

monthly statistical report

NINTH DISTRICT CONDITIONAL federal reserve bank of minneapolis



DISTRICT ECONOMIC ACTIVITY STILL WEAK COMMERCIAL LOANS SHOW LITTLE GAIN

Although it was still too early to assess the impact of President Nixon's new economic policy at the end of September, the performance of several important district indicators was discouraging. The listlessness which has characterized business activity in the district for months persisted. Harvesting continued to offer some encouragement, but yield projections of some district crops fell in September. Of all the district's activities, the most reassuring was residential housing, which recently reached a new high.

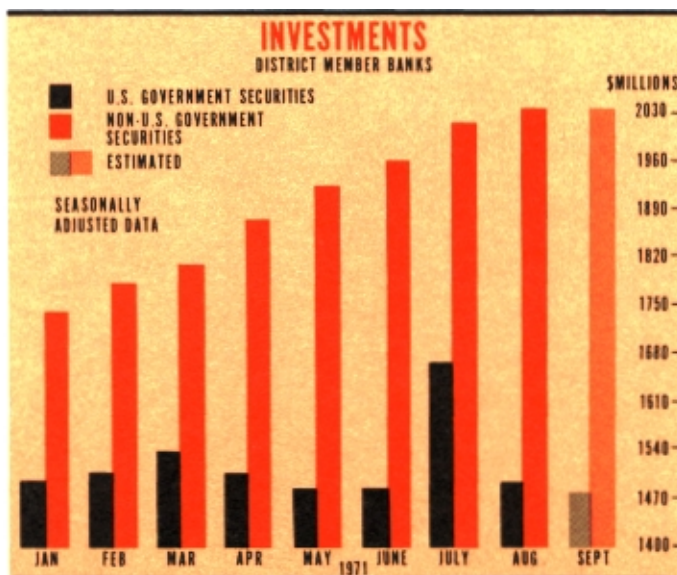
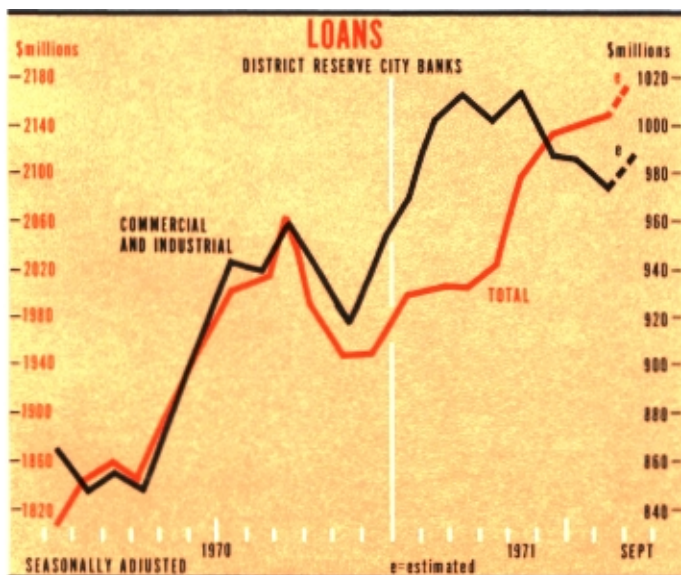
Loan expansion at district member banks increased somewhat in August and early September, exceeding July's relatively slow pace. The advance of the past three months, however, lacked the strength of the gains made earlier in the year.

Despite the recent increases in total loans, district business loans have shown little growth since the end of the first quarter. This listlessness has partly been a result of corporations raising funds in the capital market and using the proceeds to repay business loans. In addition, a relatively weak consumer demand has prohibited extensive inventory buildups.

At district rural banks, most of the sluggishness in business loans can be attributed to fewer than usual cattle on feed, weak machinery sales, and a relatively favorable farm income situation. However, increases in business loans were registered in early September at the district's large urban banks, as corporations borrowed to meet their quarterly tax obligations.

Time and savings deposit inflows at district member banks, despite a quickening in early September, have generally continued to rise at a moderate pace. Compared to July's 12 percent increase and a 15 percent rise in the second quarter, these deposits increased at a 4 percent seasonally adjusted annual rate during August. The expansion of time deposits in that month was due to the growth of consumer-type time and savings deposits at small urban and rural banks. In contrast, those deposits at large urban banks declined in August.

The growth of consumer deposits during the first half of September was more diffuse among banks throughout the district. Preliminary data indicate that district banks experienced somewhat faster growth in total time and savings deposits, though the rate of expansion was still below that for the preceding three months.



Investments at district member banks declined during August and the first half of September after a sharp increase in July. Since the latter part of August, most of the decline in investments can be attributed to banks holding fewer U. S. government securities. Bank holdings of non-U. S. government securities continued to increase modestly during August, but preliminary data suggest a slight downturn in early September.

DISTRICT CROP PROJECTIONS REDUCED FIRST HALF 1971 TRACTOR SALES FALL

Harvest yield estimates fell recently in several areas of the district after dry weather damaged crops. Hardest hit were the corn and soybean crops in Minnesota and South Dakota. The Department of Agriculture reduced the estimated corn yields of these states from 86 to 81 bushels per acre in Minnesota and from 49 to 41 bushels per acre in South Dakota. At the same time, Minnesota's projected soybean yield fell from 27 to 24 bushels per acre. Despite the dry weather, however, crops generally matured in good condition, and harvesting operations began earlier than usual.

Available district data indicate that total cash farm receipts, which previously had exceeded last year's levels, fell below year-ago totals during the summer. Total investment spending on farm machinery also fell, despite a planting-time upturn in purchases of tillage equipment. In April, district unit sales of farm tractors jumped 21 percent higher than the total for that month a year ago.

South Dakota was the only district state which did not report a planting-time upturn in unit tractor sales; totals there were 50 percent behind year-ago figures at the beginning of the year and 30 percent behind in the spring. Although first to improve last spring, Montana tractor sales dropped 13 percent below last year's figures in May and fell 37 percent in June.

Total district tractor sales were down about 11 percent in the first half of this year from the corresponding period last year. Minnesota was the only state in the district which recorded a sales increase, and

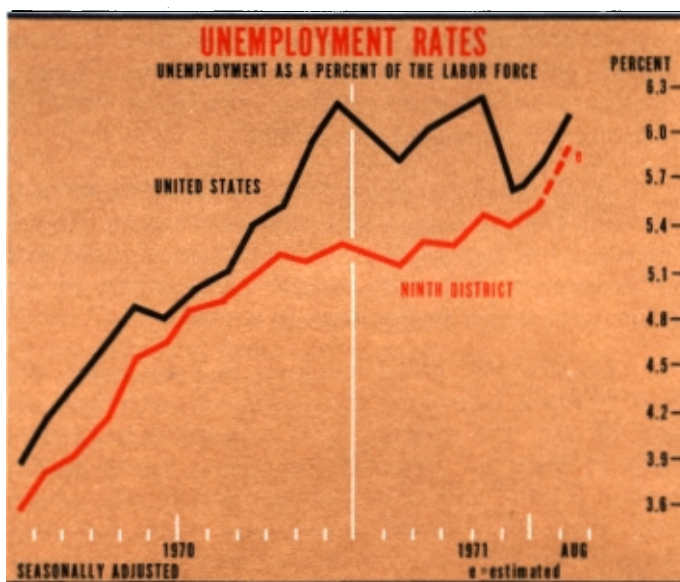
that was a scant one-third of one percent rise due to a spurt during April and May.

Unit sales of combines, the other major component of the farm machinery market, contrastingly increased 4 percent in the first half of 1971 over the total for the same period last year. This gain was concentrated in Minnesota and Montana, which experienced increases of 29 and 60 percent, respectively. Normally, about 50 percent of the district's combine sales is attributed to Minnesota and 10 percent to Montana.

Combines purchased during the first half of the year to harvest winter wheat and other early-ripening small grains, however, represent about one-fourth of the district's annual total. As a result, purchases of machines to harvest later-ripening small grains and corn are far more significant. Unlike combines, about 55 to 60 percent of the year's total tractor sales were completed prior to July.

DISTRICT UNEMPLOYMENT JUMPS SHARPLY IMPACT OF NEW FEDERAL JOBS DUBIOUS

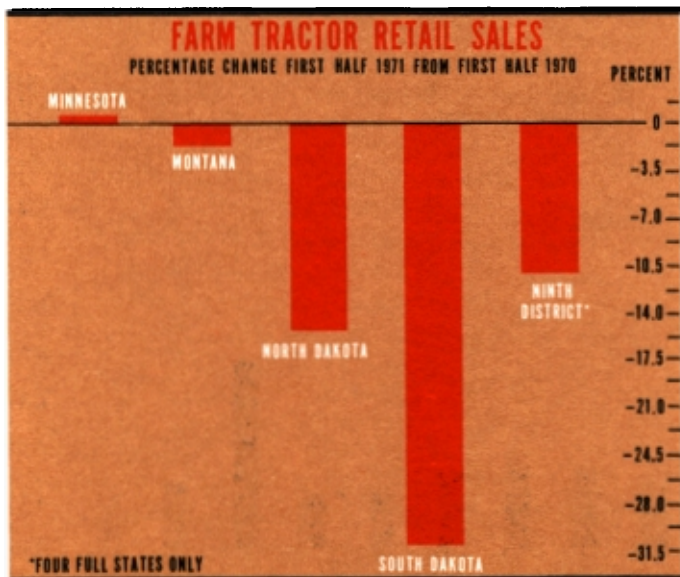
Recent indicators suggest that district business activity has not yet emerged from the doldrums. The district's seasonally adjusted unemployment rate jump-



ed in August to 5.9 percent from July's 5.5 percent, while the national rate of joblessness rose to 6.1 from 5.8 percent during the same period. These sharp increases in unemployment are mainly results of layoffs in the steel industry.

Initial claims for unemployment compensation in the district during August jumped 57 percent over those of a year ago. Most of the increase occurred in the iron ore mining and steel industries located in the northeastern portion of the district. In the metropolitan area of Minneapolis/St. Paul, which depends little on the steel industry, initial claims were down and the unemployment rate, seasonally adjusted, dropped from 4.4 percent in July to 4.1 percent in August.

The district's seasonally adjusted wage and salary employment was unchanged between July and August but down slightly from its level of August 1970. Manufacturing employment, which had leveled off in the

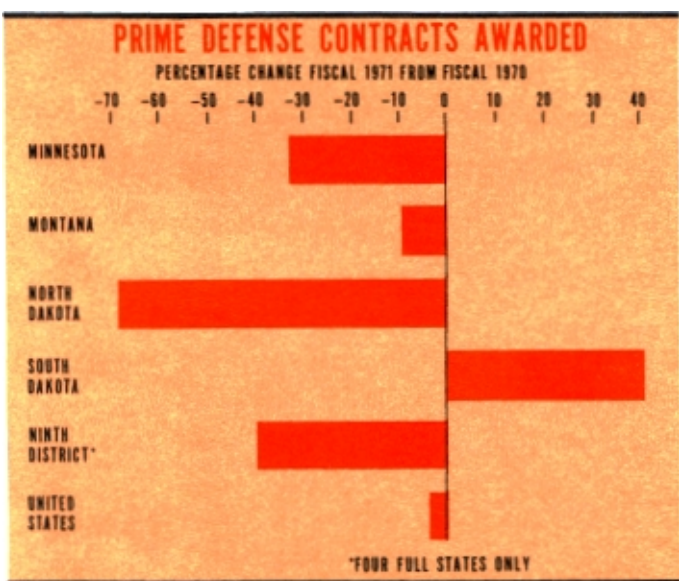


spring, however, began falling again this summer. The declines in July and August can be attributed to the Montana copper strike and to layoffs in the district's steel industry.

The discouragement provided by rising unemployment was reinforced in August by other district business indicators. During that month, the help-wanted advertising index fell considerably, after advancing strongly in June and July. However, this indicator did increase 15 percent in the three-month period ending in August after an increase of only about 1 percent of the preceding three-month interval. Average weekly hours worked in manufacturing declined slightly between July and August, but this indicator rose modestly between the three months ending in August and the preceding three months.

Although it was too early at the end of September to assess the impact of President Nixon's new economic program on business activity in the district, state and local government job formations and defense expenditures were not expected to boost district economic activity. The Emergency Employment Act will not significantly diminish district unemployment if projections of State Department of Employment Security officials are fulfilled, as they estimate that only 2,630 new jobs will be provided for approximately 132,000 unemployed workers. Minnesota will receive about 1,400 of these new jobs, of which 600 will be located in the Minneapolis/St. Paul metropolitan area. Five hundred new positions will be created in Montana, while 180 are to be established in Michigan's Upper Peninsula. Of the new jobs remaining, 300 government positions have been allocated to North Dakota and 250 to South Dakota.

Defense spending, which has been declining since mid-1969, fell again in fiscal 1971 and will continue to act as a drag on manufacturing employment. Minnesota's prime defense contracts, largely confined to the procurement of military goods, amounted to

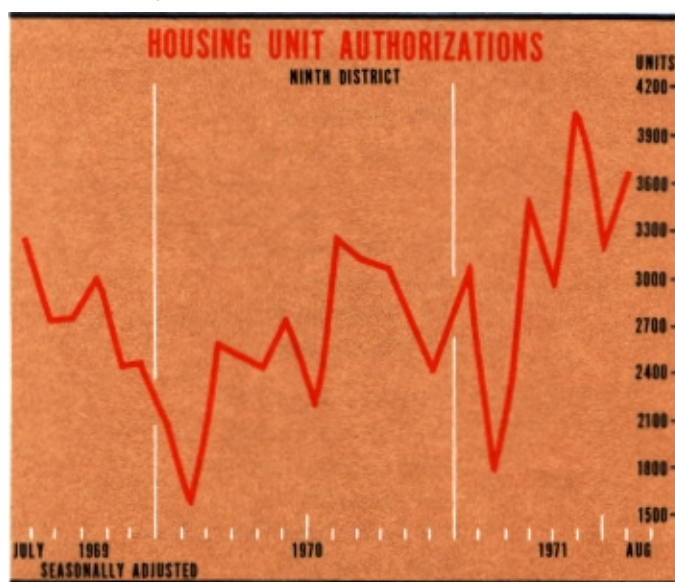


\$407.3 million in fiscal 1971. This figure was 33 percent less than the \$604.6 million allocated during

fiscal 1970 and 45 percent below the record amount awarded in 1969. In North Dakota the value of prime defense contracts dropped from \$188.8 million in fiscal 1970 to \$60.1 million in fiscal 1971, while Montana experienced a \$2.1 million decline in the same period. The only district state in which the value of these contracts rose was South Dakota, which received a \$4.2 million increase.

DISTRICT HOUSING REACHES RECORD HIGH

Housing activity in the Ninth Federal Reserve District, which has followed the national trend the past year and a half, continued to expand throughout the summer. New housing authorizations in the district reached a seasonally adjusted annual rate of 43,000 units during the three-month period ending in August.



This record level of homebuilding was nearly 25 percent higher than that of the preceding three months and surpassed the year-earlier rate by 32 percent.

A comparison of the housing unit authorizations for the first eight months of this year with those for the same period last year reveals that the upswing has been more dramatic for single-family homes than for apartment dwellings. Between January and August, building permits for single-family dwellings increased nearly 40 percent over last year, while apartment authorizations rose by about 25 percent.

Mortgage interest rates, which moved to a higher plateau early this summer, remained relatively stable through mid-September. Conventional mortgage interest rates in the Twin Cities were about 7¾ percent at mid-September, while government-insured mortgages, after adjusting for discount points charged to the seller, were slightly higher.

With the exception of public nonresidential building, conditions in the other sectors of the Ninth District construction industry were still relatively soft. During the six months ending in August, the valuation of nonresidential building permits was about 10 percent below a year ago. Contract awards for "heavy" construction projects were also down from last year.

NINTH DISTRICT income and finance

I N D I C A T O R	UNIT	1971			1970	Percent Change
		SEPT	AUG	JULY	AUG	AUG-AUG
MEASURES OF CONSUMER INCOME & FINANCIAL POSITION	Total Personal Income *					
	Nonagricultural Personal Income *					
	Average Weekly Earnings in Manufacturing ¹	Dollars, n.a.	149,31e	149.83e	140.23	+ 6.5
	Consumer Installment Credit Outstanding ²	Million \$ n.a.	1,454	1,432	1,369	+ 6.2
	Time and Savings Deposits at Member Banks	Million \$ 6,179	6,113	6,101	5,150	+18.7
	Savings Balances at Savings & Loan Assoc. ³	Million \$ n.a.	4,190	4,156	3,552	+18.0
MEASURES OF FINANCIAL CONDITION OF MEMBER BANKS	Cash Farm Receipts ³	Million \$ n.a.	377	287	355	+ 6.2
	CITY BANKS ^{4,5}					
	Adjusted Loans and Discounts ⁶	Million \$ 2,660	2,646	2,621	2,457	+ 7.7
	Commercial and Industrial Loans	Million \$ 1,151	1,146	1,146	1,098	+ 4.4
	Real Estate Loans	Million \$ 480	470	462	459	+ 2.4
	Gross Demand Deposits	Million \$ 2,051	2,096	1,990	1,945	+ 7.8
	Time Deposits	Million \$ 1,714	1,682	1,677	1,343	+25.2
	U.S. Government Securities	Million \$ 399	362	387	346	+ 4.6
	Other Securities	Million \$ 623	629	633	504	+24.8
	COUNTRY BANKS ^{4,7}					
	Loans and Discounts	Million \$ 4,249	4,213	4,201	3,785	+11.3
	Gross Demand Deposits	Million \$ 2,400	2,354	2,480	2,206	+ 6.7
MEASURES OF RESERVE POSITION AND "LIQUIDITY" OF MEMBER BANKS	Time Deposits	Million \$ 4,465	4,430	4,424	3,806	+16.4
	U.S. Government Securities	Million \$ 1,067	1,056	1,141	977	+ 8.1
	Other Securities	Million \$ 1,426	1,381	1,360	1,106	+24.9
	Total Reserves ⁸	Million \$ 760	749	753	712	+ 5.2
	Required Reserves	Million \$ 754	742	744	703	+ 5.5
	Excess Reserves	Million \$ 6	7	9	9	-22.2
MEASURES OF PRICE LEVELS	Borrowings from FRB	Million \$ 1	4	5	37	-89.2
	Ratio of Loans to Total Deposits—City Banks ⁴	Percent 71.3	72.2	73.1	75.1	- 3.9
	Ratio of Loans to Total Deposits—Country Banks ⁴	Percent 61.9	62.1	60.8	62.9	- 1.3
MEASURES OF PRICE LEVELS	Consumer Price Index ⁹ —Minneapolis	Index, sa n.a.	n.a.	121.9	n.a.	
	Prices Received by Farmers ⁹ —Minnesota	Index, sa n.a.	111	111	111	

NOTES

- e—Partially estimated; all data not available
n.a.—Not available
p—Preliminary; subject to revision
r—Revised
sa—Seasonally adjusted data
*—U.S. and District do not have comparable data
saar—Seasonally adjusted annual rate

FOOTNOTES

1. Excluding Northwestern Wisconsin
2. All commercial banks, estimated by a sample of banks
3. Excluding Northwestern Wisconsin and Upper Michigan
4. Last Wednesday of the month figures
5. City Banks -- Selected banks in major cities
6. Net loans and discounts less loans to domestic commercial city banks
7. Country Banks -- All member banks excluding the selected major city banks
8. Average of daily figures of the four or five weeks ending on Wednesday which contain at least four days falling within the month
9. Index: 1967 Base Period

UNITED STATES income and finance

Percent Change AUG-AUG	1971			1970	UNIT	I N D I C A T O R	
	SEPT	AUG	JULY	AUG			
+ 7.3		868.0p	859.2	809.0	Billion \$, saar	Total Personal Income	MEASURES OF CONSUMER INCOME & FINANCIAL POSITION
+ 7.1		844.2p	836.4	788.1	Billion \$, saar	Nonagricultural Personal Income	
+ 6.2		142.44p	142.09	134.13	Dollars	Average Weekly Earnings in Manufacturing	
+ 5.3		44.1	43.5	41.9	Billion \$	Consumer Installment Credit Outstanding ²	
+20.3		201.1	199.7	167.1	Billion \$	Time and Savings Deposits at Member Banks	
+10.5		n.a.	164.8	139.9	Billion \$	Savings Balances at Savings & Loan Assoc.	
		4.2	4.0	3.8	Billion \$	Cash Farm Receipts	
+ 7.1		184.0	180.8	171.8	Billion \$	CITY BANKS ^{4,5}	MEASURES OF FINANCIAL CONDITION OF MEMBER BANKS
+ 4.3		82.6	81.8	79.2	Billion \$	Adjusted Loans and Discounts ⁶	
+ 8.6		36.6	36.1	33.7	Billion \$	Commercial and Industrial Loans	
+ 7.0		139.7	139.7	130.6	Billion \$	Real Estate Loans	
+22.0		133.8	133.0	109.7	Billion \$	Gross Demand Deposits	
+ 1.6		25.0	25.4	24.6	Billion \$	Time Deposits	
+26.9		49.0	49.8	38.6	Billion \$	U.S. Government Securities	
						Other Securities	
+ 9.6		69.5	69.0	63.4	Billion \$	COUNTRY BANKS ^{4,7}	
+ 7.5		48.7	48.7	45.3	Billion \$	Loans and Discounts	
+17.2		67.3	66.8	57.4	Billion \$	Gross Demand Deposits	
+10.8		17.4	17.4	15.7	Billion \$	Time Deposits	
+25.7		25.9	25.5	20.6	Billion \$	U.S. Government Securities	
						Other Securities	
+ 7.5		30,490	30,531	28,358	Million \$	Total Reserves ⁸	MEASURES OF RESERVE POSITION AND "LIQUIDITY" OF MEMBER BANKS
+ 7.5		30,291p	30,373	28,183	Million \$	Required Reserves	
+13.7		199p	158	175	Million \$	Excess Reserves	
- 1.2		827p	830	837	Million \$	Borrowings from FRB	
- 5.1		70.4	69.3	74.2	Percent	Ratio of Loans to Total Deposits—City Banks ⁴	
- 2.9		59.9	59.7	61.7	Percent	Ratio of Loans to Total Deposits—Country Banks ⁴	
+ 4.5		122.2	121.8	116.9	Index, sa	Consumer Price Index ⁹	MEASURES OF PRICE LEVELS
+ 3.7		113	113	109	Index, sa	Prices Received by Farmers ⁹	

SOURCES

PERSONAL INCOME: U.S. Department of Commerce, Office of Business Economics

SAVINGS AND LOAN ASSOCIATIONS: Federal Home Loan Bank Board

CASH RECEIPTS FROM FARM MARKETINGS: U.S. Department of Agriculture

FINANCIAL DATA OF MEMBER BANKS: Federal Reserve Bank of Minneapolis and Board of Governors of F. R. System

CONSUMER PRICE INDEX: U.S. Department of Labor, Bureau of Labor Statistics

PRICES RECEIVED BY FARMERS: U.S. Department of Agriculture and Minnesota Farm Price Report

NINTH DISTRICT production and employment

I N D I C A T O R		UNIT	1971		1970	Percent Change
			AUGUST	JULY	AUGUST	AUG-AUG
MEASURES OF PRODUCTION AND FACTOR INPUTS TO PRODUCTION	Total Industrial Production*					
	Electrical Energy Consumption: Mfg. and Mining ¹	Index, sa	124	133	130	- 4.6
	Production Worker Manhours: ²	Index, sa	92p	96	106	-13.2
	Manufacturing	Index, sa	97p	97	107	- 9.4
	Mining	Index, sa	67p	92	103	-35.0
	Total Construction Contracts Awarded	Million \$, sa	182.3p	143.4	174.8	+ 4.3
	Residential Buildings	Million \$, sa	71.3p	58.1	56.6	+26.0
	Nonresidential Buildings	Million \$, sa	56.1p	47.2	61.6	- 8.9
	All Other Construction	Million \$, sa	54.9p	38.1	56.6	- 3.0
	Bldg. Permits: New Housing Units ³	Number	3,393	3,388	3,090	+ 9.8
MEASURES OF MANPOWER UTILIZATION	Civilian Work Force ⁴	Thousands, sa	2,600e	2,588p	2,567	+ 1.3
	Total Civilian Employment	Thousands, sa	2,446e	2,445p	2,440	+ 0.2
	Number Unemployed	Thousands, sa	154e	143p	127	+21.3
	Unemployment Rate ⁴	Percent, sa	5.9e	5.5p	4.9	+20.4
	Average Weekly Hours in Manufacturing ⁴	Hours, sa	40.2p	40.4	40.4	- 0.5
	EMPLOYMENT BY INDUSTRY SECTOR	Wage and Salary Employment, Nonfarm ⁴	Thousands, sa	1,903e	1,913p	1,917
Manufacturing		Thousands, sa	356p	358	379	- 6.1
Mining		Thousands, sa	24p	29	32	-25.0
Construction		Thousands, sa	98e	97p	98	
Transport., Comm., & Public Utilities		Thousands, sa	133e	133p	131	+ 1.5
Trade		Thousands, sa	463e	464p	462	+ 0.2
Finance, Insurance & Real Estate		Thousands, sa	90e	89p	88	+ 2.3
Service Industries		Thousands, sa	317e	318p	317	
Government		Thousands, sa	422e	425p	410	+ 2.9
MEASURES OF SPENDING		Total Retail Sales *	Thousands, sa	n.a.	n.a.	18.8
	New Passenger Car Registrations	Billion \$, saar	178.8	186.9	162.4	+10.1
	Bank Debits ⁵					

NOTES

e — Partially estimated; all data not available
n.a. — Data not available
p — Preliminary; subject to revision
r — Revised
sa — Seasonally adjusted data
* — U.S. and District do not have comparable data
saar — Seasonally adjusted annual rate

FOOTNOTES

1. Index: 1967 Base Period; Weights: 1963
2. Index: 1967 Base Period; Weights: 1958
3. A sample of permit issuing centers
4. Excluding Northwestern Wisconsin
5. Six standard metropolitan statistical areas
6. A sample of centers blown up to represent total permits issued
7. 226 centers excluding the seven leading centers

UNITED STATES production and employment

Percent Change AUG-AUG	1971		1970	UNIT	I N D I C A T O R	
	AUGUST	JULY	AUGUST			
- 2.2	105.1p	106.0	107.5	Index, sa	Total Industrial Production	MEASURES OF PRODUCTION AND FACTOR INPUTS TO PRODUCTION
- 2.1	94p	93	96	Index, sa	Electrical Energy Consumption: Mfg. and Mining*	
- 3.1	93p	93	96	Index, sa	Production Worker Manhours: ²	
+ 3.1	100p	94	97	Index, sa	Manufacturing	
+24.8	6,870.3	6,944.5	5,504.4	Million \$, sa	Mining	
+40.7	2,940.4	3,079.8	2,089.5	Million \$, sa	Total Construction Contracts Awarded	
- 7.8	1,929.0	2,293.1	2,092.2	Million \$, sa	Residential Buildings	
+51.3	2,000.9	1,571.6	1,322.7	Million \$, sa	Nonresidential Buildings	
	n.a.	n.a.	114.3	Thousands	All Other Construction	MEASURES OF MANPOWER UTILIZATION
					Bldg. Permits: New Housing Units ⁶	
+ 1.9	84,312p	83,829	82,770	Thousands, sa	Civilian Work Force	
+ 0.9	79,197p	78,941	78,508	Thousands, sa	Total Civilian Employment	
+20.0	5,115p	4,888	4,262	Thousands, sa	Number Unemployed	
+19.6	6.1p	5.8	5.1	Percent, sa	Unemployment Rate	
+ 0.3	39.9p	40.0	39.8	Hours, sa	Average Weekly Hours in Manufacturing	
+ 0.2	70,552p	70,566	70,445	Thousands, sa	Wage and Salary Employment, Nonfarm	EMPLOYMENT BY INDUSTRY SECTOR
- 3.9	18,501p	18,530	19,258	Thousands, sa	Manufacturing	
- 1.6	610p	599	620	Thousands, sa	Mining	
- 2.7	3,213p	3,228	3,302	Thousands, sa	Construction	
- 1.6	4,453p	4,477	4,523	Thousands, sa	Transport., Comm., & Public Utilities	
+ 1.9	15,183p	15,150	14,907	Thousands, sa	Trade	
+ 3.3	3,803p	3,805	3,683	Thousands, sa	Finance, Insurance & Real Estate	
+ 2.3	11,895p	11,903	11,632	Thousands, sa	Service Industries	
+ 3.0	12,894p	12,874	12,520	Thousands, sa	Government	MEASURES OF SPENDING
+ 9.1	33,580p	33,029	30,781	Million \$, sa	Total Retail Sales	
	n.a.	826.0p	721.7	Thousands, sa	New Passenger Car Registrations	
+17.1	3,865.8	3,845.0	3,301.1	Billion \$, saar	Bank Debits ⁷	

SOURCES

INDUSTRIAL PRODUCTION: Board of Governors of F.R. System

INDUSTRIAL USE OF ELECTRIC POWER: Federal Reserve Bank of Minneapolis

PRODUCTION WORKER MANHOURS: Federal Reserve Bank of Minneapolis

CONSTRUCTION CONTRACTS AWARDED: Board of Governors of F. R. System, F. W. Dodge Corporation data

NEW HOUSING UNITS AUTHORIZED: Federal Reserve Bank of Minneapolis and U.S. Department of Commerce, Bureau of Census

BANK DEBITS: Board of Governors of F. R. System

EMPLOYMENT, UNEMPLOYMENT, HOURS AND WAGES:

Employment Security Departments; Minnesota, North Dakota, South Dakota, Montana, Michigan, and U.S. Department of Labor, Bureau of Labor Statistics

RETAIL SALES: U.S. Department of Commerce, Bureau of Census

NEW PASSENGER CAR REGISTRATIONS: Automotive News Magazine

THE NEW ECONOMIC PROGRAM : PHASE II

NIXON AND LEADERS DISCUSS GUIDELINES WAGE AND PRICE MONITORING PROBABLE

In mid-September, President Nixon promised to announce his plans for Phase II of the New Economic Program at least 30 days before the current 90-day wage-price freeze expires on November 13. Although the administration had not released any of the specific details about Phase II as this issue of *Ninth District Conditions* was being written, statements by the President and other administration spokesmen along with suggestions by businessmen, labor leaders, and economists provided indications of some likely Phase II economic policies.

The President made clear, in announcing his intention to terminate the current freeze at the end of 90 days, that the follow-up program would provide a strong and effective set of rules for maintaining a degree of control over wages and prices. Moreover, he emphasized that the Phase II program would include enforcement measures. The President recognized that the continuation of the incomes policy would need broadly based support from all groups in the economy in order to be successful. It has been charged, particularly by labor leaders, that the guideposts of the mid-1960's failed because they were unilaterally imposed by the government without any input from nongovernmental sources. As a result, President Nixon invited leaders from business, labor, and consumer organizations to the White House to discuss their ideas for an effective post-freeze program.

TRIPARTITE BOARD ACHIEVES APPROVAL

It seemed very probable at this point that some kind of review board to monitor increases in wages and prices would be included in the post-freeze program. Some members of Congress suggested that other forms of remuneration, such as profits, dividends, and interest rates, should also be scrutinized by that board. However, the President stated that he did not want to establish controls on profits.

Several different types of review boards were suggested, and a wide range of proposals concerning the authority to be granted to the board and the sectors of the economy to be represented were offered. Both business and labor reportedly favored a tripartite board. Labor leaders recommended one patterned after the War Labor Board that existed during World War II or the Construction Industry Stabilization Committee established in the spring of 1971 to monitor wage and price increases in the construction industry. Both of these boards were composed of members of business management, labor, and the public; they had

no government members. The federal government retained the authority to enforce the recommendations of the Board or Committee and to prosecute violators. On the other hand, several business leaders stated that they favored government representation on any review board. Some government officials reportedly preferred retaining government control of the administration of Phase II policies.

Numerical standards or guidelines to determine appropriate rates of increase in wages and prices were also recommended as part of the post-freeze program. Some spokesmen suggested that these guidelines focus on wage increases linked to rises in the cost of living, while others mentioned limiting such increases to productivity gains. Several proposals combined rises in both of these in forming a basis for the guidelines. In addition, suggestions for limiting price increases due to rising raw material costs and guidelines for establishing acceptable rates for profits were presented.

MAJOR INDUSTRIES BLAMED FOR SPIRAL

Another aspect of the Phase II program which received considerable attention was the need to focus on major "price-dominant" corporations, defined by Congressman Henry Reuss of Wisconsin as those which sell over 25 percent of the total output of a given industry. Many economists and others believe that wage and price increases in these industries were largely responsible for the recent upward spiral in prices. According to this theory, firms with a significant share of the total sales market tend to grant large wage and fringe benefits to their workers, the costs of which are passed on to the consumer in the form of higher prices. Among those classified as "price-dominant" were the automobile, steel, tobacco, rubber, transportation equipment, electrical equipment, and some chemical industries.

ELABORATE PRICE CONTROLS DOUBTFUL

It appears unlikely that a large new bureaucracy will be established to administer and enforce the new wage-price guidelines. President Nixon and other officials of the administration have indicated that Phase II policies will not involve the detailed administration of every price and wage in the economy that was undertaken during World War II and the Korean War. One proposal for administering Phase II consists of having the review boards set general standards by industry and/or geographic areas. Violations of Phase II policies probably would then be handled through the court system in a manner similar to the government's enforcement of the water pollution laws or the Department of Justice prosecutions under the anti-trust laws.