



MINISTRY OF LABOUR AND NATIONAL SERVICE

INTERIM REPORT OF THE COST OF LIVING ADVISORY COMMITTEE

*Presented by the Minister of Labour and National Service
to Parliament by Command of His Majesty
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The Cost-of-Living Advisory Committee was appointed on 8th August, 1946, to advise the Minister of Labour and National Service on the basis of the official cost-of-living index figure and on matters connected therewith. The immediate question on which the Committee was asked to advise was whether any revision of the basis of the figure was practicable or desirable in present conditions and, if so, the revision that might be made.

The Committee propose, in this interim report, that the existing cost-of-living index should be terminated and that, as a temporary measure pending the results of further study and examination, a new index should be instituted, starting at 100, to show future monthly changes in the level of retail prices weighted according to the pre-war pattern of consumption disclosed by the inquiry into working-class expenditure made by the Ministry of Labour in 1937-38. It is also proposed that a technical committee should be appointed to consider the technical problems involved in the introduction of the proposed interim index.

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COST-OF-LIVING ADVISORY COMMITTEE

Interim Report

To the Right Honourable the Minister of Labour and National Service.

Sir.

1. We were appointed by you to advise on the basis of the official cost-of-living index figure and on matters connected therewith. The immediate question on which we were asked to advise, however, was whether any revision in the basis of the figure is practicable and desirable in present conditions, and, if so, the revision that might be made. We have so far met on five occasions and, for the reasons which are set out more fully below, consider it desirable to submit this Interim Report.

2. We first of all addressed ourselves to the question whether any revision of the basis of the official cost-of-living index figure is desirable under present conditions. We have assumed that it is accepted that a revision must be made; the question is whether it is desirable that it should be done now. On more than one occasion during the inter-war years the question of revising the basis of the index was considered until, finally, in 1936, it was decided to institute an Inquiry into the distribution of working-class expenditure for the purpose of obtaining information on which to base a revision. This Inquiry was carried out in the years 1937-38 and it is safe to say that but for the War some new index would already have been prepared.

3. As will be seen from the comparison of the 1914 basis and the 1937-38 budgets given in Appendix I, the main change disclosed by this Inquiry was a reduction in the proportion spent on food and a considerable increase in the proportion spent on "other items."

4. In Appendix II we reproduce a note that has been prepared for us by one of our members, Mr. Hough, on the index maintained by the Co-operative Societies since 1934. It will be seen that this index, although differing in content from the official index, and confined mainly to food items, shows a similarity of results with the food section of the official index. We would, however, direct your attention particularly to the last paragraph of the note on the Co-operative index, which we reproduce hereunder:—

"It may be interesting to add that owing to doubts about the effect of war-time changes on the proportions which the various items in the list of commodities included in the index held to the total, a check was made in the early years of the war based on the sales position at that time. Information about the war-time proportions of commodity sales of various societies was collected for the last months of 1940 and a new table of weights calculated. On this new basis a 'shadow' index figure was calculated for each of the months in the three years 1941-43. The figures calculated in this 'shadow' index showed a very similar trend to the figures in the official co-operative index for 1941, but in 1942, when the official co-operative index moved downwards the 'shadow' index remained about the same. In 1943 the official co-operative index and the 'shadow' index were roughly comparable in movement. Taking the three years together the 'shadow' index has moved ahead of the official co-operative index. What is suggested by the comparison obtained as a result of the 'shadow' index is that some of the war-time changes in supplies and prices of food-stuffs cancelled each other out, but that the 1934 basis tended to become unreliable as the war-time changes increased."

5. This confirms the popular view, which we feel is fully justified, that the alterations in consumption habits since 1914 have made the official index out-of-date. The inappropriateness of the present index to current conditions has been increased by the very considerable changes in patterns of consumption expenditure which have resulted from alterations in living conditions and in the distribution of income during the war. We have, therefore, come unanimously to the view that the use of the present basis for the index should be terminated.

6. Having thus come to the conclusion that a revision of the present basis is desirable, we have next considered whether such a revision is practicable under present conditions.

7. In examining this aspect of the question, we have not felt precluded from considering the fundamental question of the purpose for which any revised index should be used. The existing index is designed to show the average percentage increase in the cost of maintaining unchanged the standard of living of a selected group of families as at a fixed date. Our discussions have disclosed that the entire conception of an index purporting to measure the changes in the cost of maintaining an unchanging standard of living of a section of the community may be strongly challenged, the description of an index as a "cost-of-living" index being felt to be inappropriate and misleading.

8. The main alternative to an index based on an unchanging standard of living is an index which measures the movement of retail prices "weighted" on a basis which is kept continuously up-to-date. A number of technical problems is involved in the compilation of such an index, but we have not felt it necessary to go into them exhaustively at this juncture.

9. The factor of the appropriate "weighting" is, however, one of the main points at issue. Weighting is necessary to take into proper account the importance of each item in the index relative to all the other items included. For the purpose of illustrating the need for careful consideration of weighting, reference may be made to index figures of the value of daily sales published in the issue of the Board of Trade Journal for 8th February, 1947, compiled from returns supplied by a number of retail shops to the Bank of England. These figures show that for four main groups of articles there were large variations in the changes which took place in the average daily sales between 1945 and 1946. Thus:—

(1942=100)

1942~100)					Percentage increase, 1946 over 1945		
					1945	1946	
Apparel.	...	...	...	...	111	133	20
Household Goods	...	...	...	...	115	188	63
Non-food Merchandise	...	...	...	...	113	143	27
Food	...	...	...	...	112	124	11

It will be seen that the relative importance of household goods increased substantially in 1946 as compared with 1945, and household goods would need to be given much greater weight in 1946 than in 1945 in any prices index which involved the use of weights based on current expenditure. The abnormal nature of these very considerable changes in the relative weight to be attached to different classes of expenditure illustrates the main difficulty in the way of constructing an index at the present time with an unchanging basis determined by present expenditures.

10. It seems clear to us that weighting based on the present abnormal conditions of spending would be inappropriate as a basis for any lengthy period comparable to that contemplated when the 1937-38 Inquiry was instituted.

11. The changes in patterns of expenditure which are taking place in present conditions are only extreme examples of the adjustments which consumers are continually making to fit their spending to altering relative prices and to new opportunities for purchasing which result from the introduction of new goods and services to the market. It is for this reason that the Committee has given consideration to the adoption of some alternative plan for maintaining a currently weighted index. Such an index might find a ready acceptance, in that it would provide an estimate of the alteration in prices of the goods and services which consumers are currently interested in and currently purchasing. Under such a plan, inquiries into consumers' expenditure would be instituted to take place at regular intervals and periodically the weights would be adjusted to take account of changes that had been disclosed. By this means the basis of the index would be continuously brought up-to-date in accordance with current habits of expenditure. Many of us feel that this is the most reliable and most scientific basis on which to judge changes in retail prices for any section of the community. In the course of our discussions we have examined briefly the systems operating in various countries, including Sweden and the United States. We note that the Statistical Commission of the United Nations has expressed interest in this question and also that the International Conference of Labour Statisticians to be held in Montreal in August next will be considering the principle involved in an index of this nature. We hope that this Conference will provide an opportunity for a discussion of the merits of a currently weighted index and will provide information on the experience of countries having an index of this kind. We feel that it is necessary to take sufficient time to make a thorough inquiry and to consider the relative merits of different kinds of index numbers in order to arrive at a recommendation on the important question of principle involved in the alternatives of a fixed or a currently adjusted basis. We think it will be useful in our further consideration of this matter to take into account the result of the Montreal discussions, which one of our members, Mr. Ainsworth, is attending. Accordingly, we propose with your permission to continue our consideration of this matter and recommend that such budget and other inquiries and tests be put in hand as will enable us to express our considered view on the subject in due course.

12. Having come to this conclusion, we feel that we should allow ourselves sufficient time before making proposals for the institution of an index of a permanent character; as we hope is clear, we do not for the moment reject either alternative mentioned above.

13. This being so, we have considered whether there is any interim proposal which we can make to enable price changes to be measured in the meantime without prejudicing the institution of a new index of a more permanent character, but which would nevertheless serve a useful purpose for the time being, be easy to understand and be an improvement on the existing index.

14. We have considered various alternatives. One was that we should use the information relating to consumer purchases on the national scale which forms the basis of the estimates in the White Papers on National Income and Expenditure of the United Kingdom. This gives the present and ever changing pattern of expenditure, but we feel that for the same

reason given in paragraph 10, such information is also unsuitable for use the basis of an interim index. Moreover, it relates to the whole community, and therefore shows a distribution of expenditure which is not typical of the ordinary working-class household.

15. Another alternative we considered was to use the information on the distribution of working-class expenditure obtained in the Inquiry of 1937-38. This Inquiry, which is briefly described in Appendix III, was thorough and the general pattern of consumption which it presented can, with the exception of drink and tobacco,⁽¹⁾ be taken to be typical of the habits and customs of the immediate pre-war period.

16. After careful consideration, the majority of us feel that the second alternative should be adopted as the basis for an interim index, since it is felt that such a basis would more nearly satisfy the conditions laid down at the end of paragraph 13. Under our interim plan the level of prices at the date when the index is started should be represented by 100 and future changes in price levels should be expressed as index numbers on this base. We wish to emphasise that our proposal should not be regarded as providing a new "cost-of-living" index based on pre-war standards. Our purpose in suggesting an interim index is, as we have already indicated, to provide a measure for the time being, of future changes in retail prices of the things in which ordinary working-class households are interested.

17. If our proposal is approved, we suggest that you should appoint a technical Committee to prepare a scheme for our consideration showing how the information in the 1937-38 Inquiry can best be adapted for the purpose we have in mind. Technical consideration will have to be given, for example, to the selection of items for which prices are to be regularly collected in future, to the most suitable machinery for obtaining reliable information as to the prices actually being paid, and to the localities from which price quotations should be obtained. A good deal of work will be involved, since it is essential that the index should be reliable and accepted as such. We suggest that the Committee, when appointed, will have to proceed expeditiously since the date of the commencement of the new index cannot be determined until its work is complete. This is unavoidable, since the index will be based on prices still to be collected, many of which will not be available for any past dates. We think, however, that it would be possible to introduce the interim index in a few months' time.

CONCLUSIONS

1. To sum up, we propose that the existing cost-of-living index should be terminated and that, as a temporary measure pending the results of further study and examination, a new index should be instituted as from an early date, starting at 100, to show future monthly changes in the level of retail prices weighted according to the pre-war pattern of consumption disclosed by the 1937-38 Inquiry.

⁽¹⁾ The following is an extract from the second article, published in the January 1941 issue of the Ministry of Labour Gazette, summarising the results of the 1937-38 household budget inquiry—"There are indications, however, in some of the budgets received, that expenditure on tobacco and cigarettes was not in all cases fully stated. There seems little doubt, also, that the personal expenditure of many of the wage-earners on beer, spirits, &c., was not fully reflected in the budgets, and the figures relating to "Drink (beer, mineral waters, &c.)," given on page 11 with the corresponding figures on page 305 of last month's Gazette, must accordingly be regarded as an under-statement. The experience of previous inquiries into household expenditure has indicated that the particulars given in large-scale collections of family budgets are unlikely to disclose the full amount of expenditure either on tobacco and cigarettes or on alcoholic drink."

2. We propose that a technical Committee should be set up forthwith to prepare a scheme for our consideration showing how the information in the 1937-38 Inquiry can best be adapted for this purpose.

3. We also recommend that the technical Committee, when it has prepared this scheme, should then address itself to the problems involved in instituting a regular series of budget collections which would be needed, amongst other things, to assist us in reaching conclusions on the nature of a permanent index to be introduced in due course.

I have the honour to be,

Sir,

Your obedient Servant,

R. M. GOULD, *Chairman.*

On behalf of the Committee.

London, 7th March, 1947.

APPENDIX I

COMPARISON OF WEIGHTS USED IN COMPILING THE EXISTING COST-OF-LIVING INDEX AND THOSE SHOWN BY THE 1937-38 BUDGETS

Groups of Items	Cost-of-Living Index Weights based on 1914 Expenditure	Weights based on Expenditure in the 1937-38 Budgets
Food	60 ⁽¹⁾	40.1
Rent, Rates, &c.	16	12.7 ⁽²⁾
Clothing	12	9.5
Fuel and Light	8	7.6 ⁽³⁾
Other items—		
In Index	4.	8.1
Not in Index	...	22.0
	<u>100</u>	<u>100.0</u>

⁽¹⁾ Expenditure on food was based on an inquiry made by the Board of Trade in 1904. In the returns obtained in that inquiry food accounted for 22s. 6d. in a total of 36s. 10d. In 1914 it was estimated that food expenditure had risen to 23s. 6d. in a total of 42s.

⁽²⁾ This weight for rent, rates, &c., is based on total expenditure on housing, including payments by households purchasing their dwellings and the (relatively small) payments by households who had already completed the purchase of their dwellings.

⁽³⁾ Including electricity, coke and firewood, which are not covered by the official index.

APPENDIX II

INDEX OF CO-OPERATIVE RETAIL PRICES

This index was established by the Co-operative Union Limited in 1934. The index covers the main items of food usually sold in a co-operative grocery and provisions shop together with milk and meat. Coal and soap are also included. Owing to the difficulties which arise from changes in fashion goods, &c., it was decided to limit the index, at any rate for a time, to the commodities stated.

As the index is not based on domestic budgets but on commodities sold by co-operative societies, it is in the nature of a traders' price index, and its main function is to assist any adjustment of cash sales to a basis more nearly representative of volume sales.

The first step in establishing the index was to prepare a list of commodities important in co-operative trade and to specify them with sufficient precision to ensure reasonably comparable returns from different parts of the country. To accomplish this purpose groups of co-operative managers were brought into consultation. Next it was requisite to find the relative importance of each of these commodities in total co-operative retail sales. For this purpose a large number of societies were asked to state their sales, by value, of each of the commodities selected for the year 1934, and from this information it was possible to calculate the weights indicating the comparative sales of each of the commodities. The original list of commodities adopted in 1934, together with the weights agreed upon, are given in the attached table. (The co-operative retail trade in the commodities covered by the index is 75-80 per cent. of total co-operative retail trade.)

Given the Commodity weighting it was also necessary to find the average price of each commodity for 1934 and here again the help of societies was sought. Some allowance had to be made for the varying size of societies, and after due consideration it was decided to give the following weights based on the size of societies:—

- (a) Societies with under 20,000 members counted 1.
- (b) Societies with 20,000 and under 50,000 members counted 4.
- (c) Societies with 60,000 and under 100,000 members counted 10.
- (d) Societies with 100,000 members and over counted 20.

Societies were then asked to supply information as to their actual retail prices in the commodities stated on the fourth Tuesday in each month from January 1935 onwards. From this information, the average price for each commodity is calculated and reduced to an index. About 180-190 societies supply the required information monthly and the total membership of these societies is at present about 5½ million, which represents more than half of the total membership of the Co-operative Movement.

The following are the annual averages of the index numbers up to date:—

1934	100.0	1941	141.0
1935	104.2	1942	138.1
1936	109.3	1943	144.5
1937	116.4	1944	148.8
1938	117.6	1945	160.6
1939	119.9	1946	161.4
1940	137.6		

At the beginning of 1946 it was decided to separate coal and soap from the main index figure in order to indicate an additional index figure for the food items only, because it was clear by that time that the changes in the price of coal were affecting the full index considerably. Thus the average of the monthly figures for the food items only in 1946 was shown as 148.6, as against 151.4 for the full index.

It will be noted that the increase in the full index figure from 1938 to 1946 was 33.9 points, or 28.8 per cent. The index figures for the food items only have not been calculated for all the previous years prior to the division made in January 1946, but in order to test the war-time changes in the food items only, an appropriate index figure has been calculated for November 1938. That figure is 118.0, which is very similar to the main index figure for the same date. The index figure for the food items only in November 1946 was 148.6 which represented an increase of 30.6 points or 28 per cent. Thus, the effect of the increased price of coal on the full index is emphasised.

Due to war-time restrictions some of the quality descriptions in the 1934 commodity list have had to be abandoned, but in these instances the weights have been closed up without any interference with the basis of the index. An appropriate adjustment had to be made in May 1946 to allow for the smaller loaf at the same price.

It may be interesting to add that owing to doubts about the effect of war-time changes on the proportions which the various items in the list of commodities included in the index held to the total, a check was made in the early years of the war based on the sales position at that time. Information about the war-time proportions of commodity sales of various societies was collected for the last months of 1940 and a new table of weights calculated. On this new basis a "shadow" index figure was calculated for each of the months in the three years 1941-43. The figures calculated in this "shadow" index showed a very similar trend to the figures in the official co-operative index for 1941, but in 1942, when the official co-operative index moved downwards the "shadow" index remained about the same. In 1943 the official co-operative index and the "shadow" index were roughly comparable in movement. Taking the three years together the

"shadow" index has moved ahead of the official co-operative index. What is suggested by the comparison obtained as a result of the "shadow" index is that some of the war-time changes in supplies and prices of food-stuffs cancelled each other out, but that the 1934 basis tended to become unreliable as the war-time changes increased.

WEIGHTS ESTABLISHED IN 1934

	Weight		Weight
Milk, Pasteurised	480	Cheese, Empire	60
Flour (not self-raising)	80	Sultanas, Best	8
Sugar, granulated	240	Sultanas, Seconds...	8
Sugar, cubes	16	Currants, Best	12
Bacon (for whole *aides)—		Currants, Seconds	10
Danish Sides	180	Jams—	
English	36	Strawberry	8
Irish Rolls	20	Raspberry	6
Lard, English refined	60	Blackcurrant	6
Margarine, Standard	36	Marmalade	8
Biscuits, Best	20	Coal, Best	180
Biscuits, Cheap	10	Coal, Seconds	160
Cocoa, Best Brands (packeted)	16	Potatoes	40
Coffee	8	Soap	60
Eggs, English, new laid	90	British Beef, 'Ribs'	65
Eggs, Imported	36	British Beef, Flanks	10
Bread, Best ⁽¹⁾	400	British Mutton, Legs	16
Bread, Seconds	46	British Mutton, Breasts	4
Butter, Danish	200	British Lamb (not over six months' old)—	
Butter, Empire	180	Legs	16
Tea, No. 11 (or equivalent quality)	60	Breasts	2
Tea, No. 30 (or equivalent quality)	90	Chilled or Frozen Beef, 'Ribs'	30
Cheese, English	16	Frozen Mutton, Legs	7

(¹) Excluding bread containing an unusually high proportion of milk and fat.

APPENDIX III

HOUSEHOLD BUDGET INQUIRY OF 1937-38

On the recommendations of a Committee appointed by the Minister of Labour to advise the Department as to the methods by which information should be obtained as to the distribution of working-class expenditure for the purpose of providing material for a review of the basis of the official cost-of-living index figures, an inquiry was carried out in 1937-38.

Budgets giving particulars of the total expenditure of a random sample of households were obtained for each of four separate weeks at quarterly intervals, in October, 1937, and January, April and July, 1938. The great majority of the households who were asked to supply information were those of persons insured against unemployment, including manual wage-earners generally and non-manual workers with salaries not exceeding £250 a year; but some of the principal classes of manual workers, and of non-manual workers with salaries not exceeding £250 a year, who were not insured against unemployment were also included. The inquiry covered agricultural workers as well as workers engaged in industrial, commercial and clerical occupations. Nearly 9,000 households of industrial, &c., workers and a large number of agricultural households supplied budgets for each of the four weeks covered by the inquiry. In addition nearly one-fourth of these households supplied weekly returns of their expenditure on clothing over a period of twelve months from October, 1937. The average weekly expenditure of the industrial households was 85s., and that of the agricultural households 57s. 4d. A description of the scope of this inquiry and of the procedure adopted was given in the issue of the Ministry of Labour Gazette for December, 1940, together with a summary of the budgets supplied by the households of industrial, &c., workers. Summaries of the budgets supplied by the households of agricultural workers and of budgets collected from a selection of households in rural areas in England and Wales, through the agency of the National Federation of Women's Institutes, were published in the January and February, 1941, issues of the Ministry of Labour Gazette.

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