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Volume Author/Editor: Frederick C. Mills

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Chapter Author: Frederick C. Mills

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II MAJOR CHANGES IN THE STRUCTURE OF PRICES, 1939-1948

The everyday experiences of individuals who must balance income against outgo have made most Americans familiar with the chief shifts in the economic terrain that have resulted from unequal movements of prices, wages, and other elements of the price system since 1939. The entries in Table 2, shown graphically in Chart 2, give precision to these general impressions. The base is the twelve-month period preceding the outbreak of war in Europe. Changes are

TABLE 2
Prices and Wages, 1939-1948

	INDEX NUMBERS			
	9/1938- 8/1939	Mar. 1942	June 1946	Feb. 1948
Farm prices ^d	100	160	231	296
Per capita weekly earnings, mfg. labor ^e	100 ^a	152	188	226
Food prices, retail ^f	100	124	153	215
Wholesale prices ^f	100	127	147	210
Hourly earnings, mfg. labor ^f	100 ^a	129	172	205
Prices paid by farmers ^d	100	120	152	201
Retail prices, all ^g	100 ^a	124	150	192
Construction costs ^h	100	115	147	190
Consumers' price index ^f	100	115	134	168
Industrial stock prices ⁱ	100	71	166	126
Rent ⁱ	100	104	104	111

	AVERAGE MONTHLY RATES OF CHANGE ^b					
	8/1939- 3/1942	3/1942- 6/1946	6/1946- 2/1948 ^c	6/1946- 3/1947	3/1947- 5/1947	5/1947- 2/1948
Farm prices ^d	+2.2	+0.9	+1.4	+3.2	-1.4	+0.3
Per capita weekly earnings, mfg. labor ^e	+1.6	+0.5	+1.0	+1.2	+0.8	+0.8
Food prices, retail ^f	+0.9	+0.4	+2.0	+3.3	-0.5	+1.0
Wholesale prices ^f	+1.0	+0.3	+2.1	+3.6	-0.8	+1.0
Hourly earnings, mfg. labor ^f	+1.0	+0.7	+1.0	+1.0	+1.2	+0.8
Prices paid by farmers ^d	+0.7	+0.5	+1.6	+2.3	+0.4	+1.0
Retail prices, all ^g	+0.8	+0.4	+1.4	+2.2	-0.05	+0.7
Construction costs ^h	+0.5	+0.5	+1.5	+1.8	+1.0	+1.0
Consumers' price index ^f	+0.5	+0.3	+1.3	+1.9	-0.1	+0.8
Industrial stock prices ⁱ	-0.8	+2.6	-1.2	-2.1	-3.4	+0.02
Rent ⁱ	+0.1	-0.01	+0.3	+0.1	+0.1	+0.7

^a January-August 1939:100.

^b In deriving the average monthly change the percentage change between two dates is divided by the number of months in the given period.

^c In showing rates of change, the period since June 1946 is subdivided since price rises come in two spurts interrupted by a short decline.

^d Bureau of Agricultural Economics.

^e Per capita earnings in manufacturing industries are here derived by dividing weekly payrolls by number of production workers employed, both series reported by the Bureau of Labor Statistics.

^f Bureau of Labor Statistics.

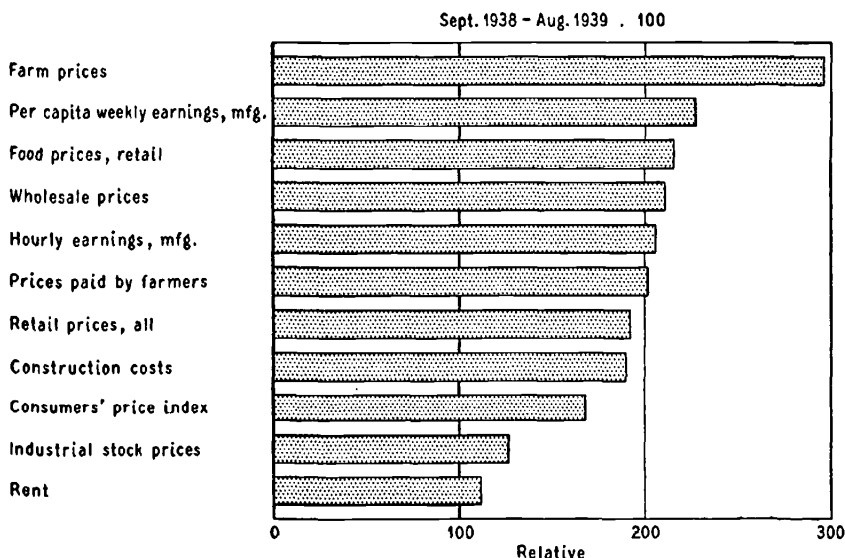
^g Department of Commerce.

^h Composite, see App. Table 4.

ⁱ Standard and Poor's Corporation.

ⁱ The rent index is one element of the Bureau of Labor Statistics consumers' price index. It represents rental cost to wage earners and lower-salaried workers in large cities.

CHART 2
 Relations among Elements of the Price Structure
 Sept. 1938-Aug. 1939 to Feb. 1948



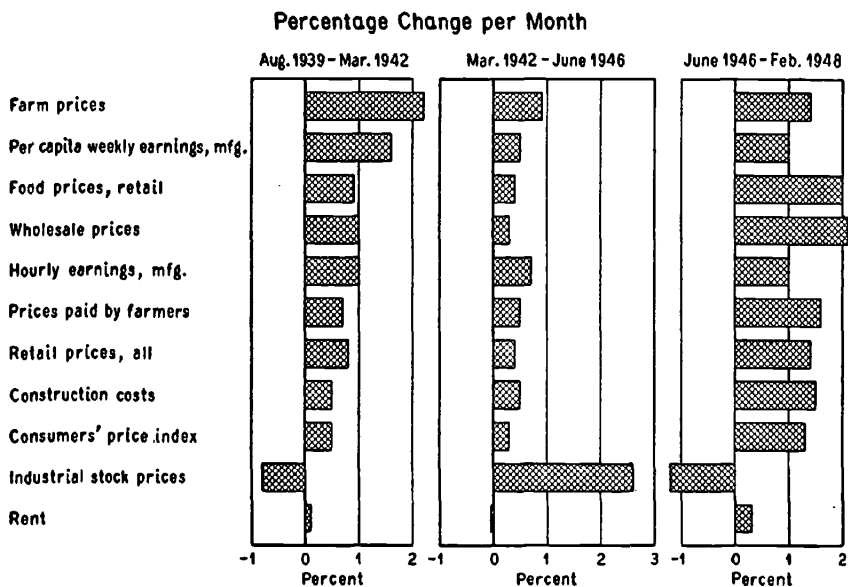
measured from this base to March 1942 (the month of the first broad fixing of prices under the General Maximum Price Regulation), June 1946 (the date of the termination of price control under wartime regulations),³ and February 1948.

The extreme items in Table 2, for February 1948, are very far apart, ranging from farm prices, which rose almost 200 percent, to rents, which increased only 11 percent. The prices of equity shares in industrial corporations, which advanced only 26 percent, are near the bottom. The general cost of living for urban workers (the consumers' price index) rose 68 percent. (This index is held down, of course, by the stable rent element.) It is notable that measures for 7 of the 11 classes listed stand in a central group, for which price increases ranged from 90 to 126 percent. Here are wholesale prices, general retail prices and prices paid by farmers, construction costs, and wages, both hourly and per capita.⁴ Apart from the extreme

³ Temporary and partial controls had been restored by the end of July 1946; those for all except rents, rice, and sugar were removed in November 1946 by Presidential action.

⁴ Per capita weekly earnings are, of course, a measure of income; they are not the price of a commodity or of a standard unit of effort. But taken together, average per capita weekly earnings, average hourly earnings, and unit labor costs (for which some estimates are given later) provide basic information about exchange relations and economic status.

CHART 3
The Changing Tempo of Inflation
1939 - 1948



advances in farm prices and the modest increases in rents and stock prices, the general inflationary movement just about doubled the unit prices of commodities and services for the broad classes here represented.

The monthly rates of change recorded in Table 2 and Chart 3 show that the most rapid advances came in the periods preceding and following price control. The effectiveness of the controls, where imposed, is clear.⁵ Stock prices (which were not controlled) gained materially in the interim period from March 1942 to June 1946; farm prices, which were subject to regulations less stringent than those applying to commodities in general, continued to rise at a rate close to 1 percent a month; hourly earnings in manufacturing increased 0.7 percent a month; other groups (except rents) advanced, but at relatively low rates.

A sharp and general upward spurt followed the termination of

⁵ The price indexes and rates of change in Table 2 are for quoted prices. Later references in this paper (see text, note 10; and App. Table 7, note) call attention to some of the limitations of quoted prices arising from upgrading, deterioration of quality and service, and black market operations during the period of price control. The introduction of these sources of error, and their later removal, lessen the accuracy of available quotations, but the general record of price movements is probably not materially distorted by them.

wartime controls (again excepting rents, for which controls were retained, and stock prices). Wholesale prices in general, food prices at retail, and farm prices led in this resumed advance, which persisted at relatively high rates for nine months. After March 1947 there was a short period of retardation or decline. The price advance was renewed on a broad front in May 1947; most of the series here represented reached peaks, for the postwar movement to date, in January 1948. The monthly rates of advance in the several commodity price indexes were in this period well below those of 1946-47. The rate of increase in hourly earnings in manufacturing declined only slightly, however. The differential between price and wage advances characteristic of the 1946-47 rise was sharply reduced in 1947-48. Commodity prices fell off between January and February 1948; modest advances prevailed thereafter.

The degree of divergence of price and cost movements among these broad groups of goods and services is pronounced. But each entry in Table 2 is itself an average behind which lie wide internal differences. Tables 3 and 4 indicate the range of these differences for goods sold in wholesale markets—a broad category comprehending

TABLE 3
Wholesale Prices, Commodity Classes of the Bureau of
Labor Statistics, 1939-1948

	INDEX NUMBERS			
	9/1938- 8/1939	Mar. 1942	June 1946	Feb. 1948
Farm products	100	156	213	281
Foods	100	135	159	242
Textile products	100	145	164	222
Building materials	100	124	145	215
<i>All commodities</i>	100	127	147	210
Hides and leather products	100	126	132	209
Chemicals and allied products	100	128	127	178
Fuel and lighting materials	100	105	119	177
Housefurnishing goods	100	120	129	166
Metals and metal products	100	110	119	164
Miscellaneous	100	122	134	163

	AVERAGE MONTHLY RATES OF CHANGE					
	8/1939- 3/1942	3/1942- 6/1946	6/1946- 2/1948	6/1946- 3/1947	3/1947- 5/1947	5/1947- 2/1948
Farm products	+2.2	+0.7	+1.6	+3.4	-1.9	+0.6
Foods	+1.4	+0.3	+2.6	+5.4	-2.4	+0.9
Textile products	+1.4	+0.3	+1.8	+3.1	-0.2	+0.7
Building materials	+0.8	+0.3	+2.4	+4.1	-0.2	+1.0
<i>All commodities</i>	+1.0	+0.3	+2.1	+3.6	-0.8	+1.0
Hides and leather products	+0.8	+0.1	+2.9	+4.7	-1.1	+1.4
Chemicals and allied products	+1.0	-0.1	+2.0	+4.1	-2.0	+0.7
Fuel and lighting materials	+0.2	+0.3	+2.4	+1.6	+1.3	+2.9
Housefurnishing goods	+0.6	+0.1	+1.4	+1.5	+1.2	+1.1
Metals and metal products	+0.4	+0.2	+1.9	+2.7	+0.6	+1.1
Miscellaneous	+0.7	+0.2	+1.1	+1.9	+0.4	+0.4

all major commodity transactions between business buyers and sellers.

Table 3 sets forth the familiar groupings of the Bureau of Labor Statistics. The prices of farm products at wholesale—at the top of the list—reflect the high prices at the farm already noted. Foods, textiles, and building materials come next; near the bottom are housefurnishings and metals. The range from 163 for the lowest group to 281 at the top is very wide indeed for a period of only eight years.⁶

A different perspective on the incidence of inflationary forces during this period is provided by the classifications of commodities represented in Table 4. The groups overlap in diverse ways (e.g., metals enter into capital equipment, durable goods, manufactured goods, etc.; foods are also consumer goods, producer goods for human consumption, farm products, nondurable goods, etc.); in their totality they give a detailed and suggestive picture of the diversity of conditions in wholesale markets.⁷

The wide range between goods for use in capital equipment (which advanced only 59 percent) and foods at the producer goods stage (which advanced 196 percent) attests the variety of conditions in wholesale markets during these eight years. Where the classifications set up groups with directly opposed qualities differences of behavior are in general pronounced. Farm products rose more than nonfarm products; raw materials more than manufactured goods; nondurables more than durables; goods intended for human consumption more than goods intended for use in capital equipment. The difference is small between producer goods and consumer goods, but this is due to a sharp divergence between two classes of producer goods. Producer goods intended, after fabrication, for human consumption are at the top of the list; goods entering into capital equipment are at the bottom.

At the upper end of the spectrum provided by this exhibit are concentrated soft goods—foods, farm products, nondurables—and, notably, such goods at the producer stage. At the lower end are metals and other minerals, durable goods, capital equipment, nonfarm products—goods thought of as products of the heavy indus-

⁶In May 1920, at the peak of prices following the first World War, the range between extreme items for the same commodity groups was wider—from 194 for metals to 345 for textiles (indexes on the 1914 base).

⁷For descriptions of these classes of commodities see *Prices in Recession and Recovery* (National Bureau of Economic Research, 1936), App. II, pp. 470-90. Producer goods, the reader may note, include the materials of industry, raw or semiprocessed, and all forms of capital equipment. Consumer goods are those ready for final consumption.

TABLE 4
Wholesale Prices, Commodity Classes of the National Bureau
of Economic Research, 1939-1948

	INDEX NUMBERS			
	9/1938- 8/1939	Mar. 1942	June 1946	Feb. 1948
Producer goods for human consumption, foods	100	152	198	296
Producer goods for human consumption, all	100	150	186	270
Foods	100	140	174	255
Crops	100	148	190	253
Raw materials	100	140	180	253
American farm products	100	144	176	249
Animal products	100	139	159	245
Producer goods for human consumption, nonfoods	100	148	174	245
Nondurable goods	100	138	166	237
Human consumption goods	100	137	162	232
Consumer, processed foods	100	128	143	222
Producer goods, all	100	130	155	221
<i>All commodities</i>	100	130	152	216
Consumer goods	100	129	148	210
Building materials	100	118	142	202
Manufactured goods	100	123	135	195
Consumer, processed nonfoods	100	125	134	188
American nonfarm products	100	117	130	186
Durable goods	100	116	129	179
Nonmetallic minerals	100	108	120	170
Metals	100	112	121	165
Goods entering into capital equipment	100	111	120	159

	AVERAGE MONTHLY RATES OF CHANGE					
	8/1939- 3/1942	3/1942- 6/1946	6/1946- 2/1948	6/1946- 3/1947	3/1947- 5/1947	5/1947- 2/1948
Producer goods for human consumption, foods	+2.1	+0.6	+2.5	+5.4	-2.9	+0.8
Producer goods for human consumption, all	+1.8	+0.5	+2.2	+4.4	-1.5	+0.8
Foods	+1.5	+0.5	+2.3	+4.6	-2.4	+1.0
Crops	+1.6	+0.6	+1.7	+3.4	-0.6	+0.4
Raw materials	+1.4	+0.6	+2.0	+3.4	-1.0	+1.1
American farm products	+1.6	+0.4	+2.1	+4.1	-1.6	+0.8
Animal products	+1.5	+0.3	+2.7	+5.2	-2.8	+1.2
Producer goods for human consumption, nonfoods	+1.5	+0.3	+2.0	+3.4	+0.2	+0.8
Nondurable goods	+1.4	+0.4	+2.2	+4.0	-1.4	+0.9
Human consumption goods	+1.3	+0.4	+2.2	+3.9	-1.2	+0.9
Consumer, processed foods	+1.1	+0.2	+2.7	+5.5	-2.0	+0.9
Producer goods, all	+1.1	+0.4	+2.1	+3.5	-0.6	+1.1
<i>All commodities</i>	+1.0	+0.3	+2.1	+3.5	-0.8	+1.1
Consumer goods	+1.0	+0.3	+2.1	+3.5	-1.0	+1.1
Building materials	+0.6	+0.4	+2.1	+3.3	+0.7	+1.0
Manufactured goods	+0.8	+0.2	+2.2	+3.7	-0.6	+1.0
Consumer, processed nonfoods	+0.8	+0.1	+2.0	+3.0	+0.5	+1.1
American nonfarm products	+0.6	+0.2	+2.2	+2.9	+0.4	+1.5
Durable goods	+0.5	+0.2	+1.9	+2.8	+0.7	+1.1
Nonmetallic minerals	+0.3	+0.2	+2.1	+1.6	+1.2	+2.3
Metals	+0.4	+0.2	+1.8	+2.6	+0.3	+1.1
Goods entering into capital equipment	+0.4	+0.2	+1.6	+2.3	+0.5	+1.0

tries. The pattern is consistent; in many respects it represents a distinctive departure from that usually characteristic of cyclical expansions.⁸ In the lagging of metals and durable goods generally and of the broad class of nonfarm products, in the marked leadership of foods and of farm products generally, in the relatively large advance in the prices of consumer goods, the present rise differs from the usual cyclical pattern. The consumption sector of the economy is usually the most stable; in the present rise foods have outstripped every other major category of goods. The price increases of 1939-48 impinge on the pockets and the budgets of final consumers more immediately and more heavily than do the price rises that accompany the usual cyclical expansion.⁹

The monthly rates of change in Table 4 and Chart 4 reflect the fairly rapid increase among soft goods in the period prior to price control, the general stability of wholesale prices during the four years of general control, and the sharp advances since June 1946. In general, the commodity groups that led in the earlier advances

⁸ The following list, based upon materials in National Bureau files, presents different categories of commodities in the order of the degree of the rise in prices in wholesale markets during expansions. The standing is based upon averages for peacetime business cycles in the United States during the last 80 years, but later cycles, more fully represented in the available records, are much more heavily weighted than earlier ones in this averaging process. The averages for the different groups do not relate to precisely the same cycles. The groups at the top of the list are those showing the biggest price increases in cyclical expansions.

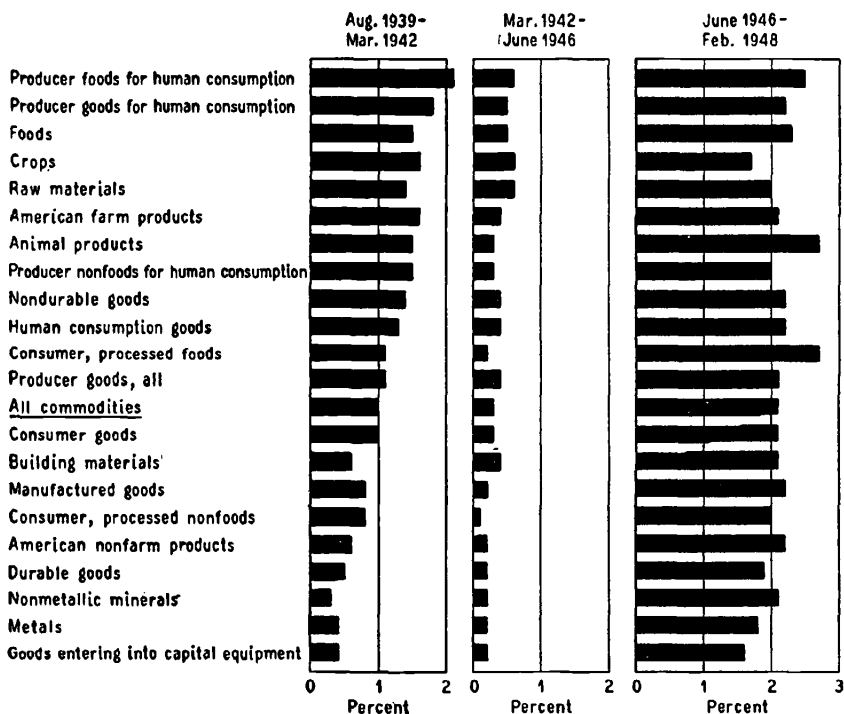
EXPANSIONS DURING PEACETIME CYCLES IN GENERAL BUSINESS

	Price	Quantity	Value
	(percentage increase)		
Metals	+19	+52	+70
Raw materials	+18	+21	+38
Producer goods for human consumption	+18	+20	+36
American nonfarm products	+17	+38	+54
Producer goods, all	+17	+29	+46
Durable goods	+16	+47	+62
Goods entering into capital equipment	+16	+46	+61
Animal products, domestic	+16	+7	+24
Nonmetallic minerals	+15	+33	+48
<i>All commodities</i>	+15	+23	+38
Human consumption goods	+15	+17	+32
Nondurable goods	+15	+12	+27
Foods	+14	+2	+16
American farm products	+13	+7	+22
Manufactured goods	+12	+24	+37
Consumer goods	+11	+12	+23
Crop products, domestic	+11	+8	+20

⁹ We should note, however, that in several major peacetime expansions the record is close to that of wartime cycles. In the expansion phase of such major cycles advances in the prices of farm products have usually exceeded those in the prices of commodities in general at wholesale.

CHART 4
**Monthly Changes in Wholesale Prices by Commodity Groups
 1939 - 1948**

Percentage Change per Month



have been in the forefront of the rise since the ending of price control. In the more recent period processed foods advanced more rapidly than some of the earlier leaders. But the general array of commodity groups was much the same in February 1948 as in June 1946. Our economy remains one that is uptilted, with soft goods—foods, producer goods for human consumption, and farm products—at the high-priced end of the market spectrum.

The system of retail prices (Table 5) was marked by a range of price movements somewhat narrower than that recorded in wholesale markets, but the differences among group indexes are notable. Rents, at one end, rose only 11 percent; foods, at the other, more than 100 percent. The retail array reflects that of wholesale prices in that soft goods—foods and apparel—are above the heavier goods in the consumer budget.¹⁰

¹⁰ To the degree that quoted prices understate actual prices (because of black market operations during the period of price control) the measurements in Table 5, and in

TABLE 5
Retail Prices by Commodity and Service Classes, 1939-1948

	INDEX NUMBERS			
	9/1938- 8/1939	Mar. 1942	June 1946	Feb. 1948
Food ^a	100	124	153	215
Apparel ^a	100	123	156	194
Retail prices, all ^b	100	124	150	192
Housefurnishings ^a	100	120	154	190
Consumers' price index ^a	100	115	134	168
Anthracite coal ^a	100 ^d	112	138	167
Bituminous coal ^a	100 ^d	110	126	166
Miscellaneous ^a	100	109	127	145
Department store prices ^c	100	124	126	141
Fuel, electricity, and ice ^a	100	105	111	131
Rent ^a	100	104	104	111

	AVERAGE MONTHLY RATES OF CHANGE					
	8/1939- 3/1942	3/1942- 6/1946	6/1946- 2/1948	6/1946- 3/1947	3/1947- 5/1947	5/1947- 2/1948
Food ^a	+0.9	+0.4	+2.0	+3.3	-0.5	+1.0
Apparel ^a	+0.8	+0.5	+1.2	+1.9	+0.2	+0.6
Retail prices, all ^b	+0.8	+0.4	+1.4	+2.2	-0.05	+0.7
Housefurnishings ^a	+0.6	+0.6	+1.2	+1.9	-0.1	+0.7
Consumers' price index ^a	+0.5	+0.3	+1.3	+1.9	-0.1	+0.8
Anthracite coal ^a	+0.6 ^e	+0.4	+1.1	+1.3	-2.0	+1.5
Bituminous coal ^a	+0.4 ^e	+0.3	+1.6	+1.1	+0.4	+2.1
Miscellaneous ^a	+0.3	+0.3	+0.7	+0.9	+0.3	+0.6
Department store prices ^c	+0.8	+0.04	+0.6	+0.9	+0.1	+0.4
Fuel, electricity, and ice ^a	+0.2	+0.1	+0.9	+0.7	+0.05	+1.2
Rent ^a	+0.1	-0.01	+0.3	+0.1	+0.1	+0.7

^a Bureau of Labor Statistics. ^b Department of Commerce ^c Fairchild Publications.

^d Average of four quarters, September 1938-June 1939. ^e September 1939-March 1942.

In this section we have examined certain major features of the structure of domestic prices as it has been left by the upheavals of the last eight years. In closing we note the following distinctive aspects of the period, and of present price relations.

- 1) The pressures on the price system reflected world-wide shortages of goods for which needs are urgent. Marked advances in the purchasing power of domestic consumers accentuated pressures arising from foreign needs. Rising costs of materials and labor contributed to the forces tending toward higher prices of manufactured goods.
- 2) The pressures on the prices of consumption goods were heaviest where the demands of final consumers, transmitted through retail and wholesale markets, focus on supplies in primary and secondary

Note 10 concluded:

preceding tables, are inaccurate. Thus prices actually paid for some food products in both wholesale and retail markets were higher in June 1946 than the quoted prices used in computing official indexes. For these goods the rise since then has been somewhat less than that indicated. Premium payments for automobiles in recent transactions raise these prices above current quotations.

markets. Competitive forces, acting in these markets without the restraints that often characterize price policies in markets where competition is less severe, interact to force prices up sharply on the basis of demand.

3) In the markets for durable goods, especially producer durables, demand has been strong but probably less insistent than for perishable goods; supplies, moreover, have been more readily increased. Deliberate price policy, formulated with reference to long-range considerations bearing on market position, labor relations, and public opinion, as well as to current costs, plays a significant role in determining the selling prices of durable goods. Related to this in the formulation of price policy is the fact that in the production of such goods relatively stable overhead charges are large elements of selling price. Rising volume may so lower overhead charges per unit of product that rising material and labor costs may be absorbed without reducing the strategically important profit margins per unit of product. In the next section we examine evidence on this matter.

4) A notable expansion of the money supply was a central factor in the generation of pressures on the price system. The influence of this expansion, which was partially restrained during the period of general price and wage controls, was strongly felt when controls were removed.

5) The general pattern of price advances between 1939 and 1948 differs significantly from that characteristic of cyclical expansions. Heavy, durable goods did not exercise their usual leadership; prices of goods in the consumption sector of the economy, usually fairly stable in business cycles, advanced most sharply. Consumers are closer to the strategic center of the present price rise, and the fortunes of consumers as buyers of goods are more immediately involved than in customary cyclical price advances.

6) The resumption of rapid advances in food prices in the early summer of 1947 reflected accentuation of foreign needs and developing shortages of domestic supplies of feed crops and important food products, coming at a time when the money purchasing power of domestic consumers was high and still increasing. Advances in wage rates in certain key industries and corresponding price advances gave further stimulus to the renewed upswing. Improvements in domestic and world food prospects in January 1948 altered the outlook and sharply reversed price movements for farm products and foods. The prices of heavy goods gained, relatively, in early 1948.