

The Council on Wage
and
Price Stability

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Prices Group
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The Council on Wage and Price Stability

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I Background

THE COUNCIL ON WAGE AND PRICE STABILITY

I Background

Origins

At the termination of the Economic Stabilization Control Program on April 30, 1974, the Senate and House of Representatives expressed the need for a permanent organization to administer a set of largely voluntary price and wage policies. An act of Congress on August 24, 1974 gave the President authority (which he had requested in a speech on August 12) to establish a Council on Wage and Price Stability and to appoint members and a chairman. (It has since been proposed that this authority be amended to require Senate confirmation of these appointments; see section on Legislation.)

Duties

As defined by the Act, the Council's duties are as follows:

- (a) to work with industrial groups, labour, management and government agencies to analyze economic problems and to encourage price restraint;
- (b) to focus attention on the need for increased productivity in public and private sectors;
- (c) to monitor the economy as a whole with respect to wages, costs, productivity, prices, sales,

Duties

profits, imports and exports; and

- (d) to review government programmes and policies to determine the extent to which they are contributing to inflation.

Powers

The Act setting up the Council gave it no special powers (such as subpoena) or access to information such as tax returns. (See also section on amending legislation.)

Duration
and
Budget

The authority of the original Act terminates August 25, 1975, and provides a budget of \$1 million for this one year period. (See also Section on amending legislation.)

II Amending and Related Legislation

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AMENDING LEGISLATION

There are several bills originating in both the Senate and House of Representatives which would, among other things, authorize the Council to require, and subpoena if necessary, the testimony of witnesses and documents relating to "wages, prices, costs, profits, and productivity, by product line, or by such other categories" prescribed by the Council for the purpose of carrying out the Act. The bills now being considered at the committee stage (House Committee on Banking, Commerce, and Housing) are as follows:

<u>Bill</u>	<u>Provisions</u>	<u>Council Reaction</u>
H.R. 6577	1. Extends Council life to September 30, 1977.	Full support for all provisions.
	2. Senate confirmation of President's nominee for director.	
	3. Budget - "such sums as may be necessary"	
H.R. 4594	1. Extension to September 30/77.	Supports extension.
	2. Additional powers for Council:	

H.R. 4594

a) to require periodic reporting by business and labour.

Does not want this power because of burden placed on those reporting and on Council resources.

b) to require prenotification of certain price and wage increases and to delay increases for whatever period of time the Council deems appropriate.

Argues that these powers are tantamount to controls, which are no longer necessary because inflation is subsiding. They also feel that increased industrial strife might result from delayed wage increases and argue that the time to influence the trend in wage settlements is during the bargaining stages, not by delaying increases once an agreement has been reached.

c) subpoena power

See below in s. 409.

3. Budget \$4 million per year through 1977.

Too much!

S. 409

1. Extension to June 30/76

Prefers two year extension because of difficulties in recruiting and keeping staff.

S. 409

2. Periodic reporting.

Opposes (as in H.R. 4594 above.)

3. Subpoena power.

Rees' statement to the Committee does not react specifically to this provision, but one assumes it would be useful to them, since they earlier expressed frustration at not being able to obtain information in certain investigations.

4. Budget \$1.6 million for 1975-76.

Acceptable, except that it does not provide additional funds for 3 new positions.

5. 3 "supergrade" positions to be added to Council staff.

RELATED
LEGISLATION

H.R. 4214

Concentrated Industries Anti-inflation Act

This bill is based on the belief that the major inflation problem in the U.S. is caused by administrative inflation, i.e. by "administered prices" fixed by large industries, especially those dominated by a few companies, without regard to the usual marketplace influences of supply and demand.

H.R. 4214

The Council is opposed to the legislation on the following grounds:

1. That the legislation is intended to be permanent, setting up an independent board with the power to delay, disallow, and/or roll back price increases so that in effect these industries will become government-regulated as transportation and public utilities are now. Based on the view that this type of regulation has already had serious adverse consequences for the transportation industry, the Council does not believe that it should be extended to a large new set of industries.
2. That excessive market power is not confined to corporations, and that it would not be equitable to have this type of price monitoring and control without wage monitoring and control.
3. The Council has explored the basis for the thesis that concentrated industries bear some special responsibility for inflation and do not find it to be substantiated.

Executive
Order
No. 11821 -
Inflation
Impact
Statements

An executive order of November 27, 1974 requires all government departments and agencies to submit analyses of the potential impact on inflation of their proposed programs and legislation. - These are monitored by the Council which assists the Office of Management and Budget in carrying out the order. The OMB was responsible for establishing the criteria and procedures for selecting the programs which must submit these analyses, while the Council provides assistance to agencies in establishing the methods of assessing the potential inflationary impact of their proposals. The data submitted by the agencies is then used by the Council in its task of weighing the costs and benefits of government actions. These "Inflation Impact Statements" must evaluate new proposals in terms of their effect on:

1. costs to consumers, business, governments at all levels
2. productivity in all sectors
3. competition
4. supply of goods and services
5. employment
6. energy supply or demand

As of July 11, 1975 the bills were all still in the committee stage. Mary Freeman will keep us posted and will have information for you in Washington if there are further developments before you meet with Albert Rees.

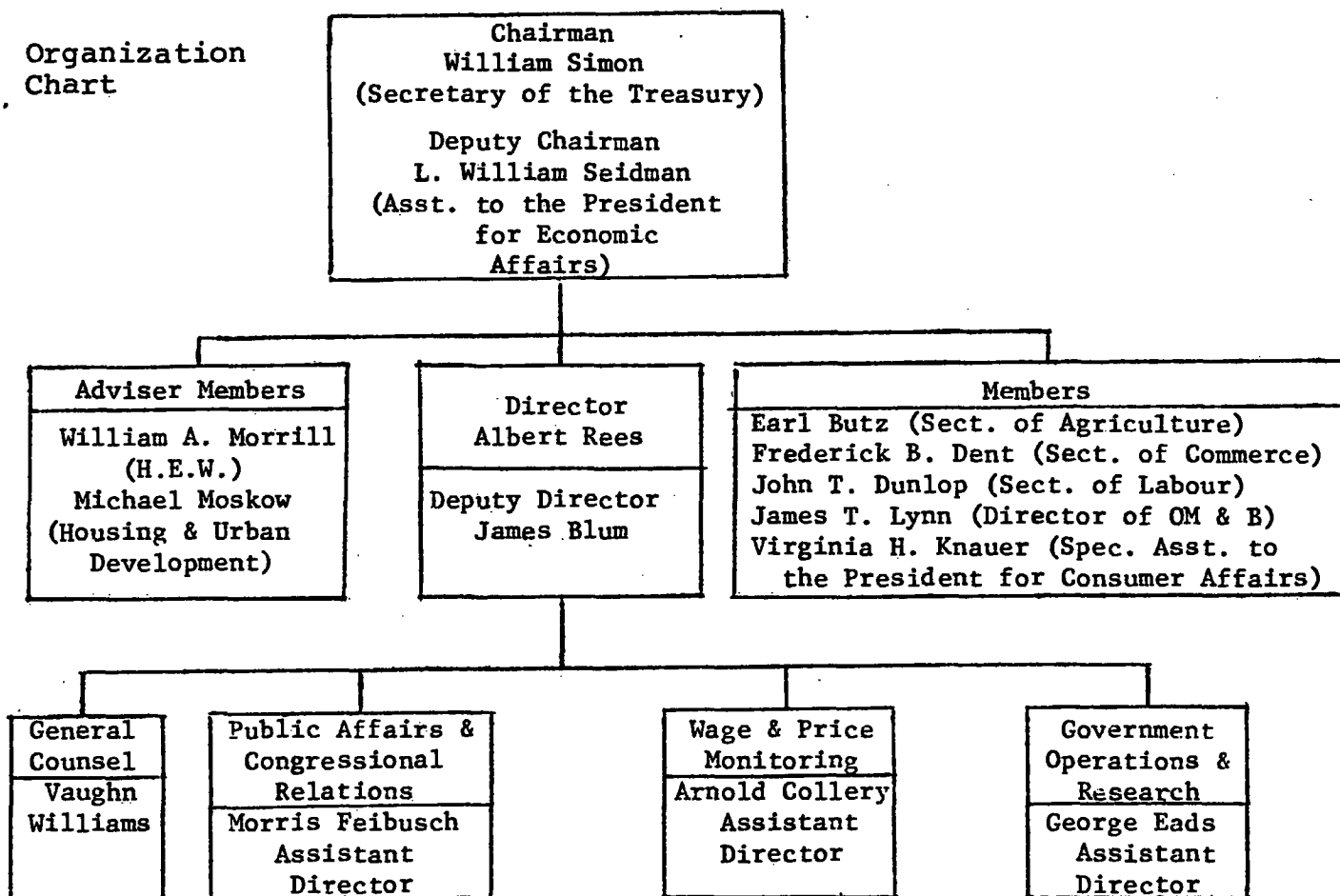
III Organization

III Organization

Staff

The Council employs a full-time staff of approximately 40, most of whom are economists. This is supplemented by the use of consultants and employees of other federal agencies to assist the Council staff on special studies.

Organization Chart



FUNCTIONS
OF
UNITS

The Council is divided into five units, with the following functions:

Director

1. Office of the Director

- provides overall policy guidance and direction to Council staff.

Wage and
Price
Monitoring

2. Office of Wage and Price Monitoring

- fulfills the Council's responsibilities of monitoring inflationary developments in the private sector.
- investigates particular economic problems in various sectors through research and public hearings.
- reviews the need to improve wage and price data bases for various sectors in order to have complete and accurate analyses of developments in these sectors.

Government
Operations

3. Office of Government Operations and Research

- reviews government activities which contribute to inflation or which unnecessarily restrict competition.
- works with other federal agencies to weigh the costs of such activities against their benefits and to suggest, where necessary, appropriate changes in administrative procedures or legislation. (See also legislation section -

Inflation Impact Statements.)

General
Counsel

4. Office of General Counsel

- provides legal support in the preparation of public hearings, of comments on legislation, and of analyses of the inflationary impact of government programs.

Public
Affairs
and
Congressional
Relations

5. Office of Public Affairs and Congressional
Relations

- reviews and responds to Congressional inquiries and suggestions on the Council's work.
- keeps the Council abreast of legislative developments.
- provides information to the public and news media on the Council's activities.

IV Activities and Reports

IV Activities and Reports

The Council's activities since November 1974 have been divided, as is suggested by the Council's organization, between monitoring activity in the private sector and monitoring in the public sector.

PRIVATE SECTOR

1. Monitoring the Private Sector

General

The Council's responsibilities in this area include the preparation of industry studies which review and analyze industrial capacity, demand, supply, and the effect of economic concentration in various sectors of the economy, as well as efforts to encourage price restraint by working with industrial groups and appropriate government agencies. The Council also has the responsibility of working with labour and management to improve the structure of collective bargaining and the performance of those sectors in restraining prices.

Inventory Repricing

a) Shelf Inventory Repricing

It is common practice for retailers to reprice shelf inventory as they are notified of price increases by suppliers. Public reaction to this practice has recently been adverse, because

Inventory
Repricing

of the frequency of price increases and the occurrence of multiple ticketing, especially on food items. A number of Canadian and American food chains adopted a policy of no upward shelf repricing and bills were introduced in both Canada and the U.S. to curb the practice.

Conclusions
and
Recommendations

The Council concluded, after holding public hearings in conjunction with the Office of Consumer Affairs, that policies against shelf inventory repricing reduced consumer irritation, lowered labour costs, and promoted proper rotation of stock and therefore strongly urged stores who had not already done so to adopt such a policy. However, the Council recommended against the passage of federal legislation making the policy mandatory.

Bakery
Products
and Cereal

b) Bakery and Cereal Products

The Council began a study in April to determine why bakery and cereal product prices were not declining when wholesale prices of some of their major inputs such as grains and sugar were falling.

Sugar
Prices

c) Sugar Prices (Report published in May, 1975)

The Council held public hearings on sugar prices in November, 1974 to discover the cause of price increases and to seek ways of reducing prices to reasonable levels. Participants included members of Congress, representatives of sugar growers and processors, sugar using industries, labour organizations, and consumer groups.

Report

The Council's report on sugar prices is mainly explanatory because, of course, like the Food Prices Review Board, the Council can only recommend.

Conclusions

On the basis of testimony and data provided during and after the hearing, the Council concluded that neither speculation nor the termination of the U.S. Sugar Act nor abnormal purchases by particular foreign countries contributed significantly to the rise in world sugar prices. Principal responsibility was attributed to the double demand created by depleted stocks and rising consumption in the early 1970's.

Who
Benefitted?

In attempting to determine who gained from higher sugar prices, however, the Council

was hampered by the lack of cooperation from sugar refiners in supplying profit data.

Steel
Prices

d) Steel Price Rollbacks

In December 1974 several large steel companies (U.S. Steel, Bethlehem, and Colorado Fuel and Iron) announced price increases on a large portion of their product lines.

On the direction of the President, the Council requested a full explanation and justification of the price increases from the companies. On the basis of this information, the Council concluded that only part of the increases was justified in terms of increased labour and raw material costs. Following meetings with the Council, the companies agreed to roll back the increases to slightly less than 20% of what was originally announced (4.7% in the case of U.S. Steel) and to hold the line for these products for at least six months, barring unforeseen economic circumstances.

Rollbacks

Continuing
Study

The Council had begun an investigation of steel prices prior to the December announcements and is continuing to gather data on costs and profits in the steel industry with

Continuing
Study

a view to determining the causes and extent of prices increases, the method by which steel prices are established, the relationship between technological innovation, capacity expansion, and profits, and the effect of imports and exports on prices.

Other
Industries

e) Other Industry Studies

Because of concern that pricing policies in concentrated industries are not as responsive to changes in supply and demand as are prices in industries with a larger number of producers, the Council began inquiries into several industries.

Aluminium

The Council requested information on pricing policies from the seven largest companies in the aluminium industry because of the high degree of concentration in the industry and the apparent maintenance of product price levels despite decreases in demand and output.

Metal Cans
Rubber Tires
and Tubes

This type of investigation has also been extended to producers of metal cans and of rubber tires and tubes, and farm machinery.

Farm
Machinery

An investigation into coal prices is also under-way.

Coal

Chemicals

Chemical prices are also under investigation because of the cost implications for products such as plastics and antifreeze.

Reasons for
Price Increases
- Costs or
Demand?

In both concentrated and unconcentrated industries, price increases related to insufficient capacity rather than to cost increases can serve to both ration scarce goods and encourage investment. The Council is also concerned, therefore, to determine to what extent past price increases have been cost or demand related, since if excess demand has already caused price increases, cost increases need not lead to further price increases. By the same token, one could expect price reductions if capacity increased and costs remained constant.

Food
Marketing
Spreads

f) Marketing Spreads for Food Products
(Report - May, 1975)

The Council began a study to examine the accuracy and interpretation of farm-retail price spreads published by the Department of Agriculture because of the controversy over who was actually making money from higher food prices. They studied both the general series, such as the farm food marketing

Food
Marketing
Spreads

bill, the market basket measuring individual price spreads, and the profits of food marketing companies, and the particular data for beef and dairy product price spreads.

Conclusions
and
Recommendations

They concluded that the controversy was largely due to differences in definition and interpretation and to the attempt to draw long-run comparisons from short-run data. Better information and perhaps a companion series designed specifically to measure changes in retail food stores' gross margins would, it was recommended, eliminate these problems.

Collective
Bargaining

g) Collective Bargaining

The Council is monitoring, through informal channels, the progress of negotiations on a number of collective agreements, and has analyzed the cost of a number of settlements. These have included workers associated with the production of coal, fuel oil and gasoline, and railway services, as well as workers in the retail food and construction industries.

The Council also maintains contact with ongoing negotiations through voluntary labour - management committees, because of concern that, with production likely to be sluggish in 1975, labour settlements are likely to place upward pressure on unit labour costs even as the general rate of price inflation is falling.

PUBLIC
SECTOR

2. Monitoring Federal Actions

The Council's responsibility in this area is to assess the contributions of government policy and programs to inflation and to recommend administrative and/or legislative change on the basis of their weighing of the costs and benefits of such programs.

Rate
Increases

a) Rate Increases by Firms in Regulated Industries

The Council monitors major rate filings before Federal regulatory commissions and becomes formally involved in the proceedings as it considers necessary.

AT & T

For example, the Council petitioned the Federal Communications Commission because it (the Council) considered that evidence submitted by AT & T did not fully justify their proposed rate increases, and did not allow for any phasing-in period to ease the potential impact, especially on small and

Domestic
Air Fares

medium-sized businesses. In the case of domestic air passenger fare increases, the Council presented testimony to the House Commerce Committee because the Civil Aeronautics Board had approved air carrier requests for fare increases without a public hearing, and without what the Council considered sufficient justification or regard for the inflationary consequences of such increases.

Transportation
Industry

b) Improving Productivity in Transportation

The Council has been working with various government departments and regulatory bodies to develop procedures and legislation to reform transportation regulation because it feels that current government rules and regulations hamper productivity and place unnecessary upward pressure on transportation costs which are transmitted throughout the economy.

Automotive
Standards

c) Automotive Safety and Emission Standards

In conjunction with the National Highway Traffic Safety Administration and the Environmental Protection Agency, the Council has been analyzing the long-run costs and benefits of existing legislation and regulations on safety and emission standards to determine if modifications could be made to lower costs while achieving comparable levels of safety and pollution control.

Inflation
Impact
Statements

d) Inflation Impact Statements

The nature and purpose of these statements is outlined in the section on legislation. The Council views these statements as important tools in assisting the Council to carry out its responsibility to monitor the economic effects of government actions. Although the Council does not believe that any government activity which imposes additional costs on the economy is by definition "inflationary", and ought, therefore, to be curtailed, the Council feels that many agencies are unaware of the costs of their rules and regulations for society. Agencies should be careful, it is felt, to ensure that these costs produce benefits which balance or outweigh them. The Council considers this program one of the most vital parts of its monitoring effort and plans to devote a considerable portion of its resources to the program.

Quarterly
Reports

e) Quarterly Reports

The Council has thus far issued quarterly reports for December 1974 and March 1975. A third is expected around the time you are in Washington. Please grab a couple of copies if possible.

Like the Food Prices Review Board's quarterlies, the Council's are general reviews of Council

Quarterly
Reports

activities and economic trends in the 3-month period preceding the report. The March report, for example, contained a section on wage and price trends in 1974 and the outlook for 1975, which dealt briefly with wholesale and consumer prices, productivity and unit labour costs, and profits. The first quarterly report presented a more historical perspective on inflation in general.

V Suggested Questions

1. Discussion Questions

How are areas of study chosen? Does the availability of staff and resources affect this choice? Are resources about equally divided between monitoring in the public and private sectors, or is this flexible? If flexible, what determines where the emphasis is placed and when?

I note your experience with the Civil Aeronautics Board and air fare increases. Are there other similar instances? Do you have sufficient resources to initiate action in potential problem areas?

Would there be advantages in having a larger staff? Disadvantages? (40 or 400?)

Do you find yourself in conflict with existing government agencies whose responsibilities in data collection you may overlap?

In many cases the Council does not have the resources to develop its own statistics. What problems are there in relying on data collected and compiled by existing agencies? What implications does this have for any conclusions the Council may base on them?

One of the Council's responsibilities as defined in the Act is to seek ways of encouraging price restraint in consultations with both the private and public sectors. In such a voluntary program the private sector will want assurances that the public sector is cooperating to the same extent as, if not more than, the private sector. How is it possible to give such assurances?

What are the differences encountered in monitoring activity in the two sectors in terms of degree of cooperation, provision of information, etc?

How was Council membership decided?

How much and what type of direction does the board of members provide to the Council?

Why did the Council recommend against federal legislation prohibiting double-ticketing?

What kind of microeconomic databases do you have to work with?

For the public sector? For the private sector? What kind of changes or improvements are you seeking to make?

Regarding the sugar price investigation, would it have been useful to have the power to take on the sugar companies which refused to cooperate by providing data? Would you have

liked to have mandatory reporting in this instance? Would subpoena powers have been sufficient?

The Council has opposed the periodic reporting provisions in H.R. 4594 And S. 409. What kind of reporting was it? On an "as required" basis or continual periodic reporting? If continual, would you be opposed to the "as required" type?

The second quarterly report mentions ongoing study into the methods of establishing prices in the steel industry. Are there any others underway? How do you go about doing such a study?

In assessing the costs of labour settlements, are you looking at the implications for the economy as a whole or for the particular firm or industry? What are the problems in making this kind of analysis?

How do the voluntary labour-management committees (mentioned in relation to the monitoring of ongoing collective bargaining) work?

What was the result of the Council's intervention in the Civil Aeronautics Board/airline fare increases debacle? Weren't most major airlines operating at a deficit at that time?

2. Nuts and Bolts Questions

Of the 40 people on staff, how many are officers and how many support staff? What is your budget for outside consultants? Can you estimate how much time is given you by employees of other government departments and agencies?

Would it be possible to have the names of some of your staff below the assistant director level that our staff could contact if there were further questions?