-to-do and giving to the poor, either directly in money payments or through free goods.

TABLE 22 Total Revenue from Taxes
(in millions)

	1946	1945	1942
Total	$52,546	$54,858	$23,195
Federal	41,250	44,297	13,510
State and local	11 296	10,561	9,685

Percent Distribution of General Revenue, Excluding Intergovernmental Aid, by Major Source, 1946, and 1942

Source	Total		Federal		State		Local	
	1946	1942	1946	1942	1946	1942	1946	1942
Total general revenue, excluding intergovernmental aid	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0
Taxes, total	92 4	95 4	93 3	98 5	92 8	94 0	85 6	88 9
Individual and corporation income and death and gift	57 9	37 4	72 2	61 5	15 1	11 8	0 6	0 6
Sales, use, gross receipts, and customs	17 4	23 3	15 6	24 0	43 6	41 9	2 7	2 4
Property	9 1	18 9			3 9	5 1	79 5	82 3
Social insurance	5 0	9 7	4 1	9 3	16 0	20 2	(a)	0 2
Licenses, permits, and other taxes	3 0	6 1	1 4	3 7	14 3	15 0	2 8	3 5
Charges and miscellaneous	7 6	4 6	6 7	1 5	7 2	5 9	14 4	11 1

[a] Less than 1/20 of 1 percent

The Income Tax The individual income tax is most important at the federal level Though two-thirds of the states also have an income tax, the federal government raises a much larger amount through this tax than all the states combined. With respect to the income tax, what we want to know is Who is to pay it? At what rates are they to pay? How is it to be collected? The first of these questions raises the issue of exemptions. This obviously depends in part on how much money is to be raised by taxes and the alternative tax sources

As a result of the war, there was an increase in number of income tax-

payers, from about four million in 1940 to about 40 million in 1943, due both to a lowering of exemptions, and an increase in general level of income. As the exemptions were lowered, increasing the proportion of wage and salary earners in the income-tax group, a new technique for payment, the "pay-as-you-go" plan was devised, involving deduction at the source, which made it easier for the new taxpayers, many of whom were unaccustomed to regular savings, to meet their commitments.

The federal income tax is based on the principle of "ability to pay" as distinct from payment according to "benefits received," and the rates increase with income But ability to pay is relative; it rests on the concept of a minimum level of consumption For some people it has come to be associated with the idea of "soaking the rich," as a matter of equity; for others, it is a necessary means for redistributing income, and there are still others who contend that if the rate is too high it will discourage savings below the level necessary for capital expansion, and so restrict productive capacity

Economists generally favor an extension of the income tax in preference to other forms of taxation, partly because it is the easiest of all taxes to adjust according to ability to pay and to meet changing circumstances; it is also looked upon as one of the best types of tax to make the citizen conscious of his role as a taxpayer, and alert to the significance of tax policy as it affects himself. Further, it is a tax the incidence of which falls most directly on the taxpayer himself, so that the burden cannot readily be shifted to thwart its use as a flexible instrument of control, if that is accepted as one of its purposes.

There are many special problems involved in trying to establish an equitable system of income taxation—for example, how to tax capital gains, or income that is earned on an irregular basis from year to year, or bequests, or corporate earnings—but we cannot give attention to such details here.

Consumption Taxes. Recent writers with a predominantly consumer point of view, have argued in favor of a broader tax base for the income tax, that is, lower exemptions, in consideration of lifting some or all of the consumption taxes Consumption taxes, as distinct from income taxes, are levied not on income but on the sales value of goods and services, though usually only on such goods and services as are sold at a retail store, or on certain classes of goods.

These taxes, including "sales," excise, and certain classes of special taxes, are paid by the individuals who buy the goods and services, but in this case the distributor or retailer acts as collecting agent for the government. Con-

sumption taxes are often referred to as hidden or indirect taxes since they are frequently added to the price of commodities without the consumer being aware of it; but in other cases, in New York City, for instance, they are paid separately from the price of the goods purchased. However, they are usually paid in small amounts at a time, so that the total burden is not realized.

As noted above, the use of consumption taxes by the states increased markedly during the thirties, usually without consumers being aware of the significance of what was taking place. From the point of view of the states, sales taxes, even during the depression were very productive of revenue, and on short notice; moreover, since they were partly concealed in price, they aroused less opposition than the income tax, though they bore harder on the mass of consumers. Further, the sales tax was a comparatively new field, not preempted either by the federal government which was relying increasingly on the income tax, or by the local units which depended chiefly on the property tax. However, consumption taxes generally are regressive in their effect, that is to say, in proportion to income they fall heavier on the low-income groups—this does not mean that low-income groups pay as much in actual amount, since the higher-income groups spend more as a total, but the percentage is higher. Moreover, these taxes allow no provision for exemptions on the basis of family responsibility, or of source of income (as, for instance, whether income is derived from investment or from earnings), and so on.

During World War II there was some pressure in favor of a federal sales tax, in lieu of increased income taxes, one of the arguments used being that now, as distinct from the thirties, it was federal policy to discourage rather than encourage spending, but this was opposed by the administration, and generally by labor and consumer groups.

Consumption taxes have been listed under the following main heads:

1. (a) General sales taxes which apply primarily at the retail level, usually at a rate of 2 or 3 percent on tangible products, admissions, and so on. The main objective is revenue; (b) selective sales taxes on particular products also primarily for revenue, though there may be some elements of social control, as with taxes on liquor, tobacco, and so on.
2. A second group of so-called consumption taxes, which are expected to be paid in the price (though it does not always work out that way), are imposed not primarily for revenue but for various purposes of control, frequently being "punitive" against some items, in order to be "protective" of others—as, for instance, oleomargarine taxes to protect dairy products, tariff rates to protect

domestic products, and so on The more effectively this tax policy is carried out the less revenue there will be

3. The third category of consumption taxes includes primarily the so called benefit taxes—the tax is expected to be added to the price, but the consumer is supposed to derive special benefits from it as, for instance, gasoline and motor vehicle taxes, the proceeds from which, with certain exceptions, go, at least in part, for the construction and maintenance of highways Pay roll taxes have at times been included in this category, but they are a special case Part of the burden may be shifted to consumers but if so all consumers whether or not they have social security will pay for the increase Part of it, the amount deducted from wages as such, is probably borne directly by the workers and to that extent restricts their purchasing power If the employer cannot shift the incidence of the pay roll deduction to consumers along with other costs, he may have to carry part of it himself out of his profits

There was some modification of the system of consumption taxes in different states during the war, when the states found themselves in the favorable position of accumulating surpluses, but there was an increase in certain classes of indirect taxes at the federal level, particularly in excise taxes on so called luxury goods as part of the anti inflationary program

The Committee for Economic Development (a businessmen's committee), in its *A Postwar Federal Tax Plan for High Employment* (1944), recommended the elimination of all excise taxes (totaling $7 billion), except possibly those on liquor, tobacco, and gasoline (about $4 billion), arguing that this additional lightening of taxation would bring more than proportional benefits to low income families

The Property Tax Local tax revenue is raised largely from the property tax, but rates differ from one community to another, and, indeed, from one year to another in the same community In some localities the property tax is levied only on real estate, in others, personal property is included—intangible personal property, however, such as bonds and shares of stock is usually exempt, or is assessed or taxed at low rates

In 1941, one fourth of all tax money levied in the country was derived from a levy on property, most of this was for the local units, with some states obtaining a share The property tax rate is usually not progressive in character, and so falls proportionately harder on those with small property than others, however, the property owner is benefited directly by many local services, so that his rate does not have to be defended on the grounds of ability to pay or even expediency. However, "in so far as property taxes impose differential burdens on some types of investment opportunities, for

example, on farming that uses a large amount of relatively heavily taxed land, they impede the allocation of resources to those industries and help induce their transfer elsewhere."[15]

In addition to these various taxes that an individual is called upon to meet, there are also a number of business taxes of various kinds, the effect of which on economic activity is not always apparent—as the corporation income tax, excess-profits tax, undistributed-profits tax, and so on.

In analyzing the tax system as a whole, and any particular type of tax, we have to keep the time element clearly in mind, because the structure is in a constant state of being remodeled, if not rebuilt from the ground up. Speaking generally, the tendency in tax policy has been toward an increased percentage of revenue from income, and on a graduated basis. According to Dr. Mabel Newcomer, a tax expert:[16] "All the evidence we have on tax burdens indicates that our system as a whole is progressive for most of the people in the income groups subject to the federal personal income tax. This tax is larger than all other taxes combined for the higher income groups under any reasonable assumption as to tax shifting . . . therefore even a markedly regressive state and local system will not completely nullify the effect of the progressive income tax."

As all groups have become more conscious of the significance of tax policy, many postwar tax plans have been proposed by business, labor, the economists, the administration—indeed, "post-war tax-planning has become a popular pastime in the United States." In determining what is a "fair" and "satisfactory" system, much depends on whether we accept as necessary or desirable, under the private enterprise economy, a wide range in actual living standards, low to high, or a more equalitarian society, in which surpluses accumulated by individuals or groups through the economic process are redistributed from time to time through the tax instrumentality. Much depends also on our attitude toward the role of government in our mixed type of economy and the expansion of its promotional, regulatory, enterpreneurial, and even, looking toward the future, its "planning" activities—for its revenue must be adequate to the task it is expected to accomplish. In so far as revenue is not to be derived from over-the-counter sales of its goods and services, provision must be made for raising it otherwise. However, this again brings up the question of what proportion of the total revenues is to be raised by taxes, and what proportion by other means, that is to say, by borrowing or by the creation of new money. "Adequacy" as applied to tax revenues is de-

[15] Bowman and Bach, *op. cit.*

[16] See Mabel Newcomer, *You Are A Taxpayer*, 1939.

termined by the opportunity for, or desirability of, other means of financing.

DEFICIT FINANCING. To the extent that expenditures exceed tax revenues, we say we are operating on a deficit basis, regardless of whether this deficit is met by borrowing from "savings" or is "new money" created directly or through the banks. In 1943, the President recommended that we pay about half of the current cost of war from taxes and savings and the other half from the banks. The available figures indicate that during 1941–1945 on the average about 41 percent of war expenditures as such were met from taxes; of the rest, less than half came from savings, with the deficit made up by bank financing.

Fiscal policy is a very complex matter. The wartime bond drives among the public, for instance, were carried out with great vigor, not only as a means of helping meet war expenditures, but as part of the anti-inflationary drive to keep as large a proportion of income as possible from competing on the market for scarce goods. But while this program was anti-inflationary, the new money obtained from bank financing was definitely inflationary. Further indication of this is given in the figures for deposits and currency in circulation which increased during the period 1941 to 1945 from about $69 to $163 billion, though the actual volume of consumer goods to be bought with this money did not expand greatly during this period. Under the circumstances, it is remarkable that wartime price control was as effective as it was; an important factor in the situation was that a considerable proportion of income was put aside as savings.

During the depression, deficit financing was urged by distinguished economists like Professor J. M. Keynes as a means of putting idle savings to work, to ensure the volume of "spending" necessary for an expanding economy. This was to act as a tonic for the lagging enterprise of private business—and our public policy proceeded somewhat haltingly along these lines. On the other hand, Keynes advocated "surplus" financing during the war, to keep inflationary tendencies from getting out of hand. Those who regard fiscal policy as the most effective instrument of overall planning, argue that it should be used flexibly to stimulate activity in a depression and restrain excess in expansion, in order to keep the economy on an even keel.

However, this discussion takes us into baffling regions of controversy about which there is no formulated consumer opinion. The basic question goes back to the proper role of government in the economy, and the extent to which fiscal policy is to be used as the instrument for carrying out that role, keeping in mind the overall objective of maximizing consumer satisfactions.

Chapter XIX

INTERNATIONAL RELATIONS

THE COST OF WAR

It is impossible to exaggerate the influence of international relations on the standard of living in any country, however measured. To estimate the cost of war itself, in monetary terms, would be a job of appalling magnitude. A figure would first have to be set for all the resources used for war materials, the destruction of property, the loss or impairment of millions of human lives. George C. Marshall estimates that there were more than 15 million Allied and Axis dead and missing in World War II among military personnel;[1] this does not include the numbers of civilian dead, due to the war.

Account would also have to be taken of the burden borne by the "home front," including the displacement of population in countries directly attacked, and the loss of their means of livelihood as well as their property. In the United States nearly half our total national income during the war years went for military purposes.

It is true that in this country, speaking generally, those who survived the war were on the average better off in a material sense than during the depression, when we wasted resources, particularly labor, for lack of adequate organization of our economy. But there is no sense in saying that the only way to improve our consumption level is by adding waste to waste. And for other countries, the effect of war was obviously disastrous to the actual standard of living. That is to say, battle casualties and dollar expenditures are only partial and inadequate yardsticks of the cost of war, however grim their reckoning may be.

It is, moreover, not only a question of the cost of war while a state of war exists. We are all too familiar with the cost of its aftermath in economic and political dislocation. There are also the long preparations, the defense appropriations during periods of so-called peace while preparing for war or

[1] George C. Marshall, "Ten Eventful Years" (1937–1947), *Encyclopaedia Britannica*.

readying the country for war if it should "break-out." Moreover, various policies we pursue in domestic affairs which are detrimental to the consumer interest, for instance, a high tariff policy, draw much of their strength from the defense argument.

"Where is the money to come from?" is asked when any constructive program for world rehabilitation is proposed "Today," says Sir John Orr, formerly of the U N Food and Agriculture Organization, "great nations are spending nearly one third of their total national income preparing for war The best scientific brains are being drawn in to devise improved atomic bombs and up-to-date chemical and bacteriological warfare If a fraction of that money were devoted to the work of the specialized agencies of the U N, it would be sufficient to enable them to begin immediately the great task of providing all mankind with the necessities of a full life."[2]

International relations are to be thought of not only in terms of jockeying for power, or negotiating for security, for freedom from fear. They offer the possibility of cooperative effort for improving the material conditions of all peoples In the United States, the T.V A. project has developed as a co operative undertaking under the leadership of the federal government, with active participation of public and private agencies in the Tennessee area, for its general rehabilitation and improvement In a similar manner, the United Nations might provide the leadership in the general promotion of material progress for all those willing to participate in international economic collaboration The conditions of peace are positive; they far exceed the state of "no-war."

In the past, most countries have pursued economic policies aimed at furthering what they conceive to be their own immediate welfare, regardless of the effect on other countries Indeed, at times, such policies, particularly during periods of economic crisis, have been directly harmful to other countries In the future, though altruistic motives can hardly be expected as a basis for foreign policy, at least so far as one can see ahead, it is hoped that through the influence of the United Nations, there will be a greater awareness of the importance of giving consideration to the impact of economic policies on the well-being of others, whether from the point of view either of "long run national self-interest or of international justice." The still larger view of international relations, as an opportunity for cooperating to secure freedom from want, has a much more important place in the United Nations than under the League of Nations, notably through the instrumentality of the Economic and Social Council. However, we have to keep in mind that in the international field effective cooperation can only be achieved by mutual

[2] *Survey Graphic*, October 1947

agreement, not by unilateral action, and is bound to be a slow and halting process.

In his report to the President, on the San Francisco Conference, the chairman of the U. S. Delegation said: "If the United Nations cooperate effectively toward an expanding world economy, better living conditions for all men and women and closer understanding among people, they will have gone far toward eliminating in advance the causes of another world war a generation hence. If they fail there will be instead widespread depressions and economic warfare which would fatally undermine the world organization."

The battle of peace has to be fought on two fronts; the first is the security front, where victory means freedom from fear; the second is the economic and social front, where victory means freedom from want. "Progress toward freedom from want is essential to lasting peace," declares the F.A.O.,[3] "for it is a condition of freedom from the tensions arising out of economic maladjustment, profound discontent and a sense of injustice which are so dangerous in the close community of modern nations." It is obviously of most profound concern to consumers that in our international relations we proceed on both fronts, the political, and the economic and social, to secure both freedom from fear and from want, which are inextricably associated.

There are many ways in which we could approach the general subject of consumer interest in international relations, which is of such enormous scope and importance. One way is through what might be called an institutional approach, involving a study of the United Nations as an instrument to be used in improving the well-being of all peoples, including ourselves, and this is the approach we shall take here. It will give us a sense of the range and complexity of issues that arise in the international field, even before they become matters of controversy. It will also make us realize that in all human relations there is no such thing as settling problems once and for all; old problems take on new forms, and new problems emerge because of the dynamic character of human society. This makes all the more urgent the clarifying of criteria by which we can evaluate proposed solutions. Consumers have an important contribution to make here. The institutional approach will also be helpful to consumers who want to know at what points of decision-making they can most effectively bring their opinion to bear on international questions.

The Economic and Social Council

To delimit our field still further, as a practical matter, let us concentrate our attention mainly on the organization and functioning of the Economic

[3] U. N. Interim Commission on Food and Agriculture, *Work of FAO*, August 1, 1945.

and Social Council of the United Nations, and particularly on those aspects of it which bear most directly on the consumer interest, though all aspects are significant from a consumer point of view. When the original plans were being drawn up for the United Nations, particularly at the Dumbarton Oaks Conference (August to October 1944), provision was made for an Economic and Social Council to "facilitate" the solution of economic and social problems. The possible significance of such an agency in furthering economic welfare, aroused increasing interest, so that by the time the San Francisco Conference convened there was support for a council with more far-reaching functions than had originally been contemplated.

As finally constituted, the Economic and Social Council is one of the "principal organs" of the United Nations, functioning under the authority of the General Assembly. It is advisory to the General Assembly on all matters within its jurisdiction, and it can also recommend action to member-nations directly and to specialized agencies of the United Nations. Matters of policy have to be determined by the Assembly, or by the member-nations directly, acting on Council recommendations. The Council's tools "are solely those of study, discussion, report and recommendation." However, in order to carry out its functions, within the limits of the appropriations set by the General Assembly, it has power to establish commissions, call international conferences, undertake surveys and studies on an international scale, etc., so that though its function is chiefly advisory, its sessions are characterized by action on resolutions passed as a basis of recommendations to the Assembly, or to get the necessary machinery established for studies, surveys, conferences, and so on.

The field of interest of the Economic and Social Council is very broad and includes the promotion of: (1) higher standards of living, full employment, and conditions of economic and social progress; (2) cooperation in the international, cultural, and educational fields and in solution of international, social, and health problems; (3) universal respect for and observance of human rights and fundamental freedom for all, without distinction as to race, language, religion, or sex. That is to say, the Council is to concern itself, "not with the controversial political questions that divide members of the United Nations, but with the great humanitarian questions that should unite them . . . questions of a real world made of real people with problems of health, food, housing, education and work." It is to help eliminate the problems that lead to war before they become acute political issues and to help eliminate poverty and insecurity as a menace to organized peace. Impoverished and insecure people are an easy prey to dictators at home or ruth-

less governments abroad. Economic problems provide a seedbed out of which spring psychological tensions that give rise to political controversies. Hence the importance "of the efforts now being made to substitute constructive international diplomacy in the economic and social fields for the old diplomacy of a purely political and military character."

The Economic and Social Council consists of 18 members elected by the assembly to serve for three years; they are eligible for reelection. The U. N. Charter provides that any member of the United Nations not elected to the council shall be invited to participate, without vote, in the council's deliberations in any matter of particular concern to it. Decisions are by majority vote, largely, it might be said, because they exercise no executive powers in matters of basic policy. The council holds three sessions a year, with additional sessions as required.

COMMISSIONS OF THE COUNCIL. Since its area of responsibility is so broad, the council is empowered to set up commissions in various subject fields to assist it in the performance of its functions, and a number of such commissions have been set up, as indicated in Fig. 5. There has, in fact, been an extraordinary amount of activity in what might be described as organizational work at the international level in the last two or three years; a great structure has been built up which now must be put to the use for which it is intended. Up to the present time, these commissions have been largely concerned with problems of organization, of agreeing on terms of reference, and delimiting the areas within which they are to carry on their functions as advisory bodies to the council; more has been accomplished therefore "at the level of planning than at that of substantive work." From now on interest will center more in the current program.

One of the commissions, namely, the *Commission on Human Rights,* is provided for specifically in the charter, but the others have been established as the need for them was felt, usually a preparatory committee being first set up to explore the field, prepare plans, propose terms of reference, and so on. Members of the commissions, who are appointed by the council, are usually appointed because of their expert knowledge in the particular subject field rather than as representing states, though, no doubt, in selecting them, the council does not ignore political or geographical considerations. Because of their special competence as technical experts, members of the advisory commissions have a better opportunity to carry on their work cooperatively, free of much of the political controversy that characterizes the policy-making organs of the United Nations.

Some of the commissions have a more immediate or larger significance for

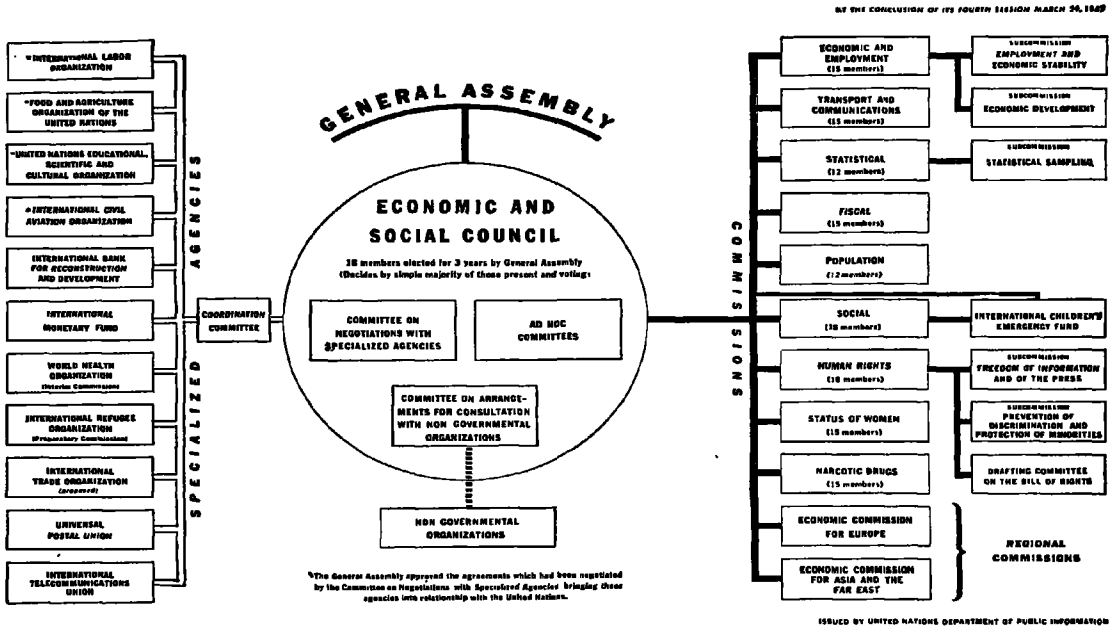


FIG. 5. Structure of the Economic and Social Council.

consumers than others, though the work of all of them contributes to the common end of social and economic cooperation with a view to improving the general level of living throughout the world, not only in terms of statistical averages but for each family. The *Social Commission* tried, in the first instance, to clarify what is meant by social policy under conditions of contemporary society, and what is its object and scope. In feeling its way through this broad field of interest to particular issues on which it could fruitfully work, it listed certain projects that fall within the narrower area of "social welfare," that is, the care of individuals or groups requiring special consideration—children, rural families, disabled persons, drug addicts, people in undeveloped countries, and so on. The program of the commission, as of all organs of the U. N., is, of course, in the developing stage, but it has already been active in a number of programs; for instance, it did the preparatory work in getting authorization from the General Assembly for the International Children's Emergency Fund; it is making plans for an international housing conference; it has made provision for giving expert advice to member-governments who request technical help on questions coming up in the social welfare field, and so on.

From the consumer point of view, special significance attaches to the work of the *Economic and Employment Commission,* set up by the council to advise it on general economic questions and to recommend ways in which international economic cooperation can be extended. More specifically, the Economic and Employment Commission has been concerned with problems related to: (1) the maintenance of full employment in all member-states and their general economic development; (2) the reconstruction and rehabilitation of devastated areas; and (3) economic development in undeveloped and underdeveloped countries, including ways and means for bringing them to full productivity.

Special subcommittees have been established to concentrate on these particular areas of interest. One of the difficulties confronting this commission, as the Social Commission, has been to narrow the field to a point where it can write out concrete terms of reference, and, even more important, undertake specific studies looking toward a solution of the problems involved. In approaching the problem of full employment and the elimination of depressions, for instance, its first report, dated May 25, 1946, considered such questions as "freeing the channels of world trade; the integration of different national economies into a pattern approaching a stable and expanding world economic system; the flow of investment, taxation and monetary policies and restrictive business and patent practices." A report prepared for the com-

mission in its formative stages by the American representative, Dr. Isidor Lubin, declared that to carry out any economic planning on a world basis, "we need to know far more than at present about raw material supplies, and their distribution, plant and other capital resources, and human resources, including management skills." This calls for world surveys of a kind that can only be carried out by an international agency. Though the members of the commission are appointed as experts, their work is circumscribed, perhaps more than that of most commissions, by political considerations; as economic issues affect political security, so political issues determine the extent to which we can proceed with economic cooperation. Hence the necessity for a two-front approach to the organization of peace.

Reference should also be made here to the work of the *Population Commission* which is still in its initial stages but can develop a program of great importance. To date, the commission has been concerned primarily with statistical questions, because of the difficulty of securing adequate and comparable demographic data on a world-wide basis.

From a long range point of view, this commission will be concerned with broader issues having to do with the effect of population changes on political, economic, and social conditions, and also the effect of these conditions on population changes, so that by the time such issues "are brought to the level of political discussion there will be a sound basis of technical knowledge on which to work." One of the important factors in historic change has been the differential rates of reproduction in different groups and among different peoples, and of population growth generally. This in turn has influenced the movement of people from one area to another, either individually or in mass migration, though the movement of people is determined not only by population growth as such but by a complex of causes having to do with economic, social, and political conditions. But whatever the cause, the result of population growth and movement is to influence the level of consumption of all groups affected, and is therefore of great concern to consumers.

It is not only in the population field that statistical data is difficult to obtain on a basis which makes it useful for international comparison. In estimates of national income, for instance, only about 25 countries have adequate statistical material, but again, even in those countries, it is not compiled on a comparable basis. In international planning of any kind, or international policy-making, it is impossible to be realistic without the factual material that can be supplied only through adequate statistical services. Special importance, therefore, attaches to the work of the *Statistical Commission,* whose basic function is to facilitate the compilation of relevant and comparable data in

all countries to service all organs and agencies of the United Nations. On the recommendation of the Statistical Commission, the Economic and Social Council called a World Statistical Conference which convened in Washington in September 1947, focusing attention on these various questions.

It will be noticed that at the time the accompanying organizational chart was prepared, two regional commissions had also been established, the *Economic Commission for Europe* and the *Economic Commission for Asia.* Similar commissions have since been set up for the Near East and Latin America. The major function of these regional commissions is to make recommendations to the council with respect to the terms of an overall economic policy for improving the living conditions of the people in those areas.

NON-GOVERNMENTAL ORGANIZATIONS. The Economic and Social Council, in synthesizing the advice given it by its various commissions into a unitary policy on which to base its recommendations to the General Assembly, also takes into some account the views of a group of non-governmental international organizations which have been given a consultative status before it. This is a significant part of the whole machinery of the council since it gives specific recognition to vocational or "special-interest" groups. Non-governmental organizations with consultative status are divided into three categories. In category A, are those that have a basic interest in most of the work of the council. These groups may submit items for inclusion on the provisional agenda of the council, may send observers to public meetings of the council (special places being reserved for them), circulate written communications to council members, and be invited to consult with the Standing Committee of the council if it so desires or the organizations so request. To date, the following non-governmental organizations have been included in category A:

American Federation of Labor
International Chamber of Commerce
International Cooperative Alliance
International Federation of Agricultural Producers
International Federation of Christian Trade Unions
Inter-Parliamentary Union
World Federation of Trade Unions

Non-governmental organizations in category B, of which there are now about 30, are concerned for the most part with only a few of the fields of activity covered by the council, and have a somewhat more limited status than the A group. A few organizations in category C are interested mainly

in the development of public opinion and with the dissemination of information; they have the same status as those in category B.

The status of these non-governmental organizations before the Social and Economic Council and its commissions, particularly of those in category A, has been a matter of much discussion, largely as a result of the claim made by the World Federation of Trade Unions for a right to participate with vote in the council's deliberations This was denied, partly on the grounds that it would have accorded the W F.T U. a status in relation to the council superior to that of members of the United Nations not elected to the council, and of the specialized intergovernmental agencies.

Specialized Intergovernmental Agencies

The intergovernmental organizations or "specialized agencies" have been set up for special purposes by direct treaty between cooperating governments. Since they are set up by special treaty, the membership of the different agencies does not always correspond, and in some cases nations are members of a specialized agency but not of the United Nations and *vice versa*. It is, of course, important that all international agencies should contribute to a common end, and avoid unnecessary overlapping and duplication of effort The U. N. Charter, therefore, empowered the Economic and Social Council to make working agreements with the intergovernmental agencies to bring them into some kind of a coordinated relationship with the United Nations and with each other. In negotiating these agreements, the council has had to rely on consultation and recommendation, since it has no powers of direct control; but agreements have finally been reached with all the agencies, some being of more limited scope than others. The agencies continue to function, however, as semi-autonomous units, their separateness being increased by the fact that their headquarters are scattered in different countries. Of course, full coordination can only be achieved if the member-states "harmonize the policies which their representatives espouse in all these various international institutions."

In this connection, account has to be taken of the fact that special interests come to influence certain agencies at the international level, as they do departments at the national level, so that some means have to be found for resolving these divergent interests into some kind of harmony, or at any rate for preventing a basic conflict in programming. It should be pointed out that the General Assembly itself has no power to act with respect to these agencies, except by recommending to the member-states certain policies or programs. There is some weight to the argument that at the present time interests are so

complex and diverse, it is better to create different channels for their expression and hope that eventually public opinion will crystallize along definite lines, so that common policies can be formulated. The present complex institutional structure on the international level has been described as a system of "functional federalism" within the general framework of the United Nations This might prove, despite its complexity, to be a sound basis for world organization, particularly if the Economic and Social Council is able to bring a broad general point of view to bear on the problems under consideration by the specialized agencies, focusing attention on a common goal—the optimum level of consumption for all people In this, as in other matters, it has to be remembered that the council is only at the beginning of its activity, and must be thought of in terms of its potential function, as well as its present performance It is of the greatest importance that the consumer interest should be represented at all points of international policy-making, it might very well prove the synthesizing force

There is a considerable body of material to be had from each of the specialized agencies, about its activities and policies We propose to draw special attention to the work of a few of these agencies, but only in a highly selective way since the full scope of their work is too broad to be summarized here, even in general terms

UNESCO The United Nations Educational, Scientific and Cultural Organization established at a conference in London in November 1945, has for its main function the "promotion of peace through understanding." Unless people are seized with the importance of international cooperation and have the desire to implement a policy of peace, it will not be possible to carry out programs in the economic field that depend for their success largely on public opinion, as in fact do most of these programs "Since wars begin in the minds of men, it is in the minds of men that the defenses of peace must be constructed"

UNESCO. is governed by a general conference of members, appointed by the cooperating nations who numbered 30 in 1947; the U.S.S.R. and the Balkan countries, as well as a number of South American and Arabian countries have not joined The present headquarters are in Paris. Representatives meet annually to determine general policy, which is then carried out through an executive board and a series of commissions serviced by a special U.N.E.S.C.O. secretariat.

Its immediate aims are to "encourage cooperation in all branches of intellectual activity, to facilitate the exchange of scientific information and to promote mutual understanding through the mass media of press, radio,

motion pictures, and through the exchange of teachers and students." It will use "every means within its reach to develop among the peoples of the world, a sympathetic understanding and respect for each other's cultures."

More particularly, U.N.E.S.C.O. is trying to arrange international agreements for the free exchange of information and ideas throughout the world, and for the exchange of students and teachers. It will assist members, at their request (within the limits of its financial resources), in developing educational standards and programs within particular countries at all levels, providing expert advisers to help in the "long struggle ahead against illiteracy." It will encourage activities aimed at relieving tensions within and between countries which lead to intolerance, bigotry, and war—in this connection it will work toward the revision of textbooks and other educational material, to eliminate narrow nationalistic points of view. An immediate aim in the postwar years is to help rehabilitate educational, scientific, and cultural institutions (including radio facilities and other means of communication), in war-devastated areas. This will illustrate the practical approach made by this agency to the problems confronting it.

U.N.E.S.C.O. was established by a treaty between governments, but it was conceived of primarily as a people's organization, reaching down to the individual citizen through all available channels of information in an intensive program of adult education, since obviously the organization of peace cannot be postponed until a new generation is educated through the schools, though U.N.E.S.C.O. is also interested in the schools as well as in all other opinion-forming agencies and institutions. To help popularize the program, a commission has been set up in each member-country, composed chiefly of lay personnel, charged with the responsibility of reaching the people, to secure their help for world cooperation. An American commission to carry out this part of the program in the United States has been set up under Congressional authorization. One of the functions of these U.N.E.S.C.O. commissions will be to advise the parent body where its funds and energies can best be spent, to make the greatest impact in the shortest amount of time.

It is obvious that with such a broad field of interest there is a considerable danger that the U.N.E.S.C.O. will spread its interests and appropriations too thin to be of significance in any particular area. One of the problems confronting the organization, therefore, is to establish a workable priority of activities and expenditures, though in this it has to overcome the vested interests of various specialized groups in different countries and between

countries which are intensified by the frictions and tensions among peoples which it is called upon to relieve Its success is of course conditioned by the degree to which different countries are willing to recognize and protect the freedom of expression and communication fundamental to the work of the organization It has, therefore, been cooperating with the Commission on Human Rights of the Economic and Social Council in drafting a declaration of human rights and an international bill of rights, particularly with a view to securing freedom of information However, since this is a subject of bitter political controversy at the present time, UNESCO has been accused of partisan politics, at the Mexico Conference (November 1947), one delegate openly declared that the United States was trying to use UNESCO. to "spread its culture round the world"

WHO. Another one of the specialized agencies in which consumers are specially interested is the World Health Organization (WHO), formally established in April 1948 when its charter was ratified by 26 countries The WHO. was agreed to in July 1946, by representatives of cooperating nations at a conference in New York City, called by the Economic and Social Council. During the intervening period, an Interim Health Commission took over the health functions developed by the League of Nations and also those formerly exercised by UNRRA The IHC, during its brief period of existence also participated in the dramatic fight against the cholera epidemic in Egypt, set up the beginnings of a world control program for tuberculosis, and so on. The United States cooperated actively in this work This served to increase the shock felt by supporters of the WHO when it was learned that the House of Representatives Rules Committee had suddenly and without explanation tabled legislation that would have made the United States one of the original charter members of the organization though United States ratification had already been approved by the Senate, by the House Foreign Affairs Committee, the American Medical Association, and indeed all leading medical and public health groups in the country As the National Association of Consumers pointed out,[4] germs cannot be halted by political boundaries; with increased travel and communication we are bound to suffer directly from poor health conditions in other parts of the world. "The $1,900,000 contribution the U. S. is asked to make can be small potatoes compared to the possible expense of keeping diseases out of this country and stopping them after they get in. One case of smallpox imported from Mexico last year cost the people of New York about $7 million." The United States has since joined the organization.

[4] See *Consumers on the March*, May 1948

The range of responsibility placed on W.H.O. is tremendous, though its effective work will be limited by its budget, consisting of contributions by the member-nations.

Among its aims and objectives as set out by the preparatory committee which planned its constitution, are:

> . . . to achieve the highest possible state of physical and mental health for all peoples; to stimulate and advance work to prevent the occurrence and control the spread of disease and of accidental injuries; to stimulate the development and improvement of health services, both preventive and curative; to promote the improvement of nutrition, housing, sanitation, recreation, economic or working conditions and other aspects of environmental hygiene; to promote research and improved standards of teaching and training in the field of health and medical care; to study and report on administrative and social techniques in the health field; to weld together for effective action the scientific and professional groups which contribute to the advancement of health; to establish and revise international nomenclature, standardize diagnostic procedure and establish and promote international standards with respect to food, biological, pharmaceutical and similar products.

In terms of more immediate functions, W.H.O. will work, *inter alia,* for the eradication of specific diseases throughout the world, fighting epidemics and developing programs for the improvement of physical and mental health, directly and through assistance, technical and financial, to member-governments; it will promote the advance of knowledge in medical and public health techniques by various means, including a scholarship and fellowship program for graduate students and advanced specialists in public health, sanitary engineering, and so on, to study abroad; it will assist in developing public interest among all people on matters of health and cooperate with other specialized agencies in promoting a general improvement in living conditions. The organization will be assisted by a number of technical committees in special fields—as, for instance, malaria, yellow fever, tuberculosis, venereal diseases—and new committees will be established as the need for them arises and as funds permit.

I.L.O. The International Labor Organization (I.L.O.), with present headquarters in Montreal, Canada, was created at the peace conference in 1919, as an autonomous institution associated with the League of Nations. It survived all the vicissitudes of the intervening years, and since World War II has been vigorous in its activities. It is the only one of the specialized agencies which has considerable experience on which to build for the future. Its primary concern is with labor standards in industry, on the farm, and in any

other kind of employment Its work has to do largely with wages and hours, the protection of the worker against disease and injury arising out of his employment, the protection of children, young persons, and women in employment, provision for old age, the organization of vocational and technical education, and so on. In short, the I.L O. has been concerned with improving the actual standard of living of workers, including conditions on the job, throughout the world. It has done pioneer research work in the field of unemployment insurance, workmen's compensation, health insurance, old-age pensions, survivor's benefits, both through careful examination of programs along these lines and promoting an understanding of their significance among member-countries.

The I.L.O. is governed by an annual conference made up of two representatives from each of the 52 member-nations, together with one representative of labor and one from employers—this tripartite representation makes it unique among the specialized agencies; the votes of these representatives are often split. The conference appoints a Governing Board to carry out its policies. The Organization is serviced by the expert staff of the International Labor Office which, among its other duties, collects and distributes information on all subjects within its field of interest and publishes the *International Labor Review*. The conference is empowered to approve draft conventions and recommendations, but these do not become binding on the individual member-nations, unless these nations take special action to ratify them. There is a long list of approved conventions and recommendations made since the I.L.O. was set up; the list of ratifications is much shorter. Nevertheless, despite the fact that many conventions have not been adopted in a number of countries, they form a kind of international labor code which has directly influenced labor and social legislation throughout the world for over 20 years. The I.L.O. has also been in a position to make experts available to governments requesting help in developing policies or programs affecting labor standards.

In 1947, the I.L.O. prepared a "bill of rights for workers" which came before the General Assembly (November 1947) for adoption; this was approved, but only after a long and heated debate in which the question was raised by the Soviet Union, which is not a member of the I.L.O., whether a body representative of employers as well as workers could properly be charged with the task of drawing up such a bill of rights, and of recommending its implementation. The Soviet Union made the suggestion, which was turned down, that this matter should have been referred by the Economic and Social Council to the W.F.T.U., one of the non-governmental organizations in category A, in which Russian trade unions are represented.

F.A.O. The specialized agency which might someday become an important factor in the world food situation is the Food and Agriculture Organization, set up by agreement among 42 governments, as charter members at a conference held in October 1945, in Quebec; preliminary plans had been made at a meeting at Hot Springs, Virginia, in 1943, on the invitation of President Roosevelt. In setting up the F.A.O., the charter members "recognized an obligation to their respective peoples and to one another to promote separate and collective action to raise the level of nutrition and standard of living of their people, to improve the efficiency of food production and better the condition of the rural population, thus contributing to an expanding world economy, and to report to one another on the progress achieved."

As originally set up, the F A O. was to be an advisory, promotional, and research body with no executive powers; it was not an "action agency"; it could not "buy or transport food or other farm and forest products; it could not promulgate or enforce international trade programs or regulations." Its limited powers were emphasized by President Roosevelt in his message to Congress urging acceptance of United States membership. "In becoming a member of F A O. we will retain complete freedom of action in determining our national agricultural policies; under its constitution, the Organization will have no power to coerce or command."

There was a growing sentiment, however, among some of the member-nations, that the F.A O. would have to be granted more extensive powers if it were to become an effective instrument in world food programming. At the Copenhagen Conference in 1946, proposals were formally submitted by Sir John Orr, then Director-General of F A O., for the creation of a World Food Board with executive powers to buy and sell food if necessary, arrange for its distribution, take over any apparent surplus at one point and make it available at another below the market price, buy tractors and fertilizers and make them available where necessary, and so on. These proposals were given further preparatory study by a special interim commission (the Bruce Commission) and became the main subject of discussion at the Geneva Conference, September 1947.

However, considerable opposition developed and, as a result, agreement was reached only on the setting up of a World Food Council within the F.A.O., with vague but limited powers. One of the factors in the situation is the fear on the part of consumer countries—that is to say, countries which must import a considerable quantity of food supply—that the powers of such a council might get into the hands of producer countries—those which sell on the export market and are anxious to maintain prices at a

maximum level; on the other hand, of course, producer countries would oppose power in the hands of consumer countries.

The basic problem for the F.A.O. to tackle, apart from the present emergency, is to help raise the general level of nutrition throughout the world by bringing adequate food supplies within reach of consumers. This raises some knotty problems. It is primarily a matter of increasing production. There is an appalling amount of hunger in large parts of the world, not just as a result of the war but as a permanent condition of society. But these hungry masses must for the most part be helped to increase their food supply at home[5] since most of them are too poor to buy from exporting countries, even when "market surpluses" exist; nor could exporting countries produce enough to meet even minimum food requirements.

A different set of problems confront people in highly industrialized countries which have come to be dependent on food imports for a considerable part of their total supply, and for whom therefore a high level of international trade is a vital necessity. A third major aspect of this general question has to do with conditions in countries on a food-export basis when for any reason their foreign markets "disappear" for lack of some system whereby food that is physically available can be put into the hands of those who need it on a basis satisfactory to those who produce it. One of the problems confronting the F.A.O., therefore, is how to encourage increased production in exporting countries without running the risk of creating disastrous surpluses, or how to handle such surpluses if they occur, through international commodity agreements or otherwise.

I.B.R.D. There are two specialized intergovernmental agencies whose primary function has to do with the promotion of international trade, and an expanding world economy, so we can consider them together.

The International Bank for Reconstruction and Development was agreed to at the Bretton Woods Conference of the United Nations in July, 1944, and formally established in December 1945, with its headquarters in Washington, D. C.—this gave recognition to the powerful creditor position of the United States. The basic function of the bank is to facilitate the flow of capital internationally for purposes of reconstruction and long-term development. When plans for the bank were under discussion, there was considerable opposition from private bankers, presumably on the ground that it would limit the field of private investment abroad, though the bank is only authorized to make loans when these cannot be floated through normal

[5] See Gove Hambidge (F.A.O.), *World Food Proposals*, 1946; also Theodore Schultz (Ed.), *Food for the World*, 1945.

channels at "reasonable" rates. In view of the fact that there are few countries where free investment of capital is allowed, it will presumably make loans to governments for projects that form part of an overall economic plan; obviously its activity will be directly affected by various political considerations. The U S S.R is not a member of this agency.

The authorized capital of the bank is $10 billion, subscribed under a quota system by the member-states; to date about $8 billion have been subscribed, of which about 20 percent is available as a working fund Since by granting or withholding loans, the bank can have a considerable influence on the internal conditions in other countries, it is essentially a planning agency and as such it is important that its policy should be in harmony with the general policy recommended by the Social and Economic Council, though considerable difficulty has been experienced in working out arrangements for coordinating their work.

The bank is in a position to help raise purchasing power in countries whose resources are as yet in an early stage of development; this in turn should promote international trade Had the bank been established after the last war, we might have had a more intelligently directed flow of investment funds during the twenties Preliminary planning absorbed most of the time of the Governing Board and Executive Directors up to the end of 1947, but by then it had under consideration applications for loans from a number of countries, some of which have since been granted

I.M F. The International Monetary Fund was also agreed to at the Bretton Woods Conference, as an essential step in the creation of a dynamic world economy; it too was formally established in December 1945, with headquarters in Washington, D C "There is a curious notion," said Secretary of the Treasury Morgenthau[6] at the conclusion of the Bretton Woods Conference, "that the protection of national interest and development of international cooperation are conflicting philosophies, on the contrary, the only genuine safeguard for our national interests lies in international cooperation, through united effort for the attainment of common goals—today the only enlightened form of national self-interest lies in international accord"

The International Monetary Fund is designed primarily to tide over temporary balance-of payment difficulties and so shorten periods of disequilibrium in international accounts The Fund is also to provide machinery for continuous consultation among member-nations on world monetary and financial problems with a view "to promoting exchange stability, maintaining

[6] *New York Times*, July 23, 1944

orderly exchange arrangements among themselves, and avoiding competitive exchange depreciation," the need for this was seriously felt at the end of World War I Developing international trade calls for a "stable and orderly system of international currency relationships," as distinct from the currency restrictions of one kind or another that were common in the thirties when various national controls were adopted without regard to their effect on other countries, which then in turn resorted to competitive currency depreciation and other so-called "protective devices" Problems of international exchange as well as of international investment can only be handled effectively on a multilateral basis

The Fund aims to make the currencies of the various nations freely interchangeable with each other and to prevent sharp fluctuations up or down in any currency used in world trade by making the resources of the Fund available under adequate safeguards—that is to say, it will sell foreign exchange to help countries balance their international accounts that have been upset by temporary difficulties However, at the present time currency troubles in most countries are too profound to be settled on so limited a basis, so for the present little use is being made of this organization.

The Fund will seek to express each nation's currency in terms of gold (which does not, however, involve putting world exchange on a gold basis) and to assign to each currency a par value based on gold; this will peg its exchange rate against currencies of other countries This it is hoped will facilitate the flow of trade The procedures followed by the Fund are highly technical, but the ends it seeks to promote are easily understood.

The recent history of the Fund, however, emphasizes the great difference between objectives and achievements in international relations Late in 1947, in what it conceived to be the interests of its national economy, the French Government proceeded, contrary to the advice, indeed, contrary to the express decision of the Fund, to depreciate the value of its currency in a way that gave it a special advantage in international trade. What we have set up is a structure, or a process, which can only have value to the extent it is used for the purpose for which it was set up On the other hand, international instrumentalities can be successfully used only in the setting of conditions, political, economic, and social actually existing.

I.T.O. A third specialized agency in the field of international trade and development is now in process of formation, namely, the International Trade Organization. A constitution for the I.T.O. was debated at a special conference held in Geneva in the summer of 1947, and finally agreed to, in a greatly modified form and after months of discussion and negotiation, at a

conference held in Havana, November 1947 to March 1948. This agency will be formally constituted when 26 nations ratify its charter, or under certain other specified conditions. Since ratification of the charter is still a matter of controversy in the United States, let us give some consideration to the principles underlying it.

International trade is one of the areas of the economy about which it can be said that there is a well-developed consumer point of view. In his dramatic attack on the tariff lobby on May 26, 1913, President Wilson declared: "It is of serious interest to the country that the people at large should have no lobby and be voiceless in these matters, while great bodies of astute men seek to create an artificial opinion and to overcome the interests of the public for their private profit." But since that time, and particularly since the development of the reciprocal trade program in the thirties, consumer organizations and other groups with a consumer interest have been articulate in support of a policy aimed at lowering international trade barriers.

International trade policy for any one country has, in the past, often been basically contradictory. On the one hand, various devices have been used to restrict the flow of imports, while at the same time efforts have been made to open up markets abroad for exports. In the United States, for instance, while we were raising our tariff barriers during the twenties, we were also using the resources of our foreign service to help find markets for our exports, permitting and even encouraging agreements among exporting companies to strengthen their bargaining position in the export market, making large loans abroad to facilitate the purchase of American products, and so on.

Reciprocal Character of World Trade. But the basic conflict in these policies must sooner or later become apparent. Developing countries are frequently in a position of borrowing from abroad, so that their imports during this period will tend to exceed their exports, while the investing country will be exporting more than it imports. But in the long run, unless developing countries are to be permanent debtors, they will have to repay by finding a market abroad for their goods and services. Apart from these movements of capital for investment, there is no way by which countries can get exchange to pay for their imports, unless they can export goods or services, or are in a position to pay in gold, which no country is except ourselves—and we do not need gold for international payments, because we have, in eighteenth-century language, a "favorable balance of trade," that is, we export more than we import. This phrase is a relic of mercantilism, and it is about time we changed our thinking and our statistical records accordingly.

Cordell Hull, in promoting the reciprocal trade program in the thirties, continually emphasized the necessity for looking at the total foreign trade program as a whole.

As a long-run objective, it is desirable that each country specialize in producing those things it is best able to produce, for which it has a comparative advantage. Before World War I, we adopted the principle of "equalization of costs of production"; that is to say, if a country was able to produce goods at a lower cost than we could, for whatever reason, then a duty equal to the difference in cost was imposed, or was supposed to be imposed. This was to give us equal competitive advantage—the opposite of the principle of comparative advantage.

There was always a limit beyond which the "equalization-of-cost" principle was not applied. We did not, for instance, put a protective duty on coffee in order to encourage its production in the United States, nor on bananas, and in a number of cases import duties were solely for revenue purposes. Nevertheless, both major political parties came to accept protection as an instrument of trade policy, the difference between them being of the "more-or-less" type. Both parties publicly approved the "equalization-of-cost" basis for rate determination, though as a matter of fact the actual basis was usually fixed by log-rolling and other political considerations, partly because of the difficulty experienced in arriving at reliable estimates on costs.

It is argued in support of a protective tariff policy that many industries and jobs are dependent on it and that any reversal of such a policy would result in unemployment. Undoubtedly, some jobs in industry would be affected by any marked lowering of tariff rates; but to the extent that such a development helped to promote an increase in foreign trade, there would be an increase in employment in those industries in which we had a comparative advantage, particularly the mass-production industries, in which per man-hour productivity and wages are comparatively high. Changes, of course, should be made gradually. The special advantage in the reciprocal trade program is that it opens opportunities for exports, at the same time that it brings about a lowering of tariff barriers for imports. It is contrary to the consumer interest to put artificial barriers in the way of the free flow of international trade, on a comparative advantage basis. Such a policy will almost certainly lead to an increase in price, or decrease in quality and variety, without improving the overall employment situation.

On the average, before the war, about 10 percent of United States production was exported, but the percentage was much larger for some products. In the nineteenth century, our exports were largely agricultural; but as our

mass-production industries expanded, we became increasingly interested in markets for manufactured products, and at the same time we increased our imports of raw materials and semi-manufactured goods. In the future it can be anticipated that, increasingly, industrial leaders in the mass-production industries will be looking for markets abroad, and unless we plan to give these goods away, people abroad must have an opportunity to pay for them. In fact, in view of our creditor position in the world, unless we plan to continue large capital investments, we shall have to prepare ourselves to receive more goods from abroad than we send out—we shall have to adjust ourselves to the problems of abundance! This means modifying our restrictive attitude toward imports.

Restrictive Devices Many ways have been devised to restrict the flow of imports into a country. In the United States, most use has been made of the protective tariff, a system of charging rates, whether *ad valorem* or *specific,* on goods coming into the country at the point of entry. These rates may apply generally to the same class of goods, whatever their country of origin, or they may be differential, higher against goods from some countries than from others, as is the case with trade preferences within the British Commonwealth of Nations, or United States preferences with Cuba.

After World War I, some countries placed much greater emphasis on quantitative controls of various kinds, particularly the quota system. Under this system, an upper limit is set on the quantity of any particular product that can legally be imported in any one year, or from any one area. We have used the quota system to a limited extent in the United States as, for instance, in the case of sugar imports; before the war there was both an overall sugar quota and a quota from each of the major exporting areas, in addition to an import tariff, all designed to protect our domestic growers, particularly those in the sugar beet industry in the western area. In some instances, a quota has been used in connection with reciprocal trade agreements as a means of setting a top limit on concessions; under these circumstances the quota has facilitated the lowering of high tariff rates, at least on a limited quantity of goods.

There are various other types of quantitative controls as, for instance, the complete embargo, or quarantine, or other sanitary measures which are at times used to restrict or even exclude imports as, for instance, in the case of Argentine beef which cannot be imported into the United States in fresh or frozen form, on the grounds that there is foot-and-mouth disease in certain parts of that country.

Other types of restrictive devices include various forms of currency control,

referred to above, excise taxes levied on products of foreign origin, and hampering regulations for customs declarations and import licenses These various controls merge into less direct forms of restraint on foreign imports as, for instance, requirements that only domestic products can be used on public works, regardless of cost and so on

The development of socialized economies or partially socialized economies in a number of countries, has led, *inter alia,* to centralized control of foreign trade, with government agencies doing all the buying and selling, or at any rate controlling the direction of trade through a system of import export licenses Under such a system, foreign trade might, and no doubt at times has, become an instrument of political power, so that the flow of goods in or out of a country is determined, not by relative costs or economic advantages but by other factors, and at times is arranged on a strictly barter basis.

Private Cartels In addition to the various types of control over international trade established by governments, there is also a system of controls, or at any rate in the past there has been a system of controls, arising out of private agreements among certain producers and distributors who organize cartels through which restrictions on production and marketing policies of one sort or another are established These restrictions are sometimes determined by the fact that in a modern economy, production capacity tends to outstrip the capacity of the mass of consumers to buy the products at a price satisfactory to the producers, particularly in periods of depression, so that the agreement becomes an instrument for what is called "stablizing the market"; in other cases, the cartel is just a device for increasing monopoly profits Of recent months, as a result of the Nuremberg trials and other disclosures, the public has been made aware of the extraordinary ramifications of the German cartel system, involving agreements with a large number of companies in many parts of the world, including the United States, for dividing up markets, controlling output, pooling patents, and so on

In 1915 the Federal Trade Commission conducted an inquiry into the effect of anti-trust legislation on our international trading position. As a result of its findings, the Webb-Pomerene Act was passed (1918) exempting from the anti-trust provisions, agreements made with respect to international trade, thus permitting different American companies to operate as a unit in the export business. Many such agreements have since been made and in some cases have been found to result in restraint of trade on the domestic market also.

Cost to Consumers of Trade Restrictions. In attempting to measure the effect of these various types of control on the actual price and supply of

consumer goods in any one country, that is, the extent of the burden borne by consumers as the result of trade barriers of various kinds, many factors are involved. Let us consider the effect of the tariff, since that is the form of trade restriction best known in the United States It cannot be assumed that the price of a product on the domestic market is increased by the amount of the tariff rate—in some cases, particularly when a product is on an export basis, a tariff rate in itself may have very little influence on domestic price, which will tend to approximate the level of the international market unless positive measures are taken to underpin it The situation may be different for a product which is on an import basis, that is, where the domestic supply is inadequate to meet domestic demand, but even here the general economic situation and other factors will have an important influence on price The effect of protection on commodity prices has therefore to be worked out product by product and in relation to a particular set of circumstances

One approach to the problem of measuring the cost of trade barriers to consumers, is to determine the increase in price per unit for the total supply taken off the domestic market (whatever its origin) in excess of the price it would have been had there been no tariff, a figure which cannot be arrived at with any degree of precision One basis for an estimate can be found by comparing the price in a "protected" market, with that in a "free' market—that is, one without trade barriers—but it is difficult to find a free market for any substantial number of products today Before the war, when there was no tariff on sugar into England, one estimate of the annual cost of the 1922 sugar tariff to the American consumer ($216 million), was arrived at by comparing the price of sugar on the English with that on the American market, after making allowance for differences in transportation and other such costs [7]

Another way of trying to arrive at the cost of the tariff would be to analyse all the factors affecting price for any particular product, measure the tariff factor, and then add up a total bill for all commodities, but this also is a prodigious, if not impossible, undertaking During the twenties and early thirties, a considerable amount of research was done in this field —notably a series of studies by the Brookings Institute into the cost of the tariff for a number of products

By way of illustration of this type of inquiry, we might instance a study made by the Foreign Policy Association in 1934, of a group of products which together constituted about 15 percent of total dutiable imports into

[7] Philip G Wright (Brookings Institute), *Sugar in Relation to the Tariff*, 1924

the United States; it was estimated that the cost to consumers in excess of what they would have had to pay without the tariff was around half a billion dollars a year To arrive at the net cost of the tariff, allowance would have to be made for the customs revenue which is paid into the Treasury

It is not generally realized how many articles of common consumption are subject to tariff rates in the United States and how high the rates have been, even under the reciprocal trade program In July 1947, for instance, rates were quoted[8] on china, porcelain, and sanitary ware at 70 percent *ad valorem*, lamp globes 70 percent, two ply plate glass, 60 percent; perfume and toilet water bottles, 75 percent, glass tableware and kitchen articles, 60 percent, slide fasteners and zippers, 66 percent, woolen infants hats, caps and bonnets, 60 percent per pound, plus 75 percent *ad val*, ladies felt hats, 50 percent, wool socks and hose, 65 percent, worsted woolen and mohair fabrics, something over 80 percent As pointed out above, however, the rate of duty is not in itself a measure of the tariff burden, since the duty may not be fully effective, that is to say, the price may not increase the full tariff rate because of other factors

It should be noted that the tariff rate is in many cases particularly high on products or classes of products bought by low-income groups—this applies to such things as woolen goods, milk products, watch and watch movements, china, many variety store items, and so on

The fact that it is impossible to arrive at a reasonable estimate of the cost of the tariff system might in itself be considered sufficient reason for opposing it, since it is bad public policy to incur immeasurable costs to the public in the interest of particular groups A subsidy system would be better, if some protection is considered necessary In addition to the direct price burden on consumers resulting from trade barriers, account should also be taken of waste in the economy due to the fact that labor and capital are diverted (to the extent that they are diverted) to less productive channels than would otherwise be the case

With respect to the effect of a tariff system on the supply coming on the domestic market, it must be pointed out that a higher tariff rate does not always lead to a falling off in import trade, particularly when, as in the United States, an increasing proportion of imports are of the nature of raw materials and semi manufactured products The amount of these imports will be determined largely by the general level of economic activity in the United States However, the tariff system undoubtedly affects the supply of a number of goods or lines of goods, on the market, forcing the use of

[8] See Morris Rosenthal, Role of the U S in World Trade, *Annals*, July 1947

substitutes, or of poorer qualities of a product, or even complete deprivation.

These various estimates of the burden of trade barriers relate only to the tariff. The student might go on to ask what has been the effect of other forms of control, and on which families and groups of families has the burden mainly fallen.

Consumers Support Reciprocal Trade Program. Consumer representatives in the United States have supported all efforts to free the channels of international trade, both for its immediate effect on their level of consumption, and the long-run effect on the general level of economic activity in any country and of peaceful relations between nations. They have lobbied consistently in favor of the continuance of the Reciprocal Trade Agreement Act of the thirties every three years when it has come up for renewal; on the latest occasion, 1948, Congressional opposition succeeded in limiting its renewal to one year, on a restricted basis.

Under the reciprocal trade program, the administration has been empowered to negotiate agreements with other countries for a lowering of trade barriers within certain limits. A number of such agreements were made before the war, but their influence was not of any considerable importance. However, it was as a continuing part of this program that extensive negotiations were carried on in Geneva in 1947, at the time the first conference on the I.T.O. was in session, which resulted in a number of agreements providing for a major reduction in tariff barriers both by the United States and many other countries—providing they go fully into effect. In the future, the I.T.O. should provide a suitable framework within which negotiations for a further reduction in barriers can be carried on.

Provisional Constitution for the I T O According to the original draft constitution for the I.T.O. drawn up at Geneva, the objectives of the organization were to help bring about a rising level of consumption by providing for cooperation rather than conflict in solving international economic problems. More particularly, member-nations supporting the I.T.O. were to agree to the following terms.

1. (a) To promote the principle underlying the reciprocal trade agreements program on a non-discriminatory basis, with a view to reducing the various barriers to the free flow of international trade (and capital) that now exist, and prevent the erection of new barriers. They would work toward reducing tariff rates, including preferences, so as to promote trade among all countries, based on the principle of comparative advantage. They also were to bring to an end all forms of quantitative control, including quotas, except under certain circumstances, as, for instance, when action had to be taken to protect the balance

of payments Customs formalities were to be simplified and other action was to be taken to facilitate the movement of goods internationally (b) With respect to the search for markets for their export products, the member-nations would not take action that would result in the sale abroad of a product at a price lower than the comparable price charged for the like product to buyers in the home market, with provision made for "exceptional" circumstances This is meant to apply to all aspects of a "two price" system Member countries should not try to "export their unemployment" by prohibiting imports or subsidizing exports This is a very touchy question for the United States since it involves our agricultural policy (c) State trading was recognized as an essential feature of the economy of some nations, but the I T O draft charter requires that it be conducted in a way compatible with the principles of multilateral trade conducted by private enterprise, that is, buying and selling should be on a price quality, not a political basis, with equality of treatment for all member-nations

2 The I T O charter would also curb cartel restrictions which are monopolistic or exploitive in character Some people would prefer to have a clear-cut provision outlawing cartels, but there are others who believe that cartels may have a legitimate function in providing for "orderly" marketing, they would differentiate between "good" and "bad" cartels, or good and bad actions by cartels The Twentieth Century Fund[9] distinguishes between cartels which have grown out of conditions generally regarded as intolerable, and those based on aggressive business policies by producers Webb Pomerene groups in the United States are also insistent that nothing be done to undermine their position Suppression of technology or inventions, and other restrictive arrangements which might be judged harmful to trade, were to be prohibited Special exceptions were to be made in the case of intergovernmental agreements set up to "stabilize" a situation (Consumers will have to see to it in all cases that efforts to "stabilize" trade do not react unfavorably on their position)

3 Special provision was made in the draft charter for the negotiation of intergovernmental commodity agreements (as distinct from private cartel arrangements), particularly for primary commodities when conditions seem to call for it, that is to say, when prices fall below a "satisfactory" level to producers. In a brief supporting the plan for an I T O, when it was first being debated in the United States, the National Association of Consumers urged the adoption of a number of safeguards to this provision to ensure that consumer countries and consumers would not be burdened by a short supply at high prices as a result of such agreements It was also urged that such agreements should be worked out when there was a deficiency as well as when there was a surplus Intergovernmental commodity agreements affecting food products would have to be negotiated in cooperation with the F A O However, there was a

[9] See *Rebuilding the World Economy*, 1947

fear among some producer groups that American participation in such agreements would "unduly subordinate our national interests to international control," and considerable opposition developed to this provision.

The I.T.O. was to work through commissions corresponding roughly to the three general areas of interest outlined above, but it was understood that the organization as well as the function of such an agency would be dynamic, not static.

When the draft charter came under discussion at Havana, there was considerable opposition to various provisions from a number of countries represented there—the U.S.S.R. and the Balkan group were not represented at all. This opposition was both on a short-run and a long-run basis, short-run objections having to do primarily with postwar difficulties of exchange and reconstruction. From the long-run point of view, many of the smaller and less developed countries expressed the fear that their economic growth would be dominated by the highly industrial economies, unless they were left free on their own initiative (that is, without necessarily getting I.T.O. approval), to set up certain restrictive controls over their import and export trade; they advanced the same kind of arguments that Alexander Hamilton used with respect to the American economy, 150 years ago. Some particularly feared the political consequences of an uncontrolled flow of investment capital, though they need foreign capital for internal development.

Moreover, certain producer interests in the dominant countries were opposed to the draft constitution. On the one hand were those groups—as, for instance, the wool interests in the United States—who are opposed to any lowering of tariff barriers, at any rate on the products in which they have a particular interest. Perhaps more influential were certain groups of agricultural producers who look for export markets for their products and who fear accumulated surpluses once the abnormal postwar demands are satisfied; they objected to restrictions on two-price systems, export subsidies, and so on. They were also concerned about terms for the proposed commodity agreements (for different reasons than consumers are concerned about them!).

There were also special problems arising out of preferential tariff arrangements and the system of bilateral government trading between certain countries which cut across I.T.O. plans for freer multilateral trade.

The result was a compromise which makes the I.T.O. a much weaker instrument than its proponents had hoped for. The ideal is whittled down to scale with the realities of today. The question comes back to: What do

people really want in international relations? Consumers have a great stake in supporting the hesitant growth of the I.T.O. It is in the consumer interest that international problems be solved in a way that will promote the effective organization of world peace and the optimum use of world resources. However, we have to ask ourselves whether the consumer interest in undeveloped countries is identical with the consumer interest in highly industrialized countries. Is there such a thing as a general consumer interest or is it relative to times and circumstances?

Chapter XX

THE CONSUMER MOVEMENT

We are all consumers but most of us do not think of ourselves as such, or only at such times as circumstances force on us a change in the pattern or level of consumption. What we need is a fuller consciousness of our consumer function.

We need to develop a greater concern about the quality of satisfactions derived from the consumption goods available to us and about the values that underlie the scale of preferences which determines how we spend our money at the market; this has to do with why we want what we want. We need to develop greater efficiency in the use of our individual resources, including how we spend our money, time, and energy at the market. We need to play a more intelligent role in the decisions that determine how the total economic resources of the community are to be utilized, and to develop enough strength to bring a considered point of view to bear on formulation of policy by public and private agencies that affects the utilization of resources and distribution of the resulting output. We need to establish criteria of evaluation, derived from a better understanding of what all this getting and spending is for, of consumption as the end of production.

This calls for an increasing awareness among people of their basic interest as consumers. Let us consider, therefore, how much awareness of their consumer interest already exists among people, and how this can be stimulated and extended. Further, to what extent are people organized in terms of their consumer function, and what use do they make of their organized strength? This question might be framed to ask whether there is a "consumer movement," and, if so, how can it be identified and what is its significance?

IS THERE A CONSUMER MOVEMENT?

For many years there has been a continuing interest among certain business groups in consumer organization—that is to say, organization of

groups about the consumer interest—and any development in this field is watched by public relations representatives, and reported to their clients, for instance, the American Association of Advertising Agencies has set up a special committee which, *inter alia,* records meetings on consumer issues, the subject of discussion at such meetings, in so far as this is made public, and so on.[1] A general survey of consumer organizations was prepared for the American Retail Federation by Werner K Gabler, distribution consultant, in 1940[2] Information on various phases of consumer organization has been made available from time to time by government agencies, particularly the Consumers Counsel of the U. S Department of Agriculture, during the thirties, and the O P.A during the war period Considerable data on the nature and extent of consumer activity were assembled during conferences held in 1939, 1940, and 1941, under sponsorship of the Institute for Consumer Education, which functioned during those years at Stephens College, Missouri, with the financial support of the Alfred P Sloan Foundation; and a volume, *Consumer Movement,* was written for the Institute in 1941 by Dr Helen Sorenson This highlights only a few of the more significant materials available to the student of consumer organization on an overall basis; there is also a mass of data on particular areas of consumer activity—for instance, on the consumer cooperatives, the consumer testing agencies, citizen groups with a consumer interest, educational institutions, and so on.

Though it is apparent that there is considerable activity and organization in the consumer interest, one cannot put a finger at any one moment on a "consumer movement," and say here it is. It calls to mind a kaleidoscope in which the pattern shifts with circumstances; on one particular issue there may be brought together one group of individuals and organizations to promote a consumer program, and about another issue there will be a different grouping A meeting on rent control will bring out the tenant associations, if the subject is milk, the nucleus may be the mothers' clubs in the settlement house districts. A press report on a statement made in favor of compulsory health insurance at the 1947 national health conference[3] referred to "a self-styled 'people's group' which claimed to speak for the household consumer The latter group includes the Congress of Industrial Organizations, American Federation of Labor and United Mineworkers Labor Unions, the American Veterans Committee, the Farmers Union, the National Consumers' League, the Cooperative League of America, and the

[1] The Committee on Consumer Relations in Advertising publishes *Consumer News Digest*
[2] *Labeling the Consumer Movement*
[3] *New York Herald Tribune,* May 4, 1948

National Association for the Advancement of Colored People . Among others signing the statement calling for compulsory insurance were Dr. Edward L. Young, of the Physician's Committee for Improvement of Medical Care, and spokesmen for the Committee for the Nation's Health, the National Women's Trade Union League of America, the American Association of Social Workers, the National Federation of Settlements, and the League for Industrial Democracy"

There is a fairly permanent center to these kaleidoscopic patterns and a group of leaders especially conscious of their role as consumers, with a broad understanding of the meaning of the "consumer interest," though they are not always in agreement as to the best way for integrating the various elements in the "movement."

With respect to objectives, though all organizations in the consumer field aim at "raising the standard of living," that is, the level of consumption or special aspects of it, there may be and in fact there is at times disagreement among them as to how this can best be done, particularly when interest shifts from questions bearing on the selection and use of consumption goods, to broader questions of the most effective use of our resources, and efficient functioning of our economy At the present time, for instance, groups that are usually thought of as reflecting a consumer point of view, at least as part of their program, are divided on such issues as compulsory health insurance, and on the more general question of whether or not price controls should be reestablished, and if so on what basis. This is due to many reasons, as in any difference of opinion on the best means to reach accepted ends, but one to which attention should be drawn here, is the lack of a well-established clearing house or conference procedure, on a broad, national scale, to serve as a forum of consumer opinion and provide an opportunity for hammering out consumer policy with respect to important issues affecting people as consumers This is tied up, to some extent, with the failure to obtain an administrative agency in the federal government which would have as its primary task the representation and promotion of a consumer point of view—a matter to which we shall give more attention later.

We can say, therefore, that there is a consumer movement in the sense that there are organized groups, local, regional, and national, concerned with promoting consumer welfare in general or with respect to particular issues, either as their central activity or as part of a more general program. But they do not constitute a unitary force, nor have they developed adequate channels for intercommunication so that one can point to a general statement of policy as reflecting a consumer point of view, though there is

considerable agreement on a number of issues. Nevertheless, the consumer movement has great potential strength and more attention should be given to the elements that compose it and the factors influencing its growth. Somewhat simliar comments could have been made about the labor movement in its embryonic stage, a century ago.

As an exploratory undertaking in this field, let us look at three broad areas of activity, consumer education, organization, and representation—areas which overlap at many points, and are separated only as a matter of convenience in discussion.

CONSUMER EDUCATION

Consumer education can be taken to mean, primarily, formal education in the school systems and other recognized institutions of learning, or it can be interpreted broadly to include in addition all types of discussion groups and meetings, formal or informal, where subjects of special interest to people as consumers are explained and debated. Let us first consider consumer education as it has developed in the schools and colleges, where it can be looked upon as a means of increasing the awareness of young people in the importance of the consumer function, and of training them to carry out this function more efficiently.

Attention has been focused on the importance of consumer education in the schools and colleges since 1924, when Dr. Henry Harap wrote *The Education of the Consumer*. During the twenties, as noted above, there was a marked growth in consumer consciousness, stimulated by the so-called "guinea-pig" books, with their emphasis on economic waste, and general debunking of claims made by many producers for their products in a buyer's market. There was further quickening of interest during the depression years, so that by the end of the thirties a number of schools, particularly at the secondary and college level, were offering consumer education courses, as distinct from the more specialized home economics courses. Other subject matter fields were also affected by this new interest.

Conferences held by the Institute for Consumer Education in 1939, 1940, and 1941, brought together several hundred teachers from various parts of the country, whose attendance demonstrated the growing interest of the schools in this subject as part of the new emphasis on "training for life," focusing the attention of students on the significance of events in their daily experience, many of which are part of or closely related to the consumption process. The U. S. Office of Education also stimulated thinking along these lines. In 1942, the National Association of Secondary School Principals, a department of the National Education Association, set up a

Consumer Education Study to survey the whole field, with funds provided by the National Better Business Bureau. This study, under the direction of Dr. Thomas Briggs, still continues.

A further stimulus to consumer education came during World War II, particularly through the activities of the O P A, which set up a special division to contact educational institutions, with a view to increasing public understanding and support of price control and rationing programs. It was hoped by the O P A. to have at least one teacher selected in schools of all grades and colleges to act as a contact for O P A personnel and provide a channel through which O P A materials could be distributed to students, and through them to their families Much of this organizational work, however, was of an emergency character, and fell apart after the war. In addition to the O P.A, the C D O (Civilian Defense Organization) supported (though with some division of opinion), the development of a consumer interest division in its local offices, some of which were active in organizing demonstrations and classes which in some cases were recognized for in-service teacher credit; this also was of an emergency character and interest soon flagged when the emergency was over

The postwar inflationary crisis has again injected stimulus into consumer consciousness, though how far this has reached into the educational program of schools and colleges throughout the country is hard to say; certainly it does not go so far as leaders in the field would wish.

In November 1946, a short questionnaire to ascertain the status of consumer education was sent to 2915 high schools, enrolling 300 or more pupils, by Dr. Briggs for the Consumer Education Study Usable returns received from 725 schools indicated that 26 percent of them offered separate courses in "consumer education," most of them in the 11th or 12th grades; this was exclusive of special units of study on consumer problems given in other subject matter fields, particularly social studies, home economics, business education, mathematics, and the natural sciences. Dr. Briggs, in his report on the results of the questionnaire, drew attention to the small number of usable replies on which these estimates were based, and he expressed the opinion that the subject was more widely taught than this survey seemed to indicate. There does not seem to have been any comparable study at the college level.

Significance of Consumer Education for the Schools

Emphasis on the importance of educating students to a knowledge of the consumer function, with some training in how best to carry it out, is given in a recent N.E.A. report, *Imperative Needs of Youth of Secondary School*

Age[4] These needs, according to the report, include a knowledge of how "to purchase and use goods and services intelligently, understanding both values received by the consumer and the economic consequences of their acts." Students need to understand the economic system in which they live, said the committee, and to learn how to participate in maintaining it at highest efficiency, "using not only their economic power as consumers, but also their political power as citizens, to this end" Because consumer problems are real and current, they involve controversies and clashes of interests, so that students must learn to develop a sense of values, the committee reported "Therefore, in educating for consumership, the school constantly goes back to the basic philosophic question, What do you want out of life? It helps the youngsters to think through their purposes, to decide what is most worth their time, money and energy It sees as its greatest purpose in consumer education the improving of the "quality of wanting. . . ." The school can help them to look philosophically at the values and standards with which they have grown up"

The importance placed on building a sense of values through consumer education was emphasized also by Dr F T Wilhelms, Associate Director of the Consumer Education Study at the thirty-first Annual Convention of Secondary School Principals, March 1947·

> Nothing else so affects a man's life as the "quality of his wanting" No amount of skill in buying or in managing money can take one forward very far if the skill is exercised in gaining cheap, mediocre goals Very often it is far more worth while to take time to ask, 'What is most worth working for?" than it is to shop carefully for some bad choice already made Therefore education in "choice making" is the real first business of consumer education We cannot dictate to a youngster what he shall prize most highly But we *can* help him to see the rich possibilities of good living and sift out those that he likes best Obviously we cannot do this in one special unit or even in a year's course, it is part of all education The process must go on long after graduation But we can accelerate philosophical growth At least ever since Socrates based education on the question, "What do you think is the good life?" schools have sought to build a sound philosophy of values But to the old Socratic question, "What is the good life?" consumer education does add a follow up "And how are you going to use the resources at your command to achieve it?" Thus consumer education takes philosophy out of the realm of the academic and weaves it integrally into life.

Despite this recognition of the basic importance of consumer education, however, it has not yet taken a strong hold on curriculum planning. "In our schools—with very few exceptions, if any—we are not treating consumer

[4] Bulletin of N A S S P , March 1947

education as if we thought it an imperative need of youth," declares Dr. Wilhelms.[5] "I keep wondering why we nearly all talk as if we thought the job of consumer education an important one. And certainly it isn't a terribly difficult thing. Then why don't we just up and do it? The answer seems to lie in a state of indecision about curricular organization."

As Dr. Wilhelms' statement indicates, there is still considerable difference of opinion as to what is the distinctive subject matter of consumer education, how it can best be fitted into the curriculum, what types of teaching materials are most suitable, and so on. One of the difficulties is that we must first be clear as to the consumer function, or at any rate have an approximate agreement on it, since it is impossible to educate students to solve consumer problems, or promote the consumer interest, if we cannot outline the problems or identify the interest. On the other hand, however, it might be said that the basic purpose of consumer education is to explore the whole consumer field and discover function

Three "basic and pervasive problems" in the field of consumer education were emphasized at the 1939 Conference of the Institute for Consumer Education by Professor Howard E Wilson of the Harvard Graduate School of Education. "The first problem," he said, "is that of discovering and clarifying the field of content or the area of human activity or the philosophic viewpoint which is the distinguishing mark of consumer education, which is the characteristic element of its definition, which, at one and the same time, sets consumer education apart from and in clear relation to other types and forms of education" There has been considerable confusion or difference of opinion as to the objectives to be sought in this new field of study, and this affects the course content. The content depends also on whether consumer education is organized as a separate course, or is "infiltrated" into the existing curriculum pattern, particularly in the form of separate units in existing courses, or as illustrative material used in those courses.

The Consumer Education Study, in a series of reports, takes the position that the school must first decide on the overall training a student should get in the consumer field, so that whether this training is given through existing courses by modifying the approach taken in them, or by adding an additional unit of study to them, or through the setting up of separate courses, it should be coordinated in such a way as to ensure that every student (not a select few) will get, as a total result, the overall training decided upon.

Leaders of the study seem to favor modification of existing courses to

[5] Proceedings of thirty first annual convention of N A S S P, March 1947.

include consumer material, according to a coordinated plan, and also a separate course, perhaps in the 11th or 12th grade, to focus attention on the basic importance of the consumer function and insure that all students will acquire in their progress through school a knowledge of the problems involved in making choices, a basic competence in the selection and use of resources, and a general understanding of the role of the consumer in the functioning of the economy as a whole

Professor Wilson, in his statement referred to above, seems to prefer that emphasis be placed on modification in approach within existing subject matter fields, rather than on the setting up of separate courses, which always constitutes a special curricular problem He said

> Perhaps the essence of consumer education is a new orientation of outlook, a point of view, a philosophy But if it is, the development of consumer education will proceed differently from a development which is conceived primarily in terms of content The importance of this movement lies in the fact that it has implications for every aspect of education To limit the application of consumer education to one segment or area of the school's work is to reduce its vitality A definition which stresses the distinguishing characteristic of consumer education and suggests the relationship of consumer education to the whole field of educating for life in this twentieth century America is the first task to which our efforts should be directed And the chosen definition must be one which will give this movement full opportunity for growth, not one which makes for it a cell, an inhibiting narrow framework

All consumer leaders would agree with this latter point Examples in arithmetic become more significant as they are related to the shopping list, chemistry experiments can be worked out for testing quality of consumer goods, the nature and use value of which can thus be more clearly demonstrated, the impact of historical events can be measured in terms of consumption levels, so that students by more frequent exposure to consumer problems will develop a better understanding of them than would be possible through a subject matter course alone But without the latter it is not likely that sufficient attention will be given to consumer education as a training in the wise use of a family's total resources and in the development of an overall point of view that can be brought to bear on the economic process with the object of raising the standard of living (whether actual or satisfactional) of the individual family and the community as a whole. Consumer education involves not only an expanding body of knowledge, but the development of a scale of values as to what is worth while in the

material basis of living, which calls for a more organized approach than can be expected through modification of existing subject matter fields, though there is no question of the importance of such modification, if we are to give proper consideration to the end results of economic activity.

CURRICULUM PLANNING. A second basic problem in consumer education in the school system is the more technical one of determining what should be taught at the various grade levels, taking into consideration differences in environmental conditions Since consumption is an experience that we all have from the youngest to the oldest, the question is not at what age does the consumer function become a matter of experience, but how to give significance to the experience at different age levels.

In Professor Wilson's opinion

> The question here is, can the subject matter of consumer education—whether organized in separate courses or inserted in other courses—be organized hierarchically, so that one step is built upon another, as in mathematics? Are there "prerequisites" to adult education in this field which can be taught in the schools? . . . The questions we need to ask are these In order to function well as a consumer, what basic ideas and understandings do individuals need about the economic system, about economic institutions, about advertising and propaganda, about group insurance, systems of taxation, principles of investment, about the cooperative movement, about governmental regulation of trade practices? What skills in the selection and rejection of newspapers, magazines, movies and radio programs are especially important to good consumer habits? In what activities of getting meaning from words and charts and graphs and pictures and the symbols of merchandising should citizens be facile? Tell us, as nearly as it is possible to do so, what the wise consumer needs in the way of skills, knowledge and insights Then consumer education may become a moving force in all the reaches of general education and there will be experimental allocation of these needs to various educational levels . . then much of the work now necessary as a sort of "emergency measure" among adults, may for the next generation be carried on more systematically and efficiently in the schools . .

At the 1940 Conference of the Institute for Consumer Education, considerable attention was given to "what and how to teach high school students," "what and how to teach college students in general," "what and how to teach students in teachers colleges," "what and how to teach adults of low income level," and so on. We are not so much concerned here with the technical problems involved in the question of what to teach at different age and experience levels, since our primary concern is with college students, but it is important to know with what total accumulation of knowledge and

width of understanding of consumer problems students enter college We might as well confess at this point to a doubt as to whether the contents of this book are properly selected and presented for use by college students since we do not know their previous preparation in this field, whether in special courses or through their general studies We might now ask ourselves what the proper qualifications are for graduation of students as certified competent either (a) to analyze and understand issues affecting the consumer, or (b) to undertake the consumer function efficiently.

STUDY MATERIALS A problem closely associated with that of curriculum planning at different age levels is the use of materials What kind of materials are most suitable for use by different groups—and here we can include adult groups at different levels of capacity and experience—and how can such materials be made available? In consumer education it is easy for the student to learn by doing, whether on particular school projects as, for instance, helping to run a school store, or visiting a consumer testing laboratory, or by participating consciously in family experiences—working out expenditure accounts or planning a budget for future spending, doing the family shopping with an eye to quality selection, and so on

Professor Wilson cites cases[6] where parents were not willing to cooperate by confiding in their children details of family expenditures "The extent to which the foundations of consumer wisdom can and should be laid in childhood rather than adulthood, rests not alone with the schools The education of parents may be a critical concern for those who develop the field of consumer education for young people But with the necessary cooperation from outside agencies, there is no limit to the material that can be made available for use in consumer education courses, quite apart from textbook materials of various kinds"

With respect to textbook materials, reference has already been made to the number of books which appeared toward the end of the thirties, each tending to vary in its emphasis, and additions are made from time to time. We might here mention that considerable difficulty has been experienced in getting suitable reading material for adults of limited educational background The series of Public Affairs Pamphlets include a number in the consumer field, however, and help meet the needs of this group of laymen. One of the particular services rendered by the O P A. to consumer education was the provision of a considerable amount of educational material for use both in schools and among adult groups, though limited for the most part to matters relating to price control and rationing

[6] *Ibid*

One of the problems connected with the selection of suitable materials is what use can and should be made of promotional literature and other aids (including films) prepared by commercial agencies. Some of this commercial material has been welcomed by teachers because of the general attractiveness of the layout and the style of presentation, which is usually more vivid and attention-getting than the average textbook. Moreover, with school funds and materials frequently in short supply, there sometimes seems to be no alternative. But there is always the problem of influencing students in favor of particular products or particular brands, some of which may not be desirable from a normative standpoint. Critical reference was made to this problem in testimony before the T.N.E.C.[7] in 1939, and a special bulletin was prepared on the subject by the American Home Economics Association in the same year.[8]

LEARNING FOR ACTION. A third basic problem in consumer education has to do with the relation that ought to exist between "learning and behavior," with the translation of knowledge into action, with "establishing a careful balance of intellectual substance and emotional vigor." Professor Wilson, in developing this thesis, said:

> We have come to realize that information unaccompanied by a drive toward civic conduct which is emotional rather than intellectual in its origin, is a barren, scholastic achievement. We are questioning the longstanding tradition that democracy must avoid emotional conditioning, in civic education we are today searching for a formula by which to infuse intellectual comprehension and freedom with emotional vitality. The same search is one of the problems of consumer education. This new educational movement will not have attained its ends without altering the habits and actions of a large proportion of the American people. . . . Consumer education must avoid the extreme of crystallized bookishness exactly as it must avoid the other extreme of unorganized and haphazard endeavor. Whatever rules the psychologists have discovered for the development and control of emotionalized responses and of volitional drives must become the concern of those who deal with consumer education.[9]

Opposed to this point of view was that expressed by the Superintendent of Public Schools in New York City, in connection with an incident that occurred in 1946 during the early postwar inflationary period. Dr. Edward Reich, who had for some years been looked upon as a leader in consumer education, had been appointed in 1943 to an administrative position on the

[7] T.N.E.C. Hearings Part 8, *Problems of the Consumer*, 1939.
[8] Series 22, No. 1, September 1939.
[9] *Op. cit.*

New York City Board of Education to coordinate and develop consumer programs in the public schools, and to cooperate with O.P.A. personnel assigned to work with the schools. The particular incident referred to above was precipitated by a circular prepared by Dr. Reich for distribution through the schools in which it was suggested that when prices of some consumer goods got out of line, the course of wisdom was to use substitutes. The circular was withdrawn by order of the superintendent, who maintained that it was the function of the teacher to present different aspects of a situation to students, but not to suggest any particular line of action. The circular was given wide publicity when former Mayor La Guardia incorporated part of it in one of his weekly columns, as a public service.

The importance of translating knowledge into action, though it relates to all age levels, takes on special significance for adult education, to which we should now turn our attention, but since this is tied up with consumer organization, we shall first consider the nature and extent of organization about the consumer interest, with education as one of the activities of such organized groups.

CONSUMER ORGANIZATION

As mentioned above, there are a great many groups, large and small, functioning at local, state, and national levels, some of which are organized specifically about the consumer interest and can be described as consumer groups, and others make a place in their more general program for matters of consumer interest, and can, as a matter of convenience, be referred to as consumer interest groups. It would be impossible to list here all these various organizations, even if such a listing were available, and we shall only try to select some of the more significant or representative among them.

Consumer Cooperatives

The most significant organization of consumers in terms of numbers is that of the consumer cooperatives. Reference was made above to the consumer cooperatives in commodity distribution, and also to certain cooperative activities in the field of credit, housing, medical care, and insurance when we were discussing those particular subjects. The strength of this development however can be appraised only when it is looked at as a whole. The "cooperative movement" is not itself structurally integrated in all its parts, but within the last few months steps have been taken toward this goal. The Cooperative League of the U. S. A., formerly concerned primarily with educational and promotional work for the commodity cooperatives, has been

expanded into an overall "clearing house" of cooperatives in all major fields where they have been established. This encourages cooperatives to cooperate and helps to build a movement.

The Cooperative League is affiliated with the International Cooperative Alliance, which has been given category A status among the non-governmental international organizations recognized by the United Nations It has been estimated that before World War II, the international (ICA) included a network of consumer cooperatives serving some 75 million families International conferences are held by the alliance which bring together representatives from different countries, and the national associations also encourage and frequently arrange for tours abroad to increase the feeling of comradeship among cooperative members in all countries

BASIC PRINCIPLES. All these cooperative organizations are, generally speaking, set up on the basic Rochdale principles, including open membership (though, as in the case of credit unions, membership may be restricted to occupational or other defined groups), one person, one vote regardless of amount of stock ownership, limited return on capital, and refund on purchases. Except in cases where it is believed that prices are held above competitive levels and the cooperative feels itself in a position to break into a monopolistic field, sales are generally made at "current prices," net returns less reserves set aside for promotional or educational work being distributed to member-customers as a refund proportioned to purchases, refunds may also be made, directly or indirectly, to non member customers and must be so made by cooperatives with predominantly farmer members if they claim a right to certain corporation tax exemptions Distribution of the surplus as a refund on purchases is, on the whole, on a wider basis than would be the case if it were added to dividends on invested capital in a corporation

Though many members no doubt join the cooperatives primarily for material gains, many others do so because they believe in consumer control of the economy as a principle of social organization embodying a cooperative, as distinct from a competitive, philosophy—this is perhaps particularly true among the urban cooperatives, many of whose members have come from liberal, middle-class groups. They look forward with more or less faith to the future development of a "Consumers' Cooperative Commonwealth," in which "business enterprises will be owned and operated by the people they serve"—a system of private enterprise motivated by service, free of many of the disadvantages of both profit capitalism and state socialism, an answer to both big business and big government. "When the great majority of the people turn to the cooperatives as the most satisfactory way of doing

business, cooperation will then form the basis for a next step in the evolution of society. Cooperation is a peaceful, evolutionary way to correct the basic causes of our present economic troubles."[10]

THE COOPERATIVE STRUCTURE. The commodity cooperatives were discussed in Chapter XV. There has been some spectacular development of commodity cooperatives in the Middle West, chiefly among farm groups, but in these cases the motivating factor has been a producer rather than a consumer interest, since the largest development has been first in the purchasing and later in the distribution and processing of supplies for use in farm production—feed, fertilizer, oil, gasoline, and so on. Any savings in cost or improvement in quality in the process of production is of course of importance to consumers generally, but from the point of view of the consumer movement and the mobilizing of a consumer point of view, there is a question whether some of the most important of the so called consumer cooperatives, particularly among the Farm Bureau groups, should not more properly be thought of as purchasing and processing agencies for producers.

Commodity cooperatives in urban areas have been chiefly engaged in the food and grocery business, which has not been easy to dramatize for promotional campaigns mainly, no doubt, because there is no great profit margin in this field. When the coops, through the wholesalers, engage directly in processing, they usually have more material gains to show their members.

Reference has been made above to the Credit Union National Association, the overall agency in the credit union field; many of the 3 million members of the credit unions are also members of the commodity cooperatives. Another group of specialized cooperatives are in the utility field. These include the 1,250,000 members of the Rural Electric Cooperatives, set up with the help of the U. S. Rural Electrification Administration to build and control electric transmission lines, bringing to many farms not previously serviced the benefits of electric light and power. There are also a small number of coop telephone companies with about 330,000 members.

A significant development in cooperative activity has been in the insurance field, notably the Farm Bureau Mutual Automobile Insurance Company with subsidiaries doing a life and fire insurance business. The 800,000 members of these insurance companies are a comparatively small group compared with the size of some of the long-established mutual and stock companies, but as part of a larger whole, the significance of this development should not be overlooked.

There are also a number of so-called "service" cooperatives, which further

[10] Cooperative League of the U. S. A., *Here is Tomorrow* 1946

illustrate the wide area of activity open to cooperative organization. There is the National Cooperative Mutual Housing Association, recently established to coordinate the activities of a number of cooperative housing groups, many of them composed of veterans; some cooperative housing developments are already completed, others are in process of construction, and many are in the planning stage Some of the material for cooperative housing has been or will be made available through an expansion of activity in the commodity cooperatives that maintain lumberyards and in a few instances lumber mills.

The Cooperative Health Federation was also established recently to coordinate the work of the cooperative health associations which, as pointed out above, are primarily medical coops, though there are a few hospitals under coop control A listing of the service groups would also include such activities as consumer cooperative cafeterias, bookstore cooperatives, and a number of campus dormitories, providing room and board There are, in addition, a few other miscellaneous groups set up for various purposes, including recreational activities—in fact, cooperators are placing increasing emphasis on "play clubs" of different kinds, and on recreation as a regular part of their social programs, promoting folk games, singing, folk dancing, crafts, drama, in which the consumer takes an active part, in which he himself is creative, without much financial cost, if any, as distinct from the increasing trend toward "spectatoritis" A Cooperative Society for Recreational Education holds a national leadership and training school each summer and conducts several regional schools at other times of the year Integration of these various cooperative activities on a national level will no doubt stimulate further integration at local levels. In some areas, in fact, considerable integration has already been achieved, notably in the government housing development in Greenbelt, Maryland To what extent this will lead to increased efficiency in organization and functioning is, of course, a matter of conjecture

How strong is the cooperative spirit among cooperators? As pointed out above, it cannot be assumed that all members of consumer cooperatives are actuated in their membership by an enthusiasm for the cooperative idea, or that the leadership is always alert and promotional in its attitudes Indeed, it, is well known that there is considerable apathy among certain coop members, even those who join from conviction, but find their time and energy absorbed by other interests, or, as in the case of some members of commodity cooperatives, prefer to shop at the supermarkets Moreover some cooperative managers get into a rut and become a liability to a progressive movement. Nevertheless, the expansive quality of consumer cooperation in the United States at the present time should not be underestimated. A motion picture entitled *Here Is Tomorrow,* produced for the Cooperative League, caught

much of this promotional spirit. The democratic quality of the organization will depend of course on the sustained interest of the local members and the vitality of the contacts among all groups in the cooperative field.

It cannot be said that the cooperative movement has to date had any considerable influence on the nature of consumer choice, at least for the products handled by the commodity cooperatives, though there may be a certain price and quality advantage, and, in some instances, as with the Consumer-Farmer Milk Cooperative in New York, cooperative activity has provided an important competitive factor in distribution. More imagination in exploring new and better ways of satisfying wants have been shown in the service field, as, for instance, with the credit unions, the pioneer medical groups, rural electrification (though in the latter case, much of the stimulus came from government), and recreational activities.

As distinct from European experience, the strength of consumer cooperation in the United States has in the past come largely from farm rather than urban groups though, as explained above, there is some question as to the extent to which the farm coops can properly be included as part of the consumer cooperative movement, even with respect to their purchasing (as distinct from marketing) activities. They are organized to promote their own interests as producers and consumers (primarily as producers), and have not tended to show a broad interest in the welfare of consumers as a whole.

Among the urban groups, the trade unions, though giving lip service to the principle of consumer cooperation and supporting particular cooperative activities as, for instance, local credit unions, have not in the past thrown much weight behind attempts to develop consumer cooperation into a significant movement. Trade unions have been an important factor in the development of consumer cooperation in England, and, a century ago in this country, the early leaders of trade unions displayed a genuine enthusiasm for cooperatives, both producer and consumer cooperatives, as offering "a way of escape from the profit system." This interest, however, seems largely to have dissappeared. To some labor groups, the consumer cooperatives in the United States are a middle-class activity, and do not offer a significant challenge to the monopoly elements in the economy. But every now and again there are reports of discussions looking toward a much closer relationship between the unions and the consumer cooperatives. It is fear of such a development that underlies, in part, the opposition of some business groups, as explained above.

In the past, leaders of consumer cooperatives as such have been opposed to participating in political campaigns, or undertaking political activity, em-

phasizing, rather, the importance of growth from within the organization; this is not so true, however, of those associations organized by farm groups who are more accustomed to pressure politics. As a result of various restrictions placed on their expansion, or open attacks against them, the consumer cooperatives as a whole have become much more politically conscious of recent years, and the Cooperative League now maintains an "Information Office" in Washington, D C, which also serves as a center from which pressure can be brought on the political process with a view to protecting and promoting the cooperative position Even though the announced position of the cooperatives in the past has been against political action, except under unusual circumstances, nevertheless they have benefited to some extent, particularly those which have a majority of farmer members, from special government support, both of an educational and financial character, though the same could be said, and in greater degree, of government support for industrial and marketing corporations

Testing Agencies

In addition to the cooperatives, functioning organizations in the consumer field include the consumer testing agencies, referred to above. These not only provide a technical service, but do an educational job in the analysis of quality characteristics. Representatives of Consumers Union, a membership association, have also done promotional work in urging the importance of consumer organization, including cooperatives. They have taken an active part in bringing pressure on various agencies of government to support or oppose measures in line with the consumer interest, as they interpret it. Its charter specifically empowers the union "to initiate, to cooperate with and to aid individual and group efforts of whatever nature and description, seeking to create and maintain decent living standards for ultimate consumers." Opinion in the C.U. is, however, divided on whether it should concentrate all its effort on the technical work of product-testing and appraisal, or continue to give support to general activity in the consumer interest. Its membership, listed as about 80,000 at the end of the war, has increased rapidly in the last two years and now totals more than 200,000. Its work is even more significant than these numbers would indicate, since many members are professional people whose influence extends out into the community.

Consumer Councils

In the consumer movement are to be included also a number of local consumer groups some larger and more active than others, set up either on a

unitary basis or as coordinating councils for various organizations which have an interest in promoting consumer objectives There was a stimulus to the formation of such groups during the N R A period (1933–1935), when the Consumers Advisory Board of the N R A , in order to build up or strengthen its consumer constituency throughout the country, planned to set up a consumer council in each of the 3000 or more counties [11] The board could not get the necessary approval of administration leaders to the plan as a whole, but about 200 councils were finally set up, with limited functions. Some of these councils survived the downfall of the N R A and continued on a non-official basis, one of the most significant being the St Louis Council (Missouri) which is still active Mention should also be made of the Consumers Institutes of Massachusetts, which were coordinated through the office of a state director after the end of N R A The influence of these groups, and of others subsequently established, has been, for the most part, confined to their local areas, though they do on occasion, organize delegations to Washington

Building a National Organization

At a conference of about 50 members, called together from all parts of the country by the Consumers Advisory Board in December 1933, an attempt was made to set up a national organization consisting of individual members and consumer groups, under the title Consumers National Conference, but it had only a brief existence Again, in 1937, another attempt was made to set up a national organization to include individual and group members, with headquarters in New York City, under the chairmanship of Helen Hall of the Henry Street Settlement

This was the Consumers National Federation and it continued to function for nearly three years, publishing a regular bulletin, *The Consumer* and a considerable amount of leaflet material The federation was primarily an educational and organizational agency, aiming to stimulate the development of local consumer groups and service them with educational material It also organized delegations to present a consumer point of view on issues that came up in Washington However, such influence as it could bring to bear was due rather to the status of some of the leaders than the numbers it was able to enroll among its members, though the potential strength of such an organization is always a matter to be taken into account It finally became inactive for lack of funds

The difficulty experienced in raising funds for consumer activity has in

[11] See Persia Campbell, *Consumer Representation in the New Deal* 1940

fact been the main limiting factor in developing the consumer movement. The purposes of such a movement touch so closely on controversial issues that foundations with ample funds hesitate to give support even for educational and organizational work. The only considerable funds that have been made available for consumer organization have been for the development of consumer cooperatives, particularly from E. A. Filene, the Boston merchant. Filene sponsored the early credit unions, and it was with Filene funds that the Consumer Distribution Corporation was established to make loans and provide expert managerial advice to cooperatives, and also initiate experiments in cooperative activity. Apart from foundations, the possibility of raising considerable funds appears to be limited to what can be accumulated from interested supporters, most of whom, by the nature of "the cause," are not persons of wealth.

During World War II, another stimulus was given to consumer organization through the activities of the O.P.A., particularly after Chester Bowles took over its administration. Under Bowles, O.P.A. officials took the lead in bringing together representatives from a variety of consumer and general citizen groups to constitute district and regional committees and also a national committee advisory to the administrator. The setting up of consumer price panels in the local price and rationing boards served to heighten consumer consciousness and a sense of individual responsibility on the part of local representatives for cooperating effectively in the program of controls. The program of the Civilian Defense Organization was also a factor. Furthermore, general war conditions induced a greater awareness among the community of their consumer interest. Housewives' associations were set up under various names and some of these are still functioning.

When the O.P.A. was dissolved, plans were made by a group of consumer leaders, most of whom had been active on the O.P.A. National Consumer Advisory Committee, to hold together members of the various regional and district committees and consumer-conscious individuals, through a new national organization to be known as the National Association of Consumers. As distinct from the Consumers National Federation (C.N.F.), the new N.A.C. was planned as an action organization; that is to say, it was itself to take and support a position on consumer issues, as well as provide educational material and carry on organizing functions on a national scale. As in the two previous attempts to establish a national organization of consumers as such, the N.A.C. has had financial difficulties from its inception, and has also had difficulty in pulling together individuals prominent in the consumer field, and representatives from different groups, into a working team.

Like any other association with a social program today, the N.A.C. has also had to meet the current fear of "communist infiltration," which tends further to divide leaders on questions of organization.

It is important of course that some way should be found to identify phony consumer groups, that is, groups that are ostensibly organized about a consumer interest, but which are in fact set up for another purpose. By what criteria can one judge a bona fide consumer group organized about an issue so broad as that of promoting consumer welfare, in which any member of the public can legitimately claim to have an interest?

The problem of identifying a bona fide consumer group also proved difficult for the Consumers National Federation in the late thirties, though the difficulty arose then from business rather than political sources. As mentioned above, during the thirties some of the chain store groups explored the possibility[12] of developing a consumer organization as a front for their own activities in heading off opposition from independent retailers and other units in the marketing system. Chain store funds were behind the development of a number of groups purporting to be consumer groups, notably the National Consumers Tax Commission which, in 1939, was said to include 4000 locals in different parts of the country. The Foundation for Consumer Education on the Pacific was another such organization. These groups, which were primarily women's organizations, were built up ostensibly as a consumer protest against "hidden taxes," including chain store taxes. Many of the women members did not seem to be aware of the true nature of these organizations.

A plan to establish a Consumers Foundation in 1938, which went through the initial stages of development, was checked when the Consumers National Federation disclosed before the Temporary National Economic Committee (T.N.E.C.) confidential documents from the Institute of Distribution, another chain store group, indicating their financial interest in it. The aims of the foundation, as set out in an organization bulletin, had all the marks of a genuine consumer group, which was the main reason why its development as such was opposed by representatives of the C.N.F. The latter took the position that they were not opposed to organizations seeking to bring about a closer working relationship between business and consumer groups, providing the purpose was clearly revealed in their name and announced objectives, and the source of funds was made known. The National Consumer-Retailer Council, which was set up about this time, met these requirements and some of the women's organizations cooperated and still cooperate in its activities.

[12] T.N.E.C. Hearings Part 8, *op. cit.*

In commenting on the plan for a Consumers Foundation, resting on the support of special interests, Professor Robert Lynd, then vice-chairman of the C.N.F., emphasized the danger that would exist for the bona fide consumer movement in any "entangling alliances" that might, over the years, muddy up the waters of ultimate consumer objectives, though this would not preclude cooperation on specific programs

Citizen Groups with a Consumer Interest

Apart from these various groups organized specifically about the consumer interest, there is consumer activity in a number of other organizations, particularly women's organizations, with a broad civic program; some of these are on a national basis A number of these national organizations, with headquarters in Washington, contribute limited financial support to a Consumer Clearing House, a small service center through which flows informational and analytical material on consumer subjects, primarily with respect to issues before Congress, for the use of cooperating groups Most of these organizations are also members of a Women's Joint Congressional Committee, through which they confer on action to be taken with respect to particular legislative matters (including consumer matters) before Congress

Among the more important of the national groups having a consumer interest can be listed the American Association of University Women (A.A.U.W.), representing the point of view of middle class professional women, or women with a professional training now active in a variety of ways. The association is made up of more than 1000 branches, organized by states and regionally, with a permanent national secretariat, including an expert Associate in Social Studies who prepares material for the membership and also represents them at Congressional hearings and in other ways on matters about which they have come to an agreement; matters of consumer interest are included The A A U W. has, in fact, taken a lead on many consumer issues and it was the Associate in Social Studies who became Consumer Adviser to the O P.A. administrator. The A.A U.W. *Journal* reports all activities of the Association, including matters of consumer interest on which it is engaged.

The American Home Economics Association (A H E.A) is also an association of professional women organized by state and local groups. In addition, it has relationships with a large number of home economics clubs in colleges and high schools. The association has been functioning since 1908, and its monthly *Journal* is an invaluable record of, and commentary on, developments in the consumer field during this considerable period of time.

For about a decade, it also published *Consumer Education Service*, recently discontinued, and certain other specialized publications. The A.H.E.A. has been especially concerned with the selection and use of consumer goods, particularly foods, clothing, and household equipment, and has made some notable contributions in these fields. Many of their members are teachers of home economics in urban and rural areas, or are in various service positions, or working in industry, particularly in food and textile laboratories or on magazines, or in market research jobs, so that local units of the association are likely to reflect a cross section of interest from the home-maker, teacher, and business points of view.

The National League of Women Voters (N.L.W.V.), also organized by state and local units, is concerned with consumer questions when they become political issues, whether at local, state, or national levels. They also tend to reflect a middle-income group in matters affecting the consumer interest. The General Federation of Women's Clubs, a loose federation of some 15,000 clubs in all parts of the country has, from time to time, taken a position on consumer issues, though there is usually a considerable difference of opinion among the different units, members of which, for the most part, are drawn from a "politically conservative and socially prominent group."[18] For many years the G.F.W.C. cooperated in a weekly broadcast with the Consumers Counsel of the A.A.A. The National Congress of Parents and Teachers has also shown some interest in consumer problems, particularly since the developing interest of some of the schools and educational agencies in consumer education; it might very well become an important channel of communication between the consumer programs in the schools and the general public at various income levels, since on the whole its members reflect a wider income range than that of the other groups mentioned above.

Church groups and religious organizations of various kinds have also shown an interest, to a greater or lesser degree, in specific consumer problems, either at local, state, or national levels. Women's committees in local churches may organize a series of discussion groups on practical problems, such as the price of milk, or quality identification, and at the national level, by way of illustration, the National Council of Churches has taken a promotional interest in the cooperative movement, and the National Y.W.C.A. has joined with other women's groups in supporting a more general program of consumer action.

A significant organization, because of the work of its constitutent units

[18] Helen Sorenson, *Consumer Movement*, 1941, p. 91.

with low-income families, is the National Federation of Settlements, representing settlement houses in various parts of the country The settlement houses are active, some more than others, in improving the conditions of living for families in their neighborhoods, and helping the families to help themselves in raising their actual level of consumption Some of the settlements also take an active part in public affairs, bringing their influence to bear, particularly on local governments, to secure reforms in living conditions, and in some cases acting also at the state level, national action is usually taken through the Federation In the early decades of this century, Hull House in Chicago was the center of developments of considerable importance from a consumer point of view both on the economic and political fronts, a somewhat similar influence is being exercised today through the Henry Street Settlement in New York City Much the same can also be said for a number of other welfare and charity organizations, though the types of activity in which they engage vary considerably

Certain civic organizations which are primarily concerned with labor conditions have from time to time taken an active part in consumer programs, *particularly the National Consumers League and its affiliated units, and the* National League of Women Shoppers

What has been the attitude of the trade unions themselves to consumer organization? Women's auxiliaries of a number of trade unions, made up of wives of trade union members, are usually to be found participating in local consumer councils A number of unions at the local level have carried on consumer education and have cooperated in consumer activity, either on specific projects or through membership in a consumer council, but speaking generally the great national organizations have not identified themselves with attempts to mobilize consumer opinion and build a consumer movement; as noted above, they have not even given much support to consumer cooperation

There are undoubtedly many reasons for this They have been primarily concerned with protecting their status as unions, in law and in fact, and also the status of their members in the production system. That is to say, they are producer-oriented. In the past they have tended to show more interest in nominal than in real wages, though during the war they generally supported price and rationing controls, while using their bargaining strength to obtain certain direct benefits, such as health, disability and life insurance, paid vacations, and so on, or improved conditions on the job. There seems moreover to be a feeling in some trade union groups that a well-organized con-

sumer movement would be antagonistic to "labor," and particularly to any demands for an increase in wages as adding to costs.

Surprisingly, Professor Sumner Slichter, of the business-supported Committee for Economic Development, has recently given weight to this opinion in his *The Challenge of Industrial Relations* (1947); speaking of collective bargaining, he asserts "In this bargaining, management, of course, represents the interests of consumers This fact is frequently overlooked, but it is of great importance. The lower the costs of production, the lower competition forces prices or the higher it forces quality Hence in bargaining for lower costs management are representing consumers"

This represents a basic misconception of the "consumer interest," which not only embraces workers as consumers, but also the degree of satisfaction derived from "living conditions" on the job Nevertheless the misconception is to be found among labor groups as well as in the Committee for Economic Development, and is one reason for the lack of interest among national labor leaders and the rank and file in consumer organization as such. There are occasions, it must be said, when those claiming to represent a consumer point of view have been opposed to a specific policy supported by certain unions, as, for instance, with respect to the tariff, as they have also been opposed to certain business practices But as emphasized above, the consumer interest is an overall interest, and is promoted, not competitively in relation to particular groups but when the economy is so organized as to further "the greatest enjoyment of the greatest number"

This survey of various types of organizations which may be said to be conscious of a consumer interest, and prepared to promote it in specific or general terms, is not to be regarded as comprehensive Almost any civic organization at one time or another supports programs which can be described as consumer programs, that is to say, they have a direct bearing on the standard of living An interesting research project for students would be to canvass the local situation to determine the strength of organized consumer opinion on any particular issue

The consumer movement is obviously amorphous, and subject to periods of expansion and contraction as the interest of different groups waxes and wanes. The activities of some of these groups are primarily educational, either for the understanding of problems or for the development of particular skills in improving the level of consumption and the satisfactions derived from it. Other groups are more concerned with "doing," again either by bringing pressure on public or private agencies, or by "direct action" in

setting up coops, organizing swap shops, or so on. Nevertheless, despite this diversity in form and program, it is clear that there is a considerable awareness among a number of people of the importance of a general consumer approach to economic problems, and a readiness on their part to support a program aimed directly at raising the consumption level, and maximizing the satisfactions derived from consumption.

Experience indicates that to focus interest, clarify and mobilize opinion, and bring it effectively to bear on policy, there is need for improved techniques for social action in the consumer field. Reference has already been made to the problems of leadership, of financing, and of securing adequate educational materials. What would it take to give reality to the potential strength of the consumer movement?

A significant aspect of the various attempts to integrate the consumer movement, as, for instance, the N.A.C., is the bringing together of representatives from low-income wage groups and middle-class professional groups, home economists and general economists, in an effort to identify a broad consumer interest in any particular issue and bring support to its promotion. What is important in this development is the preoccupation with ends to be achieved. In our complex economy we need constantly to be reminded of what it is all about, of the importance of developing criteria of evaluation for the structure and functioning of the economy—does it best satisfy our wants? "Raising the standard of living" is in itself too vague a concept. It has to be written out into particular programs, and the effort to write such programs is in itself a process of clarification in objectives.

CONSUMER REPRESENTATION

In the past, integration of the various elements in the consumer movement has been most successful under the leadership of government officials, appointed to represent a consumer point of view. This has been partly because of the more adequate financing, and partly also because it has proved a fairly effective way of harmonizing the personal and policy differences among representatives from a wide variety of organizations and income levels. Let us, therefore, now turn our attention to the question of representation of the consumer point of view in government through a permanent consumer agency set up in the administration.

Before taking up this question however, we should differentiate between representation of a consumer point of view by citizen groups, and by government agencies. Many of the organizations referred to above do present what they conceive to be a consumer point of view, either singly or in concert, at

various points where decisions are made in the political process. However it must be recognized that the number of consumer representatives at present available to exercise this function is very limited—a situation that is tied in closely with the lack of financial resources in the consumer movement as a whole. This difficulty has already become apparent in the few instances of formalized relationships established by some of the women's organizations with business groups, notably with the National Consumer-Retailer Council and the American Standards Association, primarily for the purpose of developing quality standards This makes all the more persuasive the argument for a government agency representing a consumer point of view, which is a fundamental point of view and one which should be heard in the policy-making process.

As pointed out above, the Department of Commerce does in effect promote the interests of American business and serve to strengthen its position *vis-a-vis* other groups in the community The same can undoubtedly be said with respect to the relations between the U. S. Department of Agriculture and the farmers. There is some ground for arguing that government departments should not be promotional of special interests, that they should be regulatory and service agencies for particular groups and should be able to interpret their interests and policies, without "representing" them. But this is not the present position, which gives increased weight to the arguments of those who support the proposal for a federal agency designated as a consumer agency and to be broadly concerned with the whole field of policy affecting the interests of people as consumers.

Experiments in Representation

There have been a number of limited experiments along these lines. To begin with, in 1933 the N.R.A. established a Consumers Advisory Board along with a Labor Advisory Board and an Industry Advisory Board to participate in the code-making process.[14] The C.A.B. spent considerable time hammering out consumer policy with respect to the industrial codes and despite the weakness of its position due to the lack of a well-organized constituency—the Labor Advisory Board had the whole strength of the unions, and the Industry Advisory Board had all of organized business behind it—nevertheless, its prestige increased as time went on, because it came to be recognized, through its recommendations, as a body working for the public interest, in its material aspect. Students who are interested in exploring further the content of consumer policy with respect to certain economic

[14] See Persia Campbell, *op cit.*

practices as, for instance, minimum price-fixing, quantity control, and so on, should familiarize themselves with the policy statements prepared by the board and its expert staff, most of which represent the result of a significant pioneering effort in the formulation of a consumer point of view on specific issues.

As pointed out above, the C A B tried to organize a constituency for itself through the establishment of County Consumer Councils, but this experiment was not tried out on any considerable scale The C A B consisted of a group of volunteers (on a *per diem* expense basis) assisted by a highly efficient paid staff A somewhat different type of representation was obtained through the Consumers Counsel of the A A A, also established in 1933 The Consumers Counsel was a paid official of the Department of Agriculture, with a staff of assistants It was his function, or at any rate this is how he interpreted it, to bring a consumer point of view to bear with respect to our overall planning programs for agriculture and also the marketing agreements with processors and distributors The difficulty of such a position was obvious, since the counsel frequently found himself opposing the producer oriented, policy-making group in the A A A This was true of the three officials who followed each other in the position and finally, when Donald E Montgomery, the third appointee, resigned in December 1942, there was nothing left but some service activities, as, for instance, publication of the *Consumers Guide,* and that was subject to departmental censorship

The Consumers Counsel had been instrumental in strengthening organization among consumers, and stimulating existing civic associations to a larger interest and activity in consumer programs Donald Montgomery, particularly, had considerable success in bringing together all elements in the consumer movement in support of his policy, but the movement still lacked the political strength to protect his position or to secure permanent consumer representation in the administration

A third short lived experiment in bringing a consumer point of view into the administrative process, as part of the machinery of government, was made in the appointment of a Consumers Counsel to the National Bituminous Coal Commission, such an office being provided for, in this case, in the basic legislation However, the Coal Consumers Counsel came to regard himself as representing not only the ultimate consumer but the buyer at all stages of the industrial and distributive process, and the interests of these different groups proved at times to be in conflict.

Though these experiments in consumer representation were soon ended, the principle came to be accepted and when the Council of National Defense was set up shortly before we became directly involved in World War II, a

consumer representative was appointed to its membership However, the status of the consumer representative was gradually diminished, and the representative function was itself later absorbed into the information division of the O.P.A. As mentioned above, when Chester Bowles became O.P.A. administrator, a consumer adviser was appointed to his staff, and an advisory consumer committee was appointed, members of which were drawn from various organizations having a consumer interest. This advisory organization was broken up when the O P A was disbanded.

It was hoped by consumer leaders that the Council of Economic Advisers to the President, set up under the Full Employment Act of 1946, would appoint a consumer adviser to their staff This was not done, though a Consumer Advisory Committee was established to advise with the council from time to time In making such a selection, in the absence of an integrated consumer organization, there is a problem in ensuring that all sections of the consumer movement, or all significant consumer groups are properly represented. This again focuses attention on the importance of arriving at a broad area of agreement on where the consumer interest lies in any particular situation This problem also comes up in determining whether a point of view expressed by an official appointed as a consumer representative does, in fact, reflect consumer opinion Evaluating the various factors of a situation in the light of the ends to be achieved is not an easy process, as was shown in the early exploratory efforts at policy-making by the Consumers Advisory Board.

Apart from these experiments in representation of a consumer point of view, there are a number of agencies in the federal government—and in fact at state and local levels—with what is primarily a regulatory or service function, whose work or part of whose work is of direct benefit to consumers. The most notable of the regulatory agencies are perhaps the Food and Drug Administration and the Federal Trade Commission; outstanding among the service groups is the Bureau of Human Nutrition and Home Economics in the U. S Department of Agriculture, which has taken a lead in research into questions relating to the selection and use of consumer goods, particularly with respect to food and textiles. Other agencies, such as the U. S. Office of Education, and the U. S Public Health Service exemplify a wide variety of activities of consumer significance

A Consumer Department

It has been urged from time to time that a separate Department of the Consumer be established in the federal government (and even in state and local governments) on a basis comparable to the Department of Agriculture, or

Commerce, or Labor The Consumers Advisory Board, in its final publication (June 1935), recommended the establishment of such a department, here would be centered all activity relating to representation of a consumer point of view in policy-making, particularly with respect to government policy toward industry and agriculture; it would also serve as a coordinating agency for all activity in the government bearing on the consumer interest, and carry on specific service functions as, for instance, the development of quality standards in terms of consumer use

Nothing came of this proposal, however, and consumer leaders, recognizing the political weakness of organized consumers, scaled down their recommendation from a consumer department to a consumer agency in some other "neutral" department (that is, one not dominated by production interests) There seemed a good prospect in 1937 that a home might be found for such an agency in the proposed Department of Public Welfare as recommended by the President's Committee on Reorganization, but the defeat of the Reorganization Bill toward the middle of the year put an end to this possibility, at least for the time being However the proposal was not allowed to drop out of discussion entirely In 1938, for instance, it was embodied in a memorandum presented to the President by a delegation of consumers brought together by the Consumers National Federation [15]

Some months later the general director of the American Association of University Women addressed a letter to the President to the same end, thus putting the weight of that organization behind the proposal The more recent renewal of interest in a Department of Welfare has again revived hopes of a separate consumer agency at the federal level The main difficulty in bringing this plan to a successful realization arises from the relative weakness of consumer organization, despite the basic importance of the interest it serves Moreover, since the consumer interest is less easily identified than the interest of any particular producer group, there is a tendency to think of it as unreal Setting up a central agency, under stimulating leadership acceptable to consumer groups, would undoubtedly result, as happened in the past whenever consumer representation has been provided for, in strengthening the consumer movement, and this in turn would provide an effective constituency for the agency and a testing ground for consumer opinion on the momentous issues which confront us in the postwar world.

However, as emphasized by Professor R Lynd when these matters were first under serious discussion, the primary question is not so much what form a consumer agency in the government should take, but "whether the govern-

[15] See TNEC Hearings, *op cit*, p 3473

ment is prepared to give to the spending of the national income, the same degree of concern that it at present bestows upon the earning of that income."[16] What is even more important, as we see it today, are our overall objectives.

In their second annual report to the President in December 1947, the Council of Economic Advisers, pointed out that "we have still not really studied and aggressively dealt with the question of what a rich country can afford to do when it keeps steadily at work." They expressed the opinion, however, that "we must in future have much higher consumption in all the lower and middle ranks if we are to absorb the output of industry at the level of its capacity, and that this output should be in line with consumer preferences."

In their provocative survey, *America's Needs and Resources,*[17] the Twentieth Century Fund set up as a goal, a standard of consumption for those at the minimum level, written out in detail with respect to all the major areas of consumption, and then asked what output would be necessary to achieve this goal on the assumptions, (1) that everyone would be at this minimum level, and (2) that all those below this level would be raised to it and those above it would maintain their present position. They then proceeded to ask: "Can we achieve this minimum level of consumption, in line, say, with the second assumption?" This again raises the question of our capacity to produce, and how we can utilize that capacity on a continuous and expanding basis. This is no easy question since it involves the nature of our whole economy, but, as we found during the war, to set the sights is in itself a long step forward toward the goal.

[16] *Recent Social Trends,* 1933, Vol. II, p. 911.
[17] See J. F. Dewhurst, *America's Needs and Resources,* 1947.

CONCLUSION

In this study we have been concerned primarily with the problem of how "to raise the standard of living"; this has become the declared purpose not only of consumer education for the individual family, but of so much national and international action. The meaning of the phrase is itself very complex. It frequently is used in the sense of a quantitative increase in goods and services used for consumption, particularly if our attention is on the low-income group. But clearly we are concerned not only with quantity, though that is significant, but also with the kind and quality of consumption goods, and this involves a consideration of whether they are best suited for their function. "Function" leads us on to the question of whether our present use of resources results in the greatest enjoyment for the greatest number of people, within the limits of our productive capacity. What change in the present use of resources would increase the satisfactional standard? This is relevant whether we have in mind the child at the candy counter, the family budgeting its income, or the community as a whole working out an educational program. As pointed out by the Consumer Education Study, before we undertake "to raise the standard of living," we must first examine the "quality of our wanting" and ask whether the scale of preferences, according to which as individuals we make known our wants at the market and as a group we set our national policy, is such that it will in fact maximize our enjoyment, whether at work or play; the consumer interest lies in optimum production. Here we are dealing with an elusive concept, but though it is elusive, it is not unreal.

The standard of living is dynamic in all its aspects, that is to say, whether it is interpreted to mean the actual level of consumption, what the individual family regards as acceptable, or what the experts think we ought to have; it is dynamic in its satisfactional aspect also, since we must believe that to free the masses of people from disease, and ignorance, and want is to increase their enjoyment of life, though at what point diminishing returns set in, we

cannot say. We have looked at the effect of the long secular trend on consumption levels and normative standards. Crises such as war and depression have a marked effect on consumption both with respect to volume and variety, and because of the change in relative position of different families and groups. During World War II a conscious effort was made through the institution of controls of different kinds to sustain a minimum level of civilian consumption and, so far as possible, to cushion the impact of war on consumption levels generally. What postwar policies affecting the use of our material resources would best promote the consumer interest?

The underlying purpose of economic organization and activity is to provide a satisfactory material basis for family and community life, though because of lack of effective community organization at the international level, we have in the past diverted, and still are diverting, a large proportion of our productive resources to war and preparation for war. It is difficult even to imagine, to say nothing of measure, the effect that abolition of war would have on the release of productive resources for civilian use, even granted that in the past war has provided a stimulus to technological change which has increased our general productive capacity.

The organization of a highly industrialized money economy on a scale so vast as ours is a highly complex affair. There is no set pattern. It involves government action and private enterprise; institutions, processes, and human relations are in a constant state of change. It would be too much to hope that activity of such scope could be carried on without friction and waste. It is in the consumer interest, however, to provide criteria of evaluation by which the whole economy or any of its parts can be judged in terms of its contribution to the flow of goods and services passing into the consumption process. It is not an easy matter to determine where the consumer interest does lie in any particular situation; hence, the importance of developing a consumer-minded public, trained to bring a functional point of view to bear on particular issues as they arise. It is important that consumers act wisely at the market, both because of its immediate effect on family circumstances and also because action at the market has an effect on the future channeling of economic resources. But decisions, both political and economic, that also affect the channeling of resources are made back of the market, and it is necessary therefore that the consumer point of view be brought to bear at all points where policy is determined.

One back-of-the-market area where consumers have sought to bring about a change in production practices, has to do with the quality of goods coming on the market. Consumers want goods of "suitable" quality, and want them

marked clearly as to their quality characteristics The "Consumers Speak" project, for instance, described above, aims at bringing to the attention of producers a consumer point of view—in this case a very practical point of view—with respect to quality characteristics in particular lines, to facilitate wise choice at the market

Choice at the market is limited by purchasing power, and distribution of purchasing power takes place as part of the production process, within the limits of various government controls The movement for a minimum wage is founded on a concept of consumption, though since the wage is a money wage, its purchasing power changes with the value of money, moreover, it is not a guaranteed wage, so that it does not, in fact, establish a floor under a particular consumption level—that is to say, we have not thought through, in the minimum wage program, the implications of real as distinct from nominal income

Minimum wage or minimum income policy can only be effectively worked out as part of a general profit wage price policy which aims at the best pattern of income distribution to achieve the end results of maximum satisfaction. We certainly cannot divide up more than we produce, but we must also keep in mind the fact that our capacity to produce is not static and may itself be affected by the pattern of income distribution Our main problem, as stated by the Council of Economic Advisers, is how to strike the best working balance between (a) the amount of current consumption which will maintain the population in a state of physical health and mental satisfaction, including a sense of confidence in sustained well being, (b) the wise conservation and development of natural resources, and (c) the technological progress and the amount of capital formation which will help to insure such conditions for the future

As the volume and variety of consumer goods increase, with greater emphasis on services of all kinds, the difficulty of predicting consumer choice at the market becomes all the greater, in an economy which operates mainly on the basis of production in advance of final order, this has led to the development of specialized institutions of market research, high pressure promotional programs, and even misrepresentation It is clearly in the interest of a more stable development of the economy to have a better educated consumer public, competent of more rational choice, and in a position to cooperate with producers in securing a better functioning economy. We could then talk more confidently of the effectiveness of programs aimed at "underpinning" consumption, and of the proper role of government in raising the

standard of living, not only through free and subsidized services but also in promoting a better utilization of all our resources.

Fear of abundance has become a strong motivating factor in our economy. The investigations of the T.N.E.C. in 1939–1941 revealed how deep-rooted this fear has become, with resultant restraints on effective resource-use, including man power, capital and raw materials. It is in the consumer interest to find some way for so organizing our affairs that we can provide most efficiently a satisfactory material basis of living for all people within the framework of our democratic social ideals. Consumer organization, though still embryonic, aims at extending consumer education, clarifying a consumer point of view, and bringing it effectively to bear on the total economic process to the end that, free of the fear of want, with the vitality of health, we can confidently seek the good life.

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