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passed, perhaps accelerating in the early stages of the decline. Thereafter retardation of the rate of decline is suggested, with stabilization as the forces of revival gather strength. Of course, if price movements should follow this pattern, the more swiftly the price realignments were effected and the more rapidly concurrent readjustments were made elsewhere in the economy, the smaller would be the disturbances of productive and distributive processes.

V SUMMARY

The economy of the United States has been operating at full stretch for five years, with only a modest and temporary interruption during the readjustment that followed the end of fighting. Today it stands as the one major center of industrial production in the world, unharmed by war and capable of producing goods at a level well above that of prewar days. Currently it is feeling the full impact of heavy domestic demand for consumption and capital goods and of the urgent needs of a devastated Europe for food, clothing, and productive equipment. The pressures of these demands, amply implemented by a volume of money and credit that has expanded more rapidly than the physical volume of production, are manifest in a continuing upward push of prices. With these pressures have been associated steadily rising unit costs.

This paper has dealt with various aspects of the price situation in the United States at the beginning of 1948. In summary, and in general conclusion:

1) Prices in wholesale markets have doubled and living costs have risen two-thirds since 1938-39. Because of these advances in unit prices, dollar gains in production and trade substantially overstate the actual increases in physical volume.

2) Uneven advances in the unit prices at which goods and services are sold have altered the terms on which different producing and consuming groups exchange their products and have materially modified the domestic structure of costs and prices.

3) Farmers have gained substantially, in the sense that their aggregate physical rewards have increased much more than their aggregate physical contributions. This is true whether the base of comparison be recent or far removed. The relative gain of farmers in aggregate terms (i.e., the excess of gains in aggregate purchasing power, in terms of goods and services, over gains in aggregate farm output) may be estimated at 47 percent since 1938-39, 28 percent since 1924-

27. The per capita real income of farmers from 1939 to 1947, reflecting gains in output as well as price and subsidy factors, increased about 100 percent.

4) Among other primary producers, those turning out forest products gained at about the same rate as farmers. The terms of exchange (measured in this instance by the ratio of the index of wholesale prices of the commodity group in question to the index of prices of all commodities, at wholesale) moved against producers of metals and anthracite coal. This is true whether the standard of reference be 1938-39 or 1924-27.

5) Manufacturing labor, as a broad group, increased its total input of working time about 80 percent between 1939 and February 1948; its aggregate rewards (in terms of goods and services purchasable with wages received) were more than doubled. The increase in rewards, relative to the increase in time input, i.e., gain in real hourly earnings, was about 21 percent. The real per capita gain of manufacturing labor was about 34 percent.

The gains of manufacturing labor since 1939 were superimposed on prior gains. Between 1924-27 and 1939 these gains (expressed as increases in real hourly earnings or as differential gains in aggregate rewards over increases in aggregate manhours worked) amounted to about 50 percent. Thus the gains in real hourly earnings from 1924-27 to February 1948 were 85 percent.

6) The gains of nonmanufacturing labor from 1939 to the beginning of 1948, in real hourly wages, exceeded those of manufacturing labor for only four groups (of 18 covered in this survey): bituminous coal miners, workers in hotels and in quarrying and nonmetallic mining, and common labor in road building (App. Table 6). For three groups (telephone, electric light and power workers, and skilled labor in construction) real hourly wages declined.

7) The over-all price advance of 1939-47 was most pronounced in the consumption sector of the economy. The prices of foods and of consumption goods not yet finally processed were in the van. World-wide shortages and high purchasing power of many domestic consumers were factors in this upward movement of prices. Consumer expenditures more than kept pace with rising prices. The flow of goods into actual consumption appears to have been from 40 to 50 percent greater than in 1939 (App. Table 7). Practically all components of the family budget shared in this general elevation of living standards; expenditures for food, clothing, and durable consumer goods rose most. In the terminal months covered by this

record, volume increases had been checked in some lines; for the broad field of consumer goods they were tapering off. Increases in expenditures reflected, mainly, rising selling prices, a situation that had its close counterpart in the 1919-21 cycle.

8) Material and labor costs were high for manufacturing enterprises. Such direct costs, indeed, constituted a larger percentage of the total value of product in 1947 than in any earlier year for which records are available.

9) Industrial profits were high, in the aggregate and per unit of physical product. High volume, the lagging advance of depreciation charges and other elements of overhead costs, and substantial gains due to rising inventory values made possible the maintenance of high profit figures in the face of rising direct costs.

10) The growth of industrial productivity, which contributed to the great industrial advance of the 'twenties, has been retarded in spite of such technical gains as may have been scored in the industrial effort of the war years. The rate of increase in industrial efficiency since 1939 has been well below the rate prevailing during the last quarter century. Under these conditions high wage rates mean high labor costs.

11) Major elements in the present cost and price system are protected today against declines, as they were not in earlier years. Price supports will tend to maintain farm prices when the pressures of present world-wide needs lessen. Wage rates and associated labor costs will be defended by strong labor organizations. To these resistances is added the continuing power of large industrial producers to support the prices of their products in the face of a general recession.

12) The economic expansion in the United States between 1939 and 1947 has no exact historical parallel. The 'twenties brought volume increases of an order resembling those of the recent period, but the general level of commodity prices suffered merely minor shifts. The first World War witnessed similar price advances, but with less notable gains in production. Joint increases of considerable magnitude in both prices and production are a distinctive feature of the latest expansion. The gain in industrial output between 1939 and 1947, a gain partly due to increased capacity, has been one of our major defenses against unbridled inflation.

13) The retarded advance in prices, notably in industrial prices, distinguished the price movements during World War II from those during World War I, and constituted a point of strength in the

period immediately following the end of fighting in 1945. The monthly rate of advance in general wholesale prices between August 1945 and January 1948, however, exceeded the monthly rate from November 1918 to the peak of prices in May 1920. This was not true of the prices of building materials, which had a relatively sharper rise in 1919-20 than in 1945-48.

14) In peacetime business cycles prices increase most rapidly during the first stages of expansion. Wartime price rises, in American history, have been marked by acceleration, the most rapid rises coming in the terminal stages of expansion. The pattern of price change in 1939-48 accords with that of wartime movements. The most explosive upward movement came in the closing months of this period.

The changes in price relations in the United States since 1939 will not necessarily be reversed in the years immediately ahead. Some may have accompanied enduring alterations in underlying conditions. But others are due to passing shortages and temporary shifts. In many of its aspects the price structure that exists in the spring of 1948 is a very recent creation. As transitory shortages are corrected and as conditions of supply and demand are stabilized under peacetime conditions modifications of elements of the system will occur. These modifications may be expected to bring agricultural and industrial prices somewhat nearer to the relations of the interwar period; to reduce, relatively, the prices of soft consumer goods and of material costs to manufacturing producers; to reduce labor costs and to raise overhead costs, per unit of manufactured product. Such corrections may be effected through declines in prices, wages, and production, with widespread unemployment and numerous business failures. This type of readjustment would be difficult and perhaps protracted today, since strong barriers would be placed in the way of a major downward readjustment of prices and wages.

The readjustment may take this form. It is, of course, the usual method of reshuffling relations that have been pulled out of line by war or by business booms. In the existence of a vast vacuum of unfilled wants abroad and of the continuing needs of high living standards at home there is, however, hope of effecting a more gradual amelioration of existing economic stresses. If production can be maintained, giving labor and enterprise opportunity to raise the efficiency of productive processes,[28] time would be given for the

[28] Productivity is usually a long-term rather than a short-term factor in economic processes. In the recovery of the early 1920's, however, the increase in manhour output in manufacturing industries averaged no less than 11 percent a year between 1920 and

working out of correctives for some of the chief difficulties we face. Costs can be lowered through such enhanced efficiency; the continuance of high level production would permit business restraint in pricing; high output would help to equalize the volume of goods and the volume of money and credit, provided the latter does not expand unduly; the burden of domestic living costs can be lightened and the existing gap between agricultural and industrial prices reduced as foreign production of foodstuffs and textiles picks up.

The cumulative movements of prices that we term inflation or deflation do not result from the working of vast, impersonal forces for which there are no personal responsibilities; they reflect a diversity of individual judgments and actions. Under the conditions existing in early 1948 the roles of industrial producers and of industrial labor are strategic. The industrialist operates in an area in which conscious price policy plays a major role in economic processes. During a portion of the period from 1939 to 1948 federal controls kept such prices down. Later, conscious constraints held prices in check over parts of this area. The result has been an increase of industrial prices much less rapid than in 1914-20, and well below the advance in agricultural prices in recent years. If labor costs and industrial prices do not give a further fillip to the general price level, and thus in a widening circle to wages, salaries, and a host of services, there is hope that the needed and inevitable internal readjustment of prices may be effected less painfully than it was in 1920-21.[29] Maintained high production, with the productivity gains that are potential in the present situation, can provide an umbrella under which some of the most necessary of these corrections may be effected. Under these conditions, and with restraint in the areas where deliberate policy shapes price and cost movements—industrial pricing and wage settlement—amelioration with modest strains may be possible. In the present world situation there is an accentuated need to achieve such amelioration without a major check to productive processes.

1922. This extraordinary advance helped to provide the foundation for the sustained prosperity of the 'twenties. In the scope of technical improvements during the recent war, and the unusual retardation of productivity gains to date, lies hope of a similar, rapid short-term enhancement of industrial efficiency that would reduce costs without wage reduction, and facilitate needed price readjustments.

[29] This readjustment may be deferred and further maladjustments created by the pressures of a new preparedness program. The character of this program is not now well enough defined to permit its dimensions or its probable incidence on prices to be estimated.