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1

The Secretary talked to Mr. Mack and
ld him to go ahead.



TREASURY DEPARTMENT

WASHINGTON

November 27, 1942

MEMORANDUM TO THE SECRETARY OF THE TREASURY:

It has been the custom for a number of years to enter into a general contract with the Potomac Electric Power Company for power to be used by the Federal Government in the District of Columbia and adjoining Maryland. These contracts have always been made on the basis of rate schedules established by the Public Utilities Commission of the District of Columbia.

Preliminary investigation indicates that there is justification for a re-negotiation of the present contract and the establishment of a new basis for future contracts. The outstanding facts disclosed are that the United States Government purchases approximately 35 per cent of the energy sold by Potomac Electric Power Company, that the average revenue at each premise of the Government was about \$4,280 in 1941, or 61 times the average revenue from other customers, residential and commercial combined, that the average cost of energy delivered from generating plants and transmission lines was 0.514¢ per kilowatt hour, whereas the average paid was 0.856¢ per kilowatt hour, and that the earnings of the utility in 1941 exceeded a rate of 6 per cent, allowable under the so-called Washington Plan, by \$892,147, or a rate of return of 7.17 per cent.

In accordance with the President's directive of October 22, 1942, to the Chairman of the Federal Power Commission, the Commission has been consulted and it has assisted in the preliminary inquiry.

We will be prepared, in the near future, to undertake re-negotiation with the Potomac Electric Power Company to obtain a reduced cost; and in view of our prior discussion in this regard, I would appreciate your further thoughts on the matter.

FOR DEFENSE



Cliff Mack
Clifford E. Mack
Director of Procurement

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

3 ✓
FROM George Buffington

BUREAU Office of the Secretary

CHG. APPROPRIATION Expenses of Loans

U. S. GOVERNMENT PRINTING OFFICE 16-1753

November 27, 1942

Executive Managers, Victory Fund Committee, (names attached)
To ~~Presidents~~ Federal Reserve Banks:

Boston, Mass.
New York, N. Y.
Philadelphia, Pa.
Cleveland, Ohio
Richmond, Va.
Atlanta, Ga.

Chicago, Ill.
St. Louis, Mo.
Minneapolis, Minn.
Kansas City, Mo.
Dallas, Texas
San Francisco, Calif.

As you know, the Victory Fund Committees have been organized for the purpose of inducing individuals, business concerns, organizations and associations to invest accumulated balances or idle funds in Government securities. In carrying out this program the Secretary has given instructions for Victory Fund Committees not to organize committees representative of women's organizations, labor unions, foreign origin groups, farmers, schools, and other associations of this character. Please direct your regional managers and others that these instructions must be followed. It is necessary to send you this communication because we have evidence that in some communities the Victory Fund Committees are creating an organization which duplicates the War Savings Staff. If this continues, unnecessary confusion will develop which will be detrimental to the efforts of both the War Savings Staff and the Victory Fund Committees.

BUFFINGTON

COPY



TREASURY DEPARTMENT

WASHINGTON

November 27, 1942.

Dear Mr. Secretary:

I am sending you airmail, under separate cover, proof of the announcement to be run in newspapers on Monday in 112 key cities. I hope you like it.

Enclosed herewith is a comment appearing in this morning's Baltimore Sun about the aid the American Bankers Association is giving the Victory Fund Committees. I am also enclosing a copy of a letter received this morning from Frank Kent, which I believe will amuse you.

Sincerely yours,

George Buffington,
Assistant to the Secretary.

Honorable Henry Morgenthau, Jr.,

Secretary of the Treasury.

Enclosures.

NEW YORK DEPARTMENT

NOV 30 3 15 PM '42



THE



SUN

SUN SQUARE
BALTIMORE, MD.

November 24, 1942.

Dear Mr. Buffington:-

The enclosed article has been sent to all my papers and was printed in The Sun this morning. I hope you will think it helpful. And I trust I did not shock you and Mr. Hobbs too much by the warmth with which I talked to you about waste. But, it really is a vital subject and I do wish the Treasury would show more concern about it.

You may be interested in knowing that your Committee here has just asked permission to re-print 300,000 copies of this article for distribution in this territory.

Occasionally the Wall Street Journal leaves out one of my articles. If they do not use this one to-morrow or Friday, I suggest that you wire Mr. W. H. Grimes, Editor, asking him to do so.

With best regards,

Sincerely,

Mr. George Buffington,
Assistant to the
Secretary of the Treasury,
Washington, D. C.

THE



SUN

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BALTIMORE, MD.

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Mr. George Buffington,
Assistant to the
Secretary of the Treasury,
Washington, D. C.

BANKERS WILL AID U. S. VICTORY FUND

Association Outlines Role In
\$9,000,000,000 Financing
Effort

[By the Associated Press]

New York, Nov. 26—The American Bankers Association today outlined to its membership of 14,000 banks plans for their participation in the Treasury's \$9,000,000,000 Victory Fund war financing campaign in December.

The bank members of the organization have been sent a booklet describing how volunteer workers and bankers could best make the campaign a huge success.

Enrolled In Committees

Federal Reserve district key bankers have been enrolled in Victory Fund committees and in subcommittees in all States and most counties and municipalities. About 45,000 volunteer workers—largely from banks—will assist in the campaign.

The volunteers will seek out individual investors, municipal and county fund officials, endowed educational, social and religious institutions, fraternal organizations and large and small corporation bank depositors.

Variety Of Securities

Said the A. B. A.'s booklet:

"The December campaign includes a wide variety of Government securities, many of them already well known and others new in their appeal.

"Included are Treasury bills, certificates of indebtedness, and tax savings notes A and C, which are rapidly growing in importance. There are included, too, the familiar United States saving bonds of Series F and G, and Treasury bonds.

"One of your (the bank's) first contributions to the success of the campaign will be the preparation of a prospect list of investors who can and should purchase some of the securities offered by the Treasury."

Newspaper Ads

Newspaper advertisements prepared by the Treasury will be used early in the campaign by banks at their own expense. Some of the advertisements will be used by individual banks, others cooperatively by groups of banks.

"The sale of \$9,000,000,000 of Government securities in December is vital to the prosecution of the war," the booklet concluded.

"Banks know the needs of the nation and stand ready to do its part. The banks will help America—swiftly, eagerly, effectively, and with all the skill, experience, and facilities at their command."

\$9,000,000,000 VICTORY LOAN

The Secretary of the Treasury has assigned to the Victory Fund Committees the task of raising Nine Billion Dollars for the War effort. These funds are to be raised *during the month of December.*

The War wheels turn swiftly now. Our guns boom over the Mediterranean, in the South Seas, in Russia, in the hills of China, across the English Channel, and on every ocean where our convoys pass. Behind them must stand our billions—billions of dollars.

Every American should *lend every available dollar* to our Government. Every American corporation with available cash should purchase suitable Treasury issues. The Treasury Department has created issues of securities to meet the requirements of all investors with accumulated savings or idle funds.

We offer on behalf of The United States Treasury a New Issue 2½% Victory Bonds of 1963/68

Available in coupon or registered form, readily marketable, acceptable as bank collateral, and paying interest semi-annually.
Price 100% and accrued interest.

THESE BONDS ARE SUITED TO TRUST FUND AND ESTATE INVESTMENT AND MEET THE REQUIREMENTS OF MOST INDIVIDUAL INVESTORS. THEY MAY NOT BE PURCHASED UNTIL 1952 BY BANKS ACCEPTING DEMAND DEPOSITS.

WE ALSO OFFER ON BEHALF OF THE TREASURY

1½% Treasury Bonds

Due June 15, 1948 and yielding 1½%.
(Readily marketable bonds acceptable as bank collateral. These bonds will find favor with banks, individuals and corporations desiring a short term investment. They are issued in coupon and registered form.)

Treasury Certificates of Indebtedness

Due December 1, 1943 and yielding 3/4 of 1%.
(The above issue appeals particularly to banks and to corporations with large temporary cash balances.)

Treasury Tax Savings Notes

(Tax Notes are especially adapted to individuals and corporations accumulating cash for the payment of Federal income, estate or gift taxes—for which they are acceptable *ad par* and *accrued interest*—and for investment of temporarily idle funds of individuals, corporations and public bodies.)

United States Savings Bonds—Series F

Due 12 years from date of issue and yielding about 2.53% if held to maturity.

(This issue is not marketable but may be redeemed by the owner at fixed prices prior to maturity, although in that case the yield is not the full 2.53%. These bonds are registered and appeal particularly to those preferring to have their savings accumulate, rather than to receive current income.)

United States Savings Bonds—Series G

Due 12 years from date of issue and yielding 2.50% if held to maturity. Interest payable semi-annually.

(This issue is not marketable but may be redeemed by the owner at fixed prices prior to maturity, although in that case the yield is not the full 2.50%. These bonds are registered and are designed to provide current income.)

Detailed descriptions of the above issues are available at all Banks and Trust Companies. Selection should be made on the basis of individual requirements. Any Bank, Investment Dealer, Broker or other member of the Victory Fund Committee will be pleased to discuss these issues with you, and to act for you, without charge, in their purchase.

VICTORY FUND COMMITTEE

SECOND FEDERAL RESERVE DISTRICT

Analysis of Exposure to Payroll Savings Plans
November 21, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Firms with 5,000 employees or more.....	469	472	99
(2) Firms with 500 to 4,999 employees.....	5,607	5,778	97
(3) Firms with 100 to 499 employees.....	<u>24,873</u>	<u>29,502</u>	<u>84</u>
(4) Subtotal - large firms.....	30,949	35,752	87
(5) Firms with less than 100 employees.....	<u>127,660</u>	*	*
(6) Total business organizations.....	158,609	*	*
II. Governmental organizations.....	*	*	*
III. Grand total.....	<u>158,609</u>	<u>*</u>	<u>*</u>

Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	8,639,444	*	*
(2) Firms with 500 to 4,999 employees.....	7,378,756	*	*
(3) Firms with 100 to 499 employees.....	<u>5,646,812</u>	*	*
(4) Subtotal - large firms.....	21,665,012	*	*
(5) Firms with less than 100 employees.....	<u>3,138,305</u>	*	*
(6) Total business organizations.....	24,803,317	32,800,000 1/	76
II. Governmental organizations			
(1) Federal Government.....	2,181,131	2,700,000 1/	81
(2) State and local governments.....	<u>1,398,172</u>	<u>2,800,000</u>	<u>50</u>
(3) Total governmental organizations.....	<u>3,579,303</u>	<u>5,500,000</u>	<u>65</u>
III. Grand total.....	<u>28,382,620</u>	<u>38,300,000 1/</u>	<u>74</u>

Treasury Department

November 27, 1942

1/ Excludes agricultural employees, military personnel, employees on WPA or NYA or CCC projects, proprietors, firm members, self-employed, casual workers and persons in domestic service.

* Data not available.

Firms Employing 500 Persons or More Participating in Payroll Savings Plans
(As reported by the War Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Nov. 14	Nov. 21		Apr. 18	Nov. 14	Nov. 21
Alabama.....	41	67	67*	68	60	99	99
Arizona.....	9	14	14	14	64	100	100
Arkansas.....	16	17	17*	17	94	100	100
Northern California.....	122	130	130	131	93	99	99
Southern California.....	121	151	151	155	78	97	97
Colorado.....	25	31	31	31	81	100	100
Connecticut.....	114	152	153	166	69	92	92
Delaware.....	15	23	23	23	65	100	100
District of Columbia.....	32	50	50	51	63	98	98
Florida.....	28	44	44	48	58	92	92
Georgia.....	86	125	125	125	69	100	100
Idaho.....	11	11	11	11	100	100	100
Illinois.....	391	489	491	496	79	99	99
Indiana.....	88	145	146	165	53	88	88
Iowa.....	22	24	27	33	67	73	82
Kansas.....	23	25	25	25	92	100	100
Kentucky.....	38	49	49	51	75	96	96
Louisiana.....	29	51	51	51	57	100	100
Maine.....	48	54	55	55	87	98	100
Maryland.....	84	111	111	111	76	100	100
Massachusetts.....	237	316	316	326	73	97	97
Michigan.....	265	285	285	285	93	100	100
Minnesota.....	79	81	81*	81	98	100	100
Mississippi.....	26	34	34*	34	76	100	100
Missouri.....	103	132	137	139	74	95	99
Montana.....	3	4	4	4	75	100	100
Nebraska.....	23	27	28	28	82	96	100
Nevada.....	4	4	4	4	100	100	100
New Hampshire.....	29	32	32	32	91	100	100
New Jersey.....	142	194	196	197	72	98	99
New Mexico.....	5	5	5	5	100	100	100
New York.....	759	901	903	928	82	97	97
North Carolina.....	103	136	137	140	74	97	98
North Dakota.....	0	0	0	0	-	-	-
Ohio.....	412	484	485	504	82	96	96
Oklahoma.....	31	52	52	52	60	100	100
Oregon.....	48	55	55	55	87	100	100
Pennsylvania.....	551	618	620	657	84	94	94
Rhode Island.....	61	77	77	84	73	92	92
South Carolina.....	84	98	98	100	84	98	98
South Dakota.....	5	5	5	5	100	100	100
Tennessee.....	50	87	88	93	54	94	95
Texas.....	63	117	119	120	53	98	99
Utah.....	8	10	10	10	80	100	100
Vermont.....	12	12	12	12	100	100	100
Virginia.....	93	102	102	102	91	100	100
Washington.....	49	73	73*	73	67	100	100
West Virginia.....	36	77	77	77	47	100	100
Wisconsin.....	127	154	154	154	82	100	100
Wyoming.....	1	4	4	4	25	100	100
Alaska.....	3	3	3*	3	100	100	100
Railroads.....	109	109	109	115	95	95	95
Total.....	<u>4,864</u>	<u>6,051</u>	<u>6,076</u>	<u>6,250</u>	<u>78</u>	<u>97</u>	<u>97</u>

November 27, 1942

Treasury Department

* Data are for November 14, inasmuch as no November 21 report was received.

Firms Employing 100 to 499 Persons Participating in Payroll Savings Plans
(As reported by the War Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Nov. 14	Nov. 21		Apr. 18	Nov. 14	Nov. 21
Alabama.....	149	256	256*	347	43	74	74
Arizona.....	43	71	71	71	61	100	100
Arkansas.....	44	48	48*	109	40	44	44
Northern California.....	512	714	718	718	71	99	100
Southern California.....	756	1,048	1,068	1,493	51	70	72
Colorado.....	113	136	136	141	80	96	96
Connecticut.....	277	555	561	719	39	77	78
Delaware.....	21	58	59	65	32	89	91
District of Columbia.....	52	159	164	208	25	76	79
Florida.....	147	217	219	219	67	99	100
Georgia.....	133	391	392	419	32	93	94
Idaho.....	31	33	33	33	94	100	100
Illinois.....	1,300	2,029	2,070	2,253	58	90	92
Indiana.....	415	682	684	854	49	80	80
Iowa.....	160	164	175	263	61	62	67
Kansas.....	276	288	288	299	92	96	96
Kentucky.....	136	210	226	282	48	74	80
Louisiana.....	179	280	283	320	56	87	88
Maine.....	60	155	155	171	35	91	91
Maryland.....	177	343	345	405	44	85	85
Massachusetts.....	639	1,124	1,133	1,532	42	73	74
Michigan.....	689	1,001	1,003	1,303	53	77	77
Minnesota.....	376	440	440*	446	84	99	99
Mississippi.....	59	92	92*	107	55	86	86
Missouri.....	472	688	706	706	67	97	100
Montana.....	40	49	49	49	82	100	100
Nebraska.....	103	131	135	143	72	92	94
Nevada.....	14	20	20	28	50	71	71
New Hampshire.....	89	143	144	174	51	82	83
New Jersey.....	463	976	978	1,176	39	83	83
New Mexico.....	33	41	41	42	79	98	98
New York.....	2,060	3,870	3,887	4,257	48	91	91
North Carolina.....	282	480	481	565	50	85	85
North Dakota.....	14	20	20	20	70	100	100
Ohio.....	1,126	1,740	1,745	2,197	51	79	79
Oklahoma.....	166	301	301	323	51	93	93
Oregon.....	211	294	294	306	69	96	96
Pennsylvania.....	1,682	2,260	2,267	2,267	74	99	100
Rhode Island.....	154	279	283	345	45	81	82
South Carolina.....	71	156	156	170	42	92	92
South Dakota.....	21	26	26	26	81	100	100
Tennessee.....	199	408	408	524	38	78	78
Texas.....	326	686	711	1,378	24	50	52
Utah.....	36	44	44	44	82	100	100
Vermont.....	59	68	68	74	80	92	92
Virginia.....	281	356	359	385	73	92	93
Washington.....	234	357	357*	455	51	78	78
West Virginia.....	134	218	220	314	43	69	70
Wisconsin.....	278	479	480	680	41	70	71
Wyoming.....	17	23	23	23	74	100	100
Alaska.....	2	2	2*	2	100	100	100
Railroads.....	49	49	49	52	94	94	94
Total.....	15,360	24,658	24,873	29,502	52	84	84

November 27, 1942

Treasury Department

* Data are for November 14, inasmuch as no November 21 report was received.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 27, 1942.

TO Mr. Thompson.

FROM Mrs. Ross.

In reference to your telephone conversation concerning stocks of coins on hand and orders filed against them, I submit the following:

	<u>Halves</u>	<u>Quarters</u>	<u>Dimes</u>	<u>Five-cent Pieces</u>	<u>Cents</u>
Balances held*	\$3,685,209	\$2,654,748	\$2,969,940	\$ 54,545	\$ 51,130
Orders filed for shipment*	695,000	710,000	855,000	370,500	20,000

*Close of business November 21st, from reports on hand.

In addition to the above-mentioned orders, the Treasurer's Office has requests from the Federal Reserve Banks for coins that have not been filed with the Mints. The Treasurer's Office only files the orders when, in their opinion, the stocks in the Reserve Banks are low and require replenishing. In the case of the one-cent coin, however, orders have not been filed because of the limited supply of metals to manufacture them. If these orders were filed, they would exceed the supply in the Mints.

The Mint has filled all orders for coin except for the one and five-cent denominations. The shortage of strategic metals, of which you are familiar, has caused the shortage in these two denominations. At the present time, five-cent pieces are being manufactured and the backlog of orders is gradually being reduced. It is only recently that the stock of one-cent pieces has become depleted. We now await legislation to enable the production of cents of a new alloy. If legislation is passed within the next week (the bill has already passed the Senate), production can be started, it is believed, the first ten days of January. In the meantime, I have started a drive to bring hoarded one-cent coins back into circulation, which, it is believed, will supply enough coins to alleviate the situation even though the Mint's supply is exhausted.

R.T.R.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 413

Information received up to 7 A.M., 27th November, 1942.

1. NAVAL

NORTHERN WATERS. On 26th a convoy of 31 ships from NORTH RUSSIA reached vicinity of ICELAND (C).

2. MILITARY

LIBYA. There are indications Rommel intends to hold line MERSA BRAGA-BINES SUERA-MAATEN JIOFENO MARADA but it is considered probable that with his present weak forces he may have to confine his strength to the main position in the Northern Sector. On 25th, a United Kingdom Armoured Brigade was in contact with enemy rearguard about 9 miles east of MERSA BRAGA. Much digging was observed in enemy main position which was well supplied with light anti-aircraft equipment.

FRENCH NORTH AFRICA. First Army began a general advance on TUNIS and BIZERIA in evening 24th. No information yet received regarding progress.

3. AIR OPERATIONS

WESTERN FRONT. 26th. Fighters successfully attacked railway and military targets in Northern France and Low Countries, also shipping off Dutch Coast. Casualties - ours 6, nil, nil. Enemy 4, nil, nil.

26th/27th. 30 aircraft laid 45 mines in enemy waters.

FRENCH NORTH AFRICA. During 22nd and 23rd Lightnings from TEBESSA operated in GABES-SFAX area and destroyed 12 Italian troop carriers and 3 other aircraft in the air and on the ground, as well as 11 tanks.

Night 25th/26th. Wellingtons dropped 20 tons of H.B. on TUNIS docks hitting oil cisterns and causing large fires.

23rd. Intense enemy air activity developed against roads in MEDJES EL BAB-BaJA area.

MEDITERRANEAN. 26th. Beaufighters shot down a northbound JU 52 off CAPL BOR.

LIBYA. 25th. 3 enemy air attacks against our armoured units in JEDABYA area caused damage to vehicles and some casualties.

BURMA. 25th. Escorted Blenheims bombed NYINGYAN Railway Station (60 miles south west of MANDALAY).

Night 25th/26th. NINGALADON airfield and HEHO were attacked.

Regraded Unclassified

11-27-42

INTELLIGENCE REPORT 51

TO THE DIRECTOR, OWI

CONFIDENTIAL

This document contains information relating to the national defense of the United States within the meaning of the Espionage Act, as amended, U. S. Code 50, Sections 31 and 32. Its transmission or communication in any manner to any unauthorized person is prohibited by law.

OFFICE OF
WAR INFORMATION

BUREAU OF
INTELLIGENCE

COPY No. 7
Henry Morgenthau, Jr.

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The period covered by this report is the week of November 19 through November 24, except where otherwise specifically stated.

EDITORIAL ATTITUDES

THANKSGIVING

The good cheer continued. A study of major headlines in 20 metropolitan newspapers for the week indicated that 78 per cent of them blazoned good news from one or another of the fighting fronts. Editorial comment was scarcely less buoyant.

Commentators took time off from sober interpretation of the war to salute the Navy. They tossed their hats in the air for the Boise. They paid tribute to Admiral Callaghan and eulogized Admiral Halsey. Even on sober second thought, most commentators agreed with the Houston Chronicle that the naval battle around the Solomon Islands "is likely to rank among the decisive naval victories of the world..."

There were almost equal plaudits for General MacArthur and his allied troops pushing the Japanese back on New Guinea. The Patterson and McCormick newspapers once more boomed the General as the great American hero. They argued that, given adequate troops and equipment, he could roll the Japanese right back to Fujiyama.

Comment on the North African campaign assumed a somewhat less roseate hue as editors, columnists and radio broadcasters speculated on the enemy's next moves. The Birmingham Age Herald was among those pointing out that "If Rommel could rally the remainder of his army... the allies would again be facing a much more formidable job than that which has been tentatively visualized as possible in the last week."

Some counterstroke by Hitler is generally anticipated. William Philip Simms, in the Scripps-Howard newspapers, outlined the possibilities most commonly considered: "He might try to cross Spain to get to Gibraltar and Morocco. He might try to reach the oil fields of the middle East through, or by going around, Turkey. He might even try an invasion of England... Or, he might consolidate his present hold on the continent, go on the defensive, and at the same time launch a peace move."

Guessers pointed most frequently to Spain. They found cheer in General Franco's reiteration of his neutrality. But the return of Serrano Suner to a cabinet post aroused some apprehension. Raymond Gram Swing suggested, on the air, that the Spaniards might be getting ready to stab General Eisenhower's North African expeditionary force in the back.

Interpretations of the battle for Tunisia were in agreement as to its strategic importance. According to the Denver Post, "When it is won by the allies, they will be in a position to strike and strike hard at the most vulnerable link in the Axis chain -- Italy." Most prognostications were extremely hopeful. The Cleveland Plain Dealer, for example, said that the Axis, "outnumbered and underequipped... cannot overcome through reinforcements and new supplies the advantage held by the United Nations in North Africa."

FRANCE

As soon as the President issued his statement defining General Eisenhower's arrangement with Admiral Darlan, a flood of comment appeared, revealing profound relief and agreeing heartily with Mr. Roosevelt. "Darlan ordered

Frenchmen to capitulate, and they did so," the St. Louis Post-Dispatch pointed out. "The fact that Eisenhower accepted this help certainly did not mean that he was setting up a Vichy regime, American model, in North Africa, or that he was attempting to dictate the future of France. That, as the President said, will be determined by Frenchmen."

For the remnants of the Vichy regime, Laval in particular, commentators expressed only the utmost contempt. In cartoons, Laval was commonly portrayed in the form of a mustached rat or a diminutive fuehrer. It is generally assumed that the French people are overwhelmingly eager to share in a United Nations victory.

GERMANY

A good many commentators expressed the view that Germany is weakening on the political and economic, as well as on the military, fronts. Nazi efforts to keep the news of North Africa from the German people, or to twist its real significance, were viewed as indicative of low morale within the Reich. Occupation of southern France was expected to raise transportation difficulties. Numerous comments suggested that Italy's vulnerability to air attack would have shattering effects on the outlook of Italians. The food shortage throughout Europe might be aggravated by the loss of Algeria and Morocco. Rumors of a rift between Hitler and his generals were occasionally seized upon as further evidence of Nazi internal difficulties.

A few newspapers warned vehemently against placing any credence in such rumors. The Christian Science Monitor regarded them as prefabricated in Germany and declared that "The object of such moves is to catch the free

world in the snare of a 'cheap peace.' No one knows better than the German militarists that there is no such thing. The rest of us should know it, too, by now." And the Philadelphia Record cautioned that "The overthrow of Hitler will not alone be victory. Nor will a deal with the Junkers be peace." In general, it seems unlikely at this time that American press and radio will rise easily to any "negotiated victory" bait.

POPULAR REACTIONS

CONFIDENCE

The rout of Rommel's forces in North Africa by the British Eighth Army gave a striking boost to the confidence of Americans in England's war effort. Just prior to news of the decisive British victory, and again shortly following it, the Princeton University Office of Public Opinion Research posed the following question to comparable national samples:

DO YOU THINK THAT THE BRITISH ARE DOING ALL
THEY POSSIBLY CAN TO WIN THE WAR?

	<u>October 27</u>	<u>November 10</u>
Yes	64%	74%
No	23	18
Don't know	13	8

Opinion on this topic has fluctuated sharply with the changing fortunes of war. Last February, immediately after the fall of Singapore, no more than 49 per cent of the American public were willing to credit the British with making an all-out war effort.

Public confidence in the American war effort was similarly heightened by the news of General Eisenhower's successful invasion of French North Africa:

DO YOU THINK THE UNITED STATES IS DOING ALL
IT POSSIBLY CAN TO WIN THE WAR?

	<u>October 27</u>	<u>November 10</u>
Yes	67%	75%
No	28	22
Don't know	5	3

Although these questions have been asked with great frequency throughout the year, this is the first time that the approval expressed for the British war effort equalled that expressed for the United States.

PRESCRIPTION FOR A RADIO SERIES

As pointed out in last week's Intelligence Report, three people in ten of a national cross section interviewed in November felt that they were being given too little news about the fighting fronts. Either because recent releases have failed to satisfy many individuals or because attacks on Army and Navy information policy have shaken public confidence, dissatisfaction has mounted sharply since last summer. It is now at the highest point since people were first questioned about the adequacy of military news in February.

Persons interviewed in November were also asked: "Suppose a Government official were going to make regular radio talks to the people — what would you like to have him talk about?" Their replies, tabulated below in general categories, point to the areas about which people want authoritative information. Percentages add up to more than a hundred

because multiple answers were permitted.

Military progress of the war	40%
Domestic issues	20
What our leaders are doing	12
Civilian participation in the war	8
Post-war world	8
Production, shipping, equipment	7
Nothing	7
Miscellaneous	9
Not ascertainable	7

Responses sometimes showed quite specifically what questions people want to hear discussed, and even what kind of approach they would be likely to approve. For example, the individuals who wanted more information about "the progress of the war" were hungry not only for news of how U.S. troops are faring in different parts of the world, but also for analyses of the probable length of the war and the prospects for victory. They were insistent that the treatment be frank. They wanted the complete war picture -- in the words of one respondent, "Full discussion of all facts -- good, bad or indifferent." But many of them explicitly recognized the need for withholding any information which might be of value to the enemy.

The people who wanted to hear domestic issues discussed were in general a hard-boiled lot. Many of them were clearly critical of the Administration, and wanted explanations of policies of which they disapproved. Typical was an individual who thought the official should use his radio time to account for the Government's "favoritism" toward unions. Others wanted to hear talks on problems which vexed them -- the rising cost of living, the difficulty of finding farm help. There was some irritated demand for talks explaining the need for various rationing programs.

Most of the people who wanted more information about what the nation's leaders are doing also manifested a critical tendency. They felt that they should be acquainted with the duties of important officials, and recognized that they were not. Many of them expressed an interest in Congressional procedure and a desire for information about the measures considered by Congress. A wide audience evidently exists for a series of down-to-earth talks on the functioning and problems of a democratic government in wartime.

The people who asked that civilian participation be discussed wanted clear-cut instructions on what they could do to help win the war. There was a widespread desire for facts about nutrition and for practical advice on conserving money and materials. Some people requested that the talks suggest ways in which women, school children and other groups might participate in the war effort.

The people who wanted the Government spokesman to talk about the post-war world were particularly concerned about the nature of the peace and the future role of the United States in world affairs. Those who wanted authoritative information about production were interested not only in the broad question of how well production is going, but in the way in which our fighting equipment compares with that of other nations. Considerable curiosity was manifested about the shipbuilding program and the success being experienced in getting supplies to the fighting fronts.

Seven per cent of the people interviewed were opposed or indifferent to the proposed series of radio talks. Some of them said that they were well satisfied with the information they are being given at present; others were simply

uninterested. A recalcitrant few took the position that the official couldn't tell the truth and that there would be no point in listening to him.

The better educated respondents were somewhat less prone than those who had not completed high school to request that the military progress of the war be discussed in the radio talks. In contrast, they exhibited considerably more interest than the less well educated people in issues connected with the peace and the post-war world. They tended to be somewhat more critical than the less well educated and were notably more concerned about the nation's financial situation. Few differences were evident on a regional basis, save that people in the South were least inclined to demand explanations from the Administration about its conduct of the war.

LEND-LEASE REPAYMENT

Nine Americans in ten believe that we should continue to send supplies to our allies -- even if it means that we will have some shortages here at home. But only four in ten believe that we should give our allies these supplies. America is not yet ready for Sir Walter Venning's recent proposal that bookkeeping be forgotten in connection with Lend-Lease.

There is, however, a pronounced trend in the direction of greater generosity toward our allies. This is evident from responses to a question which has now been asked of a national cross section four times this year:

DO YOU THINK WE SHOULD GIVE OUR ALLIES THE SUPPLIES
WE ARE SENDING THEM, OR DO YOU THINK WE SHOULD GET
REPAID FOR THEM IN SOME WAY AFTER THE WAR?

	<u>February</u>	<u>July</u>	<u>October</u>	<u>November</u>
Give to allies	19%	35%	37%	39%
Get repaid	75	58	55	54
Don't know	6	7	8	7

In November, the group of people who felt that the U.S. should exact some type of repayment from its allies was asked: "In what way should they repay us?" Many respondents showed little awareness of the economic difficulties repayment would involve. About half of the group (26 per cent of the entire sample) replied, "In money." Seventeen per cent felt that we should be paid back in goods. Others felt that our allies should make trade concessions to us after the war or turn over colonies or land to the United States.

The belief that Lend-Lease balances can be cancelled through payment in money and goods may be a source of serious trouble in the post-war world. Quite apart from their military contributions in the common struggle against the Axis, America's allies have made at least partial repayment in the form of technical aid, patents and industrial processes. Dramatization of the reciprocal nature of Lend-Lease may make Americans less insistent upon a cash settlement of accounts, and educate them to the importance of international cooperation in the post-war economic order.

DEVELOPING SITUATIONS

FARM DIFFICULTIES

In addition to the widely publicized rural labor shortage, farmers now face other serious difficulties which threaten food production. Reports received by the Bureau of Intelligence from OWI field representatives and correspondence panels indicate that the nation's food producers are now

handicapped by transportation problems and by a scarcity of farm machinery.

The scarcity of farm machinery, coupled with the labor shortage, may result in an unfortunate shift in agricultural production. One Middle Western correspondent observed: "The kind of farm production requiring most labor is the kind the country most needs, such as dairying and meat production. When help gets scarce, a farmer who is engaged in this kind of production may be forced to turn to the only kind of production he can manage almost alone with machinery. He grows more cereal crops. In other words, he shifts from the kind of production we need to the kind we don't."

The tire shortage and difficulties in buying and repairing trucks trouble farmers in getting their produce to market. Dairymen in some areas find it impossible to meet the requirements of city health departments that their milk trucks be insulated. Farmers and ranchers in southern plain states fear that they will be unable to conduct their business under gasoline rationing because they already use passenger cars to do much of their hauling. A report from South Dakota estimates that 30 to 40 per cent of the trucks moving farm produce and supplies will be off the road within a year, unless additional tires are made available. Truck registration has badly snarled existing truck pooling arrangements among farmers and has occasioned widespread resentment.

Because they are afraid that they will not have men and machinery to operate their farms, farmers in many parts of the country are reducing their production. In the New York milk shed area, it is reported, 32 auctioneers say they sold 40,821 head of cattle up to the middle of October this year,

as compared with 25,125 for the same period in 1941. Agricultural war boards in Wisconsin, a leading dairy state, report a new high in farm auctions -- 3,000 sales listed so far this year. Wool sheepmen in several mountain states are reducing their flocks as much as 40 per cent because of the lack of sheep herders. Parts of many crops, such as fruit, cotton, sugar beet and garden truck were not harvested for ~~lack~~ of labor.

Remembering the costly investment they made during the last war and the serious farm collapse after it, a growing number of farmers are reluctant to expand their operations in order to increase production; they hesitate to purchase seed, feed, livestock and other necessary items to produce crops which they fear will not reach market.

The field men and correspondents report the following solutions suggested by local farm leaders:

- (1) Defer farm labor from the Army on the same basis as other skilled or professional deferments.
- (2) Allocate or ration labor to meet the needs of agriculture.
- (3) "Freeze" farm laborers to their jobs.
- (4) Make wider use of Japanese labor from relocation areas and import more Mexican labor.
- (5) Mobilize local citizenry to meet seasonal demands.

Aware of their responsibilities, many farmers urge an educational program to acquaint city people with the importance of the farmer in the war program and with the problems he faces. Informational measures seem needed also to persuade farmers that the Government is genuinely aware of their

difficulties and is acting effectively to solve them. Their hired hands need assurance that the work they do in the fields constitutes a patriotic service to the nation. And the farmers themselves need to be reminded that their production of essential crops is a vital part of the war effort.

SELECTIVE SERVICE

Interviewing conducted by the American Institute of Public Opinion indicates that over-all satisfaction with the fairness of Selective Service has been subject to only slight fluctuation during the last six months. In April and October three-quarters of the people interviewed thought that the draft was being handled fairly in their communities.

The people who expressed dissatisfaction with the operation of Selective Service were asked: "In what way is the draft not being handled fairly?" Significant differences are apparent between the criticisms voiced in April and in October. On both occasions the most common complaint was that favoritism is shown by local boards — that money and politics talk — but this accusation declined in relative importance between April and October. And fewer complaints were made in October about draft boards taking too many skilled workers or men who are physically unfit.

In contrast, there was a sharp rise in criticisms over inconsistencies among local draft boards. People also protested more in October than in April that draft boards "take married men while there are still single men around." Similarly, there were many complaints about draft boards taking older men, while young men are still left in civilian life — a complaint which no one raised in the spring.

Complaints about the number of farm boys being drafted also rose between April and October, undoubtedly in reflection of the tight farm labor situation. It is encouraging to note that the policies about which increased dissatisfaction was felt have already been modified, or are now in process of being changed.

Save that farmers were slightly more critical than the rest of the nation, there were no significant differences in satisfaction with Selective Service by occupation, economic status, region, age, religion or nationality background. Nor was there any difference in attitude between people who have members of their families in the armed forces and those who do not.

People who disapprove of the way President Roosevelt is handling his job were distinctly more critical of Selective Service than those who approve of his leadership. Their dissatisfaction may stem in large part from a generalized distrust of the Administration. Previous studies have shown that the anti-Roosevelt minority tends to be more critical than the President's supporters of most phases of the war effort.

THE PRESS AND FEDERAL EMPLOYEES

Senator Byrd's charge that the Federal Government is the "chief offender" in the waste and hoarding of manpower is receiving a good press. Most newspapers did not have to be persuaded as to the merit of the Senator's viewpoint. Criticism of the "overstaffing" of Government agencies has been common in editorial discussion of the manpower crisis in recent weeks. One or two columnists wouldn't let a piece on the African offensive go by without at least a passing reference to boondoggling in Washington.

Thus Senator Byrd's statement provided an occasion for a return to familiar ground. Of approximately 40 newspapers checked by the Bureau of Intelligence, 19, plus a pair of columnists, joined the excursion this past week. Only Samuel Grafton dissented. He pointed to the work done by OWI employees in connection with the African offensive as an example of loyal devotion to duty.

The widespread endorsement of the Byrd charges contrasts sharply with the limited attention paid to Elmer Davis's speech of November 17 at the New York Herald Tribune Forum. In this address Mr. Davis stressed the devotion, hard-work and small pay of most Government employees. Few newspapers gave these remarks more than the most perfunctory news coverage, and none of the papers checked by the Bureau commented on them editorially.

The treatment of the President's order tightening deferments for Federal employees also suggests that the press puts a low evaluation on their services. All of the ten newspapers commenting on the order approved it. A typical reaction was that of the Cleveland Plain Dealer, which said that the order "corrects the most glaring injustice in Selective Service management. Despite the labor shortage, the Government has steadfastly refused to adopt a Spartan code for itself."

CONFUSION ABOUT WAR AIMS

Recent statements of highest United Nations' officials have created the impression that the war aims of the United States, England and Russia have not yet been satisfactorily reconciled. There appear to be important differences of opinion with respect to the treatment of colonies on the one hand and the aggressor nations on the other.

Whatever their intent may have been, and however they may lag behind actual British practice, Prime Minister Churchill's remarks of November 10 on colonial policy gave many people the impression that England is fighting to preserve the status quo. Churchill declared: "We mean to hold our own. I have not become the King's first minister in order to preside over the liquidation of the British Empire." The tone and apparent significance of this statement contrast sharply with the Atlantic Charter and with President Roosevelt's address, a few days after Churchill's, on the occasion of the seventh anniversary of the Philippines Commonwealth Government. In this speech the President reasserted the principle that "the acceptance of sovereignty (by the United States) was but an obligation to serve the people of the Philippines until the day when they themselves might be independent and take their own place among the nations of the world."

Senator Pepper severely criticized the Churchill statement in a speech at Boston to a CIO convention and in a later interview. Although paying tribute to Churchill as "the leader of a great nation," he deplored the fact that "considerations of Empire had not been eliminated from the objectives of the war." In his interview he declared: "I am sure that Mr. Churchill... did not intend to forget humanity in a moment when our fortunes were a little better, and become a spokesman for Empire."

The Indian leader Rajagopalachariar interpreted Churchill's remarks as an indication that Britain did not intend to give India her independence. In an interview with New York Times correspondent Herbert Matthews, he said: "You Americans are thinking only of war, but England wants to retain her Empire. Will America fight for India after this war if during the war you

allow yourselves to be dictated to by Mr. Churchill. The American Government can tell the British they must solve the Indian problem..."

Stalin reopened the question of the post-war treatment of the Axis powers with his statement of November 6, in which he reviewed the war and Soviet international policy. After denouncing the absurdity of Hitler's declared intention of destroying Russia and all her organized military forces, he made it plain that Russia was fighting to annihilate Hitler's Government and Hitler's Army, not to destroy and disarm.

"It is not our aim to destroy Germany, for it is impossible to destroy Germany, just as it is impossible to destroy Russia... It is not our aim to destroy all military force in Germany, for every literate person will understand that this is not only impossible in regard to Germany, as it is in regard to Russia, but it is also inadvisable from the point of view of the future..."

There is a possible contradiction between these words and Point Eight of the Atlantic Charter, which states that "the disarmament of (aggressor) nations is essential." Stalin's position also appears to be at variance with recent statements of other United Nations leaders, which have tended to call for more and more severe treatment of Germany and Japan. Illustrative of the trend was the speech by Foreign Minister Eden at Glasgow on October 30, in which he declared: "Hitler is not an accident. He is a symptom. Let no one forget that in the kind and generous moments after the war... The problem of Germany will remain because Hitlerism has inculcated this terrible doctrine into the young people of Germany." Eden implied that Germany would have to be supervised for a long period after the war.

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Regraded Unclassified

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SECRET

Minutes of the Meeting of the Board of Economic Warfare
Held November 27, 1942, at 10:00 a. m.

A meeting of the Board of Economic Warfare was held in the Vice President's office in the Capitol Building at 10:00 a. m., on November 27, 1942.

Those present:

The Vice President, Chairman of the Board
Mr. Dean Acheson, representing the Secretary of State
Mr. Robert Patterson, representing the Secretary of War
Mr. Charles Fahy, representing the Attorney General
The Secretary of the Navy
Mr. Leslie Wheeler, representing the Secretary of Agriculture
Mr. Wayne Taylor, representing the Secretary of Commerce
Mr. Nelson Rockefeller, Coordinator, Inter-American Affairs
Mr. William Batt, representing the Chairman, War Production Board
Mr. Arthur Ban Buskirk, representing Lend Lease Administration

In Addition, the following persons were present:

Mr. W. L. Clayton, Department of Commerce
Mr. Harold H. Neff, War Department
Mr. Emilio G. Collado, State Department
Mr. Adlai Stevenson, Navy Department
Mr. James LeCron, Office of the Coordinator, Inter-American Affairs
Mr. Alexander Peabody, Office of Coordinator, Inter-American Affairs
Mr. John C. McClintock, Office of Coordinator, Inter-American Affairs
Mr. Milo Perkins, Board of Economic Warfare
Mr. E. W. Gaumnitz, Board of Economic Warfare

The Vice President opened the meeting and referred to the report on shipping, "Progress Report by the Coordinator of Inter-American Affairs on the Acquisition, Construction and Operation of Small Vessels in the Inter-American Trades", dated November 21, 1942, prepared by the Office of the Coordinator of Inter-American Affairs.

In commenting on the report, Mr. Rockefeller drew attention to a contemplated modification in the program for wooden sailing vessels. Originally it had been thought that goods would be transported by ocean-going vessels to certain points from which smaller wooden sailing vessels might be used for distribution. On reexamination, it appears much more economical in terms of critical materials to build 500-ton freighters with Diesel power rather than 350-ton sailing vessels as originally contemplated, allowance being made for the fact that a 500-ton freighter would handle approximately three times the volume of a 340-ton sailing vessel.

Discussion developed the fact that the real bottleneck is in supplementary items such as engines and auxiliary equipment and the tools and skilled labor in the manufacture of such equipment rather than in such broad categories as steel. To the extent that items could be used which were in stock, no difficulty would arise.

It was agreed that the wooden vessel construction program should not be pushed at this time if it were necessary to manufacture motors and certain other auxiliary items. To the extent that motors now unused could be utilized, construction should be geared to their availability. It was also suggested that there be explored the possibility of transferring certain vessels and equipment now in the hands of the Navy.

Food:

The Vice President referred to the report "Food Supply Program--Interim Report," dated November 21, 1942, prepared by the Office of Inter-American Affairs.

Rockefeller opened the discussion by saying that in general the food problem in Central American areas was a matter of transportation, both ocean-going and internal, involving such questions as trucks, tires, railroads, coal and oil.

In general, there is available sufficient food in Latin America, if the area is taken as a whole. However, certain areas have surpluses and other deficits. The attempts to increase food supplies in deficit areas, and particularly in areas in which an attempt is being made to increase the production of raw materials for shipment to the U. S., clearly involved a slow process of education. In some areas little statistical information is available as to present production or needs.

Mr. LeCron, in response to a question by the Vice President indicated that in the Amazon Valley there were perhaps one and one-half million people, and that food imports into that area have amounted to around 60,000 tons per year, though data are not available as to production in the area. An additional 250,000 rubber workers would mean perhaps 100,000 - 130,000 tons more food. Mr. Clayton estimated that 400,000 additional people would require some 300,000 tons of additional food, since food supplies in the area were clearly insufficient to support the usual population. In response to a question by the Vice President, Mr. Clayton stated that it was hoped the 300,000 tons of food could be secured in Southern Brazil and moved in Brazilian ships.

Mr. Rockefeller stated that his office was attempting to develop added local food supplies in the Central American area, not only for consumption by the local people, but for sale to the armed forces. The Coordinator's Office is guaranteeing purchases in conjunction with certain of these development programs.

In terms of reduced shipping for the movement of foodstuffs, Mr. LeCron and Mr. Rockefeller indicated that the results of the food programs now under way, while possibly showing some results in about three months, were extremely difficult to appraise in view of the absence of basic statistical data. It appears, however, that progress in the development of food production in Latin America would be slow.

Health and Sanitation:

In response to a question by the Vice President, Mr. Rockefeller stated that progress on health and sanitation programs was much greater than the food program. He pointed out that compared to the food program, the health and sanitation program lent itself to quicker tangible results. With health and sanitation it was possible to secure results by supplying doctors, equipment, etc. to an area to establish an office and begin action. He also stated that excellent cooperation had been secured in establishing nurses training schools. He stated that the sum of \$25,000,000 was available for work in health and sanitation and that his office

expected to expend about \$5,000,000 this year. Approximately 4,000 people are now employed, many being laborers engaged in ditch and sewer projects. In response to a specific question, Mr. Rockefeller stated that fair progress was being made on malaria control in the Amazon area.

The meeting was adjourned at 11:20 a. m.

November 27, 1942

My dear Mr. Byrnes:

On November 10th, ^(see p. 75) in response to your request, I sent you a letter dealing with measures to control inflation through the restriction of consumer spending. I now supplement that letter with some comments on the use of subsidies to stabilize the cost of living and to prevent inflation.

Because of their large possible cost and the dangers of abuse, subsidies have a limited role. However, under special circumstances, they can help accomplish three objectives: (a) they can be useful in preventing an undue increase in the cost of living, (b) they can help assure an adequate supply of consumers' goods necessary to health and efficiency, and (c) they can facilitate an equitable distribution of essential goods among all consumers. The proper use of subsidies in special circumstances to attain these objectives would help to prevent the further development of inflationary forces.

A rise in the price of goods or services that are significant in the budgets of the low income groups, such as breadstuffs, dairy products, and essential transportation, may make it impossible for such people to purchase these products in amounts necessary to maintain health and efficiency.

Nov. 28, 1942, 11:50 a.m.

Original letter sent to Mr. Byrnes
by special messenger (by Mrs. Wondrack
with 25 copies of mimeographed letter.

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If a rise in the prices of such important goods or services cannot be prevented in any other way, it may be desirable to maintain price stability through a subsidy. In fact, unless the prices of commodities that bulk large in the budgets of the low income groups are kept relatively stable, it will be difficult to avoid compensating increases in wages with their tendency to produce an inflationary spiral.

Subsidies may also be necessary to assure an adequate output of important products needed for civilian consumption, for our armed forces, and for the United Nations. There are already some instances in which the supply of products vital to the health of the nation is in danger of declining because of the greater attractiveness of alternative types of employment or production. We are apparently now faced with this situation for some of our more important food products. Under such circumstances, a subsidy may be necessary to assure the maintenance of the present level of production without an undesirable rise in prices.

The case in favor of subsidies is particularly clear where production of an adequate supply of essential goods requires the utilization of a relatively small additional amount of resources involving higher costs of production. Where such conditions prevail, subsidies can be used to

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stimulate production from marginal resources without giving a windfall profit to the bulk of the producers through a uniformly higher price.

Especially in wartime it is of the utmost importance that the low income groups receive adequate supplies of commodities vital for health and efficiency wherever subsidies are proposed, careful consideration should be given to the possibilities of rationing. In cases where even rationing will not assure that these groups will be able to purchase an adequate portion of the existing stocks at present market prices, it will be desirable to assure through subsidies that a satisfactory portion of the available supply goes to these groups. There may, however, be instances in which the supply of an essential commodity would be adequate for health and efficiency if its consumption were equitably distributed. The rationing of such a commodity may entirely eliminate the need for a subsidy. Even where a subsidy is needed to maintain or to increase production, the aggregate cost of a subsidy can be minimized through rationing.

There are important limitations to the beneficial use of subsidies even with respect to cost-of-living items:

- (1) The total amount of subsidies granted should be kept small since the granting of subsidies may increase the amount

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of consumers' spending power that must be withdrawn through fiscal or other devices. (2) Subsidies are liable to abuse. Pressure groups are likely to secure or maintain subsidies not in the public interest. (3) Subsidies should not be used to remove the barrier to cost inflation which is normally provided by consumer resistance to price rises. Consumer dissatisfaction with rising living costs constitutes a whole some check on the unnecessary inflation of production costs.

Where subsidies are granted, the selective principle should be followed as far as practicable. Subsidies should be restricted as far as possible to producers who need them to produce the additional output. They should also be limited to commodities required for the maintenance of health and efficiency. Wherever possible, rises in the prices of cost-of-living items should be prevented through economies in production and distribution rather than through subsidies. Any stage of production which has an adequate profit margin should be compelled to absorb increases in costs. Where subsidies are granted, they should be strictly limited to the minimum amounts requisite to attain the desired objectives.

The above comments are not intended to cover the use of subsidies for other purposes, such as increasing the output of war goods. Moreover, they are intended to be only a

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general indication of the Treasury Department's views on the use of subsidies for the purpose of stabilizing the cost of living and preventing inflation. We shall be glad to examine any specific subsidy proposal which you might wish to submit to us.

Sincerely yours,

(Signed) D. W. BELL

Acting Secretary of the Treasury.

Mr. James F. Byrnes,
Director, Office of Economic
Stabilization,
White House,
Washington, D.C.

STRICTLY CONFIDENTIAL

I. THE ROLE OF RATIONING IN A PROGRAM FOR ECONOMIC STABILIZATION

Rationing plays an integral part in economic stabilization in wartime; it serves both to reinforce price control as a check on inflation, and to augment production control by assuring the proper distribution of limited civilian supplies.

- A Economic stability is threatened by increasing demand, even while the supplies of consumers' goods are being curtailed. If uncontrolled, the disparity between supply and demand would cause inflation and maldistribution.

The measures which have been taken thus far to convert the national economy from a peacetime to a wartime footing cannot achieve stability until they are complete and well integrated. When the exigencies of war require a redirection of the use of men and materials, so that administrative decisions replace the mechanism of a free market, government cannot evade its responsibility to correct any ensuing maladjustments which would be detrimental to the war effort. In the present situation it is clear that we face such maladjustments. Where necessary, therefore, existing controls must be extended and strengthened, and new ones must be introduced.

Large scale expenditures for direct war production, coupled with generally increased economic activity, are progressively expanding the volume of income payments. Despite all efforts towards wage stabilization, and control through fiscal policy (of which more later), this is creating a growing purchasing power which promises to magnify the already large demand for consumers' goods. Pressure to buy is further intensified by the twin fears of higher prices and of shortages. Buying sprees and

hoarding are contagious.

At the same time that demand threatens to run away, supplies of the principal elements that enter into the cost of living are being curtailed. Voluntary or enforced conversion of men, materials, and facilities to war production, shipping and other transportation difficulties, and shortages of fuel, power, labor, and materials, all contribute to diminish the flow of goods available for civilian consumption. The impact of these shortages is uneven both in timing and in magnitude, but in many fields, as soon as present inventories run out, the situation will be acute.

In the absence of any controls, this progressive disparity between demand and supply would result in inflationary price adjustments, market demoralization, and intolerably uneven distribution of goods. The cost of living would soar, resources would be wasted as labor and materials were bid from one use to another, and with each individual and business firm trying to protect itself in the chaotic scramble for goods, only those with the fattest purses would win out.

- B When prices are controlled to check inflation, the pressures on limited supplies are intensified. Either price control will break down under the strain, or the distribution of goods will become intolerable.

The imposition of price controls alleviates some of these dangers but aggravates others. As soon as price rises are checked, the pressures on supply are increased. Although inflation is stopped, and goods no longer flow to the highest bidder, the scramble for them becomes intensified. Sellers may operate on a

"first come, first served" principle. They may sell much to favored customers and none to others. Buying panics among consumers and retailers may readily develop. Stocks will be depleted to the point where they are inadequate for normal business turnover. Hoarding, discrimination, and black markets will follow. Price controls may break down under the pressure.

In any of these cases, grave dangers are imminent whenever the relative shortage exists in a commodity that is a civilian necessity. Those consumers most urgently in need of certain goods may not obtain enough to meet their minimum requirements. Public morale may suffer when it is apparent that some persons are getting much more than others, that the hand-to-mouth buyer or the conscientious non-hoarder is being penalized, and that equality of sacrifice is a pretense. Moreover, severe criticism will be levelled at the government for failure to assume its full responsibilities. Any one of these possibilities may result in individual hardship, public dissatisfaction, and a disruption of the economy to the point of seriously impeding the war effort.

- C Rationing is the means by which price control can be sustained and maldistribution avoided. It adjusts total demand to the available supply, and assures the proper distribution of essential goods among individuals.

Rationing, if intelligently conceived and well administered, and if introduced in time, can correct the operations of an upset market and avoid these dangers. As such it is the essential counterpart of price control, when supplies are scarce relative to demand.

Rationing of consumer goods has been subject to a great many misunderstandings. It is in large part because of such misconceptions that public controversy concerning certain rationing programs exists. The limited previous experience in this country with rationing, together with journalistic accounts of rationing in Europe during and after World War I, has left the American public with a distorted idea of the nature and purpose of rationing. To most persons rationing is thought of in its negative aspect. It suggests pale, hungry, shabby women and children standing in line patiently waiting for their turn to buy what they know will be far less than enough to meet even minimum health requirements. It is looked upon as something to be undertaken only when shortages in retail stores are so acute that many essential needs are being unfulfilled.

Actually, this need not be so; rationing need not be imposed only at a time of acute shortage. Rationing may be used as a preventive measure to insure reasonable quantities of scarce goods for all consumers. If imposed early enough, when stocks are still high but supplies coming into sight threaten to be less, rationing can maintain a high level of consumption, or it may slow down the total rate of consumption in periods of relative abundance and keep up consumption in later periods at a higher level than would otherwise be possible.

Rationing is frequently thought of as something that causes a sharp cut in production and severe curtailment in consumption. Actually, rationing is a means by which, if production is curtailed or total demand is outrunning supply, equitable shares of limited resources may be maintained.

In its positive aspect, rationing is a device to insure that individuals get their needed share of scarce goods. Thus conceived, rationing does not connote a curtailment of total consumption. For most persons it assures larger supplies than they would otherwise receive. It is the only means of guaranteeing equality of opportunity for businesses to buy and of individuals to consume fair shares of whatever is available after the primary needs of the war machine have been filled.

II RATIONING PROGRAMS NOW IN EFFECT, IN PREPARATION, AND IN SIGHT

The Office of Price Administration has introduced rationing in a few limited fields where shortages were particularly acute and serious disruption of the economy would follow from uncontrolled distribution. These programs have not aided price control in general; only a wide coverage of the principal commodities which make up the cost of living could accomplish this purpose.

A Nine rationing programs are now in effect: tires, automobiles typewriters, sugar, bicycles, gasoline in seventeen states, and men's rubber boots and rubber work shoes, fuel oil, and coffee.

To date, the Office of Price Administration, acting on directives from the War Production Board, has instituted consumer rationing of the following commodities; or groups of commodities:

<u>Commodity</u>	<u>Effective Date of the Order</u>
Tires	December 30, 1941
Automobiles	February 2, 1942
Typewriters	March 13, 1942
Sugar	April 20, 1942
Bicycles	May 15, 1942
Gasoline (East Coast)	
Temporary Plan	May 15, 1942
Present Plan	July 9, 1942
Men's Rubber Boots and	
Rubber Work Shoes	September 29, 1942
Fuel Oil	October 1, 1942
Coffee	November 22, 1942

- B Another program has been decided upon, and will be started as soon as possible: national mileage rationing.

The decision has been made by the responsible agencies that the Office of Price Administration should extend gasoline rationing over the entire country. This is to be done in the form of mileage rationing, and is to be integrated with tire rationing. Subject to the vagaries of printing, the distribution of materials throughout the country, and the administrative delays of perfecting plans and organization, this program should be in effect by December 1.

- C We believe that it will be necessary to ration all essential food and clothing early in 1943.

The extension of rationing to other fields depends on a number of fundamental policy decisions which have yet to be made. We believe that to protect the cost of living and to assure equitable distribution of the scarce basic necessities of civilian consumption, most items of food and clothing will have to be rationed as quickly as we can get the programs into operation. A few other items of durable consumers' goods may also require certificate rationing.

In each of these fields we have skeleton staffs making preliminary studies of the problems involved in rationing, and devising tentative programs to blue print our future operations. Our estimates show progressive disparities between demand and supply in these fields and indicate that the situation in 1943 will be explosive unless adequate controls are imposed.

The urgency of the situation is evident from the data below. They are the best present estimates of the shortages, expressed in minimum and maximum figures. They have been based on various assumptions about the measurement of demand and the level of military requirements.

No allowances have been made for major changes in manpower policy.

	Deficit of New Supply	Excess of Demand Over Supply
Calendar Year 1943		
Apparel	Min. 1,015 Million Linear Yds.	21 per cent
	Max. 2,353 " " "	55 " "
Shoes	Min. 134 Million Pairs	43 " "
	Max. 175 " " "	56 " "
Fiscal Year 1943		
All Food	Max. 5,000 Million Dollars	25 per cent
Meat, Fish,		
Poultry	Min. 776 " " "	15 " "
	Max. 1,810 " " "	35 " "

III TECHNIQUES OF COMMODITY RATIONING

The methods by which commodities or groups of commodities can be rationed must be related to the peculiarities of the problem involved. An effective rationing program must include the following features: the most equitable distribution of scarce civilian essentials, the maximum administrative simplicity, and the minimum disruption of the customary channels of distribution.

- A Each commodity presents different problems, so each of our rationing programs is in some respects unique.

It is not possible to generalize successfully regarding the techniques by which the Office of Price Administration has rationed or is planning to ration various commodities. The pattern of needs for a particular commodity is too complex, and even though many differences must be disregarded in the interests of administrative simplicity, each program must be adjusted to its own peculiar problems. Thus, each of the programs now in effect or contemplated is unique in many respects.

The programs now in operation have been designed with an eye to the organization of each particular industry, its channels of distribution, and the variations among consumers' needs. The different rationing programs have varied in the type of rationing currency employed, in the amounts issued, and in the means of issuing that currency. They have been adjusted

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to the relative scarcity of each product and the degree to which it was substitutable and each has created new administrative problems and a different degree of administrative burden upon the organization.

B The principal similarity among the various systems is the use of rationing currency which exchanges against rationed goods at all levels of distribution. The currency may be used in a certificate, a unit, or a point system. The total amount issued must equate demand to the available supply.

It is possible to indicate certain respects in which all programs are similar and to classify them into three basic types: certificate rationing, unit rationing, and point rationing. It is to be noted that this classification is based primarily upon the type of ration currency used; the peculiarities of a particular commodity may require that several of these systems be used simultaneously.

Each type requires the use of some form of rationing "currency," a certificate or a coupon which is made available in determined quantities to the consumer and which becomes his authorization to purchase a rationed commodity. This rationing currency must be surrendered to the seller in each transaction, and is used by him to replenish his stock from his supplier. Thus, while goods flow downstream through the channels of distribution, always exchanging against rationing currency, the currency flows upstream until it reaches the manufacturer. At that point it is extracted from the system and destroyed.

In contrast to other countries where the currency serves as the manufacturer's authorization to obtain allocations of scarce materials, in this country such allocations are typically determined independently by the War Production Board. This requires that the Office of Price Administration, in establishing the value of the rationing currency and the total quantity to be issued must take care that the authorized demand

does not exceed the supply. Accordingly, rationing systems customarily include provisions for taking physical inventory, and obtaining accurate records of subsequent production, shipments, receipts, and sales.

- C Certificate rationing is used when a scarce commodity must be reserved for the most urgent needs of a small part of the population.

Certificate rationing is the means by which an extremely limited supply of an essential commodity is reserved for the use of those who most need it while others whose needs are less urgent are excluded from the market. It is the method by which tires, automobiles, typewriters, bicycles, rubber boots and rubber workshoes are being rationed. Certification is also a feature of several other programs, in the sense that special groups of consumers such as industrial users in sugar, obtain their rationing currency in the form of separate certificates issued by Local War Price and Rationing Boards.

This is the most costly and, administratively, the most difficult type of rationing program, since each consumer must be dealt with individually. It involves the construction of lists of eligible groups or the establishment of criteria of eligibility by which the Local Boards can determine in each case whether or not to grant an application. Accordingly, it is a method of rationing which can be used only sparingly since a large number of applications would place an intolerable burden on the field organization. Nevertheless any essential commodity, the supply of which is less than enough for even per capita shares for all consumers, or the need for which is limited to particular groups, can be distributed to the right hands only by such a system.

- D Unit rationing is used when a scarce commodity for which there is no substitute must be distributed evenly to the entire population.

Unit rationing is appropriate for a mass consumption item for which there is no substitute. Sugar and shoes are essential commodities that lend themselves primarily to this type of rationing. Here, it is possible to distribute enough rationing currency to the entire population to last them for an extended period, and to insure equal shares on a per capita basis of a commodity which otherwise might be distributed so unevenly that some consumers would receive none. It is not necessary that all consumers be treated alike under this system: the basic gasoline ration is available only to car owners, and different shoe quotas will be necessary for men, women, and children. The essential feature of unit rationing is that the consumer is given a supply of currency, in the form of stamps which he can spend at will during a specified time period, and there is no necessity for individual hearings to determine his need before he makes each purchase.

Although the administrative burden per transaction is only a fraction of that involved in certificate rationing, the separate unit rationing of mass consumption items should not be recommended if a number of these items can be combined in a point system. A host of separate programs, each with its own regulations, instructions, forms, records, and currency would be highly undesirable as a matter of administration. However, in every case where a particular shortage threatens, and no substitute is available in the event of maldistribution, this technique must be employed.

- E Point rationing is used to distribute groups of similar commodities evenly to the entire population, while preserving freedom of consumer choice within this group.

Point rationing has not been used in this country as yet, but is the method we recommend for rationing the principal elements of the cost

of living: food and clothing. It is the method used in a number of other countries by which large groups of commodities can be rationed in a single system, so that every consumer has an equal opportunity to obtain scarce goods but retains his freedom of choice among them.

In effect, a point rationing system establishes a schedule of values for inter-substitutable commodities which replaces the price system. Each product within a group of similar products may be purchased only upon the surrender of a specified number of point-stamps. The point value of each product is determined with reference to the amount of material it contains, its relative scarcity, its essentiality, and the pattern of demand for it as compared with other commodities. Each consumer is given a certain quantity of ration stamps to use within a specified time period. Within the limits of his total points, the consumer has complete freedom of choice as to which products he prefers to buy.

The sum of the total points issued to all consumers must be closely related to the aggregate point value of all commodities within that rationed group. In the event that conditions change, the system can be adjusted to a new equilibrium--that is, if total supplies decline or if total expenditures exceed supply, the time period within which points may be spent can be extended. Should supplies increase, all point values may be lowered, or additional stamps may be issued. If a particular commodity becomes relatively scarce through an excess of demand over supply, its point value may be raised. Conversely, if a particular commodity is not being sold as fast as it can be produced, its point value may be lowered.

It is important to note that this form of rationing can be used to control large segments of civilian purchases within a single system. Administratively, therefore, it is infinitely preferable to the particularized treatment involved in certificate or unit rationing. It has, however,

certain limitations.

If point rationing is introduced at a time when there is great heterogeneity of the products covered, both in variety and in price, serious problems of classification and grave possibilities of discrimination in favor of the wealthy may ensue. Moreover, commodities for which there are no substitutes do not fit well into point rationing. If they are particularly scarce, there is danger that their entire supply may be maldistributed and exhausted unless there is a specific restriction upon their purchase. It is imperative that point rationing, if it is to be used, be introduced at a time when inventories are fairly well in balance and when supplies are ample. Otherwise, many of its advantages are lost and an even flow of goods is made impossible.

IV ADMINISTRATIVE PROBLEMS OF RATIONING

Reaching the decision to ration, deciding how and when, and organizing the administrative machinery to insure smooth operations is a complex and time-consuming process. Sometimes we cannot afford the delays which occur.

- A Planning and operating a rationing program is a difficult administrative task requiring strong leadership, an extensive and well-trained organization, control over facilities necessary to operation, and streamlined administrative procedures.

The decision to ration a commodity or group of commodities is merely the beginning of a long and complicated task. The problem requires many fundamental policy decisions as well as a multitude of administrative and managerial matters. The task of instituting, on relatively short notice, a program such as sugar rationing that affects almost every person in the country or one like the rationing of heavy duty rubber footwear that requires careful individual consideration of some four million separate applications a year is frightening in its size and responsibility. Tremendous

administrative problems are involved in organizing and running a field organization stretching out to 5,600 Local War Price and Rationing Boards in every part of the country.

It is necessary to have strong control over rationing policy and procedure so that the various rationing programs will be consistent, harmonious, and properly timed. It is also necessary to place the responsibility for particular programs in the hands of competent people who can become experts in their field. The necessity of achieving a balance between general control and centralized responsibility, and of providing able leadership, exists at all points from the formulation of the original plan to the action taken by the Local Board.

Operations of the magnitude of rationing necessarily require considerable personnel and substantial funds. Impacts on individuals are manifold, and are felt in the remotest parts of the United States. An inadequately operated program can have dangerous repercussions, affecting the prosecution of the war, public morale, and the prestige of Government. The best way to save money on enforcement is to provide facilities for effective operation of rationing programs from the beginning.

Any rationing system requires an intelligent and efficient field staff. A balance must be achieved between central direction and local discretion. Lines of smooth communication between Washington and the field must be maintained. Specialized groups handling the rationing of particular commodities must be given adequate control over the operation of their own programs in the field without creating a series of uncoordinated parallel lines throughout the organization. Solution of such problems depends upon constant efforts to obtain qualified personnel at all levels and to establish and improve administrative procedures.

The printing and distribution of materials can cause delays that are often unpredictable and may in some instances require rather basic changes in the system itself. It might be possible to eliminate some of these difficulties; even at best, factors of this kind require very substantial allowances of extra time in the preparation of any rationing program. The task is tremendous in distributing, for instance, 160 million coupon books of a variety of forms that must go to 5,600 War Price and Rationing Boards.

The fact that materials must be used by citizens in general and by a large number of Local Boards distributed throughout the country means that the system and its documentation must be prepared in such a way that it will be simple, easily understood, and relatively fool proof. This involves not only the competent preparation of regulations, instructions, forms and publicity but the designing of a system that will be workable and understandable.

Each step in the process of planning or operation involves clearance among various individuals or groups that may be concerned. The most frequent are clearances between the specialized operating group and the central rationing personnel, between legal and operating personnel, between rationing groups and government information services, and between those responsible for rationing and the agencies responsible for printing and distribution of materials. Clearances of this kind can multiply rapidly and can easily nullify any good results expected from the original specialization of the functions. The problem is most likely to become acute when clearance or cooperation must be obtained among personnel who are separated in the organizational pattern so that decisions must travel through several layers of review before they reach a single point of determination. The responsibility for rationing cannot be discharged effectively unless it is accompanied by power to take action and by control of the facilities necessary to that action.

B

Rationing programs must be introduced before supplies are too greatly depleted; the need for rationing must be sufficiently anticipated to allow time for the preparation of the program.

One view of rationing holds that it is an instrument for use after existing inventories of goods have been used up, to distribute the small supplies of new goods that may flow into the system. This view discards some of the most useful functions of rationing, which are to save stocks of goods from undesirably rapid depletion, to prevent the inequitable distribution that inevitably accompanies the "scare buying" of short stocks, and to spread the consumption of necessary goods while there is something left to spread.

If rationing is to be undertaken just at the time when the pressure on inventories has reached a critical point but when inventory shrinking has not become serious, both planning and actual decisions must take place while supplies are still plentiful. Boldness may be necessary in making predictions before as many facts are available as the planners would like to have. If the decision is made too late, the damage of vanished stocks and unfair distribution cannot be undone without diverting critical materials from vital war needs.

The physical process of planning and effectuating a rationing program is unwieldy at best. Some of this work, such as the gathering of information on the production, distribution, and time flow of commodities in a given field, may be begun before actual decision to ration is made. It is not possible, however, to work out specific plans until agreement has been reached as to the necessity for rationing, the commodities that are to be included, and the general system that is to be used. It would be almost impossible to complete the printing and distribution of a coupon book and the other materials necessary for a point system in less than three months after the finished material had gone to the printer. To do the preliminary planning, the drafting of materials, the instruction of the field staff and other essentials in less than six months after the decision to ration anything but the simplest single commodity would involve extraordinary effort. The importance of foresight and early decision cannot be overemphasized.

As an example, we cite below our estimates as to the earliest dates on which it would be possible to introduce rationing in the food and clothing fields, even if there were in every case clear-cut decisions today to go ahead at full speed.

<u>Commodity</u>	<u>Earliest date rationing is feasible</u>
Clothing:	
Shoes	February, 1943
Textiles and Apparel	April, 1943
Foods:	
Meats	February 15, 1943
Canned Goods	January 20, 1943
Fats and Oils	April, 1943
Dairy Products: $\frac{1}{2}$	
Cheese	February 15, 1943 (with meats)
Butter	$\frac{1}{2}$
Fresh Milk	$\frac{1}{2}$
Condensed, Evaporated, and Dried Milk	$\frac{1}{2}$

In a number of cases, these dates are later than the time at which rationing would be advisable. The delay can only result in depletion of inventories, and may lead to panic buying. If further delays seriously jeopardize total inventories or should cause uneven consumer or trade holdings of particular commodities, it would be impossible successfully to distribute these products through point system rationing. The much more costly and complicated devices of unit or certificate rationing of each of the particularly scarce items would have to be used instead.

Closely connected with timing is the special problem of advance publicity on commodities like apparel. Goods of this type, usually semi-durable items subject to hoarding, are particularly sensitive to panic-buying when supplies become short. Thus it is not possible to make a public announcement in advance

$\frac{1}{2}$ Dairy products may not be rationed by an independent point system. There are many reasons to believe that it would be better to handle the various dairy products in conjunction with other programs; for instance, cheese being a protein could be combined with meats. Butter could be combined with fats and oils; evaporated, dried and condensed milk could be combined with meats or possibly with canned goods. Fresh milk is essentially a local problem which would have to be handled separately in each milkshed.

of the actual rationing of such items, and trade sources cannot be consulted to any appreciable degree while the program is being planned. This increases the difficulty of obtaining current information and of obtaining the cooperation of the trade or the public in introducing the program.

It is imperative, therefore, that if apparel rationing is decided upon, the decision be kept absolutely secret.

C Since successful rationing is largely dependent upon the cooperation of the public, the rationing authority should be accorded wide latitude in publicity.

Since successful rationing depends in no small measure upon community and individual acceptance, the publicity attendant upon a program is a vital element. Unless intelligent explanation is made of the necessity for rationing, the program is likely to be crippled.

Since reliance for administration falls on local boards, inadequate or adverse publicity hampers their efforts. It seems evident, therefore, that once decision has been made to ration a scarce commodity, wide latitude in publicity should be accorded the rationing authority.

V OTHER PROPOSALS TO ELIMINATE OR REDUCE THE NEED FOR FORMAL COMMODITY RATIONING

Suggestions have been made that commodity rationing is so costly and complicated that other means should be used to solve the problems which rationing is designed to meet. Production controls and voluntary rationing are proposed as substitutes for formal rationing; fiscal measures such as taxation, compulsory saving and expenditure rationing are designed to alleviate the pressure on supplies by reducing total demand. None of these measures appears likely to offer a real solution to the fundamental problem of distributing scarce goods among consumers who need them.

A Production controls alone require rationing by the trade; decisions as to the distribution of scarce goods among consumers cannot be left in private hands.

It is frequently suggested that adequate production controls combining the allocation of scarce materials with the limitation on their use for non-essential purposes are sufficient to insure economic stabilization in a war economy. It has been stated that rationing can be avoided if a sufficient supply can be produced to meet civilian needs. According to this line of argument, rationing becomes necessary only when total supply is inadequate for total minimum needs. This approach, laying emphasis as it does on the production side of the problem, completely overlooks the distribution side. A total supply equal, say, to the amount consumed in 1932, is far from adequate if demand is in excess of that supply. The disparity between supply and demand, even apart from its inflationary pressure upon price, inevitably leads to maldistribution.

We cannot rely upon the chance decisions of members of the trade to manufacture the types of civilian products which are needed, nor to distribute them to the geographical areas where they are short. It is not sufficient even if it were feasible to allocate supplies within the trade down to the retail level without going a step further. Retailers cannot be expected to maintain equitable distribution among the consumers who are besieging their stores for scarce goods. Government cannot permit the rationing power to rest in private hands.

Accordingly production controls, however essential they are to direct scarce materials to their most important uses, solve only part of the problem of economic stabilization. No measure short of controlling purchases by consumers can be expected to insure proper distribution among individuals.

B Voluntary rationing is defeated by individual self interest.

Suggestions have been made that the government is too cynical with respect to the essential honesty and willingness to sacrifice of the American people. It has been held that far too much emphasis has been placed upon enforcement and far too little upon voluntary compliance. This line of argument is manifested in recommendations that the government appeal for voluntary rationing of scarce commodities -- gasless Sundays, meatless Mondays.

The position taken by OPA in this matter is that sad experience has proven the inadequacy of voluntary rationing. However much individuals may protest their willingness to sacrifice, as long as some individuals are unwilling voluntarily to make that sacrifice, others cannot be expected to do so. The natural reaction of American citizens when rumors of threatened shortages reach their ears is to rush to buy. Rumors of rationing, of limitation orders, and even of style restrictions have been used in the trade to promote sales and have provided incentives for buying sprees by the public. Although none would be happier than we if more statements of intent and hortatory efforts were sufficient to check over-buying of scarce commodities, we are firmly convinced that voluntary programs will not work.

Voluntary programs are likely to be absurd in some instances,--we could hardly promote trouserless Tuesdays. Some voluntary schemes aggravate the very situations they are designed to alleviate: e.g. "one to a customer sales" merely start buyers making the rounds from one store to another, and actually stimulate buying by calling the consumers' attention to scarcity. Finally, our experience with a non-enforceable, semi-voluntary, temporary gasoline rationing program, and Canada's recent experience with voluntary sugar rationing, has cast grave doubts on the practicality of any but the tightest of rationing programs. The individual cannot be relied upon to protect the interests of others.

- C Total demand can be reduced by taxation and voluntary and compulsory savings programs; these measures cannot be expected to go far enough.

Strong fiscal measures to reduce purchasing power could alleviate the threat of general inflation if they were sufficiently drastic. They also could postpone the need for rationing. We urge that all such means be employed to the fullest extent, but we are dubious as to their ultimate success, and convinced that, unaccompanied by commodity rationing, they are ineffective.

Taxation cannot be expected to cope with the problem. The experience of other countries clearly shows that public tolerance of a tax burden is limited. Even under the greatest pressure, Congress has stopped far short of what would be needed if inflation were to be stopped by a tax program. A great excess of purchasing power will still remain. A further limitation on the effectiveness of taxation as a means of limiting demand arises from the fact that taxation would not only have to make a drastic cut in total purchasing power, but would have to increase tremendously in progressiveness. Otherwise, with a deep cut in supply, the income structure would permit such an inflationary volume of purchases as to exclude individuals at the lower end of the income scale from the market.

Appeals for voluntary savings cannot be relied upon. The present volume of Treasury bond sales does not offer much encouragement. Moreover, such saving tends to create restless money which at any time can be injected into the system, and which, accordingly, constitutes an inflation potential.

Compulsory saving appears more promising. Simultaneously it cuts expenditures and brings revenue to the Treasury. It should be easily explained and accepted by the public, particularly because it emphasizes the virtues of thrift. A small start has been made in this direction by the present tax program. However, the essential inequity and the inflationary danger of such a measure is that it cannot prevent those with capital accumulations from converting their assets. Also, the severity which would be necessary if compulsory savings were effectively to curtail purchasing power raises many of the same

problems that are involved in sharp increases in the tax rate. The progressive-ness required suggests the necessity of some form of expenditure rationing.

D Expenditure rationing is an ingenious idea, but it does not seem feasible at present and, like all other fiscal approaches to the problem, it cannot assure the proper distribution of those commodities which are particularly scarce.

Although it seems simple and clear-cut to limit the volume of expenditures of each person in the country, expenditure rationing is not so easy, so effective, nor so acceptable as it first appears.

As distinguished from compulsory savings which would surely require statutory authority, expenditure rationing could be introduced by the Executive. This, of course, would raise delicate problems with the Congress, inasmuch as it is clearly a fiscal measure of the greatest magnitude.

Tremendous dislocation of the economy would follow the imposition of expenditure rationing. For instance, present inventories consist of goods which have been produced to meet the demands of individuals with wide variations in income. Costs and prices vary accordingly, and are suitable for anything but equal per capita expenditures. It is doubtful whether our political and economic system could stand the liquidation of high priced inventories which would be necessary.

The mechanics of handling expenditure rationing currency, change-making, and arranging its flow through the system, raises administrative problems no less serious than point rationing.

The principal difficulty with expenditure rationing is that it, like every fiscal measure, fails to meet one of the major problems which is solved by commodity rationing. Expenditure rationing gives complete freedom of choice to the consumer as to the objects for which he spends his money, but fails to offer any solution to the problems of changing supplies, especially scarcities of particular essential goods, and shortages of non-substitutable goods. Unit and point rationing such as is recommended by the Office of Price

Administration face these problems and assure the proper distribution of goods, not money. A unit system can handle the distribution of non-substitutable items, and a point system can adjust point values to offset particular deficiencies of supply. If expenditure rationing were instituted, it is clear that a number of particular commodity rationing programs would still be required. What is more, if it were introduced when supplies were depleted and unbalanced, it, like point rationing introduced too late, would have to be bolstered by a number of costly unit and certificate systems.

Finally, it is worth noting that expenditure rationing has not proved palatable in England and is unlikely to be palatable here. People are quite prepared to accept rationing in wartime without hesitation. They are quite prepared to see many goods distributed on a share-and-share-alike basis. On the other hand, they are unwilling to see the same result accomplished through a drastic increase in the progressiveness of taxation. For the same reason, they will be unlikely to accept the drastically progressive expenditure rationing which would be necessary to achieve the same result as must be achieved through rationing.

VI RECOMMENDATION

Having canvassed the need for rationing, the alternative methods which could be employed, and the difficulties and time involved, we feel that a number of bold decisions are imperative.

- A We recommend the immediate decision, not to be made public, to ration all essential items of civilian food and clothing.

To serve the twin purposes of maintaining checks on inflation and assuring proper distribution of scarce commodities among consumers, we recommend that commodity rationing be instituted to cover all major items of the cost of living: food and clothing. It is essential that these civilian necessities be made available to all, that they be evenly distributed and that they be spared from inflation. As a matter of administrative simplicity, we favor the use of point system rationing with inter-substitutable items grouped in

as few systems as possible. Inasmuch as the administrative details of putting such programs into operation will require considerable amounts of time, we urge that this decision be made immediately. To prevent upsets of the market and buying panics, this decision should not be made public.

- B This decision has wide implications; it would involve the extension of controls over the quantity and the composition of the basic civilian necessities.

The decision to ration is a decision on the part of Government to distribute scarce supplies on a fair and equitable basis among all consumers. It is dictated by recognition of the fact that equitable distribution of scarce supplies cannot be assured through the normal operations of the market. This decision, however, requires a broad extension of control over production of civilian goods both as to quantity and as to composition. In the absence of such control, the quantity and composition of civilian goods are left to the free play of market forces. The kind and quality of goods produced will bear no relationship to the requirements of public policy. It may well happen that the forces of the market will, through the kinds and prices of goods produced, earmark for the use of 5 per cent of the population 30 or 40 per cent of the total resources which are available to supply the needs of the entire population. It follows that if rationing is to accomplish its aim, control over the production of civilian goods is essential.

GOVERNMENT POLICY WITH RESPECT TO THE USE OF SUBSIDIES
IN HOLDING DOWN THE COST OF LIVING

The time is rapidly approaching when for the first time in the nation's history there will be real food scarcities for the United States. In order to maintain food production at a satisfactory level it may be necessary to increase returns to farmers for some commodities.

Although income to farmers is the highest on record, farmers are still operating at a disadvantage, from the standpoint of income, with other wartime industries and activities. The 1942 per capita income of farm people is \$368 as contrasted with \$981 as the non-farm per capita income figure. Agricultural income accounts for only one-ninth of the national income today as compared with one-sixth in 1918.

Not only is agricultural return low as compared with others, the hours are much longer and working and living conditions are less attractive.

There is a steady exodus of workers from farms to the cost-plus war industries. Agriculture is losing fifteen to twenty percent of its best workers annually. In addition, equipment and materials for farmers are curtailed. How long we can maintain production through patriotic appeal and substitution of inexperienced workers is a matter of conjecture.

If it is necessary in the national interest to increase returns to farmers in order to maintain production, subsidies are preferable to price increases which would have definite inflationary tendencies. Subsidies are already being used very successfully in agriculture to keep up production and hold down prices. A notable example is the

present government program holding feed costs at 85 percent of parity. In government payments this program costs around 200 million dollars, but it is saving consumers one billion dollars a year on their grocery bill. It may also be argued that this program results in a great saving to the government itself in the form of lower prices for its wartime purchases.

It must be recognized, however, that there is widespread opposition among farmers and in Congress to the kind of subsidies involved in such programs. It is my opinion that there will have to be a better understanding of the advantages of subsidies before we can obtain public sanction and congressional appropriations for a food-subsidy program similar to the one used in the United Kingdom. It is my hope that there can be an early crystallization of opinion in this matter.

/s/ CLAUDE R. WICKARD

Secretary

PROBABLE NECESSITY FOR RATIONING ESSENTIAL CIVILIAN GOODS

Food rationing should be expanded as rapidly as possible. All essential food items for which the demand will exceed the supply for an extended period should be included. Although farm production has been running at record levels for several years and 1942 production was 15 percent higher than a year ago and by far the largest in history, the demand will exceed supply for a number of farm commodities because:

1. Imports are reduced for such commodities as sugar, coffee and vegetable oils.
2. Government purchases are extremely heavy, as is shown by the following table:

Commodity	1943 Military and Lend-Lease require- ments in percent of 1942 production
Meat	31
Milk and products in terms of milk	15
Eggs	28
Canned vegetables	36
Canned fruit and juices	43
Dried fruits	53
Dry beans	32
Dry peas	41
Lard	38
Soybean and Peanut Oil	14

3. Civilian purchasing power is highest on record.
4. There is need for accumulation of reserves against increased demand in the future.

Therefore, rationing is necessary because:

1. It results in equitable distribution between individuals.
2. It results in equitable distribution of supplies throughout the year.
3. It prevents waste and hoarding.
4. It will enable us to obtain more benefit from our food supply since it will tend to balance the need for the scarce protective foods with the foods in greater supply. For example, fluid milk could be given in greater quantities to children and mothers than to others who could obtain their dietary needs from other sources.

It is recognized that rationing involves many administrative difficulties yet a single comprehensive rationing program perhaps will present less total difficulties than will result from a piecemeal approach involving postponement until hoarding and scarcities occur.

Until such time as a comprehensive rationing program can be put into effect, it seems desirable to acquaint the public with reasons for rationing. It should be described as a means of preventing hardships rather than causing hardships. Pending establishment of the total rationing program, limitation and reservation orders of one kind or another should undoubtedly be put into operation.

Also to prevent hoarding the public should be told that it will have to deduct household stocks from ration allotments, and in flagrant cases of hoarding a penalty should be assessed.

/s/ CLAUDE R. WICKARD

Secretary

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
OFFICE OF ECONOMIC STABILIZATION
WASHINGTON, D. C.

November 25, 1942

JAMES F. BYRNES
Director

Dear Sir:

I am enclosing copies of two memoranda by Secretary Wickard and one by Mr. Henderson. I am sending these by messenger so that you may have an opportunity to study them before the Board meeting.

Very truly yours,

James F. Byrnes
Director.

3 Encls. - 6 copies of each.

Honorable Henry Morgenthau
Secretary, Treasury Department
Washington, D. C.



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See

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
OFFICE OF ECONOMIC STABILIZATION
WASHINGTON, D. C.

November 20, 1942

JAMES F. BYRNES
Director

Dear Mr. Secretary:

Enclosed are the minutes of our last Board meeting. The next meeting will be held on Friday, November 27, at eleven a. m.

We shall discuss:

1. Government policy with respect to the use of subsidies in holding down the cost of living.
2. Probable necessity for rationing essential civilian goods.

Some members of the Board have already submitted memoranda dealing with these subjects. If you have not done so, we should all be grateful for an expression of your views.

Sincerely yours,

Director.

The Secretary of the Treasury,
Washington, D. C.

November 25, 1942

Copies for:

Mr. Bell
Mr. Gaston
Dr. White
Mr. Paul
Mr. Haas

The Economic Stabilization Board met on Friday, November 13, at 11:00 A. M.

Present: The Director (presiding), Mr. Morgenthau, Mr. Wickard, Mr. Jones, Miss Perkins, Mr. Smith, Mr. Eccles, Mr. Green, Mr. Flanders, Mr. Johnston, Mr. Davis, Mr. Hanna (Acting Price Administrator), and Mr. Lubin (Economic Advisor to the President).

A memorandum previously submitted by Secretary Morgenthau, dealing with the relation between fiscal policy and the control of excess purchasing power, was read.

Mr. Eccles also read a memorandum which he had prepared, dealing with the same general subject matter.

Secretary Jones stated his intention to set forth his views similarly in a future memorandum. In general, he agreed with the general proposals for compulsory savings dealt with in Secretary Morgenthau's memorandum. He also stated a preference for some form of sales tax, probably on a graduated basis, as suggested in the Treasury memorandum.

Miss Perkins questioned Mr. Eccles' statement with reference to the length of the work week. She pointed out that the problem differed from industry to industry. The Fair Labor Standards Act does not, she pointed out, prohibit a work week in excess of 40 hours, simply requiring the payment of overtime on that basis.

Mr. Davis agreed with the observations made by Miss Perkins. He also expressed the opinion that any change in the present basis of overtime pay would increase the number of labor disputes, disturb production, and

perhaps lead to wage increases which would give the country an excessively rigid post-war wage structure. These demands for wage increases would be occasioned by the fact that millions of workers in munitions industries are now working many hours of overtime; and without some change in the basic wage rate, repeal of the present 40-hour overtime statutes would cause a sharp reduction in their weekly earnings.

Secretary Wickard emphasized the importance of encouraging the prepayment of debt by farmers, and of recognizing the necessity for maintenance and repair on the farms during the post-war period.

The Director expressed the opinion that the Board could, with the guidance of the Treasury, formulate a common fiscal program, backed by the united support of all groups represented on the Board. This program could then be submitted to the President, and, after consultation with the Congressional leaders, to the Congress. Secretary Morgenthau and other members of the Board endorsed this suggestion.

Mr. Smith felt that the Board now had an opportunity to fit all separate economic problems together in a single pattern. He felt that, in considering fiscal policy, we should think not merely of the immediate economic future, but of the years ahead.

Mr. Green emphasized the necessity of taking into account the necessary economic transition from war-time to peace-time in the future. He also stated that, in fixing the length of the work week, it is important to maintain the efficiency of the worker. He reminded the Board that a recent British survey had demonstrated that production tended to fall off after about 54 hours of work by the individual employee.

Mr. Johnston expressed the opinion that business recognizes the necessity of both higher taxes and compulsory savings. He also felt that it would be desirable to aim at financing 50% of the cost of the war on a "pay-as-you-go" basis. Mr. Johnston also emphasized the desirability of obtaining united support for a single fiscal program.

Mr. Flanders pointed out that it is the wage-earner who has the greatest stake in preventing inflation. He also stated that it would be desirable to aim at a tax program which would make our fiscal policy at least as stiff as that of other countries, like Great Britain and Canada, which are also attempting to deal with the problems of a war economy. He also expressed the view that manpower was the key to many of our problems, including that of the civilian economy.

The meeting adjourned at 1:50 P.M. to meet again on Friday, November 27th, at 11:00 A.M.

* * *

NATIONAL INCOME AND RELATED DATA

<u>Estimates</u>	<u>Calendar Years</u>	
	<u>1942</u>	<u>1943</u>
	(billion dollars)	
Gross national product (value of gross output at market price)	145	165
National income (at factor cost)	117	125
Net social security accumulation	3.0	3.5
Personal taxes paid, Federal	4.5	11.0
Personal taxes paid, State and local	1.5	1.5
Business tax liabilities		
Federal	13.5	16.0
State and local	6.5	6.5
Federal expenditures	55.0	92.0
Federal tax collections	16.0	25.0
Deficit	39.0	67.0
Individual income less personal taxes and social security	106.0	110
Available consumers goods and services (at present prices)	74.0	68.0
Wholesale prices (1935-1939 = 100) Aug.	136.1	
Cost of living (1935-1939 = 100) Aug.	117.4	

Treasury Department, Division of Monetary Research Nov. 13, 1942

Mr. Bell
Mr. Gaston
Mr. White
Mr. Paul
Mr. Haas
Secretary Morgenthau

Nov. 13, 1942

At the meeting with Jimmy Byrnes this morning, they asked me practically no questions. Jones announced that he is in favor of a sales tax, and Davis said that he likes our expenditure rationing.

November 13, 1942

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The following summary of actions that have been taken by the Office of Economic Stabilization was released today by James F. Byrnes, Director of Economic Stabilization.

1. I have asked the chairman of the War Production Board to undertake a vigorous program of simplification and standardization of production and distribution not merely to eliminate frills and wasteful practices but, wherever necessary and advantageous, to concentrate on the production of relatively few types of goods of standardized quality, design and price.

Effectively carried through such a program can combat the rising cost that threaten price ceilings, maintain at maximum the output of civilian goods that is possible and bring the prices of some essentials down.

Such a program, too, would yield considerable savings in manpower, materials, machine capacity, transportation, fuel and other acute war needs.

2. I have asked the Budget Bureau for a review of all subsidies related to economic stabilization that now are in force with a view to determining whether those subsidies can be discontinued or reduced or what alternatives are possible. As alternatives, I have in mind, particularly, the possibilities of lowering profit margins and of effecting economies and reducing costs by simplifying and standardizing production and distribution.

3. I have asked that the Office of Civilian Supply undertake a study to determine what are our bed-rock minimum civilian needs consistent with the fullest war production.

It is not, of course, our intention to try to reduce civilians to this bed-rock minimum. However, while a rough estimate at best, such a study should be of value in planning such matters as rationing, subsidies, the extent to which simplification and standardization can be pushed and manpower.

Both the determination of these minimum civilian needs and simplification and standardization of production and distribution are parts of what is intended to be a positive program that will guarantee our people the basic living essentials that they must have at prices that they can pay.

By reducing the number of varieties, styles and models, eliminating unnecessary costs, decoration, fancy packaging and the like we can clear the way for a fuller production of basic essentials.

The more far-reaching the measures taken to reduce excess spending, as in the new tax bill, the tighter our manpower situation and the more our civilian economy is contracted in favor of war production, the greater will be the need for such a positive program to guarantee our people at least their minimum essentials.

That has now become a fundamental feature of our policy of economic stabilization.

II

The most immediate task of the Office of Economic Stabilization was the implementing of certain provisions of the President's Executive Order. This can now be said to be fairly well completed.

In addition to developments which already have been announced, these actions have been taken:

A. The ceiling is being lifted from agricultural wages for the time being, until the Secretary of Agriculture can determine

(1) the effect of farm wages on farm production in the more critical farm labor shortage areas, and

(2) where increases in farm wages may threaten to cause an increase in the price ceilings on farm products.

This was done because agricultural wages in general are substandard, because we face a serious problem in holding, and if possible increasing, the supply of farm labor, and because most agricultural employers employ fewer than eight workers -- employers with not more than that number of workers already have been exempted by the War Labor Board.

B. Machinery has been worked out for handling wage increases which may affect price ceilings.

In dispute cases it is the practice of the War Labor Board to have a fact-finding investigation by a Panel which submits its recommendations. It has been agreed that in such cases the War Labor Board will notify the Office of Price Administration when the Panel reports its recommendations and that OPA will be given an opportunity to make its representations before a decision is made.

In non-dispute cases, which would be chiefly where employers request the right to grant wage increases, at the time of filing for such permission, the employer must state whether he believes the wage adjustment will necessitate a price increase. If it will, he must file an application for such an increase simultaneously with the Office of Price Administration. OPA can then determine whether a price increase would be required, notifying the War Labor Board.

However, in both dispute and non-dispute cases where a possible price rise becomes involved, the decision of the War Labor Board must be approved by the Office of Economic Stabilization.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Office of the Chairman

November 13, 1942

My dear Mr. Byrnes:

If we are to control excess purchasing power and preserve reasonable economic stability, we must resort to far more drastic measures to curtail civilian spending than those so far adopted. In the calendar year 1943, we estimate that the gross product of our economic system - the output of our farms, mines, and factories, plus services - will amount to about \$175 billion. Out of this vast output, the Government will take no less than \$90 billion for war purposes. After non-military governmental functions are provided for and our essential needs for capital goods are satisfied, no more than \$70 billion worth of goods and services, valued at present prices, will be available for sale to civilian consumers.

Out of the \$175 billion spent for all goods produced, business and Government will make total income payments to the buying public of about \$125 billions. Out of this sum, the Government will collect about \$15 billion in personal taxes, leaving consumers about \$110 billion of expendable income.

Thus, expendable income will exceed by about \$40 billion the value of the goods that will be available for sale. If the public follows its customary savings habits, we may expect a considerable part of this sum to be used in paying debts, buying war savings bonds and other Government obligations and saving in other forms. If we had no system of price control,

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the pressure of the remainder that will be spent, not saved, would drive up the cost of living by at least a third and probably much more. As it is, publicly quoted prices may not increase much; but the pressure of consumer demand, unless we take strong measures to curb it, will be reflected in illegal price increases, the growth of black markets, and, worst of all, shortages of consumer goods everywhere. The general prevalence of such shortages will be the indication to the public of the Government's failure to meet this problem. If we do not tax much more heavily and ration much more extensively, the costs of war will be brought home to the American people by their sheer inability to find goods to buy. Of all the possible ways of distributing the costs of war, this would be the most unfair and hence the most resented.

It is the Government itself that has created this excessive demand for civilian goods and services by its methods of war finance. If we had been able to collect taxes and to borrow (from real savings) as much as we intended to spend, there would be no inflationary gap in prospect. We could have avoided any substantial increase in the cost of living thus far. The record shows how far we fell short of realizing this ideal. We have been placing far too much reliance upon borrowing from the banks, far too little upon taxes and the savings of the people.

Credit created by the banks in buying Government securities is the principal source of excessive purchasing power. In the middle of 1941 the commercial banks held \$22 billion of Government securities. By the middle of 1942 this had increased to \$29 billion and by the middle of 1943

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it will probably have increased to \$66 billion. Thus bank holdings of Government securities, which have been increasing at an accelerating rate, will have tripled in this two-year period. As a result, our money supply has increased by approximately the same amount.

This record is not the inevitable result of the necessities of war. The extent to which we are failing to meet the problem on the domestic front is illustrated by comparison with what the British and Canadians are accomplishing. Putting it in general terms, they are financing about half of their expenditures by taxation. We are currently financing only about one-quarter. Of the half that they borrow, about two-thirds is drawn out of public spending power and only one-third from the inflationary process of bank borrowing. The figures are just about reversed in our case. We are getting only one-third of our borrowings out of spending power and nearly two-thirds from the banking system. There are many differences between American, British, and Canadian economic conditions, but none of them justifies our failure to match their financial achievements.

Today our war expenditures are running at the rate of about \$70 billion a year. By the middle of next year, they will have reached the level of \$88 billion a year. It is increasingly imperative that we meet these inevitable costs of war by a financing program that will reverse the trend we have been following.

I have stated the problem as I see it. What can we do about it? We have already begun to ration certain scarce commodities. Rationing will have to be pushed much further; just how far will depend upon the adequacy

of our fiscal policy. We all recognize the limitations on what price control and rationing can do by themselves. These limitations are not imposed solely by the immense administrative problems that the rationing authorities must solve. There is a more fundamental difficulty. The strongest administrative machinery would crumble under the pressure of the excessive purchasing power now flowing into the hands of the American public. A hard-boiled fiscal policy is our only hope of reducing the pressure enough to permit rationing to function.

In framing an adequate program, we must not lose sight of the fact that purchasing power is excessive only because civilian supply is deficient. We must attack the problem both on the production side and on the financial side. We should do everything possible to keep the output of civilian goods and services at the highest possible level consistent with our first objective of maximum war production.

By far the most important means of increasing production is by lengthening hours of work. The emergency we face calls for a 48-hour work week. Organized labor won the 40-hour week after many years of effort and struggle. It should be made unmistakably clear that the Government does not propose to abolish but merely to suspend the legislation guaranteeing this achievement. In Great Britain, for all non-agricultural workers the average working week is about 54 hours. The same group in this country works only about 43 hours. It is abundantly clear that in view of our need for production, our working week is too short. We should couple Federal action with action to modify State laws that prevent the use of the 48-hour

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week for specific classes of workers. At the same time, we should impose a blanket prohibition on working more than 60 hours a week except in grave emergencies. Such a prohibition would reduce lay-offs, decrease accidents, and increase efficiency on the job.

We should make a more thorough-going conversion of our colleges to military use. The only indispensable job for the colleges, under conditions of total war, is technical training that will help win the war. It is better to use existing training facilities in the colleges for the armed forces than to build new facilities destined for the scrap-heap after the war. In this way, we can economize the use of scarce building materials and labor.

We can also release resources for essential use by cutting down advertising. At a time when the Government's declared policy is to curb civilian demand, advertising of all kinds continues to be devoted to whetting the public's appetite to buy. The Government does not merely permit, it actually encourages, this misuse of resources. We continue to allow generous deductions for advertising expenses under our tax laws, virtually paying for private advertising out of the public treasury. We continue to extend low postal rates to masses of useless printed matter. In these ways we deliberately encourage appeals to the public that are wholly inconsistent with the Government's program for conserving civilian goods and making the most efficient use of our resources. A great deal of labor and scarce materials are thus squandered, to say nothing of the additional burdens on our already over-burdened transportation and postal facilities.

On the fiscal front, we should aim at raising taxes and compulsory savings equal to at least half of our expenditures. As much as possible of our remaining requirements should come from borrowing from the public. We should reduce borrowing from the banks, with its inflationary consequences, to a minimum. The British and Canadian experience shows that it can be done.

In view of the urgency of the situation, it would be appropriate for this Board to recommend to the President that he send a special message to Congress requesting the deduction from wages and salaries, beginning in January, of a 30 per cent withholding rate on income in excess of the income tax exemptions. The Victory tax (already enacted by Congress) should be increased from 5 to 11 per cent; and the Victory tax plus the 6 per cent normal tax and the 13 per cent initial surtax rate should be withheld at source on payments of wages and salaries. We cannot impose this high withholding rate without adopting some form of pay-as-you-go plan.

Raising the Victory tax will be futile unless we make sure that taxpayers will not use the purchase of redeemable or saleable Government obligations as a means of escaping the part of the tax represented by the post-war credit. If we do nothing else, we should at least insure that taxpayers make such purchases out of current income and not by using idle cash, selling their securities, or borrowing. We should make compulsory savings under the Victory tax truly compulsory and truly additional savings.

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The arguments for a heavy withholding tax are conclusive. Only in that way can the money now exerting continually stronger inflationary pressures on the civilian markets be drawn off before it has an inflationary effect. Once spent, it not only has this effect but the Treasury may never be able to collect the funds, particularly from the millions of new taxpayers. This is the time to place them under a withholding system on a pay-as-you-go basis. Still another virtue is that funds are thus drawn currently into the Treasury.

Later, of course, as the Treasury has already warned the country, we must have another general revision of the revenue laws and tax rates must be further increased and various remaining loopholes closed. Imposition of a withholding tax, such as suggested, can, however, be accomplished without a general revision. It is by no means sufficient by itself to meet the problem before us, but it is something that can be done promptly, and it is a vitally important step at this time.

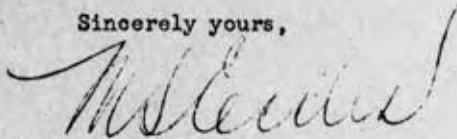
It is generally recognized that as tax rates rise, voluntary savings are likely to decrease and many taxpayers may redeem the war savings bonds they hold to meet the increased tax payments. To the extent that this occurs, it of course completely nullifies the anti-inflationary effects of the sale of those bonds. Accordingly, it is clear that we not only must have compulsory savings, but future issues of war savings bonds should not be redeemable until after the war, at such time as the funds may be spent without inflationary results. There is a place for voluntary savings, but it should be supplemental rather than a main reliance.

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On the borrowing front, steady progress is being made in elaborating and organizing the Government's program so as to reduce the reliance upon borrowing from the commercial banks and the resulting inflationary creation of new deposits.

I have sought to outline some of the suggestions that seem to me to be appropriate at this time, recognizing that adequate elaboration of our tax system, to embrace possibly the so-called spending tax and sales taxes must be postponed until later. I appreciate this opportunity to present these suggestions at this time, and I would welcome a further opportunity to furnish such additional material as may be necessary for a more thorough consideration of the various proposals outlined.

Sincerely yours,



M. S. Eccles,
Chairman.

Honorable James F. Byrnes,
Director,
Office of Economic Stabilization,
Washington, D. C.

NATIONAL WAR LABOR BOARD
Department of Labor Building
Washington, D.C.

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Office of the Chairman

November 12, 1942

Honorable James F. Byrnes,
Director,
Office of Economic Stabilization,
Washington, D. C.

Dear Mr. Byrnes:

At the meeting of the Board of Economic Stabilization to be held tomorrow, November 13, at 11:00 a.m., I should like to inject into the discussion of measures designed to control excess purchasing power, some consideration of the effect of the cost of production upon the available purchasing power of the country.

This effect exists in all production, but seems to me peculiarly important in the production of war materials. All of those things which tend to reduce the cost of production have a deflationary effect. These things include increased productivity of workers, improved methods of production, increased efficiency of management, etc.

If decreased costs of production are reflected in prices the total amount of money paid for the goods produced is reduced and the excess purchasing power is reduced. If the decreased costs of production are not reflected in prices, they are reflected in profits, and in part find their way back into the national treasury by way of taxes on earnings, dividends and excess profits.

It seems to me worthwhile for the Board of Economic Stabilization to consider this idea. Perhaps incentives suitable to encourage reduction of production costs may be suggested.

In the field of profits this is perhaps a matter of the tax laws to be considered by the Treasury, and also a matter of contract prices to be considered by the procurement agencies.

In the field of wages it would seem that if carefully and wisely applied a wage policy which allots to the workers a reasonable fraction of any saving in production costs, where that saving can be attributed to increased productivity of workers, might do much to decrease the labor costs per unit of production and correspondingly lessen excess purchasing power.

Cordially yours,

(Sgd.) William H. Davis

William H. Davis, Chairman
National War Labor Board

11/11/42

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Mr. Paul sent copies to:

Mr. Bell
Mr. Haas
Mr. White
Mr. Gaston

Secretary Morgenthau
Randolph Paul

November 10, 1942

There is attached, for your information, a copy of a memorandum entitled "Tentative Tax and Savings Program for 1943," which I received from Ben Cohen.

(Initialed) R.B.P.

TENTATIVE TAX AND SAVINGS PROGRAM FOR 1943.

1. Tax Program

(a) Regular Taxes - Apart from social security tax and spending tax below referred to, it might be well for the present, instead of seeking a general revision to the tax law, to concentrate on the plugging up of major leaks and the correction of glaring inequities. These inequities are:

- (1) Depletion allowances for oil and other mineral.
- (2) Tax exempt securities. In taxing income from outstanding tax-exempt bonds and possibly also from future issues, tax credit should be allowed equivalent to the increased yield he might have obtained from an equivalent investment in a taxable security. Such credit would tend to maintain existing market differentials between tax-exempt and taxable securities.
- (3) Joint Returns. Tax on joint return basis might be applied only to combined income in excess of \$2500, permitting combined income

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under \$2500 to be reported separately by husband and wife. (Consideration might also be given to permitting combined income under \$2500 to be equally divided between husband and wife by whomever earned, thus giving all states the benefit of the community property principle on combined income under \$2500 income.)

(b) Social Security Taxes. A substantial increase in the social security tax would seem desirable and if obtained would remove the need of applying the proposed compulsory saving plan or the victory tax to the low wage groups earning less say than \$20 or \$25 a week. If coupled with increased coverage and benefits, this would constitute an acceptable and highly beneficial form of compulsory saving.

(c) A graduated tax on retail spending. It is suggested that coupons be required for all spending for essential consumption items (except those specifically exempted by the government, because of their abundance, or for special policy reasons such as might be present in the case of milk and bread, the consumption of which might be encouraged within the limits allowed under

3.

specific rationing schemes.) Each adult individual should be entitled to a minimum amount of free coupons, say \$1,000, (coupons acquired in excess of that amount would be subject to a graduated tax, starting at 10% on the first \$500 excess with an additional 10% increase in the tax until the tax reaches 100%, or there might be some advantage in gearing the scheme from a \$50 per month free coupon base.

2. Compulsory Lending, collectible at the source.

A stated percent, say 10 or 15 or possibly 20 percent, of all salaries, business drawing-accounts, wages, in excess of \$25 per week, a similar percent of all dividends and interest payments, a somewhat smaller percent on all fees and commissions earned by firms and individuals bearing their own overhead expense. No interest should be paid on compulsory lending, but principal should be returned within 5 years after the close of the war, with provision for earlier payments in cases of actual need.

The privilege of applying compulsory pro tanto credits on income tax might be allowed to a limited extent in specified cases. The credits might be allowed

4.

for life insurance premiums, not exceeding a specified portion of the taxpayer's income, or for the payment of a limited class of debts or in the case of special hardship such as that of a taxpayer whose income has been sharply reduced from that of the preceding year.

Consideration should be given to extension the compulsory lending scheme in appropriate form to corporations, not so much because of its stabilizing effect as because of its merits in reducing the cost of financing the war and in reducing the need for high pressure war bond campaigns.

3. If these proposals are properly integrated into the tax system, it might be possible to drop the victory tax entirely. It might also be possible to substitute for, or add to the present high salary controls, a special tax of 50% of all net income in excess of \$25,000, after the payment of all other taxes, of 75% of such income over \$50,000, and 100% of such income over \$100,000.

Treasury Department
Division of Monetary Research

Date Nov. 11, 1943

To: Miss Chauncey

On Nov. 10, at 6:30 p.m. the original and 1 carbon of this letter were sent to the Secretary at his home. He signed the original ("Henry Morgenthau, Jr.") and returned to Mr. White this morning.

This morning at 11 o'clock the signed original and 25 copies of mimeographed letter were sent to Mr. Byrnes by special messenger.

L. Shanahan

MR. WHITE
Branch 2058 - Room 214 $\frac{1}{2}$

Nov. 11, 1942

Mimeographed copies sent by Dr. White to:

Mr. Bell
Mr. Gaston
Mr. Paul
Mr. Haas
Mr. Stewart

November 10, 1942

My dear Mr. Byrnes:

We in the Treasury have been investigating a great variety of measures intended to accomplish the objective mentioned in your letter of October 9, 1942, to control inflation through the restriction of civilian spending. We have been particularly interested in measures which combine effective inflation control with a substantial contribution to the financing of the war. We welcome the opportunity to give you some of our thoughts on these questions. We shall be glad to submit more extended studies at your request, and also to discuss them with you at your convenience. Such discussions should be helpful to cooperation in the related fields of economic stabilization and fiscal policy.

We have come to the conclusion, in the course of our own investigations, that an effective and equitable solution of the problem of inflation will require measures more fundamental than any yet adopted. We are convinced that wage and price ceilings alone cannot control inflation. Our estimates

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indicate that, at present price levels, next year will see a surplus of purchasing power of about \$40 billion over and above the supply of consumers' goods available during the year. Unless much of this excess of \$40 billion of purchasing power is withdrawn, price ceilings will be broken through on a broad front, causing empty shelves, large-scale black markets, widespread evasion and dealer favoritism, and illegitimate profits. In such a situation, distribution of the necessities of life will be inequitable and wasteful, and competition to buy the means of living will be reduced to a time-consuming and disorderly scramble. Severe hardships will be suffered, especially by families in the low income groups.

We find that on the basis of the most optimistic estimate possible, not more than \$70 billion, at present prices, of consumers' goods and services will be available for purchase in the calendar year 1943. Income received by consumers in the same period will be about \$125 billion. Not more than \$15 billion of this consumer income will be taken away by Federal, State and local taxes paid directly by individuals, including the new Federal taxes levied in the revenue act just passed. Therefore individuals will have left, to spend or to save, about \$110 billion. If we are to prevent irresistible pressure of excess demand for an insufficient supply of goods, consumers must be induced --

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through additional taxation or otherwise -- to refrain from spending some \$40 billion, or \$4 out of every \$11 of the income they have remaining after present taxes.

It is true that voluntary savings are now being made at an unprecedented rate. It has been estimated that individual savings -- government bond purchases, insurance premiums, currency and deposits, debt repayments, etc. -- during the second quarter of this calendar year were at the annual rate of \$24 billion, which was approximately double the rate for the same quarter of the preceding year. This acceleration of savings is far greater than can be accounted for by the large increase in individual incomes. It is without doubt due in part to inability to buy automobiles and certain other consumer goods and to the promulgation of the general maximum price regulation. It has undoubtedly also been strongly influenced by the campaign for reduced spending carried on in connection with the sale of war savings bonds. It is doubtful, however, that this rate of voluntary saving can be substantially increased or even maintained during the coming calendar year in the face of substantially increased taxes and somewhat higher living costs, unless strong governmental action is taken. If prices rise, savings will, of course, also rise, but the objective of our policy must be to increase savings while at the same time preventing prices from rising.

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If we are to reduce consumer spendings to the value of supplies available at present prices, this governmental action must immobilize an additional \$16 billion of consumer income in 1943 over and above the \$24 billions of current rate of saving.

To induce consumers to make gross savings of \$40 billion out of their next year's incomes is not sufficient. These consumer savings must be net, i.e., after account has been taken of the fact that some people will be eating into their savings. If, for example, some individuals next year consume their capital to the extent of \$10 billion, other individuals will have to save \$50 billion to give us net individual saving, for the economy as a whole, of \$40 billion.

There already exist abundant capital assets which in effect are large pools of purchasing power that could easily be tapped for spending by individuals. We have outstanding about \$13 billions of United States Savings Bonds, all of which could be presented for redemption in a short period. Individuals hold billions of dollars of other securities, which they might sell to other individuals, to business firms, and to banks. Individuals hold billions of dollars of bank deposits and currency in excess of any previous year's holdings. Billions of dollars could be borrowed on insurance policies. If more and more of the current income is taken

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away by taxes or is immobilized through forced lending to the Government, then these reserves of purchasing power will be increasingly tapped by persons reluctant to accept a decline in their standard of living, or desirous of cushioning such a decline. If price stability is to be maintained, we must see to it that these capital assets are not used to increase consumption expenditures to a level in excess of the available supply of goods at present prices. It will do us no good merely to shift savings already being made from a voluntary to an enforced status, nor will it do us much good to require lending to the government that will come out of accumulated savings represented by liquid assets in the hands of individuals. If, with taxation on the basis provided by existing law, we fail to add at least \$40 billion to our accumulated individual savings next year, prices will rise -- in an open or a concealed way.

The more taxes we obtain, the less net savings do we have to induce. We have not nearly reached the economic limits of taxation. Our first recourse should be to additional taxation. There are three important advantages of withdrawing as much

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excess purchasing power as possible through taxation. These are:

- (1) Each dollar of taxes avoids the accumulation of a dollar of public debt. Therefore increased taxation reduces the interest burden and gives the Government greater fiscal freedom to meet whatever conditions may arise in the post-war period.
- (2) Increased taxation reduces the danger of post-war inflation that could come from the spending of war-time accumulations.
- (3) Taxation reduces the necessity for extensive and administratively costly war-time controls on what people may do with money that remains in their possession.

Notwithstanding the advantages of taxation, it would be highly unrealistic to contemplate tax revenue along traditional lines on the scale requisite to absorb enough current income to bring the level of spending down to the level of goods available for purchase at current prices. Even a doubling of the present \$15 billion of personal taxes would not suffice, for if anything like \$15 billion of new personal taxes were enacted the level of voluntary savings would certainly not remain at \$24 billion. Part of the increase in

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taxes would merely replace savings. In fact, it is likely that any effort to do the whole job by absorbing purchasing power through taxation along traditional lines would involve the levying of additional personal taxes well in excess of \$20 billion. In view of the magnitudes involved it will clearly be necessary to supplement taxation by additional measures designed to curtail consumer spending.

Specific commodity rationing and price control already help to enlarge the volume of individual saving, but they alone are inadequate. To extend specific rationing sufficiently to cover the bulk of consumer spending would be costly and irksome, although extensive specific rationing may have to be adopted eventually. Therefore, we believe that other measures should be considered in order to limit spending to the necessary extent.

We have particularly examined four general measures, any of which could contribute substantially to price stability and to an equitable distribution of scarce supplies. Each would also give substantial direct or indirect assistance to financing the war. These four measures are Compulsory Lending, Compulsory Saving, Expenditure Rationing, and Expenditure Taxation. Two of these types of control are mentioned explicitly in your letter of October 9. We have chosen to dis-

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cuss the other two at the same time because they are closely related methods of dealing with the same question.

1. Compulsory Lending Compulsory lending is the legal obligation to lend to the Government an amount equal to a specified fraction of income, expenditure or some other base.

Compulsory lending may have exemptions and graduation. It may therefore be quite progressive in its incidence. It would contribute to the control of inflation in the same general way as taxation, namely, by withdrawing money from the hands of consumers. If individuals had to lend some of their funds to the Government -- provided they did not normally save anything, did not have capital, and could not obtain credit -- they would be compelled to reduce their spending by an amount corresponding to their lending. In general it is the lowest income groups who save little, have few assets and limited credit; therefore a dollar withdrawn by compulsory lending from a man in the lowest income groups might cause almost a dollar's reduction in spending. At the top of the income scale, a dollar withdrawn in compulsory lending might cause no reduction at all in spending; the compulsory lending obligation would be met out of accumulated savings or out of current income which would have been saved anyway. The effect on most individuals would be somewhere between these two extremes, so that for them part of the funds

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lent would come out of a reduction of consumption and part out of the accumulated savings or out of new savings which they would have made in any case.

It might also be desirable to require compulsory lending by corporations as well as by individuals.

The following advantages are claimed for compulsory lending:

- (a) It would justify a greater restriction of the consumption of the lower income groups than if this restriction were effected by outright taxation;
- (b) It would make larger levies on all income groups politically acceptable;
- (c) It would not reduce the incentive for individuals to undertake harder and longer work for additional pay as much as would additional taxes of corresponding amount;
- (d) It would create a reserve of individual purchasing power for the post-war period;
- (e) It could provide a means of raising money to finance Government expenditures with no obligation to redeem or to pay interest during war-time.

However, any given amount of compulsory lending would be less effective in reducing spending than the same amount of taxes. Because the amount turned over to the Government would be a loan to be returned after the war, there would

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be less inducement to save in other forms, and individuals with accumulated assets would be more willing to sell assets or borrow on them to meet the lending requirement than to meet a tax obligation. Persons who were already saving as much as their current lending obligation or who had a large amount of accumulated wealth might find no need to reduce their spending at all. Therefore any compulsory lending schedule would in practice be less progressive in its incidence on consumption than it would appear to be at a first glance. The dollar value of the reduction of consumption through compulsory lending would be much less than the dollar amount of the compulsory lending.

These considerations suggest that, if use is made of compulsory lending at all, it should be recognized that its anti-inflationary effect will be largely restricted to the lowest income levels. In order to reduce inflationary spending by the high and middle income groups, it will be essential to resort to supplementary devices designed to effectuate the desired reduction in consumer spending.

2. Compulsory Saving Compulsory saving differs from compulsory lending. Most proposals for compulsory lending permit, as offsets against compulsory lending to the Government, various forms of saving such as the payment of insurance premiums, the repayment of debt,

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and the voluntary purchase of war bonds. Such effects are steps in the direction of converting compulsory lending into compulsory saving.

By compulsory saving is meant a legal requirement that every family or single individual save a specified fraction of income. Compulsory saving necessarily contributes to the control of inflation, compulsory lending need not. An individual might lend to the Government and yet not save, simply by lending out of previously accumulated assets. An individual might save and yet lend nothing to the Government. What is primarily significant for inflation control is increased saving, i.e., reduction in spending.

In principle, compulsory saving could provide an effective solution to the inflation problem. The total amount allotted for expenditures on consumers' goods by all individuals and families could be fixed at the level of available supplies by requiring that the difference between total income and total available supplies be saved in one form or another.

A progressive system of compulsory saving would have exemptions and graduation, just as would a progressive system of compulsory lending. For instance, a married person with no dependents might not be required to make any saving at all out of the first \$1,000 of income. Out of the next \$500 of income he might be required to save 20 percent, out of the

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next \$500, 30 percent, and so on to a point where the spending of further increments of income for consumer goods and services would be prohibited.

It might be desirable to allow credits for personal taxes, rents, medical expenses, tuition and extraordinary expenses of other kinds. For instance, a single individual receiving income at the rate of \$2,500 during a given year might be required to save \$1,500 for that year. If he had to pay \$450 in personal taxes, \$400 for rent, \$50 for medical expenses, and \$100 for insurance premiums, these items might account for \$1,000 of his compulsory saving requirement, leaving \$500 that he would have to plan to save in other forms -- war bonds, etc.

This plan would solve one of the difficulties inherent in simple compulsory lending plans, that is, the substitution by individuals of the new compulsory saving for voluntary saving which they would otherwise have made. It would also make it impossible for individuals to show fictitious "saving" merely through changing the form of previously accumulated capital. This plan would fix total individual saving: it would be irrelevant whether the individual saved in one form or another, so long as he did not divert into current consumption funds he was required to save. The Government might borrow his funds directly, indirectly, or not at all. In any case, his dollars would not be competing for goods

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in the market. The Government might spend an amount equal to his saving without fear that its expenditures would exercise any inflationary pressure.

Compulsory saving would simplify the problem of raising funds for financing the war since individuals who were compelled to save would probably invest a large part of their saving in war bonds. To secure the fiscal advantages of compulsory lending, it could be required that a stated proportion of amounts saved be lent to the Government for the period of the war -- perhaps at zero interest. If such a compulsory lending requirement were added to compulsory saving, the requirement could be implemented through collection at the source.

It is absolutely crucial to this plan that a complete report be secured of the net change in any individual's capital position during the period in which he was obligated to save. In calculating the savings requirement of any individual, any purchase of assets or any savings credits would have to be offset against sales of assets, declines in deposits, etc. Only in this way could the compulsory saving plan be protected against being vitiated by the use of existing balances and credit.

Compulsory saving involves serious administrative difficulties. The saving requirement would be for the same year as that in which an individual received the income and

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would not represent an amount he would be required to turn over to the Government in a subsequent year. To help individuals keep their saving up to the level required by the law, it would probably be necessary to have quarterly returns. Whether an individual had complied with his compulsory saving requirement could not, however, be finally determined until the end of the period to which the requirement related, since neither his income nor his savings would be known accurately until then. An individual might unwittingly spend more than his allotment because of unanticipated fluctuations in income or expenditure needs, and in any case he could not know that he had complied with the saving requirement until after the event.

The required amount of saving could be insured by issuing to all consumers licenses to purchase only to the extent of the expenditures to which they were entitled; in this case compulsory saving would become Expenditure Rationing. Alternatively consumers might be required to pay a regular schedule of penalties for spendings above their exempt minimum; in this case compulsory saving would become a type of Expenditure Taxation. Further alternative sanctions for excess spending are criminal penalties, fines adjusted to the individual circumstances, or punitive compulsory lending requirements. The use of any of these last three sanctions, however, would involve great administrative difficulties and would cause widespread public resentment.

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3. Expenditure Rationing Expenditure rationing is the limitation of total consumer expenditures by fixing the maximum amount that every family or single individual is allowed to spend on rationed goods. In principle, rationed goods should include all consumers' goods that have any current cost in labor, materials, or facilities. Some classes of consumption goods and services, however, might well be excluded from Expenditure Rationing, such as: rents, tuition and medical care. Under an expenditure rationing plan consumers' goods other than these could be bought only with one's ration allowance, but the consumer would be free to spend his ration allowance on any commodities or services that he pleased. Furthermore, no limitation would be imposed on the use of income in non-consumption transactions, such as making gifts, paying taxes, paying insurance premiums, buying real estate or securities, or saving in other ways. Business expenditures would, of course, be excluded from expenditure rationing.

Under expenditure rationing the total amount allowed to be spent on rationed goods for the whole economy during any period would be adjusted to a level equal to the estimated value of the supply of rationed goods available during that period. In making the necessary computation, supplies would be valued at the price level which it was desired to maintain. Changes in the total expenditure ration would be made

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as the expected supply position changed and as more accurate data became available.

Expenditure rationing would yield no revenue directly. However, by limiting consumers' expenditures, it would force them to save in one form or another. Therefore, individuals would be likely to buy larger amounts of Government securities directly or to place their savings with institutions who could in turn buy larger amounts of Government securities.

The impact of any expenditure rationing program upon the various income groups would depend upon the schedules adopted for allocating expenditures. If variations of income, as well as size of family, were factors in determining the permissible amount of spending allowed each individual, there would be differences in permissible expenditures as between income groups. However, the expenditure rationing system could greatly reduce the inequalities in spending that prevail now. For example, a family of four with an income of \$1,500 might be allowed to spend the entire \$1,500 while a family with an income of \$50,000 might be permitted to spend no more than (say) \$10,000. It would be easier to reduce inequalities by limiting spending directly than by limiting it through taking away a part of income. On the other hand, remaining inequalities might be resented because they have been given direct government sanction.

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Expenditure rationing would attack the problem of excessive consumer purchasing power directly, and would determine the ration allowance from two items (current income and family status) that are in most cases readily ascertainable. For both of these reasons, the allotment of spending power to individuals or income classes would be subject to more effective control than under a program of taxation or compulsory lending.

It would still be necessary to have specific rationing for some basic necessities that were disproportionately scarce. However, in the measure that people with large incomes would be able to spend less on scarce commodities under expenditure rationing, the need for specific rationing would be reduced.

An effective rationing system would require the use of a license to purchase, in coupon or other form. It might be possible to solve this problem without the use of both money and a coupon in every purchase.

The distribution of ration coupons or allowances could be integrated very closely with the present system of payment of incomes:

- (a) Persons employed for wages or salaries would file statements with their employers showing their marital and dependency status. On the basis of these returns, the employers would distribute to them the correct amount of ration allowances;

- (b) Persons receiving income other than wages or salaries would report the amount of their income as well as their marital and dependency status to a bank, post office, or local rationing board. The institution to which this information was reported would be authorized to provide individuals with ration allowances in accordance with the expenditure rationing schedule;
- (c) Persons with irregular incomes, seasonal incomes, or living by depleting capital, would require special consideration in the determination of their ration allowances.

A partial check on the accuracy of ration allowances would be obtained by requiring individuals to reconcile the income declared for the purpose of obtaining ration allowances with the income declared for income tax purposes. For consumers, such a system would have an internal self-enforcing element, since the exaggeration of income would lead to additional tax liabilities, while the under-statement of income would diminish the size of the ration allowance.

The above description of expenditure rationing touches only its most salient features. We have gone into expenditure rationing in the Treasury in great detail and shall be glad to give you a more extended study of this subject, should you be interested in exploring it further.

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4. Expenditure Taxation Expenditure taxation has already been the subject of some public discussion in connection with the recent proposal for a spendings tax submitted by the Treasury to the Senate Finance Committee during consideration of the Revenue Act of 1942. We are not concerned in this letter with the details of that proposal but rather with the general question of the way in which a progressive spendings tax would bring about the limitation of consumer expenditure necessary to avoid inflation.

The spendings tax would be a tax on consumption rather than on income. It would provide for exemptions and for graduated rates. It would impose a penalty on all spending above the minimum subsistence level, a penalty that would become increasingly severe and even prohibitive as spending increased. Through graduation, it would be made to bear primarily on comforts and luxuries rather than on necessities.

For example, under a spendings tax a married person with no dependents might be allowed an exemption of \$1,000 a year. If he spent less than \$1,000 on goods and services he would pay no tax. A 10 percent tax might be levied on the first \$500 of consumption expenditure in excess of \$1,000, a 20 percent tax on the next \$500 and successively steeper taxes on additional increments of spending. The tax might ultimately reach rates of 100 percent or more. This would mean that an

individual spending large sums on luxuries might be required to pay the Government as much as \$1.00 or more for every additional dollar he spent on consumers' goods. (A part of this tax might be treated as a post-war rebate, if desired.)

All forms of savings would be exempt from the spendings tax. The more important non-taxable uses of income would be as savings for the purchase of war bonds and other capital assets, repayment of debt, life insurance premiums, as gifts and contributions, and as tax payments. In addition, it might be desirable to exempt from the spendings tax certain special types of expenditure, such as tuition fees, expenses for medical care and perhaps rent and other items.

The spendings tax would reduce spending on consumers' goods and services in two ways: first, the amount paid in tax would be withdrawn from income and could not be used to purchase goods and services; second, by penalizing spending the tax would provide a powerful incentive to save rather than to spend. Although the savings induced by the spendings tax would not necessarily be paid over to the Treasury, they nonetheless would be removed from the spending stream and would be added to the pool of savings available, directly or indirectly, for financing the war.

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A sufficiently severe spendings tax could reduce total consumer expenditures by any desired amount, and at the same time contribute to a more equitable distribution of the scarce supply of consumers' goods than would prevail without the tax. The exemption provision would enable persons with small incomes to obtain basic subsistence needs free of tax, while the steeply graduated tax rates would operate to bring about a greater proportionate reduction in spending by those persons whose large expenditures would subject them to the higher penalty rates. Individuals would be given an inducement for saving in a way which is not possible with a conventional income tax. By reducing their spending individuals and families would reduce their tax liability and thereby increase the funds available to them for expenditure without penalty after the war or when economic conditions become such as to permit abandonment of the tax.

In addition to controlling the total volume of expenditure and its distribution among individuals the spendings tax would provide some revenue to the Treasury to finance the war and, by reducing expenditures for consumption, it would undoubtedly increase the voluntary purchase of war bonds. It would also encourage the repayment of debt and other forms of savings, since these too would be free of tax.

The administration of a spendings tax would not require that individuals keep a detailed record of all their expenditures. The only report that would be necessary in addition

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to the information already required for the income tax would be information to determine changes in capital position of the same kind as would be needed under compulsory saving. The total taxable expenditures of an individual are equivalent to his net income, minus or plus the net change in his assets during the year. His taxable spendings could be determined, therefore, from his net income and from the assets he held at the beginning of the year and the assets he held at the end of the year.

The final determination of liability under the spendings tax would be made when the income tax return for the corresponding year was filed. A combined form could be used for the two taxes. However, collection of the tax would not have to be delayed until the tax liability was finally determined. Two methods could be used:

- (1) The first bracket of the spendings tax could be collected at the source from all income paid in the form of wages and salaries, bond interest and dividends. Collection at source based on income instead of spending would involve no great hardship. The only persons who pay too much would be those who save part of their income and hence do not need for current consumption the extra amount withheld, although they may need it for outstanding savings commitments. Final adjustment of

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tax liability would be made with the filing of the return after the close of the year

- (2) Individuals with expenditures subject to tax rates above the first bracket would be required at short intervals, say quarterly, to pay a tentative tax based on the approximate amount of their spending. A final adjustment of their tax liability would be made with the filing of a return after the close of the year.

This statement of the spendings tax is intended to be only a general exposition of its principle features. To bring out more fully its effect in restricting expenditure on consumption at every income level, it would be necessary to present a longer memorandum including a detailed schedule of tax rates, their probable yield, and their effect in inducing savings. We shall be glad to present such a study at a later time should you be interested in going into the possibilities of the spendings tax in greater detail.

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Additional data are available on each of the four plans discussed above, and we shall be glad to present them to you at your request.

Sincerely yours,

1st Henry Morgenthau, Jr.

Secretary of the Treasury.

Mr. James F. Byrnes,
Director, Office of Economic
Stabilization,
White House,
Washington, D. C.

RALPH E. FLANDERS
Box 477
Springfield, Vermont

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November 9, 1942

Hon. James F. Byrnes,
Director, O. E. S.,
White House,
Washington, D. C.

Dear Mr. Byrnes:

The prevention of inflation is desirable from the standpoint of controlling the cost to the nation and its citizens of an all-out war; but it is a prime necessity for safeguarding the future of the wage earners of the country.

The problem is so clear in principle that it scarcely seems necessary to put into words; yet it must be stated again and again until comprehension becomes so general that it is translated into action.

Briefly, the situation is this: As more and more manpower is withdrawn from production of civilian goods and the rendering of civilian services, there will be less and less to buy with the greatly expanded civilian payrolls, the pressure of this purchasing power on the diminished supply of goods and services will break through the dam of O.P.A. price control, or widespread boot-legging and black markets will arise, or both. The wage earner will thus be required to spend his expanded income on current expenses, with little or nothing laid by for the uncertain future. The economic gains of labor will be wiped out.

While the nature of the problem is clear, its extent is not - at least from any figures publicly available. A clue is given, however, by the announced Army program of 7,500,000 soldiers under arms by the end of 1943. If we add 2,000,000 men in the Navy, we will have 9,500,000 men of all services in the field.

The consumption of munitions of all kinds in modern warfare is enormous. To the mass which will be required by these 9,500,000 men we must add a comparable mass for the supply of the fighting forces of the United Nations already in the field. If we can procure the raw materials for this all-out production of war material, it is clear that we must employ on war work every man, woman and child able to work and not under arms, leaving in civilian occupations only the minimum required for food, clothing and shelter, and the basic requirements of health and education.

This deepening situation of high payrolls and decreasing goods must be met by sharply limiting purchasing power in the interests of the purchasers. It is now becoming necessary to reduce that purchasing power by forced saving and by taxation. Voluntary bond sales fall far short of the requirements. All the juice has been squeezed from personal net incomes above \$25,000, as evidenced by the Treasury's revelation that confiscation of all incomes above that figure would yield a sum which is less than \$1.50 for every man, woman and child in the country.

The situation clearly demands a new fiscal program, worked out by the Congress, the Treasury and the Director. That program must be in part one of taxation, in part one of obligatory purchase of war bonds.

The war bonds must for the present be non-negotiable except in provided-for emergencies, otherwise the bonds will find their way into the banks and the saving will be fallacious, or they will be sold at a discount and the market broken.

The program must be flexible. The balance between purchasing power and purchasable goods and services is a fluctuating one, and the division of purchasing power must be currently adjustable to the current situation. That adjustment must be at the discretion and in the power of the Director. This requirement for flexibility makes necessary the immediate adoption of the so-called Ruml plan. Without it there is no possibility of adapting the fiscal program to the current requirements.

In view of the above considerations it would seem advisable for the Treasury and the Director to apply to the Congress for fiscal legislation of the proper type, giving the required powers.

Sincerely yours,

(Sgd.) Ralph E. Flanders

Ralph E. Flanders

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
OFFICE OF ECONOMIC STABILIZATION
WASHINGTON, D. C.

November 5, 1942

JAMES F. BYRNES
Director

My dear Mr. Secretary:

Our next Board meeting will be held
on Friday, November 13, at 11:00 a.m.

We shall discuss ways and means of
controlling excessive purchasing power. In
preparation for this meeting I should be grate-
ful if you could have a memorandum prepared,
setting forth your suggestions in this regard.
The memorandum could be circulated among the
Board members in advance of the meeting as the
basis for our discussion.

Sincerely yours,

James F. Byrnes
JAMES F. BYRNES

Honorable Henry Morgenthau
Secretary of the Treasury
Washington, D. C.



MINUTES OF MEETING

The Economic Stabilization Board met on Friday, October 30th, 1942, at 2:30 P.M.

Present: The Director (presiding), Mr. Bell (Acting Secretary of the Treasury), Mr. Wickard, Mr. Jones, Miss Perkins, Mr. Eccles, Mr. Henderson, Mr. Taylor (Acting Chairman of the National War Labor Board), Mr. Lubin (Economic Advisor to the President), Mr. Murray, Mr. Green, Mr. O'Neal, Mr. Patton, Mr. Johnston, Mr. Flanders and Mr. McNutt (by invitation).

1. The Director expressed regret that, because of a change in the time fixed for the President's Cabinet meeting, the Board meeting had again been postponed from Thursday to Friday. It was decided that future meetings would be held on Friday mornings at 11:00 o'clock.

2. Mr. McNutt's memorandum with respect to the relationship between wage stabilization and the migration of labor had been circulated among the members of the Board. The meeting was thrown open for comments upon this subject.

Dr. Taylor stated that the National War Labor Board had completed an analysis of 1200 pending applications for volunteer wage increases. More than 800 of these applications were based upon the alleged necessity of increasing wage rates in order to prevent the loss of labor. Dr. Taylor said that applications of this sort would, in the absence of a clear manpower policy, place an intolerable burden upon the War Labor Board. It will be impossible, Dr. Taylor asserted, to stabilize wages so long as wage rates are permitted to act as the primary instrument for regulating the flow of manpower. In these circumstances, the War Labor Board would be required to decide which occupations were more essential than others; whether employers had inaugurated satisfactory training and upgrading programs; and other similar questions. This would involve an invasion of the manpower field by the War Labor Board. The only alternative, Dr. Taylor

submitted with letter of Nov 2 1942

stated, is a national manpower policy which makes wage adjustments a secondary rather than a primary factor regarding the flow of manpower.

These were, according to Dr. Taylor, unanimous conclusions of the War Labor Board.

In answer to queries by Mr. Green, Mr. McNutt expressed the opinion that the stabilization of wages and the adjustment of inequalities were equally important elements in a successful manpower policy. Adjustment without stabilization would involve a constant upward wage spiral, with no level to which adjustments might be made. On the other hand, in the opinion of Mr. McNutt, rigid wage freezing without adjustments to correct inequalities might lead to a loss of morale and to dissatisfaction, with consequent losses in production. This would be true even if compulsory labor market controls were instituted, in view of the fact that compulsion, while capable of preventing the turnover and transfer of workers, could not guarantee the necessary levels of productivity without a high degree of cooperation upon the part of the individual worker.

Mr. McNutt, however, held the view that compulsory labor market controls would prove necessary. In fact, indirect compulsion is already being applied in the case of non-ferrous metal workers, lumbermen and certain agricultural laborers. McNutt expressed agreement with Mr. Green's view, that, in the event of a compulsory transfer of workers, seniority rights and the social insurance benefits should be preserved on a uniform national basis.

Mr. McNutt also agreed with Mr. Green that a national registration of women should be held before the adoption of compulsory manpower control. However, he stated that 39 million selective service questionnaires were already in possession of the United States Employment Service, but that the failure of the Congress to make adequate appropriations held up the necessary work of analyzing this information.

Miss Perkins called attention to the fact that several million workers are still registered with the United States Employment Service and suggested the recruitment of these workers in war production. Mr. McNutt stated that a considerable number of these registrations were "not active" and that a great many of the remainder were in the field of domestic service and other casual occupations. Miss Perkins also referred to the existence of 1,700,000 unemployed workers, but Mr. McNutt expressed the opinion that of these about 1,000,000 were unemployable.

Mr. Murray suggested a more complete study of the entire problem of war mobilization before embarking upon a program of manpower regimentation. The manpower problem, stated Mr. Murray, is inevitably tied up with the mobilization of all our human and natural resources. Such matters as the allocation of war contracts and the utilization of the facilities of small enterprise are directly related to manpower. Mr. Murray reiterated his opinion that labor will accept whatever sacrifices and compulsions prove necessary for winning the war, no matter how drastic; but labor does not believe that existing possibilities for the effective mobilization for our total resources have been exhausted.

Mr. Patton expressed the opinion that dependency must give way to occupation as the primary criteria for the operation of selective service; and that the local draft boards as now constituted were not technically capable of dealing with complicated occupational questions. Governor McNutt agreed with Mr. Patton. Mr. Patton also agreed with Mr. Murray's observations as to the necessity of integrating procurement with manpower and the problems of the civil economy. Mr. McNutt agreed, and advocated the creation of a Board consisting of the Joint Chiefs of Staff, Mr. Nelson, Mr. Stettinius, Mr. Byrnes, and himself to deal with the problem of relating manpower allocation to military strategy. Mr. Patton also urged the necessity of enabling the Secretary of Agriculture to administer the entire food program, which is now split between the Department of Agriculture and the War Production Board.

Mr. Johnston stated his opposition to the use of compulsion unless it proved absolutely necessary. He further advocated creation of a central authority to allocate manpower among the armed services, war production and the civilian economy. Mr. McNutt agreed, but pointed to certain difficulties, such as the traditional priority of the armed forces in all manpower allocation, with the consequent reluctance of many persons to abandon the system of voluntary enlistments. Mr. Johnston also emphasized the possibility of accomplishing much through voluntary cooperation between labor and management and the local community, citing the experience of Muskegon, Michigan, where labor turnover and piracy had been reduced almost to the vanishing point.

Mr. Flanders stated that, in his opinion, the government should proceed at once to an all-out program of voluntary manpower control, with preparations to move into compulsion. He also called attention to the existence of cost-plus contracts as a disturbing factor in national economy, and to the disparity between agricultural and industrial wages. Mr. Flanders further expressed the opinion that we had not yet approached the degree of total mobilization already achieved by the enemy, and that the full utilization of all our resources would require much more delicate controls than those now contemplated.

Mr. Eccles emphasized the gains which could be made from increasing the efficient utilization of our present manpower supply.

3. Secretary Wickard read a memorandum dealing with the problem of agricultural wages (circulated at the meeting). Miss Perkins, Mr. Henderson and Mr. Patton all expressed general agreement with Mr. Wickard's recommendations, which generally accorded with those contained in Mr. McNutt's memorandum. Mr. McNutt also called attention to the fact that one difficulty in recruiting agricultural labor was the failure to obtain adequate appropriations for the Farm Placement Division of the United States Employment Service. Mr. O'Neal expressed

emphatic disagreement with the recommendations of Governor McNutt and Secretary Wickard, stating that adequate farm prices and the deferment of farm laborers would deal successfully with the farm manpower problem. Mr. O'Neal further said that the Department of Agriculture's program for supplying labor to pick long staple cotton in Arizona had failed, thus demonstrating the inadequacy of Mr. Wickard's proposals. Mr. Wickard and Governor McNutt disagreed sharply with Mr. O'Neal's statement, contending that the situation would have been adequately handled except for outside interference.

Mr. Wickard reiterated his belief that for the present there should be no ceilings on farm wages, and there was general agreement with this view. Mr. O'Neal, however, reminded Mr. Henderson of his opinion that increases in farm prices would be equally necessary to secure increased production.

The Board adjourned to meet again on Friday, November 13th, at 11:00 o'clock A. M.



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

October 31, 1942

MEETING OF THE ECONOMIC STABILIZATION BOARD
FRIDAY, OCTOBER 30, 1942

All of the members were present except the Secretary of the Treasury and the head of the War Labor Board. I attended in Secretary Morgenthau's place.

Chairman Byrnes had invited Mr. McNutt of the Manpower Commission to be present because of the discussion of the subject of the effect of wage stabilization upon the migration of labor. He had submitted previously a copy of the statement entitled "Wages in Relation to the Labor Supply", which the Chairman had sent around for every member to study. One came to the Treasury the day before but I did not get a chance to see it, so when he asked me to comment I said I was sorry but I hadn't seen the statement until that moment.

Mr. Eccles commented rather extensively and drew an analogy between the labor front and the fiscal front. He said we had tried on the fiscal front to keep it on a voluntary basis and it had been found that what we could do on that basis was not sufficient to meet the problem. Other measures will have to be taken. He thought the time had come to really have an all-out war effort and we ought to virtually draft both capital and labor. He doesn't believe we are going to have real success with controlling this whole problem until we do that very thing.

The Acting Head of the War Labor Board said the Board had given consideration to a number of different types of cases. There was one type of case now coming before the Board since the Economic Stabilization order went through which was of this character - the employer complains that he is losing employees because of the



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higher pay of another plant close by. He said of the 1200 cases received in the last month or so, 800 or 900 were of this type. He does not feel that the Board ought to consider this type of case unless there are other factors involved and there must be other factors involved before the Board will take action to grant wage adjustments. He said the Board is definitely of the opinion that its powers could not be used in any way to control directly the flow of manpower.

Mr. Green of the American Federation of Labor asked for clarification of paragraph 3 on page 3. Mr. McNutt replied that we had to have stabilization of wages before we could have any adjustment. In other words, there had to be a base from which to start.

Mr. Green said that his organization had given a great deal of consideration to the matter of compulsion in the employment and shifting of labor and they had come to the conclusion that before you should use compulsion for this purpose that the womanpower and other related matters should be given consideration. In his opinion women should be registered and registered immediately. Mr. McNutt said he agreed with that and that all of the registrants, including womanpower should be classified. He asked Congress for an appropriation of \$6-1/2 million last spring to classify the 45 - 65 age group but did not get one cent. He asked again in the last Deficiency Bill for the same amount and they have just given him \$5 million, which he told them quite frankly would not be enough.

Mr. Green raised one more question which he said would have to be considered carefully in the matter of compulsory labor. You take people from one section of the country where they have many rights such as hospitalization, unemployment compensation, disability compensation and take them to another section where they have none of these or at least they don't have some of them, such as hospitalization, which is a very important factor; many of them in their present employment have seniority and they have retirement privileges. In his opinion it would be unfair to freeze these employees in another job to which they are shifted and

something must be done to give them full protection of all their rights.

Mr. Murray said that in his opinion we have wage stabilization in this country. We have an organization which was created by Congress to take care of wage stabilization. He thinks that the question of compulsion is something that has not been thought through by the Administration officials. He thinks that the trend at the present time is to rush into regimentation without thinking the matter through thoroughly. He believes that there should be a complete study of the whole manpower problem, including women, before we go to compulsion.

He said there are many crazy things done in the Government service. There is no coordination. There are many problems which affect the employment of labor. Only last week, he said, Procurement Division contracted to buy a large number of chairs in Los Angeles, a place where the labor market is as tight as it could possibly be, and completely ignored the fact that New York has a surplus of labor and it would have been much better to have placed that order in that market. Chairman Byrnes asked me if I would look into the matter and I told him I would.

Mr. Murray criticised Mr. Eccles for comparing Great Britain and American labor problems. Most of Great Britain's business is done in plants where they employ no more than 200 employees. That is not the case in this country. Little business is going out of business and it is being helped in that direction by Government officials. Only recently General Somerville said before a Committee of Congress that little business would just have to find some other means of livelihood. This seemed to him preposterous when many of them are equipped to put out the very things that are needed by our Army and Navy without spending millions of dollars to expand their plants. He gave information concerning specific cases that came to his attention. Last April, he said, one large company had come to Washington, gotten priorities and contracts to build a \$38 million plant, entirely new, in the city of Chicago for the

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purpose of manufacturing armor plate. A gentleman in Pittsburgh who already had a plant said that he could start manufacturing armor plate immediately and for an expenditure of probably less than \$15 million. It took a great deal of time and effort and pressure to get this Government interested in that small Pittsburgh manufacturer, but after several conferences they finally awarded a contract to this gentleman. He began immediately to produce armor plate and is in full production today, whereas the plant in Chicago, as he understands it, will not be ready until next March.

He called attention to another case where there was a large plant in Pittsburgh which previously employed 4,000 people in the manufacture of tin plate. Because of allocations the tinplate industry has been practically eliminated, so today that plant employs 600 women on some rather small and insignificant jobs. Here is a plant that should be compelled to convert to other war-time purposes, but it is owned by a large concern and they don't want to convert, so it stands practically idle.

As he said before, wages in this country are stabilized, he firmly believes, but he knows that the cost of living is not stabilized. He is not satisfied with our programs, particularly the tax program. He said certainly it is not enough and it bears too heavily upon the small income group. He wound up by saying he is definitely in favor of the registration of women, and at once.

Mr. Patton said he would like to make one comment on Mr. McNutt's memorandum and he assumed that Mr. McNutt would probably agree with him, that the draft boards throughout the country are not capable of passing upon matters of deferment if the Government should decide on deferment as a policy in certain groups. Mr. McNutt said he certainly agreed to that. He also raised the question about dependency, saying that dependency is certainly no longer a reason for deferment. Mr. McNutt said in his opinion dependency is out. Mr. Patton said if we are going to compulsion it ought to be all-out and not a piecemeal compulsion. McNutt

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agreed that that should be done. He also said that wage stabilization alone is not the answer to our problem. It must be a whole, integrated program and we just could not pick it up bit by bit and solve each part as a unit.

Mr. O'Neal said he had a great deal of sympathy with what Mr. Murray had to say about compulsion but he felt that Mr. McNutt had completely covered the situation in his memorandum. We apparently were not ready for compulsion because Congress has not given the money with which to carry it out. Mr. McNutt said he did have \$5 million and was now starting to work.

Then O'Neal and Wickard got into quite a heated argument on the situation in Arizona with respect to the employment of labor at minimum wages fixed by the Secretary of Agriculture. Apparently Mr. O'Neal had given out a statement for the paper that morning which Mr. Wickard said had done a great deal of harm and, in his opinion, was going to cost the lives of a great many American boys; that people are just not going to plant cotton. If statements of that kind are made we are going to find ourselves short; that this kind of statement is very harmful and just should not be made.

Mr. Johnson said his organization does not believe in compulsion of labor. He believes, however, there should be a central authority which would have control over all manpower. It should study the whole problem, should know the size of our proposed army, should stop voluntary enlistments at once, and labor and management, so far as the individual's problems are concerned, should be left alone to work them out. He feels they are doing a grand job along that line and should be allowed to continue it.

Mrs. Perkins broke in at this point and said there had been a great deal said about the lack of knowledge in the Administration with respect to the manpower problem. She wanted those present to know that certain executive officers of the Government had this knowledge and were using it as a basis for many of their actions and proposals. However, the

Chiefs of Staff feel that this information would be vital to the enemy and it is something that just cannot be discussed except in certain groups dealing directly with the problem. Mr. Patton said that discouraged him a great deal because the representatives of the public on this Committee can keep a secret and can be trusted with this information and he thinks it is unfortunate that it cannot be made available. Mrs. Perkins said probably it could be made available to the Chairman and that there are certain people in Congress, heads of responsible committees, which have the information as representatives of the public.

Mr. Flanders said that we should explore all of the voluntary possibilities to the extreme before we go to compulsion. He feels rather strongly about that. He also feels strongly about the necessity of getting right down to the basic fundamentals of the problem. We have got to know where we are headed. He does not think the job can be done unless we know all about the manpower problem, how big the Army is going to be, what equipment is going to be needed, and after we learn that we may find that a great deal less will be available for civilian consumption than is estimated at this time.

Mr. Byrnes asked Mr. Henderson if his office had given any study to the minimum needs of the civilian population and what we could expect in the way of an all-out effort by industry for war purposes. Henderson said yes, he had given some thought to the matter and he would be prepared to come before this Board and make a statement on it. He said he would have to be away during the week of the next meeting and he couldn't do it then but that he would do it at some later date.

The Secretary of Agriculture was called upon to read his statement, which he did and then asked for the views of the Committee as to what they thought about his conclusion in the last sentence on page 5. Mr. Byrnes answered by saying that what the Secretary of Agriculture wants to do is change the law. He feels that the Act of October 2nd and the Executive Order issued thereunder are in full force and effect; there is only one person who can answer that question and that is the President of the United States.

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Secretary Jones said that he thought we ought to congratulate the two gentlemen for having submitted such complete and comprehensive memoranda on their respective subjects and he thought there had been a full and frank discussion of the subject matters before the Board. He personally was not ready to act. He needed a little more time for study and to think about the problem. Chairman Byrnes said he felt the same way about it but did not indicate that there would be further discussion other than between him and the Secretary of Agriculture and Mr. McNutt.

Chairman Byrnes brought up the question of future meetings. He said it was a little difficult to know when the President was going to change the Cabinet Meeting from Friday to Thursday and he wanted to get the views of the members as to whether it wouldn't be better to meet Friday morning at eleven o'clock. No one offered any objection to this and he said the meetings would, therefore, hereafter be scheduled for eleven o'clock every other Friday.

The statements made by Mr. McNutt and Mr. Wickard are attached hereto.

sub

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
Washington, D. C.

October 30, 1942

To: James F. Byrnes, Director, Office of Economic
Stabilization

From: Claude R. Wickard, Secretary of Agriculture

Subject: Agricultural Wage Control

In response to your request, I am herewith submitting my observations on the control of agricultural wages. When I speak of agricultural wages, I refer to wages paid to persons working on farms producing agricultural commodities.

The Act of October 2 and the President's Executive Order provide that wages should be stabilized at specified levels unless adjustments are deemed necessary to correct gross inequities or to aid in the prosecution of the war. At this time, I believe that these provisions regarding inequities and prosecution of the war are the significant parts of the Act and the Order as far as agricultural wages are concerned. As I see it, the principal problem in agriculture is to allow wages to rise so as to attract enough labor to achieve farm production goals. Therefore, it appears that, with possibly a few exceptions, the law does not demand an immediate enforcement of ceilings on farm wages.

On the contrary, it seems that as far as wages are concerned there is more need for seeing that workers in agriculture are paid better wages in order to provide an adequate labor supply to keep up agricultural production.

Any system that attempts to put ceilings on all wages for farm labor would encounter almost insurmountable difficulties in administration.

My views are stated in more detail in the following paragraphs:

1. There is no present general need to hold down agricultural wages. The disparity between agricultural wages and wages paid for other essential war industries constitutes a gross inequity to the farm workers. For example, the average hourly cash equivalent earnings of agricultural workers are

less than 30 cents per hour, while the average hourly earnings for workers in manufacturing industries are over 80 cents an hour. Agricultural wages traditionally have been at the bottom of the ladder, and while the reports of the Department of Agriculture show that farm wages have gone up materially, it must be remembered that they started from a very low point. By any reasonable standards, agricultural wages are not too high.

Not only are agricultural wages low, but hours of work are long. For example, in my own State of Indiana, where I have long worked on the farm, the average farmer and his employees work about 6½ days a week and they rarely work less than 10 hours a day. And farm workers receive no overtime.

2. Adequate wages essential to production. The most serious problem involved in supplying the food for the United Nations is that of maintaining an adequate supply of labor on the farms of the United States. Farm workers cannot be expected to stay on farms if the present wage disparity continues as wide as it is. Ceilings at present levels on agricultural wages would seriously interfere with removing this disparity and would hinder the effective prosecution of the war.

There may be a few instances, especially in highly commercialized agriculture, where nothing would be gained by further rises in farm wages. In such instances, consideration should be given to the application of a wage ceiling. These instances may become more frequent, but it is doubtful if such wage controls can ever be applied to all of agriculture.

3. A program of agricultural wage control for all farm labor would encounter serious administrative difficulties. Agricultural labor differs from industrial labor in that farm workers are located on many small units while industrial workers are more centralized. There are more than six million farms. On many farms the work is performed by the operator and the unpaid members of his family, while on many others the operator of the farm is both an employer of labor and a laborer himself. Moreover, agriculture is highly seasonal. In agriculture, more than in any other field, there are great numbers of part-time workers. Also there are great numbers such as boys and girls,

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old people, and the physically handicapped who cannot perform a full day's work.

The problem is further complicated by the fact that farm labor is not always paid in cash alone. Over wide areas it is customary for farm labor to be paid part in cash and part in perquisites, often referred to as "furnish." These include meats, vegetables, garden space, housing, use of milk cows, fuel, and sometimes a share in the crops. It is apparent that evaluating these items would add a heavy administrative load to any general application of a wage control program to agriculture.

The administrative difficulties of establishing wage ceilings for all persons employed in agriculture seem almost insurmountable.

4. Problems involved in increases in agricultural wages. Although agricultural wages are still very low as compared with industrial wages, there are indications that some of the disparity will be removed by natural competitive forces. In most areas in the United States the scarcity of farm labor has been acute enough to bring about rises in farm wages as shown by the fact that these wages in July 1942 averaged about 25 cents an hour as compared with about 16 cents an hour in July 1940. In order to improve farm wages in certain areas as well as to have a better use of the existing supply of labor, it is necessary that workers be moved from surplus to deficiency areas.

The time will come, however, when existing prices of farm products will not permit a further rise in farm wages. In such instances, wage controls could be used, but it must be remembered that if they are used alone, the problem of production perhaps will become more rather than less difficult. The only way to meet the problem of farm production, if existing prices will not permit wage increases, will be to increase returns to farmers sufficiently to enable them to pay higher wages. Increasing returns to farms can be accomplished only by increasing prices, or by subsidies, or by some combination of the two.

Experience indicates that a direct subsidy to laborers would be impractical, because there would be no compensating return for farmers who accomplish their production by their own labor and that of their families. If a subsidy

is to be used, it appears that the more practical method is to make the subsidy a part of the price of the product and to accompany this by some findings of fair and reasonable wages. Thus it can be seen that wage controls are inexorably involved in the entire agricultural program.

5. Problems of labor supply. I am positive that the Government will have to take action on many fronts in order to obtain a better supply of farm labor. It will be necessary to transport workers within the United States and from Mexico. Also, we are going to have to train large numbers of workers. Above all, there must not be transportation or training of workers for the purpose of driving wages down. In order to attract workers to agricultural employment it is necessary to assure them certain standards of wages and working conditions. Farmers who expect to obtain these workers have a right to know what these standards are before they contract for them through Government aid. Therefore, it is necessary to set up boards to determine what the going wages are. Also, it is necessary to set certain minimum wages below which no competent person working under these programs will be employed.

We believe that as long as the employer is voluntarily seeking the aid of the Government, there is no question of the right of the Government to establish appropriate standards. There are those, however, who believe that it is a violation of the powers or policy of the Federal Government to give workers definite assurances concerning their wages in cases where they are being transported or trained for farm work. If the latter view is to prevail, then the country should be informed immediately of the Government's inability to assist the war effort by training and transporting farm labor.

6. Activities of the Department of Agriculture in the farm wage field. The Department, since 1937, has established fair and reasonable wages for sugar beet and sugarcane workers under the provisions of the Sugar Act.

Under the Department's labor transportation program farm labor is moved into areas where there is a sharp seasonal demand for labor. Under this program Mexican laborers have

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been moved to California for work in sugar beets, and domestic workers have been moved to New York State for picking tomatoes, to Connecticut for picking potatoes, to Washington State for apple picking, to Michigan to harvest sugar beets, and we are now moving domestic workers into Arizona to pick long staple cotton. In connection with the Department's labor transportation program, we have, during the past season, established a number of wage boards which have determined prevailing wages for different types of agricultural operations.

The War Manpower Commission announced on Wednesday a program for stabilizing dairy, livestock and poultry labor. Under this program, the Department of Agriculture is directed to make investigations with respect to wage rates on dairy, livestock and poultry farms and to take such action with respect thereto as it may conclude will assist these farms in securing and maintaining an adequate supply of labor.

The Department of Agriculture is now preparing to carry on investigations concerning wages in critical production areas. It is my view that in the meantime the maximum wage provisions of the Act of October 2 should not be made applicable to increases in agricultural wages.

WAGES IN RELATION TO LABOR SUPPLY

A STATEMENT
SUBMITTED TO
THE OFFICE OF ECONOMIC STABILIZATION

BY
PAUL V. MCNUFF
CHAIRMAN
WAR MANPOWER COMMISSION

OCTOBER 30, 1942

WAGES IN RELATION TO LABOR SUPPLY

The passage of the Act of October 2, 1942, amending the Emergency Price Control Act, and the issuance of Executive Order Number 9250, providing for the stabilizing of the National Economy, marked an important forward step in the solution of labor supply problems. The extension of wage regulation to include all instances of increases or decreases laid the foundation for a comprehensive and constructive approach to this significant aspect of the total manpower program.

Before turning to a discussion of the relationship between wages and labor supply, I should like to mention that both the Management-Labor Policy Committee of the War Manpower Commission and the Commission itself have considered this question, but neither has as yet taken any formal action on it.

I. WAGES AND LABOR SUPPLY

The relation between wage rates and labor supply problems has long been accorded official recognition. Decisions on wage adjustment have frequently been influenced by manpower considerations. Action to obtain wage stabilization agreements in the shipbuilding and construction industries was initiated by Federal agencies with the primary objective of reducing employee transfer between establishments within an industry.

Although the opinions of the War Labor Board have seldom stressed considerations of labor supply, manpower implications have obviously influenced the decisions. Many wage adjustments have been ordered to correct

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inequalities between comparable jobs in a locality or industry. These adjustments have undoubtedly reduced the incentive for transfer. The opinion in the Ranger Aircraft Engines case pointed out that it was the practice of employers in the area to refrain from hiring persons employed by another plant engaged in war production; and went on to say:

"It cannot be questioned that it is very desirable to eliminate to the maximum extent possible, the migration of workers from one plant to another. There is certainly a need for stabilization of manpower, as well as of wages. However, it is not fair or reasonable to require a worker, either by employer practice or by government policy, to remain on his job for the duration of the war unless reasonable adjustments are made in his wages so that he is not discriminated against economically as a result of such a manpower stabilization program.

"Thus, in this case, precisely because it is desirable to have the employees remain in steady employment at the Ranger plant for the duration of the war, they are entitled to have their wage inequalities ironed out by a reasonable wage adjustment."

A still more definite recognition by the War Labor Board of the inherent close relationship between wages and labor supply is to be found in the recent decision in the non-ferrous metals case. This decision not only awarded a wage increase that was needed to attract and retain workers, but also provided for a wage payment plan to reduce absenteeism and placed, on the payment of back wages, limits that might impede the return of some workers who had left the industry in recent months. The decision obviously indicates a conviction that wage determinations may affect several aspects of the total manpower problem.

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More recently, an industry-wide decision covering tool and die workers in the Detroit area was based largely on manpower considerations. The opinion states: "Common sense dictated the need for averting a lowered morale and an ultimately larger labor turnover which would almost inevitably follow a failure to eliminate the inequitable rate relationship."

In view of the responsibility of the War Manpower Commission for mobilizing and allocating the nation's manpower it is obvious that it has an interest in the relative wage rates paid in different occupations, plants, industries or localities. These differences have a direct bearing on the relative attractiveness of alternate jobs. If they are properly set, manpower allocation is greatly simplified and one of the major incentives for labor turnover is removed.

I should like to emphasize that the War Manpower Commission also has a real stake in wage stabilization. The development of a wage structure suited to the needs of manpower regulation must be a gradual process. Only if wage stabilization is approximately achieved, can the proper adjustment of wage differentials be accomplished. Little can be gained by adjusting the wage rates in one plant to those paid elsewhere in the community or industry, if the latter rates are unstable. An effort to refine wage differentials without stabilization would be as futile as trying to get in step with a centipede.

It may be suggested that my remarks regarding the general importance of wage rates to labor supply problems are based on the

assumption of an unregulated labor market, and that the adjustment of relative wage rates would be unnecessary if we would just get hard-boiled enough to tell people what jobs they must take. This opinion was expressed by Mr. Lapham of the War Labor Board when he said, with reference to the recent non-ferrous metals decision:

"The real issue is not wages--it is manpower...

"There is only one real solution, and that is to follow such practices as have been adopted by Great Britain, Australia, and other nations now at war.

"The men in the front-line forces--Army, Navy, Air--are dispatched to our far-flung battle fronts as directed by our Commander-in-Chief.

"We believe those in the home army. . . are prepared and willing to submit to the orders of the same Commander-in-Chief, and to work where and as directed."

I disagree with the contention that there is a sharp distinction between wage problems and manpower problems. My interest in wages is not predicated on the existence of an unregulated labor supply. On the contrary, it is based on the assumption that compulsion will be used. Labor supply conditions have become too critical for the possible success of purely voluntary measures. Compulsion through the application of indirect sanctions is now being increasingly applied, and I anticipate Congressional action which will permit the more forthright procedure of applying direct sanctions in manpower regulation.

What I wish to emphasize here is that the wage structure is as important under any form of National Service legislation as it is under voluntary measures, because any form of compulsion applied to the solution of labor supply problems must rest upon a foundation of widespread

acceptance. As I stated recently before the Senate Military Affairs Committee:

"The compulsory aspect of National Service legislation can be grossly exaggerated. The power of compulsion is in essence a protection to the great majority who act voluntarily. They must be made to feel that when they act voluntarily the Government approves their action, and is prepared to require compliance by the few who refuse to cooperate."

Neither Great Britain nor Australia has disregarded wage relationships since introducing National Service. Indeed, the most careful adjustments of wage rates have been made in order to facilitate the redistribution of manpower in the interest of the war program. The introduction of compulsory measures does slightly modify the manpower objectives of wage adjustment, but it does not remove the necessity for such adjustment.

The objectives are modified in two respects. In the first place, it is not essential to obtain quite such a precise adjustment as would otherwise be necessary. Under compulsory measures an approximate solution may be adequate. Wage inequities will continue to be inequities, but their existence will not have quite such serious consequences as is now the case. This is indeed fortunate, since a high degree of precision in the adjustment of our complex wage structure is scarcely attainable.

In the second place, wage differences need not be so great as to induce transfer to, or retain workers in, essential employment, but at least they must be such as to cause no marked resentment to the desired allocation of individuals. The use of compulsion, while reducing the significance of relative wage rates for manpower allocation, increases their significance for employee morale and productivity.

Before turning to an explanation of the significance of the wage structure to each of the major problems of labor supply, allow me to emphasize that wage adjustment is only one of many supplementary steps that may be taken. The War Manpower Commission can take various types of direct action, and its work can be greatly assisted by the decisions of other agencies.

This is well illustrated by the variety of actions taken to obtain an adequate manning of the non-ferrous metal industries. Employees in these industries have been placed under certain restraints to remain on their present jobs. Gold miners are being induced to transfer to this employment. New procedures are being instituted to obtain prompt action in the construction of essential housing facilities. Some adjustments have been made in the conditions for tire rationing to these workers. Selective Service quotas have been somewhat revised in the principal mining states. Civilian workers who have transferred to Army projects are being urged to return to the mines. And, as a last resort, many former miners now in the Army are being temporarily furloughed.

From this it should be clear that my emphasis here on wage considerations does not imply anything more than that they are one of the many aspects of a comprehensive attack on the problem of labor supply. In my discussion here, it is at your request that I am focusing attention chiefly on the wage question and on my interest in the activities of the War Labor Board.

11. INFLUENCE OF WAGES ON SPECIFIC LABOR SUPPLY PROBLEMS

In discussing the significance of wage considerations to specific aspects of labor supply problems, it should be understood that I am limiting my remarks to the civilian labor supply and omitting consideration of our military manpower, since its allocation and utilization are unrelated to wage factors.

The chief functions of the War Manpower Commission are to obtain the maximum size, proper allocation, and optimum utilization of the labor supply. Each of these functions covers a variety of problems and requires the use of various approaches. While wage rates are not significant for each of these problems, I should like to indicate the various ones that do involve wage considerations.

1. Maximum Size of the Labor Force

To obtain the maximum increase in our total labor force, it is necessary to attract many women into the labor market, to encourage under certain conditions the employment of young people, and to retard retirement of older workers and promote the re-entry of those already retired. The entrance of these persons into the labor market will in most cases be motivated primarily by a desire to contribute to the war program. An equitable wage structure will, however, facilitate the process of industrial induction. The principle, already accepted in several cases by the War Labor Board, of equal pay for equal work regardless of sex will be helpful in this respect. Wage rates may considerably influence the willingness of young people to accept employment in industry

or agriculture where such employment is not contrary to the policies of the War Manpower Commission. Wage rates may also be a factor in retirement decisions.

b. Proper Allocation of Labor Supply

Proper allocation of civilian manpower requires that each person be engaged in that activity which constitutes his maximum possible contribution to the war program. This means that employees in essential jobs must remain there and that those in the less essential jobs transfer to more important ones. In other words, transfer must be effected in some cases and prevented in others. It is this aspect of the manpower program which comes most readily to mind whenever the relationship of the wage structure to labor supply is mentioned.

I have already indicated my opinion that relative wage rates are an extremely important aspect of this question, and that their importance in no way decreases as we shift our reliance from voluntary to compulsory measures of labor market regulation.

I am sure that it is not necessary to emphasize that the adjustment of our wage structure for manpower allocation purposes need not be exclusively in an upward direction. The basic objectives are: (1) an equitable relationship between wage rates regardless of their general level, and (2) the retention, insofar as possible, of the existing wage level, in order to obtain a more accurate revision of inequitable rates and avoid the disasters of inflation. With reference to the first objective, it would be immaterial, when two wage rates are inconsistent,

whether one is raised or the other lowered. With reference to the second objective, the choice between raising a low rate or reducing a high one would depend upon the relationship of both rates to the general wage level; and the rate that should be revised would be the one most out of line with the general wage structure. Some cases may arise where a single high rate is so out of line with the general wage level as to constitute a gross inequity and impede the effective prosecution of the war. Such a situation is most likely to arise where a rate for an emergency war project is set with the expectation that skilled workers will be employed, but where in fact unskilled workers are being predominantly hired for the job at the same rates paid to the skilled employees. In such a case a downward revision, if it is found to be feasible under Executive Order No. 9450, may be the only practicable way of obtaining such wage-rate relationships as are desirable from the point of view of manpower allocation. Obviously such situations will be rare.

Again, there may be occasions when, from the point of view of labor supply, it is just as important to prevent a wage increase in one instance as to obtain an increase in another instance. It is possible that a particular wage increase, in removing a minor maladjustment with some rates, would create a more serious maladjustment with relation to other rates. In other words, when a maladjustment is found, great care must be exercised in determining which rates

should be altered, since a specific change might create more problems than it would solve. It is also conceivable that a raise, if granted in a particular plant, would "aid in the effective prosecution of the war" with respect to some manpower considerations (as, for example, by improving employee morale within the plant), but hinder the war effort with respect to other manpower considerations (as, for example, by creating a desire on the part of some workers to transfer to this plant from more important jobs elsewhere).

It may be well to emphasize again at this point that wage considerations are not the only factor influencing job transfer and that some instances of large scale transfer may conceivably be entirely unrelated to the wage structure. Working conditions, reputation of an employer, the nature of a promotion policy, and the adequacy of housing and other community facilities are but a few of the many possible contributing factors.

Variation in the length of the work-week is today a major cause of job transfer. Weekly earnings, augmented by penalty rates on employment in excess of 40 hours, now frequently outweigh hourly rates as a motive for transfer. Since the lower hours are now found primarily in the lower-wage employments, the prospective general observance of a 40-hour week will appreciably reduce the present striking discrepancies in weekly earnings.

With these considerations in mind, I would like to suggest that

the basic objective in wage adjustment, viewed solely from the aspect of manpower allocation, should be to attain a wage structure that will induce, or at least facilitate, the desired volume of transfers to more essential positions and will impede transfers to less essential positions, insofar as such transfers are motivated by wage considerations. If this objective were accepted, it would follow that wage rates or weekly earnings should be increased for essential positions when a plant is losing large numbers of workers to other plants engaged in work of lesser importance, provided such transfer results largely from more favorable wage rates in the latter plants.

c. Utilization of Labor Supply

The aspects of manpower utilization that are subject to the influence of wage rates and wage practices are the wastes resulting from excessive turnover and absenteeism. Labor turnover in any particular industry, to the extent that it results from wage considerations, is not necessarily caused by inter-industry wage differentials. It may be caused by differentials between various plants in the industry or by a wage classification system within a plant that precludes the reasonably rapid promotion or classification of recently hired workers. Thus it is clear that several aspects of the wage system may have a bearing on turnover rates.

The possibility that a wage plan may serve as one means of attacking the problem of absenteeism has already been indicated by the decision of the War Labor Board in the non-ferrous metals case.

III. WAGES AND THE AGRICULTURAL LABOR SUPPLY

I know that the Economic Stabilization Board and many of the agencies represented on it share the concern with which the War Manpower Commission views the problem of manpower in agriculture. The adjustment and stabilization of agricultural wage rates is fundamental and essential to the solution of the very serious farm labor supply problem which confronts the Nation. Unless rapid and effective action is taken along this line, I seriously question that anything else the War Manpower Commission and other agencies of government can do will prevent serious curtailment of farm production next year.

Substantial increases in farm wage rates are needed to increase the number of workers available for employment on farms, and to retard the flow of workers from the land to better paying jobs in industry. The lack of uniformity in wages paid for comparable work on farms is causing heavy turnover of workers within agriculture. Stabilization of farm wage rates is needed to reduce the rate of turnover which is seriously impairing effective utilization of the available labor supply.

In the absence of wage standards of any kind in agriculture, the War Manpower Commission and the United States Employment Service have encountered the greatest difficulty in distinguishing between genuine farm labor shortages and instances where employers have brought pressure on the government to recruit large oversupplies of labor in order to maintain existing low wage levels. The voluminous reports of the United States Employment Service clearly indicate that low wages are by far the most important single obstacle to recruiting farm labor.

In countless instances during the past year, where wage adjustments have been made, alleged local farm labor shortages have disappeared.

As late as October of this year, the Department of Agriculture reported that average farm wage rates for the United States, without board, were \$9.25 per month and \$2.76 per day. These rates fall short of the equivalent of 36¢ per hour, even on a straight time basis. These average rates which I have quoted include, by the way, the relatively higher wages paid to milkers, poultrymen, sheepherders, tractor drivers, and other skilled and specialized agricultural workers, as well as the wages of the relatively unskilled laborers.

These are substandard wages by any criterion. The earnings of many farm workers are even more substandard, because of the intermittent, uncertain, and seasonal nature of employment in certain types of agriculture. The special expenses incident to following the crops, and the poor living and working conditions in seasonal types of agriculture add to the disadvantages of farm work for migratory laborers. Dairy and general farm hands are more fortunate in having relatively steady employment, but average earnings even of these workers are less than \$90 per month. The employment service reports orders on hand for dairy workers which it has the greatest difficulty in filling, at wages below \$50 per month, even from New England, the middle Atlantic States, and the mid-west.

There is little wonder that we face serious farm labor supply problems when so many alternative employment opportunities at better pay are now available. I am not at all convinced that farmers could

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not easily pay substantially higher wages at prevailing price levels. On the contrary, there is strong evidence that farm wage rates could be substantially higher without any necessity for compensatory price adjustments or wage subsidies. I would like to give you some estimates of net farm income and farm wage payments issued recently by the Bureau of Agricultural Economics:

<u>Year</u>	<u>Net Farm Income (Millions)</u>	<u>Wage Payments to Farm Laborers Including Value of Perquisites (Millions)</u>
1936-40 (average)	\$4,697	\$ 981
1941	\$6,748	\$1,191
1942	\$9,785	\$1,500

These estimates indicate that despite higher production costs, including wages, net farm income this year for the United States will be more than 3 billion dollars higher than last year, and more than double the average annual net farm income for the five-year period 1936-40. Net farm income this year is the highest ever reported. If farmers had paid twice as much for labor in 1942 as it is estimated they will have paid, net farm income, after deduction of all production expenses including interest and taxes, would still have been higher than in any preceding years except 1918 and 1919.

I am glad that the Economic Stabilization Director has recognized the wage problem in agriculture and has requested that steps be taken to meet it. Action of this kind is long overdue and cannot further be postponed with safety.

The War Manpower Commission would be more than willing to participate in any program which is contemplated along this line. Its representatives have participated in the work of the agricultural wage boards which have been established by the Secretary of Agriculture this year in certain parts of the country where the government has paid transportation expenses for farm workers. Through the United States Employment Service, it has personnel of long experience with the farm wage question as it affects recruiting and placement problems. Finally, the War Manpower Commission is acutely aware of the vital importance of fair wage standards to the success or failure of its work in agriculture.

In establishing machinery to deal with the agricultural wage question, the following considerations might well apply:

1. Consideration might well be given to the establishment of agricultural wage boards composed of representatives of management, labor, and the public, modeled somewhat along the successful English system.
2. Such boards should cover fairly large areas, perhaps one or more average size states, if farming conditions are relatively similar, in order to develop uniform rates of pay for comparable types of work. If different wages prevailed within such areas, confusing complexity of rates would develop which might lead to undesirable types of migration.

3. Findings of wage boards should be subject to review by a National Wage Board or other appropriate agency. In reviewing these findings, due consideration should be given to wage rates in other occupations, the maintenance of appropriate geographical differentials, and the maintenance of such uniformity in rates as appears desirable.

In conclusion, I want to say that the War Manpower Commission recognizes that action on farm wages will not by itself solve the farm labor problem. It is developing programs to recruit and train new workers, to furnish necessary transportation, to decasualize employment in special crop areas, to encourage the withdrawal of workers from stagnant rural areas, and a whole range of other measures, some of which are exemplified in the program for dairy, livestock and poultry farms announced this week.

But I must emphasize that the success of these other measures depends upon what is done with reference to farm wages. I feel that farmers can afford to pay adequate wages, especially in view of the prospect for a still further increase in farm income for 1943. There will be every sort of pressure and opposition to any attempt to bring this about. We must face this opposition. We must set our sights and then follow through to our objectives.

JONES & LAMSON MACHINE CO.

SPRINGFIELD

VERMONT

RALPH E FLANDERS

CHIEF CLERK

*Rec'd in Secy's
Office 10:34 am
Oct. 30, 1942
SCVB*

October 26, 1942

Honorable James F. Byrnes, Director
Economic Stabilization Board
The White House
Washington, D. C.

Dear Mr. Byrnes:

At our first meeting last Friday you asked the non-governmental members of your Committee to make suggestions in advance of the next meeting. Among the suggestions which occur to me are the following:

General Marshall has announced to Congress an intention of organizing an army of 7,500,000 men by the end of 1943. If a million men are still under training at that time, and a million are engaged in service of transportation, it still leaves 5,500,000 in the active fighting forces to which must be added two million odd for the Navy, bringing our total of fighting men at the time up to 7,500,000.

I would urge that we start to get a rough over-all measure of the agricultural and labor manpower required to feed, clothe, equip, and transport men and supplies for a fighting force of this kind in remote areas of combat. In making this rough over-all estimate, we must not forget the furnishing of food and military supplies to the armies of the United Nations now actively fighting in the field. From the standpoint of an arm-chair strategist, it would seem that these present active fighting forces should have primary and not secondary consideration.

Furthermore, that we must reckon on a high volume of supplies for a highly mechanized army goes without saying.

We should start to measure the size of this production task now, for it will require such enormous changes in our economy that they must be set in motion at once if the desired result is to be

Honorable James F. Byrnes - 2 - October 26, 1942

reached a year from now.

The manpower problem involved cannot be left for later study and solution. While for the moment the bottle-neck in arms production lies with materials, yet the provision of more materials becomes a manpower problem in the last analysis.

Furthermore, the problem of manpower is a serious one now. It is serious in agriculture and particularly in those branches of agriculture such as dairy farming in which labor is an important element. While it may be possible to keep farm price ceilings down, this will not solve the problem of providing an expanded output of agricultural products. This is a problem of manpower which we must face at once.

From what Leon Henderson said at our last meeting, his staff has been making some over-all manpower calculations. The War Production Board, the Army, the Navy, and the Maritime Commission can doubtless furnish data which must be correlated with the independent analysis. I would presume there is some branch of the government available for making the correlation.

An approximate measurement of our task now will save us from under-preparation on one hand and from military establishments we cannot support on the other. The effect of miscalculation on inflation and on migration of labor is obvious.

Sincerely yours,

Ralph E. Anderson

REF



137

TELEPHONE DEARBORN 1633

CHICAGO, ILL.

October 26, 1942

*High on back up
10:34 am
Oct. 30, 1942
SWB*

Honorable James F. Byrnes, Director,
Office of Economic Stabilization,
The White House,
Washington, D. C.

My dear Director Byrnes:

Pursuant to your request that Board members send you suggestions in advance of our bi-weekly meetings, I submit the following:

Because agriculture has always produced abundantly, the American people have taken agriculture for granted, and people find it hard to believe that present surpluses may prove inadequate to meet the situation. The result has been, in spite of all the President and the Secretary of Agriculture have said about food being just as important as munitions, that agriculture has not been looked upon or treated as a major war industry. It is high time that this situation were corrected. Since the President has given you the duty and responsibility of carrying out a program to stabilize our national economy, you have it in your power to do a great deal to remedy this injustice. Thirty million farm people are looking to you for action to change fundamental conditions that are forcing tens of thousands of farmers to go out of business and other tens of thousands to curtail their farm operations.

I should like also to point out that keeping farm prices at parity can not possibly control the inflationary processes unless labor costs and other costs of production of industrial goods are also kept at comparable levels. Parity itself automatically rises as the cost of manufactured goods rises.

Agriculture is facing a desperate situation with respect to manpower. A survey by the U. S. Department of Agriculture indicates that 1,500,000 workers have left the farm since the beginning of the present emergency. Sixty percent of those leaving have gone to work in industrial plants, thirty percent have been called to the armed forces through Selective Service, and

Honorable James F. Byrnes

- 2 -

ten percent have volunteered for military or naval service. If this drain on the farm labor force continues, agriculture will be unable to produce in 1943 the volume of food and fiber that we must have to supply our Allies with the food that is urgently necessary to sustain them.

I suggest therefore that you take appropriate steps to secure the cooperation of the Selective Service System in a program under which the local Selective Service boards will grant occupational deferment to all workers who qualify as "necessary men" in agriculture.

To stop the exodus of farm workers to highly-paid jobs in industry, may I call your attention to the provisions of the Anti-Inflation Law which became effective on October 2, 1942. This law directs the Administrator of the Price Control Act, in placing ceilings on farm commodities, to consider increases in farm wage rates that have occurred since January 1, 1941, and also to give adequate weight to the factor of increased labor costs.

If these provisions of the Anti-Inflation Law are literally interpreted and fairly applied, farm operators and tenants will be assured of reasonable prices and income to keep them in active production; employers will be in a position to pay reasonable wages for experienced farm help; and wage earners will be protected because the limited supply of farm labor will automatically force farm wages up to competitive levels.

With respect to farm price ceilings, it has been suggested that price ceilings on certain farm commodities be kept low in order to keep food prices down, and that the Government pay subsidies to producers of such commodities to supplement the price received in the market place. I am certain that farmers are strongly opposed to such procedure for the reason that retail food prices are lower, in relation to industrial wages, than they have been for 30 years. If the Government undertakes to pay subsidies as indicated above, such subsidies are in reality subsidies to the consumer, and yet the public would consider them subsidies to the farmer. If consumers were to become accustomed to food prices kept low through government subsidy during the war, they would be certain to demand continuation of subsidies after the war. It would be hard to resist such demand, particularly if wages dropped to lower levels. To inaugurate such a program now would be to establish a very dangerous precedent. Congress has attempted for ten years to assure parity prices to the farmer, and it has been generally agreed that parity prices are fair prices; and yet now, when the public is better able to pay parity prices for food and fiber than ever before, the suggestion is made that farm prices

Honorable James F. Byrnes

- 3 -

be deliberately kept below parity in the interest of the consuming public. I earnestly hope that the Government will not embark upon any such program, because it is wrong in principle.

It has been suggested also that farm price ceilings be lowered by the amount of Soil Conservation payments and other government payments on each commodity. I submit that the Anti-Inflation Law hitherto referred to does not authorize such procedure, but does plainly direct that no ceiling be imposed on farm commodities or commodities processed from farm commodities, which shall return to the producer less than the parity price of such commodity or the highest market price of such commodity between January 1, 1942 and September 15, 1942, whichever is higher. Naturally, farmers believe that the mandate of the law should be fully carried out.

In considering the problem of maintaining adequate production on the farms of this country, we are dealing with hard, economic facts - not with theory. I submit that in any realistic approach to the problem our supreme objective should be to arrive at a price which will secure adequate production. Farmers are willing to make any sacrifice required to win this war, but if they are denied prices which will enable them to secure the labor that is absolutely essential to adequate production, then production is bound to be curtailed. All that farmers themselves and their wives and small children can do will not be enough -- they must have additional labor if they are to meet their production goals for 1943.

I offer these suggestions for your earnest consideration.

Sincerely yours,



Edw. A. O'Keal - President

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
OFFICE OF ECONOMIC STABILIZATION
WASHINGTON, D. C.

140

October 23, 1942

JAMES F. BYRNES
Director

Dear Mr. Secretary:

The next meeting of the Economic Stabilization Board will take place on Thursday, October 29.

We shall discuss two subjects:

1. The effect of wage stabilization upon the migration of labor.
2. The control of agricultural wages.

I have asked Chairman McNutt of the War Manpower Commission to meet with us for these discussions.

All the members of the Board are, of course, extremely anxious to have a full expression of your views upon these vital matters.

Sincerely,

James F. Byrnes
Director

Hon. Henry Morgenthau
Secretary of the Treasury
Washington, D. C.





THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

MEETING OF THE ECONOMIC STABILIZATION
BOARD, HELD IN THE OFFICE OF THE DIRECTOR
OCTOBER 16, 1942, AT 2:30 p. m.

Director Byrnes presided and all of the members of the Committee were present with the exception of the Secretary of the Treasury and William Green. Each, however, had a representative there. Mr. Bell, the Under Secretary of the Treasury was there for the Treasury Department, and Mr. Robert J. Watt represented Mr. Green.

Director Byrnes read the attached statement concerning the work of his office. It gives the matters that he has handled up to date and those that are in the works for consideration. He also is reviewing the situation with various agencies to determine if there is a need for additional legislation. He found that there was one instance, to cover the matter of commercial rents, and that is now being considered in the Congress.

He said he has asked for reports, as shown on page three of the statement, on compulsory savings and other proposed measures to control excess spending power; prospects of future rationing needs; spacing of military and lend-lease purchasing; prospective subsidy needs and considerations which would govern or limit the use of subsidies; wages of farm labor; and the effect of stabilization of wages on manpower problems, particularly on the migration of workers.

He said that he would try to have a meeting every fortnight and would try to arrange the meeting on Thursday in order not to conflict with the Cabinet; but if the President should change the Cabinet meeting from Friday to Thursday, then he would change the meeting of this Board from Thursday to Friday, at 2:30 in the afternoon.



- 2 -

He emphasized, as will be noted in the statement, that each of the Departments and agencies occupies a certain definite field of activity in carrying out the aims that he set forth in his statement. He said, for example, that the Secretary of the Treasury, among other things, has responsibility for the sale of Government securities, the raising of taxes, the siphoning off of excess purchasing power, and of generally taking the profits out of war. For the control of salaries he said he was also looking for suggestion and guidance to the Secretary of the Treasury.

He said that by the time of his next meeting he would like for each Department and agency, and this included the members of the Board outside the executive departments, to prepare a memorandum as to what they are now doing, and as to what they can do and how they can do it, to best bring about effective operation of the functions specified in the executive order. He said that if he could have these a few days in advance of the next meeting, it would enable him to digest them and see where there were conflicts and overlapping functions in the various agencies.

Mr. Murray then made quite a statement as to his experience in dealing with the War Labor Board and the Office of the Price Administrator. He said he had a great respect for Leon Henderson and they were personal friends, but he thought his office many times got over into the functions of the War Labor Board and he would like some clarification or line of demarcation in the functions of these two agencies in particular.

There was a great deal of discussion between Messrs. Murray, Davis and Henderson on this point. It finally was suggested by the representative of the American Federation of Labor that Mr. Davis and Mr. Henderson get together before the next meeting and try to work out a line of operation or procedure to be adopted for control of actions within their respective agencies, or in matters where the two are jointly concerned, and submit them to the Director so that he can make a decision in the matter.

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The Director then asked if any one had any suggestions as to procedure that could be adopted for facilitating the work of the Board.

I said that I thought the memoranda from each of the members which he had requested might throw some light on this point. While we had not given it much thought in the Treasury, there were two suggestions I would like to make for consideration. One was that there be presented to the members at least twenty-four hours before the meeting an agenda of the subjects that would be up for discussion, and the second was that possibly many of the subjects could be handled better and it would facilitate the meetings if a sub-committee could be appointed to study them beforehand and submit concise reports for consideration. Many of the Board members agreed with this. Henderson said that he would like to have more than twenty-four hours on the agenda. He also thought the sub-committee was good because we should appreciate that many of these subjects are being studied by the boys in the "back room" and they had all the knowledge. In order for the members to discuss them intelligently before this Board, it would be necessary to discuss the matters with these employees beforehand.

When it came Mr. Eccles' turn to offer a suggestion he said he agreed heartily with Mr. Bell as he thought that many of these subjects concerned two or more departments and he referred specifically to fiscal and credit matters. He thought that it is highly desirable that sub-committees be appointed to consider many of the technical subjects that would have to come before this Board for discussion. While he did not say so, I assume he had in mind the Treasury financing and tax policies.

Mr. Eric Johnston, who is President of the Chamber of Commerce, said that he felt that Justice Byrnes' appointment to this position of Director of the Board was one of the most popular that had been made in Government service, and that the people were looking to him to eliminate confusion from this whole mess in Washington. He said he had just traveled across the country and had interviewed many people

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and there is a very definite feeling that Washington lacks any plan for holding the price level.

At almost every turn of the discussion we came back to the manpower problem. Mr. Flanders said that he thought General Marshall a few days ago laid out the pattern of the problem with which this Committee would be confronted over the next year or so. He talked about an 8-1/2-million man armed force and he said that this Committee would just have to find out right away what effect taking 8-1/2 million men out of the industries of the country would have, and that is something that we have got to know, and know quickly.

Director Byrnes agreed with this and said that he intended to have Paul McNutt, head of the Manpower Commission, at the next meeting. I suggested to Dr. Lubin that the charts prepared by Colonel Sanders should be shown to the Board. He said he would talk to Justice Byrnes.

The Director said that the individuals appointed to this Board were appointed because of their official positions. For example, he said Mr. Jones is not appointed because he is Mr. Jones but because he is Secretary of Commerce. He would like, therefore, for all members appointed by the President to take their work on this Board seriously and to attend every meeting. He said he did not want alternates. If any member of the Board, particularly one who was a Cabinet officer, was out of town and could not attend, he would expect the next official in that Department, who was the acting head in the absence of the head, to attend the meetings and be prepared to discuss policy questions and help him make decisions on these questions.

swB

October 21, 1943

My dear Mr. Director:

Your letter of October 20, enclosing a copy of the minutes of the first meeting of the Board of Economic Stabilization, has been received in the Treasury in the absence of the Secretary. Upon his return, this material will be brought to Mr. Berenson's attention.

Sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary

Honorable James E. Byrnes, Director,
Office of Economic Stabilization,
Office for Emergency Management,
Washington, D. C.

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
OFFICE OF ECONOMIC STABILIZATION
WASHINGTON, D. C.

October 20, 1942

JAMES F. BYRNES
Director

Dear Mr. Secretary:

I am enclosing to you a copy of the minutes of the first meeting of the Board of Economic Stabilization.

Sincerely yours,

James F. Byrnes
JAMES F. BYRNES

Honorable Henry Morgenthau
Secretary of the Treasury
Washington, D. C.

MINUTES OF MEETING OF ECONOMIC STABILIZATION BOARD

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The Economic Stabilization Board held its first meeting in the Conference Room of the East Wing of the White House at 2:30 p.m. on Friday, October 16, 1942, with the Director presiding.

Present were the following:

Mr. Ball (Acting Secretary of the Treasury), Mr. Rickard, Mr. Jones, Miss Perkins, Mr. Bendersch, Mr. Davis, Mr. Eccles, Mr. Murray, Mr. Robert F. Watt (representing Mr. William Green), Mr. O'Neal, Mr. Patton, Mr. Flanders, Mr. Johnston, and Mr. Lublin (Economic Advisor to the President).

The Director made a brief statement to the Board, outlining his conception of its functions. He also reported on the measures which he had taken and which he contemplated for the near future. A copy of the Director's statement is attached. *(James H. Brown, memoed, 11/16/42)*

The Director requested the head of each department or agency represented on the Board to prepare, before the next meeting a memorandum with respect to the part played by his particular department or agency in the total stabilization program, including a statement of measures under consideration which are designed to assist in effectuating the policies of Executive Order 9290. The Director said several of the other members of the Board expressed the opinion that the relationship between economic stabilization and the national manpower policy was so close that it would be desirable to invite Chairman McNutt of the War Relocation Commission to attend the next meeting of the Board for a discussion of this problem.

The Director also invited the public members of the Board to present memoranda as soon as convenient outlining their suggestions as to the most effective methods for achieving economic stabilization and a fair distribution of the economic burdens of the war.

The Director announced that future meetings would be held on alternate Thursdays at 2:30 p. m., unless an emergency meeting of the President's Cabinet required postponement until Friday. The Director further requested, and all the members present agreed, that only the members of the Board themselves should attend the meetings; and in the case of necessary absences, that alternates should not be sent. It was agreed, however, that in case of the absence from Washington of any one head of one of the regular government departments, the acting head of such department would be permitted to attend.

The Director announced his intention, with the agreement of the National War Labor Board, to place the control of farm wages under the Department of Agriculture. All the members present agreed that this step was desirable.

Mr. Murry commented upon the Director's reference to the desirability of close liaison between the Office of Price Administration and the War Labor Board, stating his hope that this would not lead to interference in wage matters by the Office of Price Administration.

Mr. Henderson, in reply, stated that he did not think it was the function of the Office of Price Administration to act as advocate before the War Labor Board, either in favor of or in opposition to wage increases. His sole function, Mr. Henderson stated further, was to advise the Director whether any particular wage increase would necessitate a change in price ceilings. This duty is imposed upon the Price Administrator by Executive Order 9250. This, Mr. Henderson stated, is a purely factual determination, and does not involve any expression of judgment on his part as to the desirability of either granting or denying any particular wage increase.

Mr. Davis expressed general agreement with Mr. Henderson's remarks but stressed the quantitative factor in all factual determinations. For example, Mr. Davis said, a small wage increase might not necessitate any change in price ceilings, whereas a larger increase would force such a change and it would be desirable for the National War Labor Board to have possession of all the facts before making its determinations. Naturally, Mr. Davis further stated, the Board would welcome such facts from any source, but would retain full independence in the exercise of judgment.

Mr. Murry stated that in the past subordinate officials of the Office of Price Administration had disrupted collective bargaining relationships between employers and organized workers, and expressed apprehension lest the independence of the War Labor Board should be impaired. Mr. Batt suggested that the War Labor Board and the Office of Price Administration prepare a statement as to the details of the proposed liaison arrangements and submit it at the next meeting of the Board.

The Director then suggested the various members of the Board to bring up any suggestions as to procedure or as to problems which they felt the Board should consider. Many of the members expressed the opinion that the relationship between economic stabilization and the national manpower program was the most pressing problem now in evidence, and that it should be given immediate consideration. Miss Perkins, while not in disagreement with these views, warned against flooding the War Manpower Commission with a surfeit of advice.

Mr. Bell, Mr. Jones, and Mr. Henderson suggested the desirability of submitting agenda to the members of the Board as far in advance of the meetings as possible, so that the heads of the various departments and agencies could consult with their technical staffs in preparation for the

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discussions. Mr. Patten stressed the desirability of anticipating those problems which would be crucial six months or a year from the present, so that the Director and the Board would not be overtaken by too many emergencies.

At 4:30 the Board adjourned to meet again on Thursday, October 30.

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October 13, 1942

Dear Justice Byrnes:

I have your wire of October 13, 1942, advising that there will be a meeting of the Economic Stabilization Board at the White House at 2:30 p.m. on Thursday, October fifteenth.

The Secretary is out of town and has asked me to attend this meeting.

Sincerely yours,
(Signed) D. W. BELL

Under Secretary of the Treasury

Honorable James F. Byrnes,
Director of Economic Stabilization,
The White House,
Washington, D. C.

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WESTERN UNION

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HON D W BELL
DIRECTOR OF THE BUDGET

A MEETING OF THE ECONOMIC STABILIZATION BOARD WILL BE HELD
AT THE OFFICES IN THE EAST WING OF THE WHITE HOUSE AT 230 PM
THURSDAY OCTOBER 15TH. I HOPE YOU CAN ARRANGE TO BE PRESENT

JAMES F BYRNES DIRECTOR

230 PM 15th

DRAFT VIII
10/31/42Memorandum**The Role of the Treasury Department
in Economic Stabilization**

In response to your request at the meeting of the Economic Stabilization Board on October 16, 1942, I am submitting this statement of what the Treasury Department has done in the stabilization program and of the further measures to which it is giving consideration.

During the course of the present war, our Government has sought economic stabilization through the use of two general types of measures: first, fiscal measures to keep income off the market for consumers' goods and, second, measures to fix prices and wages directly and to ration specific commodities. It is of course with regard to the first type of measure that the Treasury has its major responsibility.

Soon after the initiation of the defense program of the fiscal year 1941, it became clear that the United States would need during the present war much more drastic fiscal (as well as other) measures for withdrawing income and inducing savings than ever before in our national history. In the past 18 months much has been done; but much more remains to be done. The Treasury has been urging and will continue to urge the enactment of taxes substantially higher than those provided by present law. The Treasury has pushed and will continue to push a program to stimulate voluntary saving. Taxes withdraw income; savings take income off the market. Both reduce the pressure of purchasing power on the price structure.

However, the Treasury believes that the necessary withdrawal of income or inducement of savings cannot be accomplished entirely by further action

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along traditional fiscal lines. [In the calendar year 1943 consumer income will be about \$125 billion before personal taxes and \$110 billion after such taxes. Supplies of consumer goods available for purchase will not exceed \$70 billion at present prices.] ^{That is more broadly} The disparity between income and available supplies must be expected to become greater during the further course of the war. To prevent this disparity from producing a serious inflation we need to supplement the traditional types of taxes and savings campaigns by new measures to withdraw income through taxes and to induce or compel saving.

The fiscal program to date

Taxation

Since the beginning of the armament program the Treasury has constantly pressed for increased taxes. In the fiscal year 1940, total Federal tax collections were approximately \$5.5 billion. Under the 1942 Revenue Act, total collections for a full year of operation at the 1942 level of income would be nearly \$25 billion, or more than four times as much as in the fiscal year 1940. Some of this increase is attributable to the higher level of national income. The greater part, however, is attributable to changes and additions which have been made in the tax structure. The principal new taxes are the excess profits tax in the Second Revenue Act of 1940 and the Victory tax in the Revenue Act of 1942. Taxes have been increased on corporate and individual incomes, on estates and gifts, and on commodities subject to excises.

The number of persons subject to the income tax has been greatly increased. Exemptions under the individual income tax have been lowered three times. In 1940 four million taxpayers paid tax on their 1939 incomes.

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Under the Revenue Act of 1942 approximately 43 million taxpayers will pay the Victory tax, of whom some 27 million will also pay the regular income tax. The income tax now reaches all net incomes in excess of \$500 for single persons, \$1,200 for married couples, and an additional \$350 for each dependent. The Victory tax is levied on gross incomes in excess of \$624 per income recipient.

The Revenue Act of 1942 increases tax revenues by approximately the amount initially requested by the Treasury Department on March 3, 1942. Since that time, however, increases in expected Federal expenditures and the growing seriousness of the inflation problem led the Treasury to revise upward its revenue requests on two different occasions, once on May 6 and again on September 3, 1942. These revisions raised the total amount of additional revenue requested from \$7.6 billion to \$15 billion including post-war refunds. The Revenue Act therefore increases receipts by only about half the amount finally recommended by the Treasury. While the full estimated annual yield under the Revenue Act of 1942 is \$25 billion, actual tax collections under this Act during the fiscal year 1943 will be approximately \$21 billion. Large as this amount is, compared to tax receipts in earlier years, it is only about one-fourth of expected expenditures of \$85 billion.

As a war revenue act, the Revenue Act of 1942 has the following major shortcomings:

1. It provides an inadequate amount of revenue.
2. It fails to include any substantial direct penalty on spendings or inducement to additional savings.

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3. It fails to provide collection at source under the individual income tax. It does provide for collection at source of the 5 percent Victory tax but only from wages and salaries.
4. It fails to eliminate a number of special privileges and loopholes such as the tax exemption of interest on state and local securities, the special treatment of married persons in community property estates and of married couples with separate incomes, and the special depletion allowances for oil wells and mines.

Borrowing

The Government is now borrowing by far the larger part of the funds which it is spending. How these funds are borrowed has an important influence on inflationary pressure. The Treasury borrowing program has two major anti-inflationary objectives:

1. To encourage additional saving. Additional saving that reduces consumer demand lessens inflationary pressure on prices and releases resources for Government use. For this reason, when defense expenditures began to grow rapidly in 1941, the Treasury began a campaign to increase individual saving. This campaign was intensified after the outbreak of the war.
2. To encourage the holding of savings in the form of Government securities rather than in the form of deposits and currency. Consumers are less likely to use past savings for current expenditures if they are invested in government bonds than if they are held in the form of deposits and currency. The Treasury has offered

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a variety of securities particularly suitable to individuals and to savings institutions and not available to commercial banks.

The Treasury's War Savings program has the dual objective of encouraging additional saving by individuals and their investment in war bonds. This program has contributed to the record-breaking volume of savings during the current year. Both in absolute amount and as a percentage of income, savings are higher than ever before.

The bond selling program has particularly emphasized Series E bonds. These bonds are intended primarily for persons of small and moderate means and have the attractive yield of 2.9 percent per annum if held to maturity. The Treasury War Savings Staff has obtained the voluntary assistance of a very large number of people in helping to push the campaign for new savings and investment in Series E bonds.

A special effort has been made to sell Series E bonds by means of the payroll savings plan, which is an arrangement whereby employers are authorized by their employees to make regular deductions from pay envelopes for the purchase of these bonds. Already more than 20 million workers are setting aside an average of 8 percent of their pay every payday for War bonds. So far during the present calendar year, sales of Series E bonds have aggregated about \$4.5 billion, and the monthly rate is expected to continue to rise. A very large part of these purchases is coming out of additional savings, as shown by the steady growth in the proportion of receipts derived from the sale of \$25 and \$50 bonds -- from 17 percent of total sales in August 1941 to 50 percent in August of this year.

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Purchases of Series E bonds by any one individual are limited to \$3,750 issue price per year in view of the high interest rate paid. The savings bond program offers two other series, Series F and G, yielding a somewhat lower interest return with annual purchases by any one investor limited to \$100,000 issue price. Sales of Series F and G bonds have aggregated about \$2.5 billion so far this calendar year, making a total of \$7 billion of sales of the three series of war savings bonds this year. Commercial banks are prohibited from purchasing any of these bonds.

The tax savings note, issued as part of a campaign to induce taxpayers to set up reserves for future taxes, has also contributed to the holding of savings in the form of Government securities. Tax savings notes are now outstanding in the amount of more than \$4 billion, and substantial increases in the amount outstanding are being shown each month.

The Treasury has also offered long-term bonds not eligible for purchase by commercial banks. In selling these and other securities directly to investors, the Treasury has received aid from volunteer local sales organizations, known as Victory Fund Committees.

The borrowing program described above is designed to finance requirements as much as possible by borrowing directly from investors other than commercial banks. Borrowing from commercial banks has more serious inflationary possibilities than borrowing directly from other investors, although it must be recognized that borrowing from commercial banks is not inflationary to the extent that it is offset by a reduction in the other assets of the banks or by the accumulation of real savings in the form of bank deposits. Borrowing from banks is being confined to securities of net

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longer than 10 years maturity in order to keep the banks as liquid as possible and to keep government interest payments to a minimum.

In the fiscal year ending June 30, 1942, the deficit was financed approximately 30 percent by savings bonds, 20 percent by tax notes, 10 percent by Government trust funds, 10 percent by marketable securities sold to insurance companies, and 30 percent by marketable securities sold to other classes of investors, largely commercial banks. With the growth in war spending since the end of the fiscal year, the proportion of borrowing from commercial banks has increased substantially, notwithstanding the fact that the Treasury has intensified its efforts to increase its borrowing from outside the banks. A great deal more remains to be done, but it is doubtful whether much can be achieved without recourse to more drastic means of control involving direct restrictions of consumer spending.

The fiscal program

It is clear that our current measures for the control of inflation are inadequate in the light of the economic prospects for the coming year. In the calendar year 1943 consumer incomes will be about \$125 billion before personal taxes and \$110 billion after such taxes. Supplies of consumer goods available for purchase will not exceed \$70 billion at present prices. The disparity between incomes and available supplies must be expected to become greater during the further course of the war. To prevent this disparity from producing a serious inflation we need to supplement the traditional types of taxes and savings campaigns by new and drastic measures. The Treasury is prepared to make further recommendations in the field of taxation and borrowing along the following lines:

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Taxation

1. Substantial increase in taxation, primarily in two areas:

(a) Extension of the individual net income tax. This tax is and should remain the primary instrument for tapping the incomes of individuals. It is the fairest tax we have yet developed.

(b) Enactment of a graduated tax on consumers' spendings. This tax is an excellent supplement to the individual income tax in time of war. By exempting savings, it permits extension of taxation beyond the point to which the individual income tax can be pushed without undue hardship on persons with substantial fixed commitments to pay insurance premiums, repay debt, or make other forms of regular savings. Whereas the income tax reduces inflationary pressure solely by taking peoples money away, the spendings tax reduces inflationary pressure also by inducing additional saving.

2. The elimination of special privileges and loopholes. The closing of these loopholes will yield a substantial amount of revenue. Even more important, however, it will eliminate the anomaly of continuing special tax privileges to favored groups while asking the great bulk of people to bear the burden of heavy wartime taxation.

3. The placing of the individual income tax on a substantially current basis by collecting the larger part of the tax at source. Under present methods of collection taxes on this year's income are not payable until next year. This means that changes in tax rates and changes in national income

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affect tax collections only after a considerable lag, and that the implementation of a decision to fight inflation through increases in taxes is not effective for ^{some} [a long] time. Current collection will eliminate this lag, and will hasten the adjustment of the taxpayer's spending to his tax liability. It will serve the convenience of the taxpayer by collecting the tax in small installments as income is received, and by providing safeguards against the accumulation of tax liabilities that he will not be able to meet. It will increase revenue by reducing loss through default and by reducing the possibility of evasion through non-reporting and understatement.

Borrowing

The Treasury intends to push its War Savings program, particularly through the extension of the payroll savings plan. The goal is to increase the number of persons covered in this program from the present 20 million workers to 30 million by the end of this calendar year, and, at the same time, to increase the average deductions under the program from the present 8 percent of payrolls to 10 percent. During 1943, we hope to surpass these figures considerably.

The rapid increase in Government expenditures requires a fundamental change in the character of borrowing policy. The Treasury believes that much more drastic measures than heretofore taken will be necessary to insure an adequate volume of savings and to increase the amount of financing done outside of commercial banks. The extension of specific rationing and further price controls will contribute somewhat to the necessary increase in saving. However, to assure the effectiveness of control measures, excess spending power must be prevented from coming on the market for consumer goods.

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As stated above, the spendings tax is particularly designed to restrict spending and to induce the necessary amount of individual saving. If sufficiently severe spendings or other taxes are not enacted, it will be necessary to resort to Compulsory Lending, Compulsory Saving or Expenditure Rationing. Measures of these types/^{are}discussed in our reply of to your letter of October 9, 1942.



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THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

October 26, 1942

TO THE SECRETARY:

VII, filed
Here are copies of the draft of letter we have prepared in answer to Mr. Byrnes' letter of October 9, 1942. I am also enclosing copies of that letter to refresh your memory on the questions that he asked.

This draft has the approval of the staff here in the Treasury and of Jake Viner who was here on Friday. Walter Stewart is here now and will go over it this afternoon and tomorrow. In view of the fact that Jimmie Byrnes wanted a copy over the weekend, I gave it to him with the understanding that he would consider it as a draft and it would be held for your signature. I thought maybe you and Harry White could go over this draft coming down on the plane. Just some leisurely reading.

ScuB



October 24, 1942

Dear Jimmie:

As I promised you at the Cabinet meeting this week, there are transmitted herewith two copies of the draft of the Treasury letter which we propose to send you in answer to your letter of October 9, 1942. I should like to have one or two other people look this over at the beginning of the week and have it ready for the Secretary's signature when he returns. In the meantime you can study it with the understanding, of course, that you consider it as a draft.

Sincerely yours,

S / DAN

Honorable James F. Byrnes,
Director of Economic Stabilization,
The White House,
Washington, D. C.

DWB:NLE

My dear Mr. Byrnes:

We in the Treasury have been investigating a great variety of measures intended to accomplish the objective mentioned in your letter of October 9, 1942, to control inflation through the restriction of civilian spending. We have been particularly interested in measures which combine effective inflation control with a substantial contribution to the financing of the war. We welcome the opportunity to give you some of our thoughts on these questions. We shall be glad to submit more extended studies at your request, and also to discuss them with you at your convenience. Such discussions should be helpful to cooperation in the related fields of economic stabilization and fiscal policy.

We have come to the conclusion, in the course of our own investigations, that an effective and equitable solution of the problem of inflation will require measures more fundamental than any yet adopted. We are convinced that wage and price ceilings alone cannot control inflation. Our estimates indicate that, at present price levels, next year will see a surplus of purchasing power of about \$40 billion over and above the supply of consumers' goods available during the year. It seems certain that unless all of this excess of \$40 billion of purchasing power is withdrawn, or is withheld from spending, price ceilings will be broken through on a broad front, causing empty shelves, large-scale black markets, widespread evasion and dealer favoritism, and illegitimate profits. In such a situation, distribution of the necessities of life will be inequitable and wasteful, and competition to buy the means of living will be reduced to a time-consuming and disorderly scramble. Severe hardships will be suffered, especially by families in the low income groups.

W. H. - October 24, 1942

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We find that on the basis of the most optimistic estimate possible, not more than \$70 billion, at present prices, of consumers' goods and services will be available for purchase in the calendar year 1943. Income received by consumers in the same period will be about \$125 billion. Not more than \$15 billion of this consumer income will be taken away by Federal, State and local taxes paid directly by individuals, including the new Federal taxes levied in the revenue act just passed. Therefore individuals will have left, to spend or to save, about \$110 billion. If we are to prevent irresistible pressure of excess demand for an insufficient supply of goods, consumers must be induced — through additional taxation or otherwise — to refrain from spending some \$40 billion, or \$4 out of every \$11 of the income they have remaining after present taxes.

It is true that voluntary savings are now being made at an unprecedented rate. It has been estimated that individual savings during the second quarter of this calendar year were at the annual rate of \$24 billion, which was approximately double the rate for the same quarter of the preceding year. This acceleration of savings is far greater than can be accounted for by the large increase in individual incomes. It is without doubt due in part to inability to buy automobiles and certain other durable consumer goods and to the promulgation of the general maximum price regulation. It has undoubtedly also been strongly influenced by the campaign for saving carried on in connection with the sale of war savings bonds, of which more than \$7 billion have been purchased by individuals so far in the present calendar year. It is doubtful, however, that this rate of voluntary saving can be substantially

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increased or even maintained during the coming calendar year in the face of substantially increased taxes and somewhat higher living costs, unless strong incentives are provided by some new governmental action.

This governmental action must immobilize an additional \$16 billion of consumer income in 1943 over and above the current rate of saving, if we are to reduce consumer spendings to the value of supplies available at present prices. Moreover, after 1943, the level of supplies will shrink still more, involving a drastic reduction in our standard of living during the further course of the war. We must distribute this reduction in such a way as to protect a basic minimum standard necessary to maintain health and efficiency.

To induce consumers to make gross savings of \$40 billion out of their next year's incomes is not sufficient. These consumer savings must be net, i.e., after account has been taken of the fact that some people have eaten into their savings. If some individuals next year consume their capital to the extent of \$10 billion, other individuals will have to save \$50 billion to give us net individual saving, for the economy as a whole, of \$40 billion.

We have outstanding about \$13 billions of United States Savings Bonds, all of which could be presented for redemption in a short period. Individuals hold billions of dollars of other securities, which they might sell to other individuals, to business firms, and to banks. Individuals hold billions of dollars of bank deposits and currency in excess of any previous year's holdings. Billions of dollars could be borrowed on insurance policies. If price stability is to be maintained, we must see to it that these capital assets are not used to increase consumption expenditures to a level in excess of the available supply of goods at present prices. It will do us

no good merely to shift from a voluntary to an enforced status savings already being made, nor will it do us any good to require lending to the government that will come out of accumulated savings represented by liquid assets in the hands of individuals. If, with taxation on the basis provided by existing law, we fail to add at least \$40 billion to our accumulated individual savings next year, prices will rise — in an open or a concealed way.

There are many reasons why our first recourse should be to additional taxation. The total tax liabilities of individuals to the Federal, State and local governments on the basis of present law will be about 12 percent of their aggregate individual incomes and less than a third of the increase in individual incomes in three years. In the light of these figures it would seem the very opposite of fiscal prudence to permit the public debt to accumulate at the rate it will accumulate in the absence of substantial tax additions.

The advantages of withdrawing as much excess purchasing power as possible through taxation are the following:

- (a) Each dollar of taxes avoids the accumulation of a dollar of public debt. Therefore increased taxation reduces the interest burden and gives the Government greater fiscal freedom to meet whatever conditions may arise in the post-war period.
- (b) Taxation minimizes the necessity for extensive and administratively costly war-time controls on what people may do with money that remains in their possession.
- (c) Taxation reduces the danger of post-war inflation as a result of the spending of war-time accumulations by individuals.

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Notwithstanding the advantages of taxation, it would be highly unrealistic to contemplate revenue taxation along traditional lines on the scale requisite to absorb enough purchasing power to bring the level of spending down to the level of goods available for purchase at current prices. Even a doubling of the present \$15 billion of personal taxes would not suffice, for the level of voluntary savings would certainly not remain at \$24 billion if anything like \$15 billion of new personal taxes were enacted. In fact, it is likely that any effort to do the whole job by absorbing purchasing power through taxation along traditional lines would involve the levying of new personal taxes well in excess of \$20 billion and reliance on voluntary personal savings of considerably less than this figure. The tax method may however be usefully employed not only to absorb excess purchasing power and to gain substantial additional revenue, but also to induce saving on the scale necessary to close the inflationary gap.

Specific commodity rationing and price control already help to enlarge the volume of individual saving, but they alone are insufficient. To extend specific rationing sufficiently to cover the bulk of consumer spending would be costly and irksome although extensive specific rationing may have to be adopted eventually. Therefore, we believe that other measures should be considered in order to limit spending to the necessary extent.

We have particularly examined four general measures, any of which could contribute substantially to price stability and to an equitable distribution of scarce supplies. Each would also give substantial direct or indirect assistance to financing the war. These four measures are Compulsory Lending, Compulsory Saving, Expenditure Rationing, and Expenditure Taxation. Two of these types of control are mentioned explicitly in your letter of October 9.

We have chosen to discuss the other two at the same time because they are such closely related methods of dealing with the same question.

1. Compulsory Lending

Compulsory lending is the legal obligation to lend to the Government an amount equal to a specified fraction of income, expenditure or some other base.

Compulsory lending may have exemptions and graduation. It may therefore be quite progressive in its incidence. It would contribute to the control of inflation in the same general way as taxation, namely, by withdrawing money from the hands of consumers. If individuals had to lend some of their funds to the Government—and if they did not normally save anything, if they did not have capital, and if they could not obtain credit—they would be compelled to reduce their spending by an amount corresponding to their lending. In general it is the lowest income groups who save little, have few assets and little credit; therefore a dollar withdrawn by compulsory lending from a man in the lowest income groups might cause almost a dollar's reduction in spending. At the top of the income scale, a dollar withdrawn in compulsory lending might cause no reduction at all in spending; the compulsory lending obligation would be met out of saving out of current income which would have been done anyway or out of accumulated assets. The effect for most individuals would lie somewhere between these two extremes, so that for them part of the funds lent would come out of a reduction of consumption and part out of the accumulated savings or out of new savings which they would have made in any case.

To insure that individuals who have control over corporations did not avoid their liabilities for compulsory lending at nominal or zero rates of interest by keeping their money as undistributed profits rather than distributing it as dividends, it might be necessary to require compulsory lending by corporations as well as by individuals.

The following advantages are claimed for compulsory lending:

- (a) It would permit a greater restriction of the consumption of the lower income groups than would be tolerable if this restriction were effected by outright taxation;
- (b) It would make larger levies on all income groups politically acceptable;
- (c) It would not reduce the incentive for individuals to undertake harder and longer work for additional pay as much as would additional taxes of corresponding amount;
- (d) It would create a reserve of individual purchasing power for the post-war period;
- (e) It would provide a means of raising money to finance Government expenditures with no war-time obligation to redeem or to pay interest.

However, any given amount of compulsory lending would be less effective in reducing spending than the same amount of taxes. Because the amount turned over to the Government would be a loan to be returned after the war, there would be less inducement to save in other forms, and individuals with accumulated assets would be more willing to sell assets or borrow on them to meet the lending requirement than to meet a tax obligation. Persons who were already saving as much as the current lending obligation or who had a large amount of accumulated wealth might find no need to reduce their spending at all. Therefore any compulsory lending schedule would in practice be less progressive in its incidence on consumption than it would appear to be on paper. The dollar yield of any system of compulsory lending would be much greater than the dollar value of the reduction in consumption which it would accomplish.

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These considerations suggest that, if use is made of compulsory lending at all, it should be recognized that its anti-inflationary effect will be largely restricted to the lower income levels and supplementary devices would have to be adopted to restrict adequately spending in the higher levels of income.

2. Compulsory Saving In the forms in which it has been publicly discussed, there would be permitted, as offsets against compulsory lending to the Government, various forms of voluntary saving such as the payment of insurance premiums, the repayment of debt, and the voluntary purchase of war bonds. Such offsets are steps in the direction of converting compulsory lending into compulsory saving.

By compulsory saving is meant a legal requirement that every family or single individual save a specified fraction of income. Compulsory saving differs from compulsory lending. Compulsory saving necessarily contributes to the control of inflation, compulsory lending need not. An individual might lend to the Government and yet not save, simply by lending out of previously accumulated assets. An individual might save and yet lend nothing to the Government. What is primarily significant for inflation control is the reduction in spending.

In principle, compulsory saving could provide a completely effective solution to the inflation problem. The total amount allotted for expenditures on consumers' goods by all individuals and families could be fixed at the level of available supplies by requiring that the difference between total income and total available supplies be saved in one form or another.

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A progressive system of compulsory saving would have exemptions and graduation, just as would a progressive system of compulsory lending. For instance, a married person with no dependents might not be required to make any saving at all out of the first \$1,000 of income. Out of the next \$500 of income he might be required to save 20 percent, out of the next \$500, 30 percent, and so on to a point where the spending of further increments of income for consumer goods and services would be prohibited.

If it were desired to make allowances for extraordinary expenses of various kinds, such expenses could be treated as credits against compulsory saving liabilities. Credits might be allowed also for personal taxes, rents, medical expenses, tuition and all forms of saving.

For instance, a single individual receiving income at the rate of \$2,500 during a given year might be required to save \$1,500 for that year. If he had to pay \$450 in personal taxes, \$400 for rent, \$50 for medical expenses, and \$100 for insurance premiums, these items would account for \$1,000 of his compulsory saving requirement, leaving \$500 that he would have to plan to save in other forms — war bonds, cash, bank deposits, etc. It should be noted that the saving requirement would be for the same year as that in which he received the income and would not represent an amount he would be required to turn over to the Government in a subsequent year.

This plan would solve one of the difficulties of simple compulsory lending plans, that is, the substitution by individuals of the new compulsory saving for voluntary saving which they would otherwise have made. It would also make it impossible for individuals to show fictitious "saving" merely through changing the form of previously accumulated capital. This plan would fix total individual saving: it would be irrelevant whether the individual

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saved in one form or another, so long as he did not divert into current consumption funds he was required to save. The Government might borrow his funds directly, indirectly, or not all (if he hoarded them). In any case, his dollars would not be on the market for goods. The Government might spend an amount equal to his saving without fear that its expenditures would exercise any inflationary pressure.

Compulsory saving would simplify the problem of raising funds for financing the war since individuals who were compelled to save would probably invest a large part of their saving in war bonds. To secure the fiscal advantages of compulsory lending discussed above, it could be required that a stated proportion of amounts saved be lent to the Government for the period of the war — perhaps at zero interest. If such a compulsory lending requirement were added to compulsory saving, the requirement could be implemented through collection at the source.

It is absolutely crucial to this plan that a complete report be secured of the net change in any individual's capital position during the period in which he was obligated to save. In calculating the residual savings requirement of any individual, any purchase of assets or any savings credits would have to be offset against sales of assets, declines in deposits, etc. Only in this way could the compulsory saving plan be protected against being vitiated by the use of existing balances and credit.

Compulsory saving involves serious administrative difficulties. To help individuals keep their saving up to the level required by the law, it would probably be necessary to have quarterly returns. Whether an individual had complied with his compulsory saving requirement could not, however, be

finally determined until the end of the period to which the requirement related, since neither his income nor his savings would be known accurately until then. An individual might unwittingly spend more than his allotment because of anticipated fluctuations in income or expenditure needs, and in any case he could not know that he had complied with the saving requirement until after the event.

The required amount of saving could be insured by issuing licenses to purchase to all consumers only to the extent of the expenditure to which they were entitled; in this case compulsory saving would become Expenditure Rationing. Alternatively consumers might be required to pay a regular schedule of penalties for spendings above their exempt minimum; in this case compulsory saving would become a type of Expenditure Taxation. Further alternative sanctions for excess spending are criminal penalties, fines adjusted to the individual circumstances, or punitive compulsory lending requirements. None of these last three sanctions could be administered without considerable costs and hardships.

3. Expenditure Rationing Expenditure Rationing is the limitation of total consumer expenditures by fixing the maximum amount that every family or single individual is allowed to spend on rationed goods. In principle, rationed goods should include all consumers' goods that have any current cost in labor, materials, or facilities. The following classes of consumption goods and services, however, might well be excluded from Expenditure Rationing, each for separate reasons: rents, tuition, medical care, and possibly several other classes. Under expenditure rationing consumers' goods other than these could be bought only with one's ration

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allowance, but the consumer would be free to spend his ration allowance on any commodities or services that he pleased. Furthermore, no limitation would be imposed on the use of income in non-consumption transactions, such as making gifts, paying taxes, paying insurance, buying real estate or securities, or saving in other ways. Business expenditures would, of course, be excluded from expenditure rationing.

Under expenditure rationing, the total amount allowed to be spent on rationed goods for the whole economy during any period would be set at a level equal to the estimated value of the supply of rationed goods to be available during that period. In making this computation, supplies would be valued at the price level which it was desired to maintain. Changes in the total expenditure ration would be made as the expected supply position changed. Since total purchasing power would be fixed at a level equal to the value of supplies available for purchase, average prices would remain relatively stable.

Expenditure rationing would yield no revenue directly. However, by limiting consumers' expenditures, it would force them to save in one form or another. Therefore, individuals would be likely to buy larger amounts of Government securities directly or to place their savings with institutions who could in turn buy larger amounts of Government securities. In any event, the Government would be free to borrow from individuals or banks an amount equal to individual saving without fear that such borrowing would be inflationary.

The impact of any expenditure rationing program upon the various income groups would depend upon the bases adopted for allocating expenditures. If variations of income as well as size of family were factors in determining the permissible amount of expending allowed each individual, there would be inequality in permissible expenditures as between income groups. However the expenditure rationing system could greatly reduce the inequalities in spending that prevail now. For example, a family of four with an income of \$1,500 might be allowed to spend the entire \$1,500 while a family with an income of \$50,000 might be permitted to spend no more than (say) \$10,000. It would be easier to reduce inequalities by limiting spending directly than by limiting it through taking away a part of income. On the other hand, remaining inequalities might be resented more deeply, because of their having direct government sanction.

Expenditure rationing would attack the problem of excessive consumer purchasing power directly, and would determine the ration allowance from an item (current income) that is in most cases readily ascertainable. For both of these reasons, the distribution of expenditure among individuals or income classes would be subject to more effective control than under a program of taxation or compulsory lending.

It would still be necessary to have specific rationing for some basic necessities that were disproportionately scarce. However, in the measure that people with large incomes would be able to spend less on scarce commodities under expenditure rationing, the need for specific rationing would be reduced. The administrative costs and the inconveniences of specific rationing would be kept at a minimum.

An effective rationing system would require the use of a license to purchase, in coupon or other form. It might be possible to solve this problem without the use of both money and a coupon in every purchase. Such a solution has been explored in the Treasury, and we should be pleased to discuss it with you if you wish to go further into the administration of Expenditure Rationing.

The distribution of ration coupons or allowances could be integrated very closely with the present system of payment of incomes:

- (a) Persons employed for wages or salaries would file statements with their employers showing their marital and dependency status. On the basis of these returns, the employers would distribute to them the correct amount of ration allowances;
- (b) Persons receiving income other than wages or salaries would report the amount of their income as well as their marital and dependency status to a bank, post office, or local rationing board. The institution to which this information was reported would be authorized to provide individuals with ration allowances in accordance with the expenditure rationing schedule;
- (c) Persons with irregular incomes, seasonal incomes, or living by depleting capital, would require special consideration in the determination of their ration allowances.

A partial check on the accuracy of ration allowances would be obtained by requiring individuals to reconcile the income declared for the purpose of obtaining ration allowances with the income declared for income tax purposes.

For consumers, such a system would have an internal self-enforcing element, since the exaggeration of income would lead to additional tax liabilities, while the under-statement of income would diminish the size of the ration allowance.

The above description of expenditure rationing touches only on its most salient features. We have gone into expenditure rationing in the Treasury in great detail and shall be glad to give you a more extended study of this subject, should you be interested in exploring it further.

4. Expenditure Taxation Expenditure taxation has already been the subject of some public discussion in connection with the recent proposal for a spendings tax submitted by the Treasury to the Senate Finance Committee during consideration of the Revenue Act of 1942. We are not concerned in this letter with the details of that proposal but rather with the general question of the way in which a progressive spendings tax would bring about the limitation of consumer expenditure necessary to avoid inflation.

The spendings tax would be a tax on consumption rather than on income. It would provide for exemptions and for graduated rates. It would impose a penalty on all spending above the minimum subsistence level, a penalty that would become increasingly severe and even prohibitive as spending increased. Through graduation, it would be made to bear primarily on comforts and luxuries rather than on necessities.

For example, under a spendings tax a married person with no dependents might be allowed an exemption of \$1,000 a year. If he spent less than \$1,000 on goods and services he would pay no tax. A 10 percent tax might be levied on the first \$500 of consumption expenditure in excess of \$1,000, a 20 percent tax on the next \$500 and successively steeper taxes on additional

increments of spending. The Tax might ultimately reach rates of 100 percent or more. This would mean that an individual spending large sums on luxuries might be required to pay the Government as much as \$1.00 or more for every additional dollar he spent on consumers' goods.

All forms of savings ~~would~~ be exempt from the spendings tax. The more important non-taxable uses of income would be as savings for the purchase of war bonds and other capital assets, repayment of debt, life insurance premiums, as gifts and contributions, and as tax payments. In addition, it might be desirable to exempt from the spendings tax certain special types of expenditure, such as tuition fees, extraordinary expenses for medical care and perhaps rent and other items.

The spendings tax would reduce spending on consumers' goods and services in two ways: first, the amount paid in tax would be withdrawn from income and could not be used to purchase goods and services; second, by penalizing spending the tax would provide a powerful incentive to save rather than to spend. Although the savings induced by the spendings tax would not necessarily be paid over to the Treasury, they nonetheless would be removed from the spending stream and be added to the pool of savings available, directly or indirectly, for financing the war.

A sufficiently severe spendings tax could reduce total consumer expenditures by any desired amount, and at the same time contribute to a more equitable distribution of the scarce supply of consumers' goods than would prevail without the tax. The exemption provision would enable persons with small incomes to obtain basic subsistence needs free of tax, while the steeply graduated tax rates would operate to bring about a greater proportionate reduction in spending by those persons whose large expenditures

would subject them to the higher penalty rates. Individuals would be given a reward for saving in a way which is not possible with a conventional income tax. By reducing their spending individuals and families would reduce their tax liability and thereby increase the funds available to them for expenditure without penalty after the war or when economic conditions became such as to permit abandonment of the tax.

In addition to controlling the total volume of expenditure and its distribution among individuals the spendings tax would provide some revenue to the Treasury to finance the war end, by reducing expenditures for consumption, it would undoubtedly increase the voluntary purchase of war bonds. It would also encourage the repayment of debt and other forms of savings, since these too would be free of tax.

The successful administration of a spendings tax would not require that individuals keep a detailed record of all their expenditures. All that would be necessary in addition to the information already required for the income tax would be information to determine changes in capital position of the same kind as would be needed under compulsory saving. The total taxable expenditures of an individual are equivalent to his net income, minus or plus the net change in his assets during the year. His taxable spendings could be determined, therefore, from his net income and from the assets he held at the beginning of the year and the assets he held at the end of the year.

The final determination of liability under the spendings tax would be made when the income tax return for the corresponding year was filed. A combined form could be used for the two taxes. However, collection of the tax would not have to be delayed until the tax liability was finally determined. Two methods could be used:

- (1) The first bracket of the spendings tax could be collected at the source from all income paid in the form of wages and salaries, bond interest and dividends. Collection at source based on income instead of spending would involve no great hardship. The only persons who pay too much would be those who save part of their income and hence do not need for current consumption—although they may need for outstanding savings commitments—the extra amount withheld. Final adjustment of tax liability would be made with the filing of the return after the close of the year.
- (2) Individuals with expenditures subject to tax rates above the first bracket would be required at short intervals, say quarterly, to pay a tentative tax based on the approximate amount of their spending. A final adjustment of their tax liability would be made with the filing of a return after the close of the year.

This statement of the spendings tax is intended to be only a general exposition of its principal features. To bring out more fully its effect in restricting expenditure on consumption at every income level, it would be necessary to present a longer memorandum including a detailed schedule of tax rates, their probable yield, and their effect in inducing savings. We shall be glad to present such a study at a later time should you be interested in going into the possibilities of the spendings tax in greater detail.

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Each of the four general types of control over consumers' expenditures that are discussed above has some merit, but their merit is by no means equal. Compulsory lending might be the easiest to enact and administer, but it is uncertain in its effects on expenditure and dubious in its incidence. Any plan which makes possible substantial Treasury borrowing at zero interest, even for a few years, has a strong argument in its favor. Compulsory saving could in principle be both effective and equitable, but it has great administrative difficulties. Expenditure rationing could be effective, equitable, and administratively practical but (a) it would involve considerable administrative costs and (b) though it is capable of controlling expenditures and diminishing inequalities of consumption in a precise way, it might arouse considerable opposition by giving precisely defined inequality a legal sanction. Expenditure taxation is less certain in its results than expenditure rationing, but (a) it is easier to administer, (b) it yields some direct tax revenue, and (c) it permits greater freedom of choice to the individual both as to savings and spending.

For these reasons it is the Treasury's position that expenditure taxation should be first on the agenda for immediate consideration.

In September, the Treasury urged that a spendings tax be enacted. This does not mean that the Treasury regards the choice from among the methods discussed above as a closed issue, nor does the Treasury feel that we must necessarily adopt one of them to the complete exclusion of the others. Indeed, the spendings tax proposal submitted by the Treasury to the Senate Finance Committee also incorporated compulsory lending at zero interest. The Treasury

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has also given considerable study to expenditure rationing and submitted a memorandum embodying the results of its studies to the President through Judge Rosenman on July 30, 1942.

We would be glad to discuss these questions with you further at your convenience, and a more extended analysis of each of the alternatives may be considered at that time.

We are restricting this letter to the discussion of the control of consumer expenditures. We shall submit our views on the use of subsidies at a later time.

October 12, 1942

Dear Jinnie:

I have your letter of October 9, 1942, asking for a report which would consider the extent to which the control of civilian purchasing power could be effectuated by compulsory savings and by the rationing of spending.

As I told you at luncheon, you can rely upon the Treasury to help you in every way possible to carry out the heavy duties which have been imposed upon you by your appointment to this position. I have turned your letter over to Under Secretary Bell and he has already started work on it.

Sincerely yours,

F. Henry

Honorable James F. Byrnes,
Director of Economic Stabilization,
Office for Emergency Management,
Washington, D. C.

DWB:NLE

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
OFFICE OF ECONOMIC STABILIZATION
WASHINGTON, D. C.

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JAMES F. BYRNES
Director

October 9, 1942

My dear Mr. Secretary:

I have been thinking over our talk at lunch yesterday and it occurred to me that it would help me a great deal in grappling with the problem of the control of civilian purchasing power if you could have a report prepared which would consider the extent to which the control of civilian purchasing power could be effectuated by (a) compulsory savings and (b) the rationing of spending. I am sure that you have given a great deal of thought to the potentialities of both of these techniques which connect closely with the Treasury's fiscal policies.

I hope that you will also give me the benefits of your thoughts on the question of the considerations which should guide me in directing or refraining from directing the use of subsidies to insure maximum production and distribution and to prevent a rise in the cost of living.

Yours sincerely,

James F. Byrnes
JAMES F. BYRNES

Hon. Henry L. Morgenthau,
Secretary of the Treasury.

Copies to:
Mr. Gaston
" Paul
" White
" Haas
" Brown
Mrs. Lusk
" [unclear]



CHAPTER XVIII--OFFICE OF ECONOMIC STABILIZATION
Subchapter A--Office of the Director of Economic Stabilization

By virtue of the authority vested in the President by the Constitution and the laws of the United States, and particularly by the Act of October 2, 1942, entitled "An Act to amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes" (Pub. Law 729, 77th Cong.), the following amendments to the regulations promulgated by the Director of Economic Stabilization, with the approval of the President, dated October 27, 1942 (7 F.R. 8746), are hereby promulgated:

1. § 4001.1 is amended by adding the following subsections thereto:

"(k) The terms 'approval by the Secretary of Agriculture' and 'determination by the Secretary of Agriculture' shall, except as may be provided in regulations prescribed by the Secretary, include an approval or determination by an agent or agents of the Secretary duly authorized to perform such act.

"(l) The term 'agricultural labor' shall mean persons working on farms and engaged in producing agricultural commodities whose salary or wage payments are not in excess of \$2,400 per annum. The Secretary of Agriculture may by regulation issue such interpretations of this term as he finds necessary."*

2. The following sections are added immediately following § 4001.5 and preceding § 4001.6:

"§ 4001.5a. Authority of the Secretary of Agriculture. Notwithstanding the provisions of §§ 4001.2, 4001.4, 4001.6, and 4001.7, the Secretary of Agriculture shall have the authority to determine whether any salary or wage payments to agricultural labor are made in contravention of the Act or any rulings, orders or regulations promulgated thereunder: Provided, however, That the provisions hereof shall not be construed to affect the authority of the National War Labor Board under the provisions of Executive Order No. 9017 (7 F.R. 237) as extended by Section 1, Title III of Executive Order No. 9250 (7 F.R. 7871, 7873). Any such determination by the Secretary shall be conclusive upon all Executive Departments and agencies of the Government in determining the costs or expenses of an employer for the purpose of any law or regulations, either heretofore or hereafter enacted or promulgated, including the Emergency Price Control Act of 1942 or any maximum price regulation thereof, or for the purpose of calculating deductions under the revenue laws of the United States, or for the purpose of determining costs or expenses under any contract made by or on behalf of the United States. Any determination of the Secretary made pursuant to the authority conferred on him shall be final and shall not be subject to review by The Tax Court of the United States or by any court in any civil proceedings.

"§ 4001.5b. Wage and salary increases for agricultural labor. Considering that the general level of salaries and wages for agricultural labor is substandard, that a wide disparity now exists between salaries and wages paid labor in agriculture and salaries and wages paid labor in other essential war industries, and that the retention and recruitment of agricultural labor is of prime necessity in supplying the United Nations with needed foods and fibers, and in order to correct and adjust these gross inequities and to aid in the effective prosecution of the war, no increases in wages and salaries of agricultural labor shall, notwithstanding any other provision of any rules, orders or regulations under the Act of October 2, 1942, be deemed in

violation of the Act or of any rules, orders or regulations thereunder, unless and until the Secretary of Agriculture determines and gives public notice of his determination that, with respect to areas, crops, classes of employers, or otherwise, increases in salaries or wages for agricultural labor may no longer be made without the approval of the Secretary of Agriculture.

"§ 4001.5c. Wage and salary decreases for agricultural labor. No employer shall decrease wages or salaries paid to agricultural labor below the highest salary rate or wage paid for such work between January 1, 1942, and September 15, 1942, without the approval of the Secretary of Agriculture.

"§ 4001.5d. Rules, orders and regulations of the Secretary. The Secretary of Agriculture may make such rulings and issue such orders or regulations as he deems necessary to enforce or otherwise carry out the provisions of the regulations in this part."*

3. "§ 4001.10(a) is amended in the following particular:

The phrase "the Board or the Commissioner, as the case may be," is amended to read "the Board, the Commissioner or the Secretary of Agriculture, as the case may be,".*

4. "§ 4001.14 is amended in the following particular:

The phrase "The Board and the Commissioner" is amended to read "The Board, the Commissioner or the Secretary of Agriculture, as the case may be,".*

5. Nothing herein shall be interpreted to prevent the Secretary of Agriculture from utilizing any other authority now or hereafter vested in him to insure an adequate supply of agricultural labor through salary or wage stabilization and otherwise to secure agricultural production necessary for the effective prosecution of the war through programs of procurement, transportation, distribution, housing, medical care, price support, or otherwise.

APPROVED:

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

November 30, 1942.

JAMES F. BYRNES
Economic Stabilization Director

* §§ 1 to 4, inclusive, issued under Pub. Law 729, 77th Congress, approved October 2, 1942.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Friday, November 6, 1942.

Press Service
No. 33-97

The Treasury Department announced today that 1942 salaries in excess of 1941 salaries are now permissible under an amendment to the Wage and Salary Regulations when such 1942 salaries are required by the terms of a bona fide contract entered into by employer and employee prior to October 4, 1942.

The announcement followed issuance by the Office of Economic Stabilization of an amendment to its original Wage and Salary Regulations. Under the original Regulations restrictions on salaries in excess of \$25,000 did not become effective until January 1, 1943. As a stop gap and to prevent the payment of unwarranted bonuses and salary increases in the two-month interim, the original Regulations provided that such total compensation paid to an individual in 1942 could not exceed that paid in 1941. The immediate termination of compensation to those persons whose 1942 salary had already exceeded their 1941 salary in some instances where prior commitments had been made created a hardship. The modification of Paragraph (c) of section 4001.9 of the Regulations will alleviate this condition and permit payment for services rendered during the balance of the calendar year.

The Department emphasized that the amendment relates solely to 1942 salaries and has no effect whatsoever on the application of the \$25,000 limitation for 1943, and further that employers and employees should arrange their contractual relationships for 1943 so as to comply with the salary limitations. Relief granted under this amendment will in no instance carry over into 1943.

The text of the amended regulation is as follows:

CHAPTER XVIII -- OFFICE OF ECONOMIC STABILIZATION

SUBCHAPTER A -- OFFICE OF THE DIRECTOR OF
ECONOMIC STABILIZATION

PART 4001 -- WAGES AND SALARIES

Paragraph (e) of section 4001.9 of the Regulations relating to stabilization of wages and salaries, prescribed by the Economic Stabilization Director and approved by the President on October 27, 1942, (7 F. R. 8748) is amended to read as follows:

"(e) Unless payment thereof is required under a bona fide contract in effect on October 3, 1942, no amount of salary shall be paid or authorized to be paid to or accrued to the account of any employee or received by him after October 27, 1942, and before January 1, 1943, if the total salary paid, authorized, accrued or received for the calendar year 1942 exceeds the amount of salary which would otherwise be allowable under paragraph (a) of this section and also exceeds the total salary paid, authorized, accrued or received for the calendar year 1941."

The foregoing amendment shall be effective as of October 27, 1942.

(This regulation is issued pursuant to the authority contained in E. O. 9250, 7 F. R. 7871; section 4001.19, Regs. of Economic Stabilization Director, dated October 27, 1942, 7 F. R. 8748.)

(s) James F. Byrnes

Economic Stabilization Director

November 5, 1942.

November 5, 1942

My dear Mr. President:

Arrangements have been made to comply with the request in your letter of October 27, that future payments of your salary as President shall be made subject to regulations issued by the Economic Stabilization Director pursuant to Section 7, Title II, of Executive Order No. 9250.

As you know, under paragraph 7, Section 1 of Article II of the Constitution, the salary of the President may not be diminished during the period for which he shall have been elected. In view of this provision, it is assumed that it would be agreeable to you if the Treasury should follow a procedure similar to that to which you assented with respect to the return of part of your salary in connection with Title II of the Economy Act of March 30, 1933, which provided for a reduction in compensation of Government employees. Under this procedure, two checks would be drawn in your favor, one of which you would endorse as follows:

"Pay to the Treasurer of the United States for deposit as miscellaneous receipts. This payment is made in order that I may conform with regulations issued by the Economic Stabilization Director, pursuant to Section 7 of Title II of Executive Order No. 9250."

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Under paragraph (a) of section 4001.9 of the Regulations of the Economic Stabilization Director, approved October 27, 1942, the so-called salary ceiling, computed under rates provided by the Revenue Act of 1942, would be \$67,200. Out of that sum the recipient would have to pay approximately \$42,200 in Federal income and Victory taxes, leaving a net of \$25,000. Paragraphs (b) and (c) of section 4001.9 permit additional allowances of salary under certain conditions for payment of customary charitable contributions and for required payments on fixed obligations and insurance policies. You may wish, therefore, to give further instructions with respect to the determination of the amount of your salary to be returned to the Treasury pursuant to your letter of October 27.

In any event, under paragraph (f) of section 4001.9, no part of your 1942 salary as President need be returned by you; such adjustment would begin with your salary payment for January, 1943.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President

The White House

EFB:JB
11-4-42

TITLE 29 -- LABOR

CHAPTER VIII -- COMMISSIONER OF INTERNAL REVENUE

PART 1001 -- SALARY STABILIZATION UNIT

TREASURY DEPARTMENT,
Office of Commissioner of Internal Revenue,
Washington, D. C.

TO COLLECTORS OF INTERNAL REVENUE
AND OTHERS CONCERNED:

On October 27, 1942, the President approved regulations relating to wages and salaries prescribed by the Economic Stabilization Director under the Act of October 2, 1942, entitled "AN ACT to amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes" (Public No. 729, 77th Congress, 2d Session) and Executive Order No. 9250, dated October 3, 1942 (7 F.R. 7871). Those regulations conferred on the Commissioner of Internal Revenue authority to administer the provisions thereof relating to the stabilization and limitation of certain salaries. In the exercise of the authority so conferred on the Commissioner of Internal Revenue, the following regulations are hereby promulgated.

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Sec. 1001.1. Salary Stabilization Unit

1001.2. Authority of Unit

1001.3. Regional Offices

AUTHORITY: Secs. 1001.1. to 1001.3., inclusive, issued under Pub. Law 729, 77th Cong., 2d Sess.; E.O. 9250, 7 F.R. 7871; Regs. of Economic Stabilization Director, dated October 27, 1942, 7 F.R. 8748.

Sec. 1001.1. Salary Stabilization Unit. -- There is established a Salary Stabilization Unit, which shall be under the supervision of a deputy commissioner of internal revenue, appointed in accordance with law, and which shall be independent of all other units of the Bureau of Internal Revenue.

Sec. 1001.2. Authority of Unit. -- The Commissioner of Internal Revenue may confer upon the deputy commissioner in charge of the Salary Stabilization Unit such powers and duties as he shall deem necessary for the effective administration of the provisions of this Treasury decision.

Sec. 1001.3. Regional Offices. -- The Commissioner of Internal Revenue may establish such regional offices as he shall deem necessary for the effective administration of the provisions of this Treasury decision.

GUY T. HELVERING,
Commissioner of Internal Revenue.

Approved: October 29, 1942.

JOHN L. SULLIVAN,
Acting Secretary of the Treasury.

(Filed with the Division of the
Federal Register October 29, 1942.)

MR. SULLIVAN'S
PRESS CONFERENCE

October 29, 1942

ROUGH COPY
For Treasury Department
Use ONLY 197

MR. SULLIVAN: Before we start out I want to tell you gentlemen that this morning we have just issued a Treasury decision establishing in the Bureau of Internal Revenue a Salary Stabilization Unit which will be separate from the other units in the Internal Revenue Bureau and which has authority to set up regional offices. Just how many we will have and where we will have them will depend upon the necessity as it is shown by our experience. I have copies of this decision here if you want them. (Copies distributed)

Q Who is to head that office, Mr. Sullivan?

A That will be announced later.

Q Have you found a building big enough to house the personnel?

A I think that probably you men will have many questions that we cannot answer this morning because, as most of you know, we will have to get out regulations to implement and clarify the regulations that Director Byrnes released Tuesday afternoon. I expect that those regulations will be ready in two weeks or so, and we will get them out just as soon as we can.

I have been very much pleased by the restraint you fellows have shown by not taking shots in the dark about what the regulations that Director Byrnes issued were going to say, and I think you did your public a great service. This is not a simple problem, and it is one in which it is very easy for the public to be confused. I am very grateful to you for sitting tight until those regulations came out rather than conjecturing about what they might be, and I think that probably you will have an opportunity for the same kind of service in regard to these regulations we are going to publish. We will get them out as quickly as we can, and once they are out we will be very happy at any time of day or night to answer any questions you fellows want to ask us.

This is not going to be an easy job -- to clarify all of this to the public -- and we are going to rely on you fellows to help do that job for us, and I want it strictly understood that at any time when anybody is writing a story, if you are in doubt don't take a chance, call me. You can always get me through the switchboard here or get me at home, and don't take any chances, fellows, because this is just too important. Just come to us at any time and we will give you as straight an answer as we can.

O.K., go ahead.

Q How are partnerships covered under the regulations -- that is, the limitations on partnerships, if any?

A You mean are the salaries covered?

Q That is right.

A It depends on whether it is a proprietary interest or a salary.

Q But in the case of a partnership which may be composed of two people and say they take down so much for their own use, say a salary of eight thousand--

A Of course all of the earnings of the partnership are taxable to the individual partners.

Q That is true, but it would not be subject to double taxation when they did not take it down -- I mean under the--

A No, it would not.

Q Are you going to have forms, additional forms, on your income tax blanks to require corporations to show salary increases?

A There will undoubtedly have to be further information given to us. Whether that will be on a separate form or an addition to the existing form is a question that has not yet been decided. We will try to do it in a way that will give us adequate information, with the least inconvenience to the income tax filer.

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Q How about obvious efforts to circumvent the regulation by a man hiring his wife and paying her twenty-five thousand dollars a year?

A You know better than that. We catch them every day and disallow them as a business deduction. That is not any new problem that is created by the Act or by the regulations. We already cover that. And you will note that in these regulations there is one clause which specifically provides that nothing in the act - nothing in these regulations in any way minimizes the powers the Internal Revenue Bureau now has to disallow an unreasonable business expenditure.

Q What about lawyers who are serving, perhaps, more than one client?

A That depends very much, just as in the case of movie actors and radio stars, and so forth - that depends very largely upon the nature of the contract between the individual and the company. Just as in the case of Social Security taxes, the specific facts in an individual case govern and it depends upon whether or not there exists the relationship of employer and employee, master and servant, and so on and so forth. Each of those will have to be decided on its own merits. In the case of a lawyer who is employed exclusively by one client, devotes all of his time to the client, I think it is pretty clear that he is covered. The other cases depend upon varying facts.

Q On a fee basis?

A That is just one of the many facts that will have to be taken into consideration.

Q You have not determined it as yet?

A It depends on the facts in each case as they come in, just as in the case of the Social Security tax.

Q What about doctors who work solely on fee?

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- A The same answer. There are many large corporations that have doctors who devote all their time to accident work within the plants. They are clearly covered, of course.
- Q Mr. Sullivan, in the case of a moving-picture actor, for example, who works for three different companies, let's assume he gets twenty-five thousand dollars from each of those companies in the course of a year. When you figure out the deductions allowed, fifty thousand was the total he should have received under this act. What company gets soaked for paying him the extra twenty-five thousand dollars?
- A I would like to answer that question first by clearing up what may be a misunderstanding in your mind. You use the figure fifty thousand. I think you will find that so far as this above twenty-five thousand dollars provision is effective it is only above sixty-seven thousand two hundred dollars. Your question, I presume, is that you want to know whether the last fellow who pays him above the sixty-seven thousand limit is the one who is in trouble.
- Q They might be paying him simultaneously, more or less.
- A The answer to that is that all will be regarded as participating in the violation of the act. In those instances where a person is receiving salaries from more than one corporation it is up to him and the corporations to get together and adjust the salaries among themselves. If the sum total paid is in contravention of the act all are held to have violated the act.
- Q How are you going to get around cases where a man has several clients - or, the movie actor has several contracts and he has a business expense and that would be the equivalent of a gross instead of a net? How do you get around that? I mean you are putting a limitation on his gross, not his net.

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- A It is a limitation on his gross salary.
- Q Even though he has to pay a lot of expense out of those salaries?
- A That is right.
- Q This sixty-seven thousand two hundred figure, would that mean that President Roosevelt would return the difference between seventy-five thousand and sixty-seven thousand two hundred in bringing his salary under the twenty-five thousand limit?
- A Well, the Act exempts statutory salaries.
- Q But he has written--
- A I understand that he has indicated his salary is to be covered, and the adjustment that he requested would mean a downward adjustment that would bring him to the allowable figure.
- Q He might have other deductions, personal deductions?
- A They would not enter into this matter.
- Q Must that adjustment be made at the beginning of the salary year or can it be turned back at the end of the salary year?
- A Well, the adjustment could be made either way, just so long as the individual does not receive during the year more than the allowable amount.
- Q Suppose an employee is paid thirty-five thousand, or, we will say, seventy thousand, during the year -- then at the end of the year he is permitted to turn back the excess to the paying corporation?
- A I don't think you will find it is going to work out that way.
- Q He gets some deductions and things that give him the advantage, arranged in advance.

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- A I don't think it will work out that way. I think the salary will have to be paid at a regular rate that will arrive at the proper amount.
- Q Coming back to Mr. Flynn's question, taking the case of a movie actor who has three thirty-thousand-dollar contracts, would he not be allowed to deduct the ten percent he has to pay his agent, in filing that?
- A No.
- Q That would be the same in the case of an advertising agency, too, then, wouldn't it, that pays a commission? That is, an individual who has an agency that is a single proprietorship?
- A Well, he isn't--
- Q He isn't covered at all?
- A No.
- Q Take an author who writes a book and pays ten percent to his agent, surely that ten percent is deducted but he never gets it.
- A I don't see how he is covered, anyway. That is not salary or wages.
- Q Royalties don't come under it at all in any form?
- A No, generally speaking - unless the royalties are paid as a form of salary.
- Q To return to this paying movie stars three salaries from three different firms, if I understood your interpretation to that, then any individual or any firm who paid this said movie star any part of his income during that year would be subject to prosecution for violation of the law even though he might have in all good faith paid it far before that star had gone over the limit.
- A I am sure you have seen the way we operate well enough to know that we would not do that sort of

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thing. In the case where an employee - or, rather, a person hired by the corporation - had misrepresented facts to the corporation, we would not invoke the sanctions in that kind of a case.

Q But the point I was trying to bring out was that under that interpretation literally the responsibility would rest with any firm or corporation to see to it to check on the other sources of income of each employee.

A Just so far as it relates to other salaries, yes.

Q Have you any figures on the number of people affected by the twenty-five-thousand-dollar limit?

A I think there are twenty or twenty-four thousand persons who received in excess of twenty-five thousand dollars a year.

MR. CANN: That is correct.

Q That is not all earned income, though, is it? I mean, that includes investment income and everything?

MR. SULLIVAN: That is earned income.

Q Twenty-four thousand?

A Twenty to twenty-four - it varies in there.

Q The list the Treasury gave out of corporation salaries of over seventy-five thousand included only seven hundred names for 1940.

MR. SULLIVAN: That is over seventy-five thousand, I think. The question asked was over twenty-five thousand.

Q In the testimony before the Ways and Means Committee on the super-tax I thought they said only fourteen thousand would be hit by that tax. It was a very small number, it seemed.

A I don't recall that figure. I am giving you the figure I received from the Internal Revenue Bureau.

- Q Mr. Sullivan, in Section 4001 there appears twice the same language, once applying to the War Labor Board and once to the Commissioner of Internal Revenue. It reads: "Any determination of the Board made pursuant to the authority conferred on it shall be final and shall not be subject to review by The Tax Court of the United States or by any court in any civil proceedings." Now, that applies to the Board, and then later to the Commissioner.
- A The determinations of fact made by the Board or by the Commissioner of Internal Revenue are not reviewable.
- Q Does not that abrogate the constitutional right of appeal to the courts. If it means to abrogate that right doesn't it ascribe to the Board and to the Commissioner something like infallibility?
- A No, I don't think there is any pretense of infallibility here.
- Q Under what section of the law--
- A Excuse me, I have not answered the real part of the question on the constitutionality. Mr. Wenchel, will you take care of that? He asked as to whether or not denying the right of appeal from a finding of fact by the Commissioner of Internal Revenue or the War Labor Board is a violation of the Constitution. That was your question, wasn't it?
- Q Substantially that, yes.
- MR. WENCHEL: It is just a question of the determination of a fact question, and I don't think that violates the Constitution.
- Q In other words, whatever the War Labor Board says, on the one hand, or whatever the Commissioner of Internal Revenue says, is final? There is no appeal anywhere?
- MR. WENCHEL: No appeal.

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- Q There is an appeal on the law itself, isn't there?
- MR. SULLIVAN: Certainly. Mr. Wenchel meant there was no appeal from the findings of fact rendered by the Commissioner or the Board.
- MR. WENCHEL: That is right.
- Q Like any other finding of fact by a Governmental agency?
- MR. WENCHEL: A finding of fact, for instance, by the Board of Tax Appeals has been held by the Supreme Court not to be reviewable by a Circuit court.
- Q But an individual is not precluded from challenging the constitutionality of this law by any means?
- MR. WENCHEL: Certainly not.
- Q What is the section of the law that authorized closing the courts to persons who might feel themselves aggrieved?
- MR. WENCHEL: The provision that authorizes the President to control or fix salaries and wages.
- Q Could you cite me the section of the act, Mr. Wenchel, that authorizes that?
- MR. WENCHEL: I don't have the Act before me. The President in turn delegates that to the Commissioner or the War Labor Board.
- Q Yes, I understand, but under what authority - specific section?
- MR. WENCHEL: I don't have the Act here.
- Q Just the broad general language, is it, or is there some delegation?
- MR. WENCHEL: That is Section 1 of Public Number 729, Act of October 2.

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Q You construe that as authority for closing the courts to appeal?

MR. WENCHEL: Pardon?

Q Do you construe that as authority for closing the courts to appeal?

MR. WENCHEL: On finding of fact, yes. I again repeat that the Supreme Court has upheld the findings of fact by the Board of Tax Appeals as being final - the findings of fact. Questions of law, of course, can be appealed. But you cannot appeal a finding of fact of the Board of Tax Appeals to the Circuit courts.

Q I am glad you brought that out because the impression is pretty general you cannot appeal at all. You could appeal on the application of all those facts to the courts, could you not, sir?

MR. WENCHEL: Pardon?

Q I say the impression is pretty general that there is no appeal from these findings, but from what you say I gather that there is an appeal on the application--

MR. WENCHEL: An appeal on the question of law but not on the question of fact.

Q I see.

Q How do you plan to coordinate your work with the War Labor Board with regard to those employers who are in the twilight zone between the War Labor Board's jurisdiction and yours with respect to salaries under five thousand?

MR. SULLIVAN: We think the twilight zone has been pretty well eliminated. You see, under this order we have all salaries except those below five thousand dollars which are not executive, administrative, or professional in character, and where the executive, administrative, and professional employees are not represented by a duly-recognized labor organization--

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- Q Will you define executive, administrative and professional?
- A Yes. Just take the same definition of those three terms that are used in the regulations under the Wages and Hours Act.
- Q Mr. Sullivan, I have two questions here that are just specific questions I would like to ask you. In the first place, the law specifically - or, the order specifically - permits the reduction of salaries above five thousand dollars. Would that be construed to prevent a union, for example, negotiating and obtaining from an employer a contract under which the employer agreed for the duration of the contract not to reduce salaries in excess of five thousand dollars?
- A I think you are not asking a tax question there, are you?
- Q Well, I am meaning to.
- A I think the answer is no, but I am not sure that we are the ones to pass on that. Maybe I did not understand your question.
- Q Well, the question is - it has come up in my office - where the union is negotiating a new contract with the management and the union wants to know whether it is proper to ask the management to put in the contract a sentence which says that salaries above five thousand dollars shall not be reduced for the duration of the contract.
- A That is quite proper - quite proper as far as these regulations are concerned.
- Q The other thing I am asked to ask you is, in the calculation of salaries of course dividends paid to an employee would not be included as a part of the salary?
- A They would not where the dividends were bona fide dividend payments.

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- Q Mr. Sullivan, the War Labor Board is setting up a regional arrangement to channel its cases. Are you going to have any procedure like that?
- A Yes, you will find that there is provision for that in the Treasury Decision I just gave you. We, too, will have to have regional offices.
- Q I wanted to ask, how would the difference over the sixty-seven thousand be treated by the corporation?
- A You mean in the event that a salary in excess of that permitted by the regulations were paid? We would disallow the entire salary payment to that employee.
- Q I mean the excess over sixty-seven thousand would simply go into the corporation funds to be taxed to the corporation.
- A You mean where they would reduce the salary of an employee so it would be down to that figure?
- Q Presumably that is what they would do, is it not?
- A Then, of course, the amount by which they reduce would be retained by the corporation and hence be subject to the corporate income tax.
- Q In the case of a movie actor who contracts and is paid by the single picture in which he appears and might be paid, say, fifty thousand dollars a picture, and makes, say, three pictures a year - how would that be considered?
- A He is in the employ of the one company?
- Q. Not necessarily.

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- A Well, just as in these other cases I gave you, it depends very largely upon the nature of the contract and the type of employment.
- Q Suppose it is different companies.
- A That is the same--
- Q He is not committing himself to work three hundred and sixty-five days out of the year or fifty-two weeks out of the year.
- A I understand that, but it doesn't make any difference, because you will note that the regulations cover a salary at whatever time the salary is earned.
- Q Suppose that man's contract definitely calls for three pictures a year for one employer at twenty-five thousand dollars a picture, net - whatever would give him that - and he makes twenty-five thousand and then says to the employer, "I can't work any more because I can't earn any more," and the employer sues him for breach of contract, for refusal to make other pictures.
- A I can't give you the answer to that. That is something to be straightened out between them.
- Q Isn't there an exemption for a single performance?
- A Not that I am aware of.
- Q Like getting payment for one job?
- A Not that I am aware of, if he is employed for that job.
- Q There is none?
- A I didn't see it in the regulations: I saw it in the Wall Street Journal. (Laughter)
- Q The term salary could cover income from commissions? That is, an advertising salesman--

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- A That is right. There is a broad distinction to bear in your minds, and that is that a wage is remuneration paid on an hourly, daily, or piecework basis.
- Q But does not cover dividends as might be paid out by the company to its employees?
- Q Wasn't that what you said?
- A Yes, bona fide dividends are not covered by this Act.
- Q What about bonuses? Can an employer be restricted in the amount of a Christmas bonus he can give?
- A Well now, let's get that straight, because I think it will be pretty important to a good many people. The type of concern that usually gives its employees five dollars and ten dollars at Christmas, has been doing it year after year, certainly they can go ahead and do it this year. Now, when you come to talking about substantial bonuses, you have run into something else. You will recall that the provisions relating to salaries in excess of twenty-five thousand dollars don't go into effect until January 1, 1943 and because this is so, we had to protect ourselves against very large salary payments to some executives during the last three months of this year. That is why you find the provision in the regulations that the total salary and bonus payments made this year in the field where the twenty-five thousand dollars limitation operates shall not exceed the total salary and bonuses paid last year. As a matter of fact, the way it works out that provision does not affect anybody who is not receiving more than about fifty-four thousand dollars this year. But please make it clear that on these customary Christmas bonuses and payments of that type to employees there is no prohibition.

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- Q Mr. Sullivan, you just mentioned the five, ten, and fifteen dollar bonuses as a usual Christmas bonus for some concerns. Well, now--
- A Please don't use those figures as meaning that twenty or twenty-five is bad. I was just merely trying to distinguish that from the type of bonus that would come under the other limitation.
- Q There are some corporations - I know of one newspaper that gives bonuses regularly of a week or two weeks or even three weeks pay - would that be a normal bonus?
- A If they have done that customarily in the past.
- Q Suppose they do it in good years and are unable to do it in bad years?
- A And this is a good year? It is still a customary bonus.
- Q How about a company that has never paid a bonus, but has offered an incentive plan to its workers?
- A And that plan was prior to October 3?
- Q Yes, sir.
- A I think that that probably would be all right.
- Q That would include bonuses paid for particular efforts or exceptional work or something like that?
- A That is right.
- Q How about this kind of an attempt at evasion of the effect of the twenty-five thousand dollar limitation-- where an individual makes a salary of a hundred thousand dollars a year and prior to this year he is issued a block of stock by the company, that stock to pay dividends on the next year, and his salary is cut back?

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A What is the date of the transfer of the securities?

Q Any time between now and the first of the year.

A Well, that is income to him.

Q Yes, he would have to pay income tax on the income this year.

A Certainly.

Q But at the same time he would get the benefit of dividend payments next year which would bolster his net income.

A That doesn't make any difference. Suppose instead of taking stock in that corporation he bought War Bonds, which is a very good idea, fellows-- (Laughter)

Q I mean if the stock is given to him by the company he works for?

A All right, it is given to him as a bonus - it is taxable as income. Now, it doesn't make any difference whether he leaves that stock in the corporation or whether he buys stock in a corporation across the street.

Q Well, the picture I am trying to paint is this: that by doing that the hundred thousand salary he got this year will be reduced to a net of twenty-five thousand dollars next year, but in addition he would get dividends from the stock which he did not hold.

A Yes, but he might very well have put that money in any other corporation. Dividends are not included in this.

Q Yes, but he didn't actually have the money - it was given to him as stock, we will say, for the purpose of evading the twenty-five thousand dollar limitation.

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A All right, he pays his income tax on it this year. If as a result of that - and this is a transaction, you told me, after October 3 - if as a result of that his total salary for this year would be in excess of his salary last year, that corporation is not going to be allowed to distribute that stock to him.

Q How about a case where a man has been doing work for two years and gets paid on the third year something like a hundred and fifty, a hundred and seventy-five thousand?

A As I told you, we are going to have another set of regulations out in two weeks. Maybe we can meet again at that time and I will be very happy to answer that at that time.

Q Mr. Sullivan, what about the practicing specialist, the doctor, the lawyer, the professional in business for himself who from a number of fees gets an income considerably in excess of twenty-five thousand dollars?

A He is not covered by the Act. Now, remember that I said earlier that the lawyer who works for a single concern, the doctor who devotes all his time to a single concern, is covered. There are several in-between cases - between the case I cite and the case you cite where he may or may not be covered, and that will depend on the facts in the individual case.

Q I understood that distinction; that is the reason I said from a large number of fees.

A That is right. I just wanted to be sure I had in mind what I thought you had in mind.

Q Isn't it possible, Mr. Sullivan, for an attorney, for instance, to act as the legal representative for a company in an area and whatever is paid by the company as a retainer would be considered as a salary although in addition he might also have a general practice?

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- A That depends very largely upon the nature of the retainer.
- Q Mr. Sullivan, but I mean in that case, what consideration is given to the fees he then gets from his general practice?
- A I think--
- Q That is, for instance, a man might be - we will say a man is here in Washington and he is a legal representative for General Motors and he is being paid twenty-five thousand dollars a year for that job, so that would not catch him on this deal, but he is also operating a general practice here in Washington picking up cases as they come along, and that would--
- A He probably is not covered.
- Q In other words, he is presuming that some such attorney might be seeking an evasion of this. The simple way to do it in case he were employed by one firm alone would be to scurry around and dig him up three or four more clients.
- A That doesn't change the situation at all, no.
- Q Why?
- A Because he already has a contract with this other outfit that he devotes his exclusive time to them.
- Q Then a change in that contract between now and the time the law goes into effect would be disregarded.
- A Well, I don't know. I don't know about that. It depends upon whether it is obviously an attempt to evade or whether it is something that they had in good faith discussed before and have correspondence on, and so on and so forth. I am very hopeful that the phrase you used "simple" to evade, will not come to pass.
- Q What is the definition of a salary agreement? Is that any agreement, also an oral agreement?

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- A I think that that is pretty much a general term and covers a variety of types of agreements.
- Q Mr. Sullivan, could a movie actor or a lawyer evade this thing by being sure he worked for three or four different companies during the year instead of just one?
- A No.
- Q How about incorporated movie actors like Bing Crosby, Incorporated?
- A I don't think that the factor of incorporation would alter the circumstances.
- Q Mr. Sullivan, in regard to the salaries over twenty-five thousand for the rest of the year, would a man like Eugene Grace, who has gotten a large increase in '42 over '41, be compelled to turn back that extra money?
- A When did he get the increase?
- Q Earlier this year. That is presuming he did. The newspapers report to that effect.
- A Yes. If he is up - I am presuming he is over the fifty-four thousand. If he isn't, we will take up a collection for him. (Laughter) If he is over the fifty-four thousand and he has already been paid more than he received last year, he is through collecting for '42.
- Q Will he have to give back some?
- A No, he doesn't have to give back what he received prior to October 3, the effective date of the Act.
- Q But it would be possible then for that man's income to be terminated?
- A October 27, I beg your pardon, is the date of the regulations.

- Q It would be possible then for his income to be terminated as of October 27 if he has already exceeded the fifty-four thousand?
- A It would. That is, when he exceeds the '41 salary providing he is still above fifty-four thousand,
- Q Well, that is what I meant, too, that is, in the case of a man that has been getting--
- A I want to be sure that you had that as excess over the '41 salary.
- Q Yes.
- Q The regulation I read gives recognition to other Federal taxes. Does it take into consideration State taxes at all?
- A No.
- Q That does not produce double taxation in any sense?
- A I think not. This is not a taxing statute.
- Q Mr. Sullivan, the employees of the departments who are not organized would come under - that is, the salaried employees would come under the Bureau of Internal Revenue?
- A If they are administrative, executive, or professional, yes.
- Q Supposing they were not?
- A On their salary?
- Q Yes, on their salary.
- A What class of employees are you talking about?
- Q About sales people, people employed in delivery departments, packing departments - assuming they were not organized.
- A They would come under the War Labor Board, unless they are executive, managerial, or professional?

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Q Page 9, paragraph C, Mr. Sullivan - it says there that "In any case in which an employee establishes that, after resorting to his income from all sources, he is unable, without disposing of assets at a substantial financial loss resulting in undue hardship, to meet payments for the following" - does that mean that if he has cash in the bank or securities and he can sell at the same price he bought them for, that he must do that before he gets an exemption?

A That is a good question. You will note that the preceding paragraph, paragraph (b), relates to charitable contributions. Now, there is a little distinction in the treatment of charitable contributions from the treatment of life insurance, payments on fixed obligations, and Federal taxes. In the first case, of charitable contributions, the test is whether or not his income from all sources is insufficient to make the customary payments. The test on life insurance premiums, on taxes, and on payments on fixed obligations is whether or not from all of his resources, including his assets, he is able to do it. Now, that necessarily vests in the Bureau a great deal of discretion. Certainly we would not feel that a person should sell a piece of real estate he owned in a depression town - a town that was temporarily going through a depression - in order to meet these payments. There is a wide field within which the Commissioner will have to exercise his discretion as to what constitutes a hardship, and at what figure assets would have to be disposed of to represent a substantial loss.

Q Well then, it means that if a man has stock which he can sell at the same, or virtually the same, figure, at which he bought it, he must first dispose of his stockholdings.

A No, I wouldn't want to make that statement, because although he is holding the stock at the same figure that he paid for it, there are certain circumstances under which that might represent a genuine hardship. I mean that stock

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might be one that has seasonal fluctuations, and it might be at the bottom of a cycle. I won't attempt to interpret or predict the rules the Commissioner will follow in exercising that discretion. I think I can assure you that he will exercise it wisely and equitably.

Q Suppose the man's only holdings are Government bonds which are practically stable? Is he required to cash those in?

A I think that that would likely be treated very much as though it were cash in the bank, although I still am not predicting what rules the Commissioner is going to follow.

Q He would be required to cash them in?

A No, I can't answer any of these questions categorically. Those are matters for the Commissioner of Internal Revenue to determine on the facts in the individual case.

Q That means, Mr. Sullivan, that all these questions of doubt mean that before the corporation can fix the salary for any particular individual, he has got to determine the finding in that particular case?

A That sounds like a pretty big order, but it really isn't so. In the first place you haven't got so many fellows who are earning above sixty-seven thousand two hundred dollars. You haven't got so many of those who are on the borderline. I don't think many of them are going into bankruptcy next year, and although it sounds like a pretty big order, when you boil it down we are not going to have very many cases and it is not going to be very difficult.

Q Nevertheless, that is true where it is so?

A That is right. If the corporation is paying more than sixty-seven thousand two hundred dollars to an employee who has had a bad season at the track and hasn't anything in the bank, then maybe they had better inquire. But I don't think there are very many up in those brackets who spent the season at the track.

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Q You said a minute ago that - I thought you said that anybody below five thousand who is not in an executive, administrative, or professional capacity was handled by the War Labor Board. Why is this clause in here, the Board handles people under five thousand dollars provided they are represented by labor organizations?

A Well, the Board handles them. It handles the administrative, executive and professional people if they are represented by labor organizations.

Q I see. In other words--

A It is "or," not "and." Do you get it? Anybody else troubled by that?

Q I have another question back to this one where the man has had a sizeable increase in his salary in '42 prior to October 27, and that would mean, then, that his income should be shut off? However, it may be possible that the man is not paid very frequently during the year.

A And that he has already exceeded--

Q No, no, his payments so far have not come up to what he got last year.

A All right, he can still get up to what he got last year.

Q How do you arrive at that fifty-four thousand dollar figure? I understand the sixty-seven thousand, but I don't understand the fifty-four.

MR. SURREY: It is computed on the same principle, except that this year we do not have the Victory Tax. The fifty-four thousand dollar figure is the amount necessary before taxes to arrive at twenty-five thousand dollars after taxes this year, just as sixty-seven thousand will be the amount for next year.

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MR. SULLIVAN: To spell that out a little further, the reason for that is that it is only the fellows above twenty-five thousand dollars who are not affected by this Act right this minute. The rest of the Act and the rest of the regulations don't affect them until January 1. It is just this closing the loophole on increases between now and December 31.

Q Here is a question. I haven't seen anything that indicates what kind of control there is in the area between five thousand dollars and the twenty-five thousand dollar net income - what control is there to be exercised?

A Exactly the same as there is above. We have the power to disallow as a deduction the entire salary that is paid in the case of an unauthorized increase.

Q But isn't there a provision in the original Executive order setting up the Office of Economic Stabilization that says there can be increases over five thousand dollars if the man is doing a better job, or something like that?

A Yes, and in these regulations that were issued the day before yesterday.

Q But the thing is, you see, that it does not make any difference whether the man who is earning - if a man is earning over twenty-five thousand dollars net and say he is working eight hours a day, and if he works twelve hours a day next year he gets nothing more - he cannot get any more. But a man who is earning between five thousand and twenty-five thousand net is privileged, then, if he exerts his energies to still be compensated in advance - that is, you have not frozen those salaries, have you?

A That is correct.

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- Q Mr. Sullivan, in the case of a particular Employee who threatens to leave and his boss says, "I would like to give a raise if I can get permission from the Commissioner of Internal Revenue", can he agree to make that raise retroactive to the date they made that agreement? In other words, he says, "I will give you a raise as of today if I can get permission." Would the Commissioner of Internal Revenue then allow that to be retroactive?
- A I think that it will probably be worked out that the increase will be permitted on the approval by the regional office before approval by the Commissioner here in Washington.
- Q How many regional offices are you setting up?
- A I don't know. We will probably have twelve or fifteen and as many more as are needed to do the job. I think I saw in the paper today - and you fellows can correct me - that the War Labor Board is setting up ten, isn't it?
- Q Ten.
- A When I say twelve or fifteen, I just don't know - maybe it will work out to be ten and maybe they will have to be in the same places, I am not sure. There will be seven of them opened within the next ten days, and Mr. Cann, Assistant to the Commissioner of Internal Revenue, can give you the location of those seven if you would like them.
- Q We would.
- A Go ahead, Norman.
- MR. CANN: Seattle, San Francisco, Los Angeles, Chicago, Detroit, Philadelphia, New York.
- Q How large a force, Mr. Sullivan, do you estimate will be required to do this job?

A I don't think we can answer that question for you today.
Mr. Cann has suggested you might be interested in knowing that to do this work we are not taking in new men. We are selecting the cream of the existing crop in the Bureau, all men who have been with us more than ten years, and are turning this job over to them. We feel that this is a very important operation, and even our best men are going to be taxed to do this job quickly and efficiently.

Q Suppose part of a man's income is covered by a statute and the rest is a private salary?

A Well, I think you have asked one of those other questions that we would prefer to put off until we have drawn up the Treasury regulations. I don't want to be cutting you short. I mean that is just one of the things we have not decided. There are a lot of them, and there will be more.

Q Mr. Sullivan, how can you relate this sixty-seven thousand figure with the tentative tax which the employer is to arrive at which does not include deductions, in which he applies the rates under the regulations?

A You see, that sixty-seven thousand two hundred dollar figure is the amount of salary which after taxes would leave the employee a net of twenty-five thousand.

Q Presumably would include deductions and all, but—

A No, no deductions.

Q Isn't it possible, too, that that figure will be changed if and when Congress enacts another tax measure increasing the rates?

A You see, there is no figure in the regulations. The language of the regulations works out to a figure of sixty-seven thousand two hundred dollars under the rates that are included in the Revenue Act of 1942. Now, as those rates change that figure may change, if these regulations are still in effect. But the language of the regulations will not need to be changed.

Q Mr. Sullivan, there is still one thing I am not quite clear on--

A You are way ahead of me, if there is only one thing. (Laughter)

Q One thing I can think of at the moment. It is this. This would prevent a man from getting a higher salary from the same employer during this period than he got before for the same work. Does it prevent him from getting a higher salary from some other employer if he changes jobs, provided that other employer has been paying a higher salary for that type of work?

A In some cases yes and probably in other cases no. I think that probably some classifications will be worked out here. I can't say that they will. I can foresee that there might be a threat of such a shifting that it would be necessary to work something out. I think you realize that that is something that applies more to wages than it does to salaries.

Q It does as a rule. However, I was just thinking of a stenographer, for example, whom one man pays forty a week to and another pays thirty. Can the girl leave the thirty a week and take the forty, or does that limitation apply to the salary she earns rather than the company that pays it?

A That is--

Q In the case of a man whose employer considers he really should have been paid more for the same sort of work is there any procedure by which that employer--

A Yes, he asks the Commissioner of Internal Revenue - he sets forth all the facts and says, "If I make this increase will it be approved?"

Q Isn't it true, though, that there are some exceptions already, though--

A Oh, yes.

Q It isn't necessary to come to the Commissioner every time you want to raise a salary?

A No, that is correct. You will find that on page seven, and for those six cases that are listed there he can go ahead and make his increases. Now, for instance, here is an increase for individual merit within established salary rate changes. That does not mean that every increase that is made for merit is going to be approved because it may turn out that some cousin of the boss who is doing much poorer work this year than last year gets one of those. I mean, we are not precluded from inquiring into whether or not those were reasonable increases under this category.

Q That would only be developed, though, if you started an investigation, because if the employer decided that he was giving a merit increase, the language there indicates—

A That is very likely so, but I am just pointing out that this is not going to be permitted to become a technique of evasion by just saying that this comes under paragraph (e) or paragraph (i), or something like that. It does not tie our hands in the matter. Neither are the increases restricted to these six classifications. There will undoubtedly arise other good grounds for increasing salaries.

Q Is it necessary for an employer to have in operation a standard employment salary in order to make the raises in those various classifications? The language there indicated that that might be the case.

A The language indicates that that might be the case, but I think that there will be many instances of employers who have less formal systems of advancement that will satisfy us.

Q They have to be submitted, though?

A Yes, in case of doubt.

Q An employer can go around to one of the regional offices and find out whether a particular raise falls within one of those classifications, can he?

A Yes.

Q The City of Philadelphia is planning a blanket salary and wage increase for the beginning of next year. What can they do about it, or can't they--

A When did they agree on it?

Q Some time before the campaign got hot. (Laughter)
But it is supposed to be a cost of living--

A Was this before October 3?

Q It was an informal promise of the city council before that date.

A Let them bring it in and we will pass on it.

Q But a city may have--

Q What can you do about salary raises of that sort by municipalities and States? Is there any way you can reach municipalities?

A Oh, yes, it is provided in here - let me get the correct language for you - "These regulations shall be applicable to any salary or wage paid by the United States, any State, territory, or possession or political subdivision thereof, the District of Columbia or any agency or instrumentality of any one or more of the foregoing, except where the amount of such salary or wages is fixed by the statute."

Q I was just wondering how you could reach them, like the Governor of South Carolina--

A We could go after the employee.

Q "By statute" - does that mean wholly Federal statute or would it be possible to enact a State statute?

A Yes, State.

Q How about a municipal ordinance, which is not considered a statute?

A That is not considered a statute.

- Q Mr. Sullivan, on this Philadelphia case the War Labor Board has ruled with respect to wages that increases promised before October 3 for a future date have to be reviewed. That would be different from the interpretation that you gave with respect to salaries.
- A Then you correct what I said because we are talking now largely about wages and not salaries. That is their problem and not ours.
- Q With respect to your answer about the girl who is getting thirty dollars now and she finds --
- A I don't think I answered it.
- Q I was wondering what your answer was.
- A I knew I did not answer it. I was coming back to that. Let's go over that again. Go ahead.
- Q It was just a question in the case - let's say we have two employers, one who normally pays forty dollars a week for a stenographer and the other normally pays thirty dollars a week for a stenographer. The man who is paying thirty cannot raise her to forty under that law?
- A That is right.
- Q But can the girl quit and go over to the man who is paying forty if he needs a stenographer?
- A I think it may work out that way unless we can devise something.
- Q Do you contemplate freezing persons in their present jobs?
- A No, I don't think that is the function of the Treasury Department.
- Q Could you tell us where classified employees of the Federal Government stand under this? Are they exempt?
- A Under the Ramspeck bill you mean?
- Q The Ramspeck bill is exempt?
- A Yes, the increases under it are permissible.

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Q What about the general salary determinations?

A Well, you have got these six classifications.

Q Are they covered by statute? Would you say that a Federal employee working for you is covered by statute or is he in the classification covered--

A He is covered by the Ramspeck bill.

Q Is he covered by this regulation?

Q Is he subject to the regulation or is he exempt from the whole regulation?

A Well, he is and he isn't. He is subject to the Act, but regulations permit increases under the Ramspeck bill.

Q How about an ordinary merit increase for a lawyer who has been working for forty-five hundred?

A This is permissible and is already provided for in the regulations.

Q What about an exceptional increase that - say you might be of the type that if he were a private employer you would say, "That is not a merit increase." Too much of an increase seems to be an evasion.

A I haven't had one since I got here. I don't know what you are talking about. (Laughter) No, I don't think you run into that very much, do you?

Q Thank you, Mr. Sullivan.

A I am very grateful to you all, and just remember any time we can help clarify anything please call us up because we are relying on you fellows to help us do this job.

THE WHITE HOUSE
WASHINGTON

October 27, 1942

Dear Mr. Secretary:

Though I have been informally advised that my salary is not covered by Section 7, Title II of Executive Order 9250, and any regulations issued to make such section effective, it is my desire that my salary as President shall be subject to any regulations issued by the Director under such section. I would, therefore, thank you to handle the future payments of my salary so as to comply with said regulations.

I am mailing a copy of this letter to the Director of Economic Stabilization for his information.

Very truly yours,



Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

FROM THE OFFICE OF JAMES F. BYRNES, DIRECTOR OF ECONOMIC STABILIZATION.

SUMMARY OF SALARY REGULATION

O. E. S. #3

These regulations deal principally with the administrative responsibilities given the War Labor Board and Treasury Department in the regulation of salaries and with the limitation on salaries not to exceed \$25,000 a year, after certain taxes.

As to the \$25,000 a year limit

This applies only to salaries because that is the extent of our power under the Act. The control of income from other sources could be affected only by taxation which requires an Act of Congress.

1. The regulations forbid the payment to any employee of an amount of salary which, after deduction of the federal income taxes on the whole salary, would exceed \$25,000.
2. Additional payments of salary may be made to take care of customary charitable contributions where the recipient of the salary has no other sources of income which can be utilized for this purpose without undue hardship.
3. Additional payments of salary may also be made to take care of payments on life insurance policies and fixed obligations which were in force on October 3, 1942 and past income taxes due. Such allowances however will be permitted only where the recipient of the salary has no other source of income which can be utilized for these purposes and only where the recipient can show that he is unable to meet these payments without disposing of assets at a substantial loss, involving undue hardship.
4. No allowance, of course, will be made for life insurance policies or fixed obligations entered into after October 3, 1942.
5. Where a person has more than one employer, all his salaries will be totalled to arrive at the \$25,000 limit.
6. If a company pays a salary in excess of these regulations, the entire salary paid, and not simply the amount in excess of the \$25,000, will be disregarded for tax purposes.
7. Violations may also be punished under the penal provisions of the Second Price Control Act.
8. For administrative reasons, it would be impractical for this limitation on salaries at \$25,000 after taxes to be put into effect before January 1, 1943. However in the meantime increases in salaries at this level without the approval of the Treasury are forbidden along with other salary increases.
9. This regulation applies to public salaries as well as private ones, except for salaries specifically fixed by federal or state statute. The President is the only federal employee with a statutory salary exceeding \$25,000. The President was advised of this by the Director. However, the President has written the Secretary of Treasury asking that future payments of his salary be made in compliance with the regulations.

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As to Administrative Responsibilities.

These regulations bring under the War Labor Board

- a. wage payments and
- b. salary payments not in excess of \$5,000 where such an employee is represented by a duly recognized or certified labor organization or where the employee is not employed in a bona fide executive, administrative or professional capacity.

All other salaries come under the jurisdiction of the Treasury Department.

This division of responsibility was worked out by the War Labor Board and the Treasury Department.

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TITLE 32 -- NATIONAL DEFENSE

CHAPTER XVIII -- OFFICE OF ECONOMIC STABILIZATION

SUBCHAPTER A -- OFFICE OF THE DIRECTOR OF ECONOMIC STABILIZATION

PART 4001 -- WAGES AND SALARIES

By virtue of the authority vested in the President by the Constitution and the laws of the United States, and particularly by the Act of October 2, 1942, entitled "AN ACT to amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes" (Public No. 729, 77th Congress, 2d Session), the following regulations are hereby promulgated.

Sec. 4001.1. Definitions. -- When used in these regulations, unless otherwise distinctly expressed or manifestly incompatible with the intent thereof --

(a) The term "Act" means the Act of October 2, 1942, (Public No. 729, 77th Congress) entitled "AN ACT to amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes".

(b) The term "Board" means the National War Labor Board created by Executive Order No. 9017, dated January 12, 1942 (7 F.R. 237).

(c) The term "Commissioner" means the Commissioner of Internal Revenue.

(d) The term "Code" means the Internal Revenue Code, as amended and supplemented.

(e) The term "salary" or "salary payments" means all forms of direct or indirect compensation which is computed on a weekly, monthly, annual or other comparable basis, except a wage basis, for personal services of an employee irrespective of when rendered, including bonuses, additional compensation, gifts, loans, commissions, fees, and any other remuneration in any form or medium whatsoever (excluding insurance and pension benefits in a reasonable amount).

(f) The term "salary rate" means the rate or other basis at which the salary for any particular work or service is computed either under the terms of a contract or agreement or in conformity with an established custom or usage.

(g) The term "wages" or "wage payments" means all forms of direct or indirect compensation which is computed on an hourly or daily basis, a piece-work basis, or other comparable basis, for personal services of an employee irrespective of when rendered, including bonuses, additional compensation, gifts, commissions, loans, fees, and any other remuneration in any form or medium whatsoever (but excluding insurance and pension benefits in a reasonable amount).

(h) The term "insurance and pension benefits in a reasonable amount" means

(1) contributions by an employer to an employees' trust or under an annuity plan which meets the requirements of section 165(a) of the Code, and

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(2) amounts paid by an employer on account of premiums on insurance on the life of the employee which amounts are deductible by the employer under section 23(a) of the Code, except that if such amounts are includible in the gross income of the employee under the Code, the amount in respect of each employee may not exceed five percent of the employee's annual salary or wages determined without the inclusion of insurance and pension benefits.

(i) The terms "approval by the Board" and "determination by the Board" shall, except as may be otherwise provided in the regulations or orders of the Board, include an approval or determination by an agent of the Board duly authorized to perform such act; and such approval or determination, if subsequently modified or reversed by the Board, shall nevertheless for the purpose of these regulations, be deemed to have been continuously in effect from its original date until the first day of the payroll period immediately following the reversal or modification or until such later date as the Board may direct.

(j) The terms "approval by the Commissioner" and "determination by the Commissioner" shall, except as may be otherwise provided in regulations prescribed by the Commissioner, include an approval or determination by an

agent of the Commissioner duly authorized to perform such act; and such approval or determination, if subsequently modified or reversed by the Commissioner, shall nevertheless for the purpose of these regulations, be deemed to have been continuously in effect from its original date until the first day of the payroll period immediately following reversal or modification or until such later date as the Commissioner may direct.

Sect. 4001.2. Authority of National War Labor Board --

The Board shall, subject to the provisions of sections 1, 2, 3, 4, 8, and 9 of Title II of Executive Order No. 9250, of October 3, 1942, have authority to determine whether any --

(a) Wage payments, or

(b) Salary payments to an employee totaling in amount not in excess of \$5,000 per annum where such employee

(1) in his relations with his employer is represented by a duly recognized or certified labor organization, or

(2) is not employed in a bona fide executive, administrative or professional capacity

are made in contravention of the Act, or any rulings, orders or regulations promulgated thereunder. Any such determination by the Board, made under rulings and order issued by it, that a payment is in contravention of the Act, or any rulings, orders, or regulations promulgated thereunder, shall be conclusive upon all Executive Departments and agencies of the Government in determining the costs or expenses of any employer for the purpose of any law or regulation.

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either heretofore or hereafter enacted or promulgated, including the Emergency Price Control Act of 1942 or any maximum price regulation thereof, or for the purpose of calculating deductions under the revenue laws of the United States, or for the purpose of determining costs or expenses under any contract made by or on behalf of the United States. Any determination of the Board made pursuant to the authority conferred on it shall be final and shall not be subject to review by The Tax Court of the United States or by any court in any civil proceedings.

Sec. 4001.3. Rules, Orders and Regulations of Board. --

The Board may make such rulings and issue such orders or regulations as it deems necessary to enforce and otherwise carry out the provisions of these regulations.

Sec. 4001.4. Authority of the Commissioner of Internal Revenue. -- The Commissioner shall have authority to determine, under regulations to be prescribed by him with the approval of the Secretary of the Treasury, whether any salary payments other than those specified in paragraph (b) of section 4001.2 of these regulations are made in contravention of the Act, or any regulations or rulings promulgated thereunder. Any such determination by the Commissioner, made under such regulations, that a payment is in contravention of the Act, or any rulings or regulations promulgated thereunder, shall be conclusive upon all Executive Departments and agencies of the Government in determining the costs or expenses of any employer for the purpose of any law or regulations, either heretofore or hereafter enacted or promulgated, including the Emergency Price Control Act of 1942 or any maximum price regulation thereof,

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or for the purpose of calculating deductions under the revenue laws of the United States, or for the purpose of determining costs or expenses under any contract made by or on behalf of the United States. Any determination of the Commissioner made pursuant to the authority conferred on him shall be final and shall not be subject to review by The Tax Court of the United States or by any court in any civil proceedings. No increase in a salary rate approved by the Commissioner shall result in any substantial increase of the level of costs or shall furnish the basis either to increase price ceilings of the commodity or service involved or to resist otherwise justifiable reductions in such price ceilings.

Sec. 4001.5. Rules and Regulations of Commissioner. --

The Commissioner may prescribe such regulations with the approval of the Secretary of the Treasury, and make such rulings as he deems necessary, to enforce and otherwise carry out the provisions of these regulations.

Sec. 4001.6. Salary Increases. -- In the case of a salary rate of \$5,000 or less per annum existing on the date of the approval of these regulations by the President and in the case of a salary rate of more than \$5,000 per annum existing on October 3, 1942, no increase shall be made by the employer except as provided in regulations, rulings, or orders promulgated under the authority of these regulations. Except as herein provided, any increase made after such respective dates shall be considered in contravention of the Act and the regulations, rulings, or orders promulgated thereunder from the date of the payment if such increase is made

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prior to the approval of the Board or the Commissioner, as the case may be.

In the case, however, of an increase made in accordance with the terms of a salary agreement or salary rate schedule and as a result of

- (a) individual promotions or reclassifications,
- (b) individual merit increases within established salary rate ranges,
- (c) operation of an established plan of salary increases based on length of service,
- (d) increased productivity under incentive plans,
- (e) operation of a trainee system, or
- (f) such other reasons or circumstances as may be prescribed in orders, rulings, or regulations, promulgated under the authority of these regulations,

no prior approval of the Board or the Commissioner is required. No such increase shall result in any substantial increase of the level of costs or shall furnish the basis either to increase price ceilings of the commodity or service involved or to resist otherwise justifiable reductions in such price ceilings.

Sec. 4001.7. Decreases in salaries of less than \$5,000. --

In the case of a salary rate existing as of the close of October 3, 1942, under which an employee is paid a salary of less than \$5,000 per annum for any particular work, no decrease shall be made by the employer below the highest salary rate paid for such work between January 1, 1942, and September 15, 1942, unless to correct gross inequities or to aid in the effective prosecution of the

(not including section 466) as if such amount of salary were the net income (after the allowance of credits applicable thereto), the surtax net income, and the Victory tax net income, respectively, and (2) without allowance of any credits against any of such taxes.

(b) In any case in which an employee establishes that his income from all sources is insufficient to meet payments customarily made to charitable, educational or other organizations described in section 23 (c) of the Code, without resulting in undue hardship, then an additional amount sufficient to meet such payments may be paid or authorized to be paid to or accrued to the account of any employee or received by him during the taxable year even though it exceeds the amount otherwise computed under paragraph (a).

(c) In any case in which an employee establishes that, after resorting to his income from all sources, he is unable, without disposing of assets at a substantial financial loss resulting in undue hardship, to meet payments for the following:

(1) Required payments (excluding accelerated payments) by the employee during the taxable year on any life insurance policies on his life which were in force on October 3, 1942,

(2) Required payments (excluding accelerated payments) made by the employee during the taxable year on any fixed obligations for which he was obligated on October 3, 1942,

(3) Federal income taxes of the employee for prior taxable years which are paid during the taxable year, not including Federal income taxes on

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war. Any decrease in such salary rate after October 3, 1942, shall be considered in contravention of the Act and the regulations, rulings, or orders promulgated thereunder if such decrease is made prior to the approval of the Board or the Commissioner, as the case may be.

Sec. 4001.8. Decreases in salaries of over \$5,000. — In the case of a salary rate existing as of the close of October 3, 1942, under which an employee is paid a salary of \$5,000 or more per annum, no decrease in such rate made by the employer shall be considered in contravention of the Act and the regulations promulgated thereunder (see section 5 (b) of the Act); provided, however, that if by virtue of such decrease the new salary paid to the employee is less than \$5,000 per annum, then the validity of such decrease below \$5,000 shall be determined under the provisions of section 4001.7 of these regulations.

Sec. 4001.9. Limitation on Certain Salaries. — (a) No amount of salary (exclusive of any amounts allowable under paragraphs (b) and (c) of this section) shall be paid or authorized to be paid to or accrued to the account of any employee or received by him during the taxable year which, after reduction by the Federal income taxes on the amount of such salary, would exceed \$25,000. The amount of such Federal income taxes shall be determined (1) by applying to the total amount of salary (exclusive of any amounts allowable under paragraphs (b) and (c) of this section) paid or accrued during the taxable year, undiminished by any deductions, the rates of taxes imposed by Chapter 1 of the Code

the allowance under paragraph (a) for any prior year, an additional amount sufficient to meet such payments may be paid or authorized to be paid to or accrued to the account of any employee or received by him during the taxable year, even though it exceeds the amount otherwise computed under paragraph (a).

(d) In the case of an individual who is an employee of more than one person, the aggregate of the salaries received by such individual shall, under such circumstances as may be set forth in regulations promulgated under the authority of these regulations, be treated as if paid by a single employer.

(e) No amount of salary shall be paid or authorized to be paid to or accrued to the account of any employee or received by him after the date of approval of these regulations by the President and before January 1, 1943, if the total salary paid, authorized, accrued or received for the calendar year 1942 exceeds the amount of salary which would otherwise be allowable under paragraph (a) of this section and also exceeds the total salary paid, authorized, accrued or received for the calendar year 1941.

(f) Except as provided in paragraph (e) of this section, the provisions of this section shall be applicable to salary paid or accrued after December 31, 1942, regardless of when authorized and regardless of any contract or agreement made before or after such date.

Sec. 4001.10. Effect of unlawful payments. -- (a) If any wage or salary payment is made in contravention of the Act or the regulations, rulings or orders promulgated thereunder, as determined by the Board or the Commissioner, as the case may be, the entire amount of such payment shall be disregarded by the Executive Departments and all other agencies of the Government in

determining the costs or expenses of any employer for the purpose of any law or regulation, including the Emergency Price Control Act of 1942, or any maximum price regulation thereof, or for the purpose of calculating deductions under the revenue laws of the United States, or for the purpose of determining costs or expenses of any contract made by or on behalf of the United States. The term "law or regulations" as used herein includes any law or regulation hereafter enacted or promulgated. In the case of wages or salaries decreased in contravention of the Act or regulations, rulings or orders promulgated thereunder, the amount to be disregarded is the amount of the wage or salary paid or accrued. In the case of wages or salaries increased in contravention of the Act or regulations, rulings or orders promulgated thereunder, the amount to be disregarded is the amount of the wage or salary paid or accrued and not merely an amount representing an increase in such wage or salary. In the case of a salary in excess of the amount allowable under section 4001.9 of these regulations which is paid or accrued to an employee during his taxable year in contravention of the Act or regulations, rulings or orders promulgated thereunder, the amount to be disregarded is the full amount of such salary and not merely the amount representing the excess over the amount allowable under such section 4001.9.

(b) Payments made or received in violation of any regulations, rulings or orders promulgated under the authority of the Act are subject to the penal provisions of the Act.

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Sec. 4001.11. Exempt employers. -- The provisions of sections 4001.6, 4001.7 and 4001.8 of these regulations shall apply only in the case of an employer who employs more than eight individuals.

Sec. 4001.12. Salary Allowances under Internal Revenue Code. -- No provision of these regulations shall preclude the Commissioner from disallowing as a deduction in computing Federal income tax any compensation paid by an employer (regardless of the number of employees and of the amount paid to any employee) in excess of a "reasonable allowance" in accordance with the provisions of section 23 (a) of the Code.

Sec. 4001.13. Statutory Salaries and Wages. -- These regulations shall be applicable to any salary or wages paid by the United States, any State, Territory or possession, or political subdivision thereof, the District of Columbia, or any agency or instrumentality of any one or more of the foregoing, except where the amount of such salary or wages is fixed by statute.

Sec. 4001.14. Territories and Possessions. -- The Board and the Commissioner shall have the authority to exempt from the operation of these regulations any wages or salaries paid in any Territory or possession of the United States where deemed necessary for the effective administration of the Act and these regulations.

Sec. 4001.15. Regulations of Economic Stabilization Director. -- The Director shall have authority to issue such regulations as he deems necessary to amend or modify these regulations.

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Sec. 4001.16. Effect of Executive Order No. 9250. — To the extent that the provisions of Executive Order No. 9250, dated October 3, 1942 (7 F.R. 7871) are inconsistent with these regulations, such provisions are hereby superseded.

JAMES F. BYRNES

Economic Stabilization Director

Approved:

FRANKLIN D. ROOSEVELT

The White House.

October 27, 1942.

COPY

October 27, 1942.

Dear Mr. Cohen:

Enclosed herewith are an original and three copies of the proposed regulations respecting control of salaries and wages to be issued under the provisions of the Act of October 2, 1942. These regulations embody the changes discussed in your office yesterday.

Sincerely yours,

Stanley S. Surrey,
Associate Tax Legislative Counsel.

Mr. Benjamin V. Cohen,
Assistant to the Director,
Office of Economic Stabilization,
The White House,
Washington, D. C.

Enclosures.

TITLE 32 -- NATIONAL DEFENSE
CHAPTER VIII -- OFFICE OF ECONOMIC STABILIZATION
SUBCHAPTER REGULATIONS OF DIRECTOR
PART 4010 -- REGULATIONS RELATING TO
 WAGES AND SALARIES

Sec. 4010.1. Introductory. -- By virtue of the authority vested in the President by the Constitution and the laws of the United States, and particularly by the Act of October 2, 1942, entitled "AN ACT to amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes" (Public No. 729, 77th Congress, 2d Session), the following regulations are hereby promulgated.

Sec. 4010.2. Definitions. -- When used in these regulations, unless otherwise distinctly expressed or manifestly incompatible with the intent thereof --

(a) The term "Act" means the Act of October 2, 1942, (Public No. 729, 77th Congress) entitled "AN ACT to amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes".

(b) The term "Board" means the National War Labor Board created by Executive Order No. 9017, dated January 12, 1942 (7 F.R. 237).

(c) The term "Commissioner" means the Commissioner of Internal Revenue.

(d) The term "Code" means the Internal Revenue Code, as amended and supplemented.

(e) The term "salary" or "salary payments" means all forms of direct or indirect compensation which is computed on a weekly, monthly, annual or other comparable basis, except a wage basis, for personal services of an employee irrespective of when rendered, including bonuses, additional compensation, gifts, loans, commissions, fees, and any other remuneration in any form or medium whatsoever (excluding insurance and pension benefits in a reasonable amount).

(f) The term "salary rate" means the rate or other basis at which the salary for any particular work or service is computed either under the terms of a contract or agreement or in conformity with an established custom or usage.

(g) The term "wages" or "wage payments" means all forms of direct or indirect compensation which is computed on an hourly or daily basis, a piece-work basis, or other comparable basis, for personal services of an employee irrespective of when rendered, including bonuses, additional compensation, gifts, commissions, loans, fees, and any other remuneration in any form or medium whatsoever (but excluding insurance and pension benefits in a reasonable amount).

(h) The term "insurance and pension benefits in a reasonable amount" means

(1) contributions by an employer to an employees' trust or under an annuity plan which meets the requirements of section 165(a) of the Code, and

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(2) amounts paid by an employer on account of premiums on insurance on the life of the employee which amounts are deductible by the employer under section 23(a) of the Code, except that if such amounts are includible in the gross income of the employee under the Code, the amount in respect of each employee may not exceed five percent of the employee's annual salary or wages determined without the inclusion of insurance and pension benefits.

(1) The terms "approval by the Board" and "determination by the Board" shall, except as may be otherwise provided in the regulations or orders of the Board, include an approval or determination by an agent of the Board duly authorized to perform such act; and such approval or determination, if subsequently modified or reversed by the Board, shall nevertheless for the purpose of these regulations, be deemed to have been continuously in effect from its original date until the first day of the payroll period immediately following the reversal or modification or until such later date as the Board may direct.

(j) The terms "approval by the Commissioner" and "determination by the Commissioner" shall, except as may be otherwise provided in regulations prescribed by the Commissioner, include an approval or determination by an

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agent of the Commissioner duly authorized to perform such act; and such approval or determination, if subsequently modified or reversed by the Commissioner, shall nevertheless for the purpose of these regulations, be deemed to have been continuously in effect from its original date until the first day of the payroll period immediately following reversal or modification or until such later date as the Commissioner may direct.

Sec. 4010.3. Authority of National War Labor Board. --

The Board shall, subject to the provisions of sections 1, 2, 3, 4, 8, and 9 of Title II of Executive Order No. 9250, of October 3, 1942, have authority to determine whether any --

(1) Wage payments, or

(2) Salary payments to an employee totaling in amount not in excess of \$5,000 per annum where such employee

(a) in his relations with his employer is represented by a duly recognized or certified labor organization, or

(b) is not employed in a bona fide executive, administrative or professional capacity

are made in contravention of the Act, or any rulings, orders or regulations promulgated thereunder. Any such determination by the Board, made under rulings and order issued by it, that a payment is in contravention of the Act, or any rulings, orders, or regulations promulgated thereunder, shall be conclusive upon all Executive Departments and agencies of the Government in determining the costs or expenses of any employer for the purpose of any law or regulation,

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either heretofore or hereafter enacted or promulgated, including the Emergency Price Control Act of 1942 or any maximum price regulation thereof, or for the purpose of calculating deductions under the revenue laws of the United States, or for the purpose of determining costs or expenses under any contract made by or on behalf of the United States. Any determination of the Board made pursuant to the authority conferred on it shall be final and shall not be subject to review by The Tax Court of the United States or by any court in any civil proceedings.

Sec. 4010.4. Rules, Orders and Regulations of Board. --

The Board may make such rulings and issue such orders or regulations as it deems necessary to enforce and otherwise carry out the provisions of these regulations.

Sec. 4010.5. Authority of the Commissioner of Internal Revenue. -- The Commissioner shall have authority to determine, under regulations to be prescribed by him with the approval of the Secretary of the Treasury, whether any salary payments other than those specified in subparagraph (2) of section 4010.3 of these regulations are made in contravention of the Act, or any regulations or rulings promulgated thereunder. Any such determination by the Commissioner, made under such regulations, that a payment is in contravention of the Act, or any rulings or regulations promulgated thereunder, shall be conclusive upon all Executive Departments and agencies of the Government in determining the costs or expenses of any employer for the purpose of any law or regulations, either heretofore or hereafter enacted or promulgated, including the Emergency Price Control Act of 1942 or any maximum price regulation thereof,

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or for the purpose of calculating deductions under the revenue laws of the United States, or for the purpose of determining costs or expenses under any contract made by or on behalf of the United States. Any determination of the Commissioner made pursuant to the authority conferred on him shall be final and shall not be subject to review by The Tax Court of the United States or by any court in any civil proceedings. No increase in a salary rate approved by the Commissioner shall result in any substantial increase of the level of costs or shall furnish the basis either to increase price ceilings of the commodity or service involved or to resist otherwise justifiable reductions in such price ceilings.

Sec. 4010.6. Rules and Regulations of Commissioner. --

The Commissioner may prescribe such regulations with the approval of the Secretary of the Treasury, and make such rulings as he deems necessary, to enforce and otherwise carry out the provisions of these regulations.

Sec. 4010.7. Salary increases. -- In the case of a salary rate of \$5,000 or less per annum existing on the date of the approval of these regulations by the President and in the case of a salary rate of more than \$5,000 per annum existing on October 3, 1942, no increase shall be made by the employer except as provided in regulations, rulings, or orders promulgated under the authority of these regulations. Except as herein provided, any increase made after such respective dates shall be considered in contravention of the Act and the regulations, rulings, or orders promulgated thereunder from the date of the payment if such increase is made

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prior to the approval of the Board or the Commissioner, as the case may be.

In the case, however, of an increase made in accordance with the terms of a salary agreement or salary rate schedule and as a result of

- (a) individual promotions or reclassifications,
- (b) individual merit increases within established salary rate ranges,
- (c) operation of an established plan of salary increases based on length of service,
- (d) increased productivity under incentive plans,
- (e) operation of a trainee system, or
- (f) such other reasons or circumstances as may be prescribed in orders, rulings, or regulations, promulgated under the authority of these regulations,

no prior approval of the Board or the Commissioner is required. No such increase shall result in any substantial increase of the level of costs or shall furnish the basis either to increase price ceilings of the commodity or service involved or to resist otherwise justifiable reductions in such price ceilings.

Sec. 4010.8. Decreases in salaries of less than \$5,000. --

In the case of a salary rate existing as of the close of October 3, 1942, under which an employee is paid a salary of less than \$5,000 per annum for any particular work, no decrease shall be made by the employer below the highest salary rate paid for such work between January 1, 1942, and September 15, 1942, unless to correct gross inequities or to aid in the effective prosecution of the

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war. Any decrease in such salary rate after October 3, 1942, shall be considered in contravention of the Act and the regulations, rulings, or orders promulgated thereunder if such decrease is made prior to the approval of the Board or the Commissioner, as the case may be.

Sec. 4010.9. Decreases in salaries of over \$5,000. -- In the case of a salary rate existing as of the close of October 3, 1942, under which an employee is paid a salary of \$5,000 or more per annum, no decrease in such rate made by the employer shall be considered in contravention of the Act and the regulations promulgated thereunder (see section 5 (b) of the Act); provided, however, that if by virtue of such decrease the new salary paid to the employee is less than \$5,000 per annum, then the validity of such decrease below \$5,000 shall be determined under the provisions of section 4010.8 of these regulations.

Sec. 4010.10. Limitation on Certain Salaries. -- (a) No amount of salary (exclusive of any amounts allowable under paragraphs (b) and (c) of this section) shall be paid or authorized to be paid to or accrued to the account of any employee or received by him during the taxable year which, after reduction by the Federal income taxes on the amount of such salary, would exceed \$25,000. The amount of such Federal income taxes shall be determined (1) by applying to the total amount of salary (exclusive of any amounts allowable under paragraphs (b) and (c) of this section) paid or accrued during the taxable year, undiminished by any deductions, the rates of taxes imposed by Chapter 1 of the Code

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(not including section 466) as if such amount of salary were the net income (after the allowance of credits applicable thereto), the surtax net income, and the Victory tax net income, respectively, and (2) without allowance of any credits against any of such taxes.

(b) In any case in which an employee establishes that his income from all sources is insufficient to meet payments customarily made to charitable, educational or other organizations described in section 23 (c) of the Code, without resulting in undue hardship, then an additional amount sufficient to meet such payments may be paid or authorized to be paid to or accrued to the account of any employee or received by him during the taxable year even though it exceeds the amount otherwise computed under paragraph (a).

(c) In any case in which an employee establishes that, after resorting to his income from all sources, he is unable, without disposing of assets at a substantial financial loss resulting in undue hardship, to meet payments for the following:

(1) Required payments (excluding accelerated payments) by the employee during the taxable year on any life insurance policies on his life which were in force on October 3, 1942.

(2) Required payments (excluding accelerated payments) made by the employee during the taxable year on any fixed obligations for which he was obligated on October 3, 1942.

(3) Federal income taxes of the employee for prior taxable years which are paid during the taxable year, not including Federal income taxes on

the allowance under paragraph (a) for any prior year, an additional amount sufficient to meet such payments may be paid or authorized to be paid to or accrued to the account of any employee or received by him during the taxable year, even though it exceeds the amount otherwise computed under paragraph (a).

(c) In the case of an individual who is an employee of more than one person, the aggregate of the salaries received by such individual shall, under such circumstances as may be set forth in regulations promulgated under the authority of these regulations, be treated as if paid by a single employer.

(e) No amount of salary shall be paid or authorized to be paid to or accrued to the account of any employee or received by him after the date of approval of these regulations by the President and before January 1, 1943, if the total salary paid, authorized, accrued or received for the calendar year 1942 exceeds the amount of salary which would otherwise be allowable under paragraph (a) of this section and also exceeds the total salary paid, authorized, accrued or received for the calendar year 1941.

(f) Except as provided in paragraph (e) of this section, the provisions of this section shall be applicable to salary paid or accrued after December 31, 1942, regardless of when authorized and regardless of any contract or agreement made before or after such date.

Sec. 4010.11. Effect of unlawful payments. -- (a) If any wage or salary payment is made in contravention of the Act or the regulations, rulings or orders promulgated thereunder, as determined by the Board or the Commissioner, as the case may be, the entire amount of such payment shall be disregarded by the Executive Departments and all other agencies of the Government in

determining the costs or expenses of any employer for the purpose of any law or regulation, including the Emergency Price Control Act of 1942, or any maximum price regulation thereof, or for the purpose of calculating deductions under the revenue laws of the United States, or for the purpose of determining costs or expenses of any contract made by or on behalf of the United States. The term "law or regulations" as used herein includes any law or regulation hereafter enacted or promulgated. In the case of wages or salaries decreased in contravention of the Act or regulations, rulings or orders promulgated thereunder, the amount to be disregarded is the amount of the wage or salary paid or accrued. In the case of wages or salaries increased in contravention of the Act or regulations, rulings or orders promulgated thereunder, the amount to be disregarded is the amount of the wage or salary paid or accrued and not merely an amount representing an increase in such wage or salary. In the case of a salary in excess of the amount allowable under section 4010.10 of these regulations which is paid or accrued to an employee during his taxable year in contravention of the Act or regulations, rulings or orders promulgated thereunder, the amount to be disregarded is the full amount of such salary and not merely the amount representing the excess over the amount allowable under such section 4010.10.

(b) Payments made or received in violation of any regulations, rulings or orders promulgated under the authority of the Act are subject to the penal provisions of the Act.

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Sec. 4010.12. Exempt employers. -- The provisions of sections 4010.7, 4010.8 and 4010.9 of these regulations shall apply only in the case of an employer who employs more than eight individuals.

Sec. 4010.13. Salary Allowances under Internal Revenue Code. -- No provision of these regulations shall preclude the Commissioner from disallowing as a deduction in computing Federal income tax any compensation paid by an employer (regardless of the number of employees and of the amount paid to any employee) in excess of a "reasonable allowance" in accordance with the provisions of section 23 (a) of the Code.

Sec. 4010.14. Statutory Salaries and Wages. -- These regulations shall be applicable to any salary or wages paid by the United States, any State, Territory or possession, or political subdivision thereof, the District of Columbia, or any agency or instrumentality of any one or more of the foregoing, except where the amount of such salary or wages is fixed by statute.

Sec. 4010.15. Territories and Possessions. -- The Board and the Commissioner shall have the authority to exempt from the operation of these regulations any wages or salaries paid in any Territory or possession of the United States where deemed necessary for the effective administration of the Act and these regulations.

Sec. 4010.16. Regulations of Economic Stabilization Director. -- The Director shall have authority to issue such regulations as he deems necessary to amend or modify these regulations.

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Sec. 4010.17. Effect of Executive Order No. 9250. -- To the extent that the provisions of Executive Order No. 9250, dated October 3, 1942 (7 F.R. 7871) are inconsistent with these regulations, such provisions are hereby superseded.

Economic Stabilization Director

Approved:

The White House.

OCT 24 1942

My dear Director:

I am sending you copies of proposed regulations respecting the handling of salaries under the Price Stabilization Act. Except for several changes, which I understand have been informally cleared with you, these regulations conform to the decisions made in your office on Friday. The changes mentioned above are as follows:

The status of Federal, State and municipal employees has been unchanged from that existing in prior regulations as the War Labor Board believes that it will be advisable at this time not to divide jurisdiction of Federal, State and municipal employees in a fashion different from the manner in which jurisdiction is divided between Treasury Department and the War Labor Board as respects all other employees; no explicit provision is made for delegation of authority to the governments of the various territories and possessions, inasmuch as the section authorizing the Director to issue regulations will permit such delegation of authority in the future if it becomes advisable.

These regulations have the joint approval of the Treasury Department and the War Labor Board.

Sincerely,

(Signed) Randolph Paul

Hon. James F. Byrnes,
Director, Office of Economic
Stabilization,
The White House,
Washington, D. C.

225/kfa 10/24/42

TITLE 32 NATIONAL DEFENSE
CHAPTER VIII OFFICE OF ECONOMIC STABILIZATION
SUBCHAPTER REGULATIONS OF DIRECTOR
PART 4010 REGULATIONS RELATING TO
 WAGES AND SALARIES

Sec. 4010.1. Introductory. — By virtue of the authority vested in the President by the Constitution and the laws of the United States, and particularly by the Act of October 2, 1942, entitled "AN ACT to amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes" (Public No. 729, 77th Congress, 2d Session), the following regulations are hereby promulgated.

Sec. 4010.2. Definitions. — When used in these regulations, unless otherwise distinctly expressed or manifestly incompatible with the intent thereof —

(a) The term "Act" means the Act of October 2, 1942 (Public No. 729, 77th Congress) entitled "AN ACT to amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes."

(b) The term "Board" means the National War Labor Board created by Executive Order No. 9017, dated January 12, 1942 (7 F.R. 237).

(c) The term "Commissioner" means the Commissioner of Internal Revenue.

(d) The term "Code" means the Internal Revenue Code, as amended and supplemented.

(e) The term "salary" or "salary payments" means all forms of direct or indirect compensation which is computed on a weekly, monthly, annual or other comparable basis, except a wage basis, for personal services of an employee irrespective of when rendered, including bonuses, additional compensation, gifts, loans, commissions, fees, and any other remuneration in any form or medium whatsoever (excluding insurance and pension benefits in a reasonable amount).

(f) The term "salary rate" means the rate or other basis at which the salary for any particular work or service is computed either under the terms of a contract or agreement or in conformity with an established custom or usage.

(g) The term "wages" or "wage payments" means all forms of direct or indirect compensation which is computed on an hourly or daily basis, a piece-work basis, or other comparable basis, for personal services of an employee irrespective of when rendered, including bonuses, additional compensation, gifts, commissions, loans, fees, and any other remuneration in any form or medium whatsoever (but excluding insurance and pension benefits in a reasonable amount).

(h) The term "insurance and pension benefits in a reasonable amount" means

(1) contributions by an employer to an employees' trust or under an annuity plan which meets the requirements of section 165(a) of the Code, and

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(2) amounts paid by an employer on account of premiums on insurance on the life of the employee which amounts are deductible by the employer under section 23(a) of the Code, except that if such amounts are includible in the gross income of the employee under the Code, the amount in respect of each employee may not exceed five per cent of the employee's annual salary or wages determined without the inclusion of insurance and pension benefits.

(1) The terms "approval by the Board" and "determination by the Board" shall, except as may be otherwise provided in the regulations or orders of the Board, include an approval or determination by an agent of the Board duly authorized to perform such act; and such approval or determination, if subsequently modified or reversed by the Board, shall nevertheless for the purpose of these regulations, be deemed to have been continuously in effect from its original date until the first day of the payroll period immediately following the reversal or modification or until such later date as the Board may direct.

(j) The terms "approval by the Commissioner" and "determination by the Commissioner" shall, except as may be otherwise provided in regulations prescribed by the Commissioner, include an approval or determination by an

agent of the Commissioner duly authorized to perform such act; and such approval or determination, if subsequently modified or reversed by the Commissioner, shall nevertheless for the purpose of these regulations, be deemed to have been continuously in effect from its original date until the first day of the payroll period immediately following reversal or modification or until such later date as the Commissioner may direct.

Sec. 4010.3. Authority of National War Labor Board. —

The Board shall have authority to determine whether any —

(1) Wage payments, or

(2) Salary payments to an employee totaling in amount not in excess of \$5,000 per annum where such employee

(a) in his relations with his employer is represented by a duly recognized or certified labor organization, or

(b) is not employed in a bona fide executive, administrative or professional capacity

are made in contravention of the Act, or any rulings, orders or regulations promulgated thereunder. Any such determination by the Board, made under rulings and orders issued by it, shall be conclusive upon all Executive Departments and agencies of the Government in determining the costs or expenses of any employer for the purpose of any law or regulation, either heretofore or hereafter enacted or promulgated, including the Emergency Price Control Act of 1942 or any maximum price regulation thereof, or for the

purpose of calculating deductions under the revenue laws of the United States, or for the purpose of determining costs or expenses under any contract made by or on behalf of the United States. Any determination of the Board made pursuant to the authority conferred on it shall be final and shall not be subject to review by The Tax Court of the United States or by any Court in any civil proceedings.

Sec. 4010.4. Rules, Orders and Regulations of Board. -- The Board may make such rulings and issue such orders or regulations as it deems necessary to enforce and otherwise carry out the provisions of the Act.

Sec. 4010.5. Authority of the Commissioner of Internal Revenue. -- The Commissioner shall have authority to determine, under regulations to be prescribed by him with the approval of the Secretary of the Treasury, whether any salary payments other than those specified in subparagraph (2) of section 3 of these regulations are made in contravention of the Act, or any regulations promulgated thereunder. Any such determination by the Commissioner made under such regulations shall be conclusive upon all Executive Departments and agencies of the Government in determining the costs or expenses of any employer for the purpose of any law or regulations, either heretofore or hereafter enacted or promulgated, including the Emergency Price Control Act of 1942 or any maximum price regulation thereof, or for the purpose of calculating deductions under the revenue laws of the United States, or for the purpose of determining costs or expenses under any contract made by or on behalf of the United States. Any determination of the Commissioner made pursuant to the

authority conferred on him shall be final and shall not be subject to review by The Tax Court of the United States or by any Court in any civil proceedings.

Sec. 4010.6. Rules and Regulations of Commissioner. --

The Commissioner may prescribe such regulations with the approval of the Secretary of the Treasury, and make such rulings as he deems necessary, to enforce and otherwise carry out the provisions of the Act.

Sec. 4010.7. Salary increases. -- In the case of a salary rate of \$5,000 or less per annum existing on the date of the approval of these regulations by the President and in the case of a salary rate of more than \$5,000 per annum existing on October 3, 1942, no increase (except as provided in section 4010.10) shall be made by the employer except as provided in regulations, rulings, or orders promulgated under the authority of these regulations. Except as herein provided, any increase made after such respective dates shall be considered in contravention of the Act and the regulations, rulings, or orders promulgated thereunder from the date of the payment if such increase is made prior to the approval of the Board or the Commissioner, as the case may be.

In the case, however, of an increase made in accordance with the terms of a salary agreement or salary rate schedule and as a result of

(a) individual promotions or reclassifications,
(b) individual merit increases within established salary rate ranges,

(c) operation of an established plan of salary increases based on length of service.

- (d) increased productivity under incentive plans,
- (e) operation of a trainee system, or
- (f) such other reasons or circumstances as may be prescribed in orders, rulings, or regulations, promulgated under the authority of these regulations,

no prior approval of the Board or the Commissioner is required. No such increase shall result in any substantial increase of the level of costs or shall furnish the basis either to increase price ceilings of the commodity or service involved or to resist otherwise justifiable reductions in such price ceilings.

Sec. 4010.8. Decreases in salaries of less than \$5,000. --

In the case of a salary rate existing as of the close of October 3, 1942, under which an employee is paid a salary of less than \$5,000 per annum for any particular work, no decrease shall be made by the employer below the highest salary rate paid for such work between January 1, 1942, and September 15, 1942, unless to correct gross inequities or to aid in the effective prosecution of the war. Any decrease in such salary rate after October 3, 1942, shall be considered in contravention of the Act and the regulations, rulings, or orders promulgated thereunder if such decrease is made prior to the approval of the Board or the Commissioner, as the case may be.

Sec. 4010.9. Decreases in salaries of over \$5,000. --

In the case of a salary rate existing as of the close of October 3, 1942, under which an employee is paid a salary of \$5,000 or more per annum, no decrease in such rate made by the employer shall be considered in contravention of the Act and the regulations promulgated thereunder (see section 5 (b) of the Act); provided, however, that

if by virtue of such decrease the new salary paid to the employee is less than \$5,000 per annum, then the validity of such decrease below \$5,000 shall be determined under the provisions of section 4010.8 of these regulations.

Sec. 4010.10. Limitation on Certain Salaries. -- (a) No amount of salary (exclusive of any amounts allowable under paragraphs (b) and (c) of this section) shall be paid or authorized to be paid to or accrued to the account of any employee or received by him during the taxable year which, after reduction by the Federal income taxes on the amount of such salary, would exceed \$25,000. The amount of such Federal income taxes shall be determined (1) by applying to the total amount of salary (exclusive of any amounts allowable under paragraphs (b) and (c) of this section) paid or accrued during the taxable year, undiminished by any deductions, the rates of taxes imposed by Chapter 1 of the Code (not including section 465) as if such amount of salary were the net income (after the allowance of credits applicable thereto), the surtax net income, and the Victory tax net income, respectively, and (2) without allowance of any credits against any of such taxes.

(b) In any case in which an employee establishes that his income from all sources is insufficient to meet payments customarily made to charitable, educational or other organizations described in section 23 (c) of the Code, without resulting in undue hardship, then an additional amount sufficient to meet such payments may be paid or authorized to be paid to or accrued to the account of any employee or received by him during the taxable year even though it exceeds the amount otherwise computed under paragraph (a).

(c) In any case in which an employee establishes that, after resorting to his income from all sources, he is unable, without disposing of assets at a substantial financial loss resulting in undue hardship, to meet payments for the following:

(1) Required payments (excluding accelerated payments) by the employee during the taxable year on any life insurance policies on his life which were in force on October 3, 1942,

(2) Required payments (excluding accelerated payments) made by the employee during the taxable year on any fixed obligations for which he was obligated on October 3, 1942,

(3) Federal income taxes of the employee for prior taxable years which are paid during the taxable year, not including Federal income taxes on the allowance under paragraph (a) for any prior year, an additional amount sufficient to meet such payments may be paid or authorized to be paid to or accrued to the account of any employee or received by him during the taxable year, even though it exceeds the amount otherwise computed under paragraph (a).

(d) In the case of an individual who is an employee of more than one person, the aggregate of the salaries received by such individual shall, under such circumstances as may be set forth in regulations promulgated under the authority of these regulations, be treated as if paid by a single employer.

(e) No amount of salary shall be paid or authorized to be paid to or accrued to the account of any employee or received by

him after the date of approval of these regulations by the President and before January 1, 1943, if the total salary paid, authorized, accrued or received for the calendar year 1942 exceeds the amount of salary which would otherwise be allowable under paragraph (a) of this section and also exceeds the total salary paid, authorized, accrued or received for the calendar year 1941.

(f) Except as provided in paragraph (e) of this section, the provisions of this section shall be applicable to salary paid or accrued after December 31, 1942, regardless of when authorized and regardless of any contract or agreement made before or after such date.

Sec. 4010.11. Effect of unlawful payments. -- (a) If any wage or salary payment is made in contravention of the Act or the regulations, rulings or orders promulgated thereunder, as determined by the Board or the Commissioner, as the case may be, the entire amount of such payment shall be disregarded by the Executive Departments and all other agencies of the Government in determining the costs or expenses of any employer for the purpose of any law or regulation, including the Emergency Price Control Act of 1942, or any maximum price regulation thereof, or for the purpose of calculating deductions under the revenue laws of the United States, or for the purpose of determining costs or expenses of any contract made by or on behalf of the United States. The term "law or regulations" as used herein includes any law or regulation hereafter enacted or promulgated. In the case of wages or salaries decreased in contravention of the Act or

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regulations, rulings or orders promulgated thereunder, the amount to be disregarded is the amount of the wage or salary paid or accrued. In the case of wages or salaries increased in contravention of the Act or regulations, rulings or orders promulgated thereunder, the amount to be disregarded is the amount of the wage or salary paid or accrued and not merely an amount representing an increase in such wage or salary. In the case of a salary in excess of the amount allowable under section 4010.10 of these regulations which is paid or accrued to an employee during his taxable year in contravention of the Act or regulations, rulings or orders promulgated thereunder, the amount to be disregarded is the full amount of such salary and not merely the amount representing the excess over the amount allowable under such section 4010.10.

(b) Payments made or received in violation of any regulations, rulings or orders promulgated under the authority of the Act are subject to the penal provisions of the Act.

Sec. 4010.12. Exempt employers. — The provisions of sections 4010.7, 4010.8 and 4010.9 of these regulations shall apply only in the case of an employer who employs more than eight individuals.

Sec. 4010.13. Salary Allowances under Internal Revenue Code. — No provision of these regulations shall preclude the Commissioner from disallowing as a deduction in computing Federal income tax any compensation paid by an employer (regardless of the number of employees and of the amount paid to any employee) in excess of a "reasonable allowance" in accordance with the provisions of section 23 (a) of the Code.

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Sec. 4010.14. Statutory Salaries and Wages. — These regulations shall be applicable to any salary or wages paid by the United States, any State, Territory or possession, or political subdivision thereof, the District of Columbia, or any agency or instrumentality of any one or more of the foregoing, except where the amount of such salary or wages is fixed by statute.

Sec. 4010.15. Territories and Possessions. — The Board and the Commissioner shall have the authority to exempt from the operation of these regulations any wages or salaries paid in any Territory or possession of the United States where deemed necessary for the effective administration of the Act and these regulations.

Sec. 4010.16. Regulations of Economic Stabilization Director. — The Director shall have authority to issue such regulations as he deems necessary to amend or modify these regulations.

Sec. 4010.17. Effect of Executive Order No. 9250. — To the extent that the provisions of Executive Order No. 9250, dated October 3, 1942 (7 F.R. 7871) are inconsistent with these regulations, such provisions are hereby superseded.

Economic Stabilization Director

Approved:

The White House.

COPY

October 26, 1942.

Dear Mr. Russell:

I am enclosing a memorandum respecting the application of the proposed salary regulations to the salary of the President. This is being sent to you at the request of Mr. Randolph Paul.

Sincerely yours,

/s/ Stanley S. Surrey.

Stanley S. Surrey,
Associate Tax Legislative Counsel.

Mr. Donald Russell,
Assistant to the Director,
Office of Economic Stabilization,
The White House,
Washington, D. C.

Enclosure.

CONFIDENTIAL

MEMORANDUM

October 26, 1942.

Pursuant to section 2 of the Act of October 2, 1942, providing that the President may not under the authority of such Act suspend any other law or part thereof, the proposed regulations regarding salaries provide in section 14 that the regulations shall not be applicable to governmental salaries fixed by statute. Under section 14, consequently, the \$25,000 salary limitation would be inapplicable to Federal salaries. Thus, the salary of the President is not affected by that limitation. If the President desires voluntarily to bring himself within the spirit of that limitation, he could do so by giving back to the United States that portion of his \$75,000 salary which is in excess of the amount allowable under the \$25,000 limitation.

Assuming that no salary allowance is made under the undue hardship clause for charitable contributions, life insurance premiums, required payments on fixed obligations, and Federal taxes, the amount allowable under the limitation would be, at the rates of tax fixed by the Revenue Act of 1942, \$67,200. It should be noted that the first year to which the \$25,000 limitation as such is applicable is 1945, so that salaries for 1942 are not affected by that limitation.

SSS:hdr 10-26-42

CONFIDENTIAL

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October 3, 1942.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

Miss Roberta Barrows, at the White House, attempted to get me on the phone at 6:00 o'clock last night when I was on my way home. I called her back and she told me that there was to be a meeting with the President at the White House at 8:45, which I was asked to attend. She asked me if I knew what was to be the subject of the meeting. I told her I did not. She then told me the names of some of those who were to be present, including Jesse Jones, Francis Biddle, Leon Henderson, Harold Smith, Sam Bledsoe, of Agriculture, and Will Davis. A little later Randolph Paul got me on the phone and said that Sam Rosenman had called him over to the White House during the afternoon and that he was about to go back again. Sam had shown him a penciled draft of a so-called directive, presumably to be addressed to the director of the new Economic Stabilization Authority, instructing him that salaries were to be limited to \$25,000 a year, after taxes, and Randolph was told that this was to be enforced through the War Contracting Agencies and also through the Bureau of Internal Revenue, which was to disallow expenses for salaries above this amount. Rosenman had also told Randolph, casually and incidentally, that the Executive Order creating the Economic Stabilization Authority had been redrafted so as to leave out the paragraph specifically exempting the Secretary of the Treasury from obedience to directives by the head of the Authority, but that instead reference to Treasury powers had been eliminated from the paragraph outlining the functions of the new Authority. Sam explained that the reason for this was that there had been objection by the other departments and agencies to this specific exemption of the Treasury Department and that it stuck out like a sore thumb, but that the new language would accomplish the same effect. Randolph was permitted to glance at the paragraph outlining the Authority's functions and it

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seemed to confirm what Rosenman had said. Not knowing definitely what was to be the subject of the evening's meeting and in view of these conversations between Rosenman and Paul, it seemed to me that it might be better for Randolph to represent the Treasury at the meeting. I put in a call for you over the Treasury switchboard and found that you were then talking to Stephens, who had called me a few minutes before to ask me for advice as to whether he should call you and tell you about the meeting and that I was planning to go. Randolph called me back after his second trip to the White House to report that Rosenman had accepted his redraft of their proposed directive. While I was talking with him the operator told me that you were on the line in response to my call and I asked Randolph to stay on. I outlined the situation to you and Randolph said he thought I should go, since I would be in a better position to ask for delay on both the matters he had discussed with Rosenman. You agreed with this and said you would rely on me to protect the Treasury's interests.

I reached the Treasury about 8:15 and reviewed the situation with Randolph before going to the White House. The President saw us in the study at about 9:00 p.m. Those present were: Senators Barkley and Prentiss Brown, Congressman McCormack, Jesse Jones, Francis Biddle, Leon Henderson, Harold Smith, Will Davis, of the War Labor Board, Sam Bledsoe, of Agriculture, Oscar Cox and Isadore Lubin. Sam Rosenman stuck his head in the door a couple of times, once to call Oscar Cox out for a conference, but was not present through the meeting. Harry Hopkins came in as the meeting was breaking up.

Almost the entire meeting was devoted to a discussion of the Stabilization Bill, which had gotten through conference and been passed late in the afternoon. The President had the official No. 1 copy of the engrossed bill before him and signed it near the end of the conference. I noticed that Leon Henderson, who sat at my right, also had a copy of the engrossed bill. Francis Biddle had only the latest Senate print,

VSS

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which was the same as I had with me. The President congratulated the leaders, especially Barkley and Brown, as having done a magnificent job and asked them a number of questions as to their understanding of the bill. He showed particular interest in the compromise language which, after providing that parity shall be the guide on agricultural prices, permits the "weighting" of the cost of farm labor as a final factor. The consensus appeared to be that this language did not materially disturb the parity formula. The President, in this connection, took considerable time in talking about his conversations with people in various parts of the country during his trip about agricultural labor. The substance was that the problem of farm labor scarcity was being solved by the use of school children and by townspeople who suspended business in order to get out and help with the harvest. A dairyman from Maine told him that he expected to take care of his hand-milking problem by getting boys attending school to help him, and the President told how various towns in California had shut up shop for a day or two so that the whole population could go out and work the fields. He thought this was a matter that Lubin couldn't get at in his statistics.

Something was said about the policies which the different agencies were to follow in giving interpretation to the Act and the President said flatly that the agencies would not determine the policies but that they would get their orders from "Mr. X". Turning to me, he said that would not apply to the Treasury Department and explained in much the same terms as Rosenman had explained to Randolph Paul that he had thought it best to eliminate the specific exemption as to the Treasury and instead to eliminate from the powers of the Authority all reference to Treasury functions. "The Treasury will not be affected," he said. After the meeting Davis said to me that the President's statement in that respect was not quite accurate because of the provision in the bill regulating salaries. I told him I knew of that provision.

WJ

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There was reference to the so-called Norris Amendment to the bill, which would have given the President complete power over public utility rates. The substitute provision permits "timely intervention" by agencies of the Federal Government in any application for change of rates by any regulating authority and there is a 30-day waiting period before the hearing. Barkley said that Norris accepted this substitute provision and he believed it would accomplish the necessary results, with which the President seemed to agree, as he pointed out that it would give an opportunity for delay and for complete publicity.

The President questioned the various people around the room as to their opinion of the effectiveness of the bill. Everybody agreed that it gave very broad powers to the President, but doubt was expressed that it would completely prevent increases in the cost of living. Oscar Cox thought it might hold increases within a range of 10%, to which Sam Bledsoe agreed, and the President called them pessimistic. When the President said that the director of the Authority would have complete control over policy, Barkley interjected that he had discussed with Leon Henderson the policies to be applied and had given assurances to the Senate based on Leon's statements. He thought it was necessary to interpret the bill in the light of Congressional intent and that this statement of his ought to be taken into consideration.

The President said he would issue a statement on the signing of the bill, and Barkley said he hoped he would be able to include some praise of the manner in which Congress had acted. The President agreed he would do this and in that connection mimicked the almost tearful plea made to him by Sam Rayburn when the President's message asking for the bill was about to go up. Rayburn had asked the same thing as Barkley was now asking.

After the meeting broke up, I spoke to the President and said that I hoped his statement would not give the impression that this bill was the complete answer to controlling the cost of living. I said we

WJ

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thought that there must be a further tax increase and some fiscal legislation to control spending. The President replied that he intended to say in his statement that the authority granted under this bill must be supplemented by other legislation in the tax and fiscal field.

WJ

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2393

FOR THE PRESS

IMMEDIATE RELEASE

OCTOBER 3, 1942

EO 9250

The President, last night, immediately after signing the anti-inflation bill passed by the Congress yesterday, instructed Price Administrator Henderson to fix rent ceilings throughout the entire United States in all areas, city and rural alike. A copy of this letter to the Price Administrator is attached.

He also issued instructions to the Price Administrator to place ceilings immediately upon all agricultural commodities which were exempt under the original Emergency Price Control Act but which are no longer exempt under the statute passed yesterday. These commodities include chickens, eggs, cheese, butter, potatoes, and flour. A copy of the President's letter is attached hereto.

The President issued the following statement with reference to the statute:

"The Congress has done its part in helping substantially to stabilize the cost of living. The new legislation removes the exemption of certain foods, agricultural commodities and related products from the price controls of the Emergency Price Control Act, with the result that I have today taken action to stabilize 90% of the country's food bill. It leaves the parity principle unimpaired. It reaffirms the powers of the executive over wages and salaries. It establishes a floor for wages and for farm prices.

"I am certain that from now on this substantial stabilization of the cost of living will assist greatly in bringing the war to a successful conclusion, will make the transition to peace conditions easier after the war, and will receive the wholehearted approval of farmers, workers and housewives in every part of the country."

Today the President signed an executive order relating to wages, salaries, profits and farm prices. A copy of the executive order is attached.

The President today announced the appointment of Mr. Justice James F. Byrnes as the Director of Economic Stabilization. Mr. Justice Byrnes has resigned from the Supreme Court to accept this position.

The President in announcing the appointment of Justice Byrnes said:

"Justice Byrnes is one of the foremost authorities in governmental administration in the United States. He knows the economic problems of this country whether they concern labor, the farmer, the consumer, the small retail store, or the manufacturer. I would never have asked him to resign from the Supreme Court were it not for the fact that this job is one of the most important positions in this country. I know the American people can be sure that in keeping down the cost of living he will be fair to everyone.

"This position calls primarily for judicial consideration. The organization will therefore be small because the administrative action will be carried out by the existing agencies.

"Justice Byrnes' patriotic action in accepting this appointment deserves the praise and commendation of all our citizens."

EXECUTIVE ORDER

9250

PROVIDING FOR THE STABILIZING OF THE NATIONAL ECONOMY

By virtue of the authority vested in me by the Constitution and the statutes, and particularly by the Act of October 2, 1942, entitled "An Act to Amend the Emergency Price Control Act of 1942, to Aid in Preventing Inflation, and for Other Purposes", as President of the United States and Commander in Chief of the Army and Navy, and in order to control so far as possible the inflationary tendencies and the vast dislocations attendant thereon which threaten our military effort and our domestic economic structure, and for the more effective prosecution of the war, it is hereby ordered as follows:

TITLE I

Establishment of an Office of Economic Stabilization

1. There is established in the Office for Emergency Management of the Executive Office of the President an Office of Economic Stabilization at the head of which shall be an Economic Stabilization Director (hereinafter referred to as the Director).

2. There is established in the Office of Economic Stabilization an Economic Stabilization Board with which the Director shall advise and consult. The Board shall consist of the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce, the Secretary of Labor, the Chairman of the Board of Governors of the Federal Reserve System, the Director of the Bureau of the Budget, the Price Administrator, the Chairman of the National War Labor Board, and two representatives each of labor, management, and farmers to be appointed by the President. The Director may invite for consultation the head of any other department or agency. The Director shall serve as Chairman of the Board.

3. The Director, with the approval of the President, shall formulate and develop a comprehensive national economic policy relating to the control of civilian purchasing power, prices, rents, wages, salaries, profits, rationing, subsidies, and all related matters -- all for the purpose of preventing avoidable increases in the cost of living, cooperating in minimizing the unnecessary migration of labor from one business, industry, or region to another, and facilitating the prosecution of the war. To give effect to this comprehensive national economic policy the Director shall have power to issue directives on policy to the Federal departments and agencies concerned.

4. The guiding policy of the Director and of all departments and agencies of the Government shall be to stabilize the cost of living in accordance with the Act of October 2, 1942; and it shall be the duty and responsibility of the Director and of all departments and agencies of the Government to cooperate in the execution of such administrative programs and in the development of such legislative programs as may be necessary to that end. The administration of activities related to the national economic policy shall remain with the departments and agencies now responsible for such activities, but such administration shall conform to the directives on policy issued by the Director.

TITLE II

Wage and Salary Stabilization Policy

1. No increases in wage rates, granted as a result of voluntary agreement, collective bargaining, conciliation, arbitration, or otherwise, and no decreases in wage rates, shall be

authorized unless notice of such increases or decreases shall have been filed with the National War Labor Board, and unless the National War Labor Board has approved such increases or decreases.

2. The National War Labor Board shall not approve any increase in the wage rates prevailing on September 15, 1942, unless such increase is necessary to correct maladjustments or inequalities, to eliminate substandards of living, to correct gross inequities, or to aid in the effective prosecution of the war.

Provided, however, that where the National War Labor Board or the Price Administrator shall have reason to believe that a proposed wage increase will require a change in the price ceiling of the commodity or service involved, such proposed increase, if approved by the National War Labor Board, shall become effective only if also approved by the Director.

3. The National War Labor Board shall not approve a decrease in the wages for any particular work below the highest wages paid therefor between January 1, 1942 and September 15, 1942, unless to correct gross inequities and to aid in the effective prosecution of the war.

4. The National War Labor Board shall, by general regulation, make such exemptions from the provisions of this title in the case of small total wage increases or decreases as it deems necessary for the effective administration of this Order.

5. No increases in salaries now in excess of \$5,000 per year (except in instances in which an individual has been assigned to more difficult or responsible work), shall be granted until otherwise determined by the Director.

6. No decrease shall be made in the salary for any particular work below the highest salary paid therefor between January 1, 1942 and September 15, 1942 unless to correct gross inequities and to aid in the effective prosecution of the war.

7. In order to correct gross inequities and to provide for greater equality in contributing to the war effort, the Director is authorized to take the necessary action, and to issue the appropriate regulations, so that, insofar as practicable, no salary shall be authorized under Title III, Section 4 to the extent that it exceeds \$25,000 after the payment of taxes allocable to the sum in excess of \$25,000. Provided, however, that such regulations shall make due allowance for the payment of life insurance premiums on policies heretofore issued, and required payments on fixed obligations heretofore incurred, and shall make provision to prevent undue hardship.

8. The policy of the Federal Government, as established in Executive Order No. 9017 of January 12, 1942, to encourage free collective bargaining between employers and employees is reaffirmed and continued.

9. Insofar as the provisions of Clause (1) of section 302(c) of the Emergency Price Control Act of 1942 are inconsistent with this Order, they are hereby suspended.

TITLE III

Administration of Wage and Salary Policy

1. Except as modified by this Order, the National War Labor Board shall continue to perform the powers, functions, and duties conferred upon it by Executive Order No. 9017, and the

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functions of said Board are hereby extended to cover all industries and all employees. The National War Labor Board shall continue to follow the procedures specified in said Executive Order.

2. The National War Labor Board shall constitute the agency of the Federal Government authorized to carry out the wage policies stated in this Order, or the directives on policy issued by the Director under this Order. The National War Labor Board is further authorized to issue such rules and regulations as may be necessary for the speedy determination of the propriety of any wage increases or decreases in accordance with this Order, and to avail itself of the services and facilities of such State and Federal departments and agencies as, in the discretion of the National War Labor Board, may be of assistance to the Board.

3. No provision with respect to wages contained in any labor agreement between employers and employees (including the Shipbuilding Stabilization Agreements as amended on May 16, 1942, and the Wage Stabilization Agreement of the Building Construction Industry arrived at May 22, 1942) which is inconsistent with the policy herein enunciated or hereafter formulated by the Director shall be enforced except with the approval of the National War Labor Board within the provisions of this Order. The National War Labor Board shall permit the Shipbuilding Stabilization Committee and the Wage Adjustment Board for the Building Construction Industry, both of which are provided for in the foregoing agreements, to continue to perform their functions therein set forth, except insofar as any of them is inconsistent with the terms of this Order.

4. In order to effectuate the purposes and provisions of this Order and the Act of October 2, 1942, any wage or salary payment made in contravention thereof shall be disregarded by the Executive Departments and other governmental agencies in determining the costs or expenses of any employer for the purpose of any law or regulation, including the Emergency Price Control Act of 1942 or any maximum price regulation thereof, or for the purpose of calculating deductions under the Revenue Laws of the United States or for the purpose of determining costs or expenses under any contract made by or on behalf of the Government of the United States.

TITLE IV

Prices of Agricultural Commodities

1. The prices of agricultural commodities and of commodities manufactured or processed in whole or substantial part from any agricultural commodity shall be stabilized, so far as practicable, on the basis of levels which existed on September 15, 1942 and in compliance with the Act of October 2, 1942.

2. In establishing, maintaining or adjusting maximum prices for agricultural commodities or for commodities processed or manufactured in whole or in substantial part from any agricultural commodity, appropriate deductions shall be made from parity price or comparable price for payments made under the Soil Conservation and Domestic Allotment Act, as amended, parity payments made under the Agricultural Adjustment Act of 1938, as amended, and governmental subsidies.

3. Subject to the directives on policy of the Director, the price of agricultural commodities shall be established or maintained or adjusted jointly by the Secretary of Agriculture

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and the Price Administrator; and any disagreement between them shall be resolved by the Director. The price of any commodity manufactured or processed in whole or in substantial part from an agricultural commodity shall be established or maintained or adjusted by the Price Administrator, in the same administrative manner provided for under the Emergency Price Control Act of 1942.

4. The provisions of sections 3(a) and 3(c) of the Emergency Price Control Act of 1942 are hereby suspended to the extent that such provisions are inconsistent with any or all prices established under this Order for agricultural commodities, or commodities manufactured or processed in whole or in substantial part from an agricultural commodity.

TITLE V

Profits and Subsidies

1. The Price Administrator in fixing, reducing, or increasing prices, shall determine price ceilings in such a manner that profits are prevented which in his judgment are unreasonable or exorbitant.

2. The Director may direct any Federal department or agency including, but not limited to, the Department of Agriculture (including the Commodity Credit Corporation and the Surplus Marketing Administration), the Department of Commerce, the Reconstruction Finance Corporation, and other corporations organized pursuant to Section 5d of the Reconstruction Finance Corporation Act, as amended, to use its authority to subsidize and to purchase for resale, if such measures are necessary to insure the maximum necessary production and distribution of any commodity, or to maintain ceiling prices, or to prevent a price rise inconsistent with the purposes of this Order.

TITLE VI

General Provisions

1. Nothing in this Order shall be construed as affecting the present operation of the Fair Labor Standards Act, the National Labor Relations Act, the Walsh-Healey Act, the Davis-Bacon Act, or the adjustment procedure of the Railway Labor Act.

2. Salaries and wages under this Order shall include all forms of direct or indirect remuneration to an employee or officer for work or personal services performed for an employer or corporation, including but not limited to, bonuses, additional compensation, gifts, commissions, fees, and any other remuneration in any form or medium whatsoever, (excluding insurance and pension benefits in a reasonable amount as determined by the Director); but for the purpose of determining wages or salaries for any period prior to September 16, 1942, such additional compensation shall be taken into account only in cases where it has been customarily paid by employers to their employees. "Salaries" as used in this Order means remuneration for personal services regularly paid on a weekly, monthly or annual basis.

3. The Director shall, so far as possible, utilize the information, data, and staff services of other Federal departments and agencies which have activities or functions related to national economic policy. All such Federal departments and agencies shall supply available information, data, and services required by the Director in discharging his responsibilities.

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4. The Director shall be the agency to receive notice of any increase in the rates or charges of common carriers or other public utilities as provided in the ~~Act~~ said Act of October 2, 1942.

5. The Director may perform the functions and duties, and exercise the powers, authority, and discretion conferred upon him by this Order through such officials or agencies, and in such manner, as he may determine. The decision of the Director as to such delegation and the manner of exercise thereof shall be final.

6. The Director, if he deems it necessary, may direct that any policy formulated under this Order shall be enforced by any other department or agency under any other power or authority which may be provided by any of the laws of the United States.

7. The Director, who shall be appointed by the President, shall receive such compensation as the President shall provide, and within the limits of funds which may be made available, may employ necessary personnel and make provision for supplies, facilities and services necessary to discharge his responsibilities.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

October 3, 1942.

FOR THE PRESS

IMMEDIATE RELEASE

OCTOBER 3, 1942

The President today addressed two letters to Leon Henderson, Administrator, Office of Price Administration, the texts of which follow:

I have signed the cost of living stabilization bill.

I wish that you would consult with the Secretary of Agriculture and immediately establish ceiling prices for eggs, chickens, butter, cheese, potatoes, flour and such other foods as can be controlled under existing laws.

In line with my recent message to the Congress, you should consider present governmental payments to agricultural producers, and subsidy payments in arriving at the minimum ceiling prices.

This Government is determined to use all of its powers to prevent any avoidable rise in the cost of living.

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That part of the nation which has not yet been designated within defense rental areas should now be so treated. We should make no distinction between city and country residents as to their participation in the total war effort. Certainly the contribution of agriculture to the effective prosecution of the war is clear. Therefore, our rural population equally deserves to have its rents stabilized.

I wish you would immediately issue appropriate orders to prevent rent increases on urban and rural dwellings. In such areas as you deem appropriate to reduce current rents, I am sure you will proceed to take such action as may be necessary.

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[PUBLIC LAW 729—77TH CONGRESS]

[CHAPTER 578—2D SESSION]

[H. R. 7565]

AN ACT

To amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That in order to aid in the effective prosecution of the war, the President is authorized and directed, on or before November 1, 1942, to issue a general order stabilizing prices, wages, and salaries, affecting the cost of living; and, except as otherwise provided in this Act, such stabilization shall so far as practicable be on the basis of the levels which existed on September 15, 1942. The President may, except as otherwise provided in this Act, thereafter provide for making adjustments with respect to prices, wages, and salaries, to the extent that he finds necessary to aid in the effective prosecution of the war or to correct gross inequities: *Provided*, That no common carrier or other public utility shall make any general increase in its rates or charges which were in effect on September 15, 1942, unless it first gives thirty days notice to the President, or such agency as he may designate, and consents to the timely intervention by such agency before the Federal, State, or municipal authority having jurisdiction to consider such increase.

SEC. 2. The President may, from time to time, promulgate such regulations as may be necessary and proper to carry out any of the provisions of this Act; and may exercise any power or authority conferred upon him by this Act through such department, agency, or officer as he shall direct. The President may suspend the provisions of sections 3 (a) and 3 (c), and clause (1) of section 302 (c), of the Emergency Price Control Act of 1942 to the extent that such sections are inconsistent with the provisions of this Act, but he may not under the authority of this Act suspend any other law or part thereof.

SEC. 3. No maximum price shall be established or maintained for any agricultural commodity under authority of this Act or otherwise below a price which will reflect to producers of agricultural commodities the higher of the following prices, as determined and published by the Secretary of Agriculture—

(1) The parity price for such commodity (adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials) or, in case a comparable price has been determined for such commodity under and in accordance with the provisions of section 3 (b) of the Emergency Price Control Act of 1942, such comparable price (adjusted in the same manner), or

(2) The highest price received by such producers for such commodity between January 1, 1942, and September 15, 1942 (adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials), or, if the market for such commodity

was inactive during the latter half of such period, a price for the commodity determined by the Secretary of Agriculture to be in line with the prices, during such period, of other agricultural commodities produced for the same general use;

and no maximum price shall be established or maintained under authority of this Act or otherwise for any commodity processed or manufactured in whole or substantial part from any agricultural commodity below a price which will reflect to the producers of such agricultural commodity a price therefor equal to the higher of the prices specified in clauses (1) and (2) of this section: *Provided*, That the President may, without regard to the limitation contained in clause (2), adjust any such maximum price to the extent that he finds necessary to correct gross inequities; but nothing in this section shall be construed to permit the establishment in any case of a maximum price below a price which will reflect to the producers of any agricultural commodity the price therefor specified in clause (1) of this section: *Provided further*, That modifications shall be made in maximum prices established for any agricultural commodity and for commodities processed or manufactured in whole or substantial part from any agricultural commodity, under regulations to be prescribed by the President, in any case where it appears that such modification is necessary to increase the production of such commodity for war purposes, or where by reason of increased labor or other costs to the producers of such agricultural commodity incurred since January 1, 1941, the maximum prices so established will not reflect such increased costs: *Provided further*, That in the fixing of maximum prices on products resulting from the processing of agricultural commodities, including livestock, a generally fair and equitable margin shall be allowed for such processing: *Provided further*, That in fixing price maximums for agricultural commodities and for commodities processed or manufactured in whole or substantial part from any agricultural commodity, as provided for by this Act, adequate weighting shall be given to farm labor.

SEC. 4. No action shall be taken under authority of this Act with respect to wages or salaries (1) which is inconsistent with the provisions of the Fair Labor Standards Act of 1938, as amended, or the National Labor Relations Act, or (2) for the purpose of reducing the wages or salaries for any particular work below the highest wages or salaries paid therefor between January 1, 1942, and September 15, 1942: *Provided*, That the President may, without regard to the limitation contained in clause (2), adjust wages or salaries to the extent that he finds necessary in any case to correct gross inequities and also aid in the effective prosecution of the war.

SEC. 5. (a) No employer shall pay, and no employee shall receive, wages or salaries in contravention of the regulations promulgated by the President under this Act. The President shall also prescribe the extent to which any wage or salary payment made in contravention of such regulations shall be disregarded by the executive departments and other governmental agencies in determining the costs or expenses of any employer for the purposes of any other law or regulation.

(b) Nothing in this Act shall be construed to prevent the reduction by any private employer of the salary of any of his employees which is at the rate of \$5,000 or more per annum.

(c) The President shall have power by regulation to limit or prohibit the payment of double time except when, because of emergency conditions, an employee is required to work for seven consecutive days in any regularly scheduled work week.

SEC. 6. The provisions of this Act (except sections 8 and 9), and all regulations thereunder, shall terminate on June 30, 1944, or on such earlier date as the Congress by concurrent resolution, or the President by proclamation, may prescribe.

SEC. 7. (a) Section 1 (b) of the Emergency Price Control Act of 1942 is hereby amended by striking out "June 30, 1943" and substituting "June 30, 1944".

(b) All provisions (including prohibitions and penalties) of the Emergency Price Control Act of 1942 which are applicable with respect to orders or regulations under such Act shall, insofar as they are not inconsistent with the provisions of this Act, be applicable in the same manner and for the same purposes with respect to regulations or orders issued by the Price Administrator in the exercise of any functions which may be delegated to him under authority of this Act.

(c) Nothing in this Act shall be construed to invalidate any provision of the Emergency Price Control Act of 1942 (except to the extent that such provisions are suspended under authority of section 2), or to invalidate any regulation, price schedule, or order issued or effective under such Act.

SEC. 8. (a) The Commodity Credit Corporation is authorized and directed to make available upon any crop of the commodities cotton, corn, wheat, rice, tobacco, and peanuts harvested after December 31, 1941, and before the expiration of the two-year period beginning with the 1st day of January immediately following the date upon which the President by proclamation or the Congress by concurrent resolution declares that hostilities in the present war have terminated, if producers have not disapproved marketing quotas for such commodity for the marketing year beginning in the calendar year in which such crop is harvested, loans as follows:

(1) To cooperators (except cooperators outside the commercial corn-producing area, in the case of corn) at the rate of 90 per centum of the parity price for the commodity as of the beginning of the marketing year;

(2) To cooperators outside the commercial corn-producing area, in the case of corn, at the rate of 75 per centum of the rate specified in (1) above;

(3) To noncooperators (except noncooperators outside the commercial corn-producing area, in the case of corn) at the rate of 60 per centum of the rate specified in (1) above and only on so much of the commodity as would be subject to penalty if marketed.

(b) All provisions of law applicable with respect to loans under the Agricultural Adjustment Act of 1938, as amended, shall, insofar as they are not inconsistent with the provisions of this section, be applicable with respect to loans made under this section.

(c) In the case of any commodity with respect to which loans may be made at the rate provided in paragraph (1) of subsection (a), the President may fix the loan rate at any rate not less than the loan rate otherwise provided by law if he determines that the loan rate so fixed is necessary to prevent an increase in the cost of feed for livestock and poultry and to aid in the effective prosecution of the war.

SEC. 9. (a) Section 4 (a) of the Act entitled "An Act to extend the life and increase the credit resources of the Commodity Credit Corporation, and for other purposes", approved July 1, 1941 (U. S. C., 1940 edition, Supp. I, title 15, sec. 713a-8), is amended—

(1) By inserting after the words "so as to support" a comma and the following: "during the continuance of the present war and until the expiration of the two-year period beginning with the 1st day of January immediately following the date upon which the President by proclamation or the Congress by concurrent resolution declares that hostilities in the present war have terminated,"

(2) By striking out "85 per centum" and inserting in lieu thereof "90 per centum".

(3) By inserting after the word "tobacco" a comma and the word "peanuts".

(b) The amendments made by this section shall, irrespective of whether or not there is any further public announcement under such section 4 (a), be applicable with respect to any commodity with respect to which a public announcement has heretofore been made under such section 4 (a).

SEC. 10. When used in this Act, the terms "wages" and "salaries" shall include additional compensation, on an annual or other basis, paid to employees by their employers for personal services (excluding insurance and pension benefits in a reasonable amount to be determined by the President); but for the purpose of determining wages or salaries for any period prior to September 16, 1942, such additional compensation shall be taken into account only in cases where it has been customarily paid by employers to their employees.

SEC. 11. Any individual, corporation, partnership, or association willfully violating any provision of this Act, or of any regulation promulgated thereunder, shall, upon conviction thereof, be subject to a fine of not more than \$1,000, or to imprisonment for not more than one year, or to both such fine and imprisonment.

Approved, October 2, 1942.

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TO AID IN STABILIZING THE COST OF LIVING

OCTOBER 2, 1942.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. STEAGALL, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H. R. 7565]

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H. R. 7565) to amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

That in order to aid in the effective prosecution of the war, the President is authorized and directed, on or before November 1, 1942, to issue a general order stabilizing prices, wages, and salaries, affecting the cost of living; and, except as otherwise provided in this Act, such stabilization shall so far as practicable be on the basis of the levels which existed on September 15, 1942. The President may, except as otherwise provided in this Act, thereafter provide for making adjustments with respect to prices, wages, and salaries, to the extent that he finds necessary to aid in the effective prosecution of the war or to correct gross inequities: Provided, That no common carrier or other public utility shall make any general increase in its rates or charges which were in effect on September 15, 1942, unless it first gives thirty days notice to the President, or such agency as he may designate, and consents to the timely intervention by such agency before the Federal, State, or municipal authority having jurisdiction to consider such increase.

Sec. 2. The President may, from to time, promulgate such regulations as may be necessary and proper to carry out any of the provisions of this Act; and may exercise any power or authority conferred upon him by this

Act through such department, agency, or officer as he shall direct. The President may suspend the provisions of sections 3 (a) and 3 (c), and clause (1) of section 302 (c), of the Emergency Price Control Act of 1942 to the extent that such sections are inconsistent with the provisions of this Act, but he may not under the authority of this Act suspend any other law or part thereof.

Sec. 3. No maximum price shall be established or maintained for any agricultural commodity under authority of this Act or otherwise below a price which will reflect to producers of agricultural commodities the higher of the following prices, as determined and published by the Secretary of Agriculture—

(1) The parity price for such commodity (adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials) or, in case a comparable price has been determined for such commodity under and in accordance with the provisions of section 3 (b) of the Emergency Price Control Act of 1942, such comparable price (adjusted in the same manner), or

(2) The highest price received by such producers for such commodity between January 1, 1942, and September 15, 1942 (adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials), or, if the market for such commodity was inactive during the latter half of such period, a price for the commodity determined by the Secretary of Agriculture to be in line with the prices, during such period, of other agricultural commodities produced for the same general use;

and no maximum price shall be established or maintained under authority of this Act or otherwise for any commodity processed or manufactured in whole or substantial part from any agricultural commodity below a price which will reflect to the producers of such agricultural commodity a price therefor equal to the higher of the prices specified in clauses (1) and (2) of this section: Provided, That the President may, without regard to the limitation contained in clause (2), adjust any such maximum price to the extent that he finds necessary to correct gross inequities; but nothing in this section shall be construed to permit the establishment in any case of a maximum price below a price which will reflect to the producers of any agricultural commodity the price therefor specified in clause (1) of this section: Provided further, That modifications shall be made in maximum prices established for any agricultural commodity and for commodities processed or manufactured in whole or substantial part from any agricultural commodity, under regulations to be prescribed by the President, in any case where it appears that such modification is necessary to increase the production of such commodity for war purposes, or where by reason of increased labor or other costs to the producers of such agricultural commodity incurred since January 1, 1941, the maximum prices so established will not reflect such increased costs: Provided further, That in the fixing of maximum prices on products resulting from the processing of agricultural commodities, including livestock, a generally fair and equitable margin shall be allowed for such processing: Provided further, That in fixing price maximums for agricultural commodities and for commodities processed or manufactured in whole or substantial part from any agricultural commodity, as provided for by this Act, adequate weighting shall be given to farm labor.

Sec. 4. No action shall be taken under authority of this Act with respect to wages or salaries (1) which is inconsistent with the provisions of the Fair Labor Standards Act of 1938, as amended, or the National Labor Relations Act, or (2) for the purpose of reducing the wages or salaries for any particular work below the highest wages or salaries paid therefor between January 1, 1942, and September 15, 1942: Provided, That the President may, without regard to the limitation contained in clause (2), adjust wages or salaries to the extent that he finds necessary in any case to correct gross inequities and also aid in the effective prosecution of the war.

Sec. 5. (a) No employer shall pay, and no employee shall receive, wages or salaries in contravention of the regulations promulgated by the President under this Act. The President shall also prescribe the extent to which any wage or salary payment made in contravention of such regulations shall be disregarded by the executive departments and other governmental agencies in determining the costs or expenses of any employer for the purposes of any other law or regulation.

(b) Nothing in this Act shall be construed to prevent the reduction by any private employer of the salary of any of his employees which is at the rate of \$5,000 or more per annum.

(c) The President shall have power by regulation to limit or prohibit the payment of double time except when, because of emergency conditions, an employee is required to work for seven consecutive days in any regularly scheduled work week.

Sec. 6. The provisions of this Act (except sections 8 and 9), and all regulations thereunder, shall terminate on June 30, 1944, or on such earlier date as the Congress by concurrent resolution, or the President by proclamation, may prescribe.

Sec. 7. (a) Section 1 (b) of the Emergency Price Control Act of 1942 is hereby amended by striking out "June 30, 1943" and substituting "June 30, 1944".

(b) All provisions (including prohibitions and penalties) of the Emergency Price Control Act of 1942 which are applicable with respect to orders or regulations under such Act shall, insofar as they are not inconsistent with the provisions of this Act, be applicable in the same manner and for the same purposes with respect to regulations or orders issued by the Price Administrator in the exercise of any functions which may be delegated to him under authority of this Act.

(c) Nothing in this Act shall be construed to invalidate any provision of the Emergency Price Control Act of 1942 (except to the extent that such provisions are suspended under authority of section 2), or to invalidate any regulation, price schedule, or order issued or effective under such Act.

Sec. 8. (a) The Commodity Credit Corporation is authorized and directed to make available upon any crop of the commodities cotton, corn, wheat, rice, tobacco, and peanuts harvested after December 31, 1941, and before the expiration of the two-year period beginning with the 1st day of January immediately following the date upon which the President by proclamation or the Congress by concurrent resolution declares that hostilities in the present war have terminated, if producers have not disapproved

marketing quotas for such commodity for the marketing year beginning in the calendar year in which such crop is harvested, loans as follows:

(1) To cooperators (except cooperators outside the commercial corn-producing area, in the case of corn) at the rate of 90 per centum of the parity price for the commodity as of the beginning of the marketing year;

(2) To cooperators outside the commercial corn-producing area, in the case of corn, at the rate of 75 per centum of the rate specified in (1) above;

(3) To noncooperators (except noncooperators outside the commercial corn-producing area, in the case of corn) at the rate of 60 per centum of the rate specified in (1) above and only on so much of the commodity as would be subject to penalty if marketed.

(b) All provisions of law applicable with respect to loans under the Agricultural Adjustment Act of 1938, as amended, shall, insofar as they are not inconsistent with the provisions of this section, be applicable with respect to loans made under this section.

(c) In the case of any commodity with respect to which loans may be made at the rate provided in paragraph (1) of subsection (a), the President may fix the loan rate at any rate not less than the loan rate otherwise provided by law if he determines that the loan rate so fixed is necessary to prevent an increase in the cost of feed for livestock and poultry and to aid in the effective prosecution of the war.

Sec. 9. (a) Section 4 (a) of the Act entitled "An Act to extend the life and increase the credit resources of the Commodity Credit Corporation, and for other purposes", approved July 1, 1941 (U. S. C., 1940 edition, Supp. I, title 15, sec. 713a-8), is amended—

(1) By inserting after the words "so as to support" a comma and the following: "during the continuance of the present war and until the expiration of the two-year period beginning with the 1st day of January immediately following the date upon which the President by proclamation or the Congress by concurrent resolution declares that hostilities in the present war have terminated,"

(2) By striking out "85 per centum" and inserting in lieu thereof "90 per centum".

(3) By inserting after the word "tobacco" a comma and the word "peanuts".

(b) The amendments made by this section shall, irrespective of whether or not there is any further public announcement under such section 4 (a), be applicable with respect to any commodity with respect to which a public announcement has heretofore been made under such section 4 (a).

Sec. 10. When used in this Act, the terms "wages" and "salaries" shall include additional compensation, on an annual or other basis, paid to employees by their employers for personal services (excluding insurance and pension benefits in a reasonable amount to be determined by the President); but for the purpose of determining wages or salaries for any period prior to September 16, 1942, such additional compensation shall be taken into account only in cases where it has been customarily paid by employers to their employees.

Sec. 11. Any individual, corporation, partnership, or association willfully violating any provision of this Act, or of any regulation promulgated thereunder, shall, upon conviction thereof, be subject to a fine

of not more than \$1,000, or to imprisonment for not more than one year, or to both such fine and imprisonment.

And the Senate agree to the same.

That the Senate recede from its amendment to the title of the bill.

HENRY B. STEAGALL,
CLYDE WILLIAMS,
BRENT SPENCE,
JESSE P. WOLCOTT,
CHARLES L. GIFFORD,

Managers on the part of the House.

ROBERT F. WAGNER
ALBEN W. BARKLEY,
J. H. BANKHEAD,
PRENTISS M. BROWN,
FRANCIS MALONEY,
ROBERT A. TAFT,

Managers on the part of the Senate.

STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H. R. 7565) to amend the Emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

The House bill and the substitute agreed to in conference are in general substantially similar but they differ in a number of respects, as follows:

Section 1 of the House bill directed that stabilization shall so far as practicable be on the basis of levels which existed on August 15, 1942. The conference substitute directs that stabilization shall so far as practicable be on the basis of the levels which existed on September 15, 1942.

The conference substitute directs that the President shall issue, before November 1, 1942, a general order stabilizing prices, wages, and salaries affecting the cost of living. No such requirement was included in the House bill.

In section 1 of the House bill the President's authority to make adjustments was confined to the making of adjustments "to the extent that he finds necessary to correct gross inequities." In the conference substitute this authority is given "to the extent that he finds necessary to aid in the effective prosecution of the war or to correct gross inequities."

In section 1 of the conference substitute there is included a provision requiring that no common carrier or public utility shall make any general increase in its rates or charges which were in effect on September 15, 1942, unless 30 days' notice is given to the President or to such agency as he may designate, and consent is given for the intervention by such agency before the public body having jurisdiction of the matter. The House bill contained no such provision.

Section 3 of the House bill provided that for the purposes of the act parity prices and comparable prices for any agricultural commodity shall be determined as authorized by existing law but shall also include all farm labor. This provision is not contained in the conference substitute. The provision in the conference substitute relating to this subject appears in section 3. It makes no change in the parity formula provided for under present law. It provides that modifications shall be made in maximum prices established for any agricultural commodity, and for any commodity processed or manufactured in whole or substantial part from any agricultural commodity, under regulations to be prescribed by the President, in any case where it appears that such modification is necessary to increase the production of such commodity for war purposes, or where by reason of increased labor or other costs to the producers of such agricultural commodity incurred since January 1, 1941, the maximum price so established will not

reflect such increased costs. There is also included the same provision contained in the House bill relating to the fair and equitable allowance of a margin for the processing of agricultural commodities. There is also included a provision to the effect that in fixing price maximums for agricultural commodities and for commodities processed or manufactured in whole or substantial part from any agricultural commodity, adequate weighting shall be given farm labor.

The provisions of section 4 of the conference substitute, placing limitations upon the authority which may be exercised under the act with respect to wages and salaries, follow the provisions of the Senate amendment, except that the President's authority to make adjustments may be exercised only to the extent that he finds necessary in any case to correct gross inequities and also aid in the effective prosecution of the war.

In order to carry out the recommendations of the President with respect to establishing a floor for the prices of agricultural commodities, the conference substitute contains provisions which raise the loan rate for basic agricultural commodities to 90 percent of the parity price therefor; except that the President is authorized to fix the loan rate for any commodity at any rate not less than that otherwise provided by law if he determines that such action is necessary to prevent an increase in the cost of feed for livestock and poultry and to aid in the effective prosecution of the war. The loan rates provided for in the conference substitute are to be maintained until the expiration of a 2-year period after the end of the war. The conference substitute also provides that for a similar period the Secretary of Agriculture shall undertake to maintain at 90 percent of the parity or comparable price the price for any commodity the production of which he has undertaken to encourage.

HENRY B. STEAGALL,
CLYDE WILLIAMS,
BRENT SPENCE,
JESSE P. WOLCOTT,
CHARLES L. GIFFORD,

Managers on the part of the House.

77TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { No. 2472

**AMENDING THE EMERGENCY PRICE CONTROL ACT OF
1942, TO AID IN PREVENTING INFLATION, AND FOR
OTHER PURPOSES**

SEPTEMBER 21, 1942.—Committed to the Committee of the Whole House on the
state of the Union and ordered to be printed

Mr. STEAGALL, from the Committee on Banking and Currency, sub-
mitted the following

REPORT

[To accompany H. R. 7565]

The Committee on Banking and Currency, to whom was referred the bill (H. R. —) to amend the Emergency Price Control Act of 1942, to prevent inflation, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

In his message to the Congress dated September 7, 1942, the President urged the importance of stabilizing the cost of living, including stabilization of wages and the price of farm commodities.

The continued expansion of buying power, in the midst of scarcity of commodities, necessarily tends to bring about price levels that promote inflation. In addition, the enormous expenditures in connection with the war program create enlarged circulation of money and increase of bank credit. It is therefore necessary to use the various powers of Government if we are to restrain and prevent unwholesome and destructive developments.

It is believed that the measure herewith reported will aid in preventing further inflationary tendencies and further dislocation of our domestic economy during the war.

Section 1 authorizes and directs the President to stabilize prices, wages, salaries, and other factors affecting the cost of living. It directs that such stabilization shall so far as practicable be on the basis of the levels which existed on August 15, 1942, but permits the President to provide for making adjustments with respect to such prices, wages, salaries, and other factors, to the extent that he finds necessary to correct gross inequities.

Section 2 authorizes the President to promulgate regulations necessary and proper to carry out the provisions of the act; authorizes him to exercise any authority conferred upon him by the act through such

department, agency, or officer as he shall direct; and authorizes him to suspend any provisions of law relating to the establishment or maintenance of prices, or to wages, salaries, or other factors affecting the cost of living which are inconsistent with the purposes of the act.

Section 3 prohibits the establishment or maintenance, under the act or otherwise, of any maximum price for any agricultural commodity below a price which will reflect to producers of agricultural commodities the higher of the following prices, as determined and published by the Secretary of Agriculture: (1) The parity price (adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials), or, in case a comparable price has been determined under and in accordance with the provisions of section 3 (b) of the Emergency Price Control Act of 1942, such comparable price (adjusted in the same manner), or (2) the highest price received by farmers between January 1, 1942, and September 15, 1942 (adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials). Section 3 also prohibits the establishment or maintenance, under the act or otherwise, of a maximum price for any commodity, processed or manufactured in whole or substantial part from any agricultural commodity, below a price which will reflect to the producers of such agricultural commodity a price therefor equal to the higher of the prices specified in clauses (1) and (2) above. The foregoing provisions are qualified by a proviso authorizing the President to adjust the price for any commodity between January 1, 1942, and September 15, 1942, to the extent that he finds necessary to correct gross inequities.

Section 4 prohibits the taking of any action with respect to wages or salaries, under the act, (1) which is inconsistent with the provisions of the Fair Labor Standards Act of 1938, as amended, (2) which is inconsistent with any recommendation or order of any agency of the Federal Government affecting the wages or salaries of employees whose cases were pending before such agency on September 15, 1942, and were undetermined on the date of the enactment of the act, or (3) with respect to wages or salaries which have not reached a 15-percent increased cost-of-living level above the wages or salaries paid on January 1, 1941, or (4) for the purpose of reducing the wages or salaries for any particular work below the highest wages or salaries paid therefor between January 1, 1942, and September 15, 1942. The foregoing provisions are qualified by a proviso authorizing the President to adjust wages or salaries to the extent that he finds necessary to correct gross inequities.

Section 5 provides that no employer shall pay, and no employee shall receive, any further increase in wages or salaries, unless approved by the President or such agency as he may designate. It also provides that the President shall prescribe the extent to which any wage or salary payment made in contravention of the act shall be disregarded by the executive departments and other governmental agencies in determining the costs or expenses of any employer for the purposes of any other law or regulation. It is further provided that the section shall not apply to any employer who regularly employs less than eight persons, nor to any employee of an employer who regularly employs less than eight persons.

Section 6 provides that the provisions of the act, and all regulations promulgated thereunder, shall terminate on June 30, 1944, or on

such earlier date as the Congress by concurrent resolution, or the President, may prescribe.

Section 7 amends existing law for the purpose of carrying out the recommendation of the President with respect to the placing of a floor under prices of farm products. It authorizes and directs the Secretary of Agriculture to make loans and purchases and to carry on other operations with respect to nonbasic agricultural commodities for which he finds it necessary to encourage the expansion of production and with respect to basic agricultural commodities, so as to support the price for the producers of such commodities at not less than 90 percent of the parity price therefor, or at not less than 90 percent of the comparable price therefor if a comparable price has been established. Loans, purchases, and operations are to be so made and carried on only in the case of agricultural commodities harvested after December 31, 1941, and before the expiration of the 3-year period beginning with the 1st of January immediately following the date upon which the President proclaims the termination of hostilities in the present war. It is provided that in the case of agricultural commodities upon which loans are made, such loans shall be made at 90 percent of the parity price therefor, or at 90 percent of the comparable price therefor if a comparable price has been established.

Section 8 provides for a penalty, in the case of any willful violation of the act or of any regulation promulgated thereunder, of a fine of not more than \$5,000, or imprisonment for not more than 1 year, or both.

Section 9 amends section 1 (b) of the Emergency Price Control Act of 1942, so as to extend the time for the termination of that act, by striking out "June 30, 1943" and substituting "June 30, 1944". This will mean that the Emergency Price Control Act of 1942 and the legislation here being reported to the House will have the same termination date.

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows: Existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman.

AN ACT To extend the life and increase the credit resources of the Commodity Credit Corporation, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 7 of the Act approved January 31, 1935 (49 Stat. 4), as amended, is hereby amended by deleting from the first sentence thereof the term "June 30, 1941" and inserting in lieu thereof the term "June 30, 1943".

SEC. 2. Section 1 of the Act approved March 8, 1938 (52 Stat. 107), as amended, is hereby amended by deleting from the second sentence thereof the term "on the basis of market prices at the time of appraisal" and inserting in lieu thereof the term "on the basis of the cost, including not more than one year of carrying charges, of such assets to the Corporation, or the average market prices of such assets for a period of twelve months ending with March 31 of each year, whichever is less."

SEC. 3. Section 4 of the Act approved March 8, 1938 (52 Stat. 108), as amended, is hereby amended by deleting the term "\$1,400,000,000" and inserting in lieu thereof the term "\$2,650,000,000."

SEC. 4. (a) Whenever during the existing emergency the Secretary of Agriculture finds it necessary to encourage the expansion of production of any nonbasic agricultural commodity, he shall make public announcement thereof and

he shall so use the funds made available under section 3 of this Act or otherwise made available to him for the disposal of agricultural commodities, through a commodity loan, purchase, or other operation, taking into account the total funds available for such purpose for all commodities, so as to support a price for the producers of any such commodity with respect to which such announcement was made of not less than 85 per centum of the parity or comparable price therefor. The comparable price for any such commodity shall be determined and used by the Secretary for the purposes of this section if the production or consumption of such commodity has so changed in extent or character since the base period as to result in a price out of line with parity prices for basic commodities. Any such commodity loan, purchase, or other operation which is undertaken shall be continued until the Secretary has given sufficient public announcement to permit the producers of such commodity to make a readjustment in the production of the commodity. For the purposes of this section, commodities other than cotton, corn, wheat, tobacco, and rice shall be deemed to be nonbasic commodities.

(b) It is hereby declared to be the policy of the Congress that the lending and purchase operations of the Department of Agriculture (other than those referred to in subsection (a)) shall be carried out so as to bring the price and income of the producers of nonbasic commodities not covered by any such public announcement to a fair parity relationship with other commodities, to the extent that funds for such operations are available after taking into account the operations with respect to the basic commodities and the commodities listed in any such public announcement and the ability of producers to bring supplies into line with demand.

Sec. 5. The Secretary of Agriculture is authorized and directed to make loans and purchases and to carry on other operations with respect to nonbasic agricultural commodities for which he finds it necessary to encourage the expansion of production and with respect to basic agricultural commodities, harvested after December 31, 1941, and before the expiration of the three-year period beginning with the 1st day of January immediately following the date upon which the President proclaims the termination of hostilities in the present war, regardless of the purpose for which such commodities are produced or used, so as to support the price for the producers of such commodities at not less than 90 per centum of the parity price therefor, or at not less than 90 per centum of the comparable price therefor if a comparable price has been established under this Act. In the case of agricultural commodities on which loans are made, such loans shall be made at 90 per centum of the parity price therefor, or at 90 per centum of the comparable price therefor if a comparable price has been established under this Act.

EMERGENCY PRICE CONTROL ACT OF 1942

SECTION 1. * * *

(b) The provisions of this Act, and all regulations, orders, price schedules, and requirements thereunder, shall terminate on June 30, [1943] 1944, or upon the date of a proclamation by the President, or upon the date specified in a concurrent resolution by the two Houses of the Congress, declaring that the further continuance of the authority granted by this Act is not necessary in the interest of the national defense and security, whichever date is the earlier; except that as to offenses committed, or rights or liabilities incurred, prior to such termination date, the provisions of this Act and such regulations, orders, price schedules, and requirements shall be treated as still remaining in force for the purpose of sustaining any proper suit, action, or prosecution with respect to any such right, liability, or offense.

[H. Doc. No. 834, 77th Cong., 2d sess.]

MESSAGE FROM THE PRESIDENT OF THE UNITED STATES TRANSMITTING A RECOMMENDATION THAT CONGRESS PASS LEGISLATION PLACING A FLOOR UNDER PRICES OF FARM PRODUCTS

WASHINGTON, D. C., September 7, 1942.

To the Congress of the United States:

Four months ago, on April 27, 1942, I laid before the Congress a seven-point national economic policy designed to stabilize the domestic economy of the United States for the period of the war. The objective of that program was to prevent any substantial further rise in the cost of living.

It is not necessary for me to enumerate again the disastrous results of a runaway cost of living—disastrous to all of us, farmers, laborers, businessmen—the Nation

itself. When the cost of living spirals upward everybody becomes poorer, because the money he has and the money he earns buys so much less. At the same time the cost of the war, paid ultimately from taxes of the people, is needlessly increased by many billions of dollars. The national debt, at the end of the war, would become unnecessarily greater. Indeed, the prevention of a spiraling domestic economy is a vital part of the winning of the war itself.

I reiterate the seven-point program which I presented April 27, 1942:

1. To keep the cost of living from spiraling upward, we must tax heavily, and in that process keep personal and corporate profits at a reasonable rate, the word "reasonable" being defined at a low level.
2. To keep the cost of living from spiraling upward, we must fix ceilings on the prices which consumers, retailers, wholesalers, and manufacturers pay for the things they buy; and ceilings on rents for dwellings in all areas affected by war industries.
3. To keep the cost of living from spiraling upward, we must stabilize the remuneration received by individuals for their work.
4. To keep the cost of living from spiraling upward, we must stabilize the prices received by growers for the products of their lands.
5. To keep the cost of living from spiraling upward, we must encourage all citizens to contribute to the cost of winning this war by purchasing War bonds with their earnings instead of using those earnings to buy articles which are not essential.
6. To keep the cost of living from spiraling upward, we must ration all essential commodities of which there is a scarcity, so that they may be distributed fairly among consumers and not merely in accordance with financial ability to pay high prices for them.

7. To keep the cost of living from spiraling upward, we must discourage credit and installment buying, and encourage the paying off of debts, mortgages, and other obligations; for this promotes savings, retards excessive buying, and adds to the amount available to the creditors for the purchase of War bonds.

In my message of 4 months ago, I pointed out that in order to succeed in our objective of stabilization it was necessary to move on all seven fronts at the same time; but that two of them called for legislation by the Congress before action could be taken. It was obvious then, and it is obvious now, that unless those two are realized, the whole objective must fail. These are points numbered 1 and 4—namely, an adequate tax program and a law permitting the fixing of price ceilings on farm products at parity prices.

I regret to have to call to your attention the fact that neither of these two essential pieces of legislation has as yet been enacted into law. That delay has now reached the point of danger to our whole economy.

However, we are carrying out, by Executive action, the other parts of the seven-point program which did not require congressional action.

Price ceilings have been fixed on practically all commodities (other than certain exempted agricultural products), and on rents in war-production areas of the United States.

This process of keeping prices and rents at reasonable levels constitutes one of the most far-reaching economic steps that this Nation has ever taken—in time of peace or war.

Our experience during the last 4 months has proved that general control of prices is possible—but only if that control is all-inclusive. If, however, the costs of production, including labor, are left free to rise indiscriminately, or if other major elements in the costs of living are left unregulated, price control becomes impossible. If markets are flooded with purchasing power in excess of available goods, without taking adequate measures to siphon off the excess purchasing power, price control becomes likewise impossible.

Our entire effort to hold the cost of living at its present level is now being sapped and undermined by further increases in farm prices and in wages, and by an ever-continuing pressure on prices resulting from the rising purchasing power of our people.

Annual wage and salary disbursements have increased from 43.7 billion dollars in 1939 to an estimated 75 billion dollars in 1942. This represents an increase of 71 percent. To obtain a full appreciation of what that increase means, we should remember that 75 billion dollars is more than our total national income was during any single year in the 1930's. Due to constantly increasing employment overtime, and wage-rate increases, the annual wage and salary bill for the entire country has been rising by more than a billion dollars a month.

It is impossible for the cost of living to be stabilized while farm prices continue to rise. You cannot expect the laborer to maintain a fixed wage level if everything he wears and eats begins to go up drastically in price. On the other hand, it is impossible to keep any prices stable—farm prices or other prices—if wage rates, one of the most important elements in the cost of production, continue to increase.

But even if the process of stabilization of all prices and wages at present levels were to be brought about, there would still remain the great upward pressure on the cost of living created by the vast amount of purchasing power which has been earned in all sections of the country. The national income has been increasing since January 1, 1941, at the average rate of 2 percent each month. This purchasing power now exceeds by an estimated 20 billions the amount of goods which will be available for purchase by civilians this year. The result obviously is that people compete more and more for the available supply of goods; and the pressure of this great demand compared with the small supply—which will become smaller and smaller—continually threatens to disrupt our whole price structure.

A recent study by the Bureau of Labor Statistics has shown very strikingly how much the incomes of the average of families have gone up during the first quarter of 1942. If we assume that the income for the first quarter of 1942 is a fair basis for estimating what the family income will be for the entire year, the results of the study show that whereas less than one-fourth of all families in the United States received as much as \$2,500 in 1941, more than one-third will have \$2,500 or more in 1942. This shows how much the purchasing power of the average American family has gone up as a result of war production and how essential it is to control that purchasing power by taxation and by investment in war bonds.

We also know that as the war goes on there will not be an adequate supply of all civilian goods; that only through strict rationing, wherever necessary, will these goods be equitably distributed. We are determined that no group shall suffer a shrinkage of its normal quota of basic necessities because some richer group can buy all the available supply at high prices.

In normal peacetimes the ordinary processes of collective bargaining are sufficient in themselves. But in wartimes and particularly in times of greatly increasing prices, the Government itself has a very vital interest in seeing to it that wages are kept in balance with the rest of the economy. It is still the policy of the Federal Government to encourage free collective bargaining between employers and workers; and that policy will continue. Owing to the fact that costs of production are now, in so many cases, being passed on to the Government, and that so large a percentage of profits would be taken away by taxation, collective bargaining between employers and employees has changed a great deal from what it was in peacetimes. In times of danger to our economy the Government itself must step into the situation to see to it that the processes of collective bargaining and arbitration and conciliation are not permitted to break up the balances between the different economic factors in our system.

War calls for sacrifice. War makes sacrifice a privilege. That sacrifice will have to be expressed in terms of a lack of many of the things to which we all have become accustomed. Workers, farmers, white-collar people, and businessmen must expect that. No one can expect that, during the war, he will always be able to buy what he can buy today.

If we are to keep wages effectually stabilized, it becomes imperative, in fairness to the worker, to keep equally stable the cost of food and clothing and shelter and other articles used by workers.

Prices and rents should not be allowed to advance so drastically ahead of wage rates that the real wages of workers as of today—their ability to buy food and clothing and medical care—will be cut down. For if the cost of living goes up as fast as it is threatening to do in the immediate future, it will be unjust, in fact impossible, to deny workers rises in wages which would meet at least a part of that increase.

The cost of all food used by wage earners—controlled and uncontrolled—has been going up at the rate of $1\frac{1}{4}$ percent per month since the price ceilings were set in May 1942. If this rise should be permitted to continue, the increased cost of food to wage earners next May would be more than 15 percent over the level which existed when the ceilings were set.

This would be equal to imposing a 15-percent sales tax on all food purchased by wage earners. Obviously no one would consider imposing such a tax.

This drastic increase has been caused, and will be caused, chiefly by the fact that number of food commodities are exempt under existing law. In the case of these exempt commodities the increases are even more startling. The cost of such food used by wage earners has been rising at an average of $3\frac{1}{2}$ percent per month since May 1, 1942.

Prices received by farmers have risen 85 percent since the outbreak of the war in September 1939, and these prices are continuing to rise. Cash farm income, including Government payments, has increased from 8.7 billion dollars in 1939 to substantially more than 15 billion dollars in 1942. This is an increase of about 75 percent.

The movement of uncontrolled food prices since May 18, 1942, the date when price regulation became effective, has been so drastic as to constitute an immediate threat to the whole price structure, to the entire cost of living, and to any attempt to stabilize wages.

Within 2 months after the date that price regulation became effective, the prices of controlled foods actually fell seven-tenths of 1 percent. But uncontrolled foods advanced 7.3 percent during the same period, and are still going up.

To give some specific examples: From May to August of this year round steak and pork chops, which are controlled, showed a slight decline; but during the same period lamb, which was uncontrolled up to July, advanced more than 10 percent, and chickens have advanced more than 16 percent.

To take another example: Lard, which is a controlled product, dropped nearly 5 percent; whereas, butter, which is uncontrolled, went up more than 6 percent or twice the normal seasonal rate. Oranges have gone up more than 25 percent, although the normal seasonal increase is only about 6 or 7 percent.

Uncontrolled agricultural commodities include some of the most important of the foods and include the grain foods necessary for livestock. When you consider that in this category are wheat, corn, oats, barley, rye, dry beans, cotton, sweetpotatoes, apples, sheep, butterfat, wholesale milk, chickens, eggs, and oranges you can realize how important these products are to the pocketbook of the housewife.

The greatest danger is in dairy products, which are, as you know, most important items in the American diet. Butter, cheese, and evaporated milk are exempt under the Price Control Act. The prices for these have been going up so fast that they constitute a serious threat to an adequate supply of fluid milk. Unless we are able to get control of butter, cheese, and other dairy products in the very near future, the price of milk in large cities is certain to go up.

If wages should be stabilized and farm prices be permitted to rise at any rate like the present rate, workers will have to bear the major part of the increase. This we cannot ask. The Congress must realize that unless the existing control over farm prices is strengthened, we must abandon our efforts to stabilize wages and salaries and the cost of living. If that occurs, workers and farmers alike will not only suffer a reduction in real income, but will bring upon themselves and the Nation the unparalleled disaster of unchecked inflation.

The reason why price ceilings have not already been imposed on all food products is, as you know, that paragraph 3 of the Emergency Price Control Act prohibits such ceilings until farm prices as a whole have gone up beyond parity prices—far beyond—as high as an average of 16 percent beyond.

Although that restriction upon establishing ceilings for farm products usually is referred to as the 110 percent of parity limitation, it is much worse than that. The statute provides other limitations which are more drastic. Ceilings cannot be imposed, under the statute, on any product at a level below the market price on October 1, 1941, or December 15, 1941, or the average price for the period July 1, 1919 to June 30, 1929, or below 110 percent of current parity, whichever of those four levels is highest. As a result, the lowest average level for all farm commodities at which ceilings may be imposed is not 110 percent, but 116 percent of parity—some of the commodities going almost as high as 150 percent of parity.

Even more important is the psychological effect of such unfair privilege. It provides fuel for fires of resentment against farmers as a favored class. After all, parity is, by its very definition, a fair relationship between the prices of the things farmers sell and the things they buy. Calculations of parity must include all costs of production including the cost of labor. As a result parity prices may shift every time wage rates shift. Insisting that the ceilings on no farm commodity shall ever be lower than 110 percent of parity is asking for more than a fair price relationship with other prices.

In fact, the limitations on agricultural ceilings are now being cited by other groups as a reason for resisting economic controls that are needed in their own

fields. The limitations will be a rallying point for such opposition as long as they are in effect.

As I urged in my message of April 27, 1942, "the original and excellent objective of obtaining parity for the farmers of the United States should be restored."

Our policy with respect to farm products should be guided by three principles: First, to hold the line against inflationary price increases. Second, to get the required production of necessary farm products. Third, to maintain the principle of parity for agriculture.

Agricultural ceilings should be permitted at either parity or at the price levels which prevailed at some recent date, whichever is higher. In most cases the formula would preserve the general structure of wholesale and retail price controls, and would also call out the volume of production needed. Also, it would preserve the parity principle.

In regard to increasing the total of our food production, one of the worries that a farmer has today is the shortage of labor for cultivating and harvesting crops. The time is soon coming when in many parts of the country we shall have to use seasonally the help of women and grown young people. I feel certain the Nation will cooperate wholeheartedly.

It not only would be unfair to labor to stabilize wages and do nothing about the cost of food; it would be equally unfair to the farmer. For we must all remember that the farmer's wife buys many articles of food at the store for the use of her own family, and high prices hurt her pocketbook as much as that of the city housewife.

What is needed, therefore, is an over-all stabilization of prices, salaries, wages, and profits. That is necessary to the continued production of planes and tanks and ships and guns at the present constantly increasing rate.

We cannot hold the actual cost of food and clothing down to approximately the present level beyond October 1. But no one can give any assurances that the cost of living can be held down after that date.

Therefore, I ask the Congress to pass legislation under which the President would be specifically authorized to stabilize the cost of living, including the price of all farm commodities. The purpose should be to hold farm prices at parity, or at levels of a recent date, whichever is higher.

I ask the Congress to take this action by the 1st of October. Inaction on your part by that date will leave me with an inescapable responsibility to the people of this country to see to it that the war effort is no longer imperiled by threat of economic chaos.

In the event that the Congress should fail to act, and act adequately, I shall accept the responsibility, and I will act.

At the same time that farm prices are stabilized, wages can and will be stabilized also. This I will do.

The President has the powers, under the Constitution and under congressional acts, to take measures necessary to avert a disaster which would interfere with the winning of the war.

I have given the most thoughtful consideration to meeting this issue without further reference to the Congress. I have determined, however, on this vital matter to consult with the Congress.

There may be those who will say that, if the situation is as grave as I have stated it to be, I should use my powers and act now. I can only say that I have approached this problem from every angle, and that I have decided that the course of conduct which I am following in this case is consistent with my sense of responsibility as President in time of war, and with my deep and unalterable devotion to the processes of democracy.

The responsibilities of the President in wartime to protect the Nation are very grave. This total war, with our fighting fronts all over the world, makes the use of executive power far more essential than in any previous war.

If we were invaded the people of this country would expect the President to use any and all means to repel the invader.

The Revolution and the War between the States were fought on our own soil, but today this war will be won or lost on other continents and remote seas.

I cannot tell what powers may have to be exercised in order to win this war.

The American people can be sure that I will use my powers with a full sense of my responsibility to the Constitution and to my country. The American people can also be sure that I shall not hesitate to use every power vested in me to accomplish the defeat of our enemies in any part of the world where our own safety demands such defeat.

When the war is won, the powers under which I act automatically revert to the people—to whom they belong.

In March and April 1933, this Nation faced a threatening domestic situation calling for the most drastic measures. The Congress, alive to the needs of that day, formulated and enacted whatever was required to do the job before it—without long debate, without party politics, and without heed to the pressures of any special group looking for advantages for itself.

I need not argue the point that the situation facing the Nation today is infinitely more critical than it was 10 years ago. We are fighting a war of survival. Nothing can yield to the over-all necessity of winning this war, and the winning of the war will be imperiled by a runaway domestic economy.

As a part of our general program on farm prices, I recommend that Congress in due time give consideration to the advisability of legislation which would place a floor under prices of farm products, in order to maintain stability in the farm market for a reasonable future time. In other words, we should find a practicable method which will not only enable us to place a reasonable ceiling or maximum price upon farm products but which will enable us also to guarantee to the farmer that he would receive a fair minimum price for his products for 1 year, or even 2 years—or whatever period is necessary after the end of the war. Every farmer remembers what happened to his prices after the last war. We can, I am sure, if we act promptly and wisely, stabilize the farmers' economy so that the post-war disaster of 1920 will not overtake him again.

The farmer, instead of looking forward to a new collapse in farm prices at the end of the war, should be able to look forward with assurance to receiving a fair minimum price for 1 or 2 years after the war. Such a national policy could be established by legislation.

In computing parity, we should continue to use the computations of the Bureau of Agricultural Economics made under the law as it stands today. And in determining whether a commodity has reached parity, we should include all the benefits received by the farmer from his Government under the A. A. program, allocable to the particular commodity. For it is unfair to give a farmer a parity price, and, in addition, to pay him benefits which will give him far more than parity.

I have confidence that the American farmer who has been doing so much in the battle of production of food will do as much in this struggle against economic forces which make for the disaster of inflation; for nobody knows better than the farmer what happens when inflationary, wartime booms are permitted to become post-war panics.

With respect to point seven of the program of April 27, 1942, we have made certain credit rulings designed to curtail unnecessary buying; and whatever else has to be done along these lines will be done.

With respect to point six, rationing is now in effect on some commodities, and, when necessary, will be extended to others.

But with respect to point 1—a fair tax program—that still waits upon the Congress to act.

One of the most powerful weapons in our fight to stabilize living costs is taxation. It is a powerful weapon because it reduces the competition for consumers' goods—especially scarce foods.

The cooperation and self-restraint of the whole Nation will be required to stabilize the cost of living. The stabilization of the cost of living cannot be maintained without heavy taxes on everyone except persons with very low incomes. With such increases in the tax load, unfair tax distribution becomes less and less tolerable. We can rightfully expect the fullest cooperation and self-restraint only if the tax burden is being fairly levied in accordance with ability to pay.

This means that we must eliminate the tax exemption of interest on State and local securities, and other special privileges or loopholes in our tax law.

It means that in the higher income brackets, the tax rate should be such as to give the practical equivalent of a top limit on an individual's net income after taxes, approximating \$25,000. It means that we must recapture through taxation all wartime profits that are not necessary to maintain efficient all-out war production. Such provisions will give assurance that the sacrifices required by war are being equitably shared.

Next to military and naval victory, a victory along this economic front is of paramount importance. Without it our war production program will be hindered. Without it we would be allowing our young men, now risking their lives in the air, on land, and on the sea, to return to an economic mess of our own making. The least that we at home can do for them is to see that our production increases every

AMENDING EMERGENCY PRICE CONTROL ACT

day so as to give them the weapons of war with which to fight, and to make sure that our economy at home continues to be one to which they can return with confidence and security.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
Washington, September 16, 1942.

HON. HENRY B. STEAGALL,
The House of Representatives.

MY DEAR MR. STEAGALL: My attention has been drawn to proposals to revise the parity formula in connection with the legislation I requested on September 7. I understand that it is proposed to include certain allowance for farm labor in the index of the prices which farmers pay that is used in computing parity prices.

I should like to make clear my unalterable opposition to any recomputation of parity at this time. In my message of September 7 I stated, "In computing parity, we should continue to use the computations of the Bureau of Agricultural Economics made under the law as it stands today." This will continue to be my policy.

Earlier in my message I stated, "After all, parity is, by its very definition, a fair relationship between the prices of the things farmers sell and the things they buy. Calculations of parity must include all costs of production including the cost of labor." By that I meant what the language states—that parity is fair, and it is fair because it now includes the labor cost incorporated in the prices of the things which farmers buy. It is this which brings farmers into a fair relationship with other groups. This is the purpose of parity. This the present formula does.

The parity principle for which this administration has stood since 1933 was a good standard for peacetime—it is a good stand for war. To recalculate parity now, and to offer the public 100 percent of a new and higher parity, would be to offer stabilization, yet destroy the possibility of achieving it.

Sincerely yours,

FRANKLIN D. ROOSEVELT.

14-00000-1

3. To keep the cost of living from spiraling upward, we must stabilize the remuneration received by individuals for their work.

4. To keep the cost of living from spiraling upward, we must stabilize the prices received by growers for the products of their lands.

5. To keep the cost of living from spiraling upward, we must encourage all citizens to contribute to the cost of winning this war by purchasing War bonds with their earnings instead of using those earnings to buy articles which are not essential.

6. To keep the cost of living from spiraling upward, we must ration all essential commodities of which there is a scarcity, so that they may be distributed fairly among consumers and not merely in accordance with financial ability to pay high prices for them.

7. To keep the cost of living from spiraling upward, we must discourage credit and installment buying, and encourage the paying off of debts, mortgages, and other obligations; for this promotes savings, retards excessive buying, and adds to the amount available to the creditors for the purchase of War bonds.

In my message of 4 months ago, I pointed out that in order to succeed in our objective of stabilization it was necessary to move on all seven fronts at the same time; but that two of them called for legislation by the Congress before action could be taken. It was obvious then, and it is obvious now, that unless those two are realized, the whole objective must fail. These are points numbered one and four: Namely, an adequate tax program, and a law permitting the fixing of price ceilings on farm products at parity prices.

I regret to have to call to your attention the fact that neither of these two essential pieces of legislation has as yet been enacted into law. That delay has now reached the point of danger to our whole economy.

However, we are carrying out, by Executive action, the other parts of the seven-point program which did not require congressional action.

Price ceilings have been fixed on practically all commodities (other than certain exempted agricultural products), and on rents in war-production areas of the United States.

This process of keeping prices and rents at reasonable levels constitutes one of the most far-reaching economic steps that this Nation has ever taken—in time of peace or war.

Our experience during the last 4 months has proved that general control of prices is possible—but only if that control is all-inclusive. If, however, the costs of production, including labor, are left free to rise indiscriminately, or if other major elements in the costs of living are left unregulated, price control becomes impossible. If markets are flooded with purchasing power in excess of available goods, without taking adequate measures to siphon off the excess purchasing power, price control becomes likewise impossible.

Our entire effort to hold the cost of living at its present level is now being sapped and undermined by further increases in farm prices and in wages, and by an ever-continuing pressure on prices resulting from the rising purchasing power of our people.

Annual wage and salary disbursements have increased from 43.7 billion dollars in 1939 to an estimated 75 billion dollars in 1942. This represents an increase of 71 percent. To obtain a full appreciation of what that increase means, we should remember that 75 billion dollars is more than our total national income was during any single year in the 1930's. Due to constantly increasing employment, overtime, and wage-rate increases, the annual wage and salary bill for the entire country has been rising by more than a billion dollars a month.

It is impossible for the cost of living to be stabilized while farm prices continue to rise. You cannot expect the laborer to maintain a fixed wage level if everything he wears and eats begins to go up drastically in price. On the other hand, it is impossible to keep any prices stable—farm prices or other prices—if wage rates, one of the most important elements in the cost of production, continue to increase.

But even if the process of stabilization of all prices and wages at present levels were to be brought about, there would still remain the great upward pressure on the cost of living created by the vast amount of purchasing power which has been earned in all sections of the country. The national income has been increasing since January 1, 1941, at the average rate of 2 percent each month. This purchasing power now exceeds by an estimated 20 billions the amount of goods which will be available for purchase by civilians this year. The result obviously is that people compete more and more for the available supply of goods; and the pressure of this great demand compared with the small supply—which will become smaller and smaller—continually threatens to disrupt our whole price structure.

A recent study by the Bureau of Labor Statistics has shown very strikingly how much the incomes of the average of families have gone up during the first quarter of 1942. If we assume that the income for the first quarter of 1942 is a fair basis for estimating what the family income will be for the entire year, the results of the study show that whereas less than one-fourth of all families in the United States received as much as \$2,500 in 1941, more than one-third will have \$2,500 or more in 1942. This shows how much the purchasing power of the average American family has gone up as a result of war production and how essential it is to control that purchasing power by taxation and by investment in war bonds.

We also know that as the war goes on there will not be an adequate supply of all civilian goods; that only through strict rationing, wherever necessary, will these goods be equitably distributed. We are determined that no group shall suffer a shrinkage of its normal quota of basic necessities because some richer group can buy all the available supply at high prices.

In normal peacetimes the ordinary processes of collective bargaining are sufficient in themselves. But in wartimes and particularly in times of greatly increasing prices, the Government itself has a very vital interest in seeing to it that wages are kept in balance with the rest of the economy. It is still the policy of the Federal Government to encourage free collective bargaining between employers and workers; and that policy will continue. Owing to the fact that costs of production are now, in so many cases, being passed on to the Government, and that so large a percentage of profits would be taken away by taxation, collective bargaining between employers and employees has changed a great deal from what it was in peacetimes. In times of danger to our economy the Government itself must step into the situation to see to it that the processes of collective bargaining and arbitration and conciliation are not permitted to break up the balances between the different economic factors in our system.

War calls for sacrifice. War makes sacrifice a privilege. That sacrifice will have to be expressed in terms of a lack of many of the things to which we all have become accustomed. Workers, farmers, white collar people and businessmen must expect that. No one can expect that, during the war, he will always be able to buy what he can buy today.

If we are to keep wages effectively stabilized, it becomes imperative, in fairness to the worker, to keep equally stable the cost of food and clothing and shelter and other articles used by workers.

Prices and rents should not be allowed to advance so drastically ahead of wage rates that the real wages of workers as of today—their ability to buy food and clothing and medical care—will be cut down. For if the cost of living goes up as fast as it is threatening to do in the immediate future, it will be unjust, in fact impossible, to deny workers rises in wages which would meet at least a part of that increase.

The cost of all food used by wage earners—controlled and uncontrolled—has been going up at the rate of 1½ percent per month since the price ceilings were set in May 1942. If this rise should be permitted to continue, the increased cost of food to wage earners next May would be more than 15 percent over the level which existed when the ceilings were set.

This would be equal to imposing a 15 percent sales tax on all food purchased by wage earners. Obviously no one would consider imposing such a tax.

This drastic increase has been caused, and will be caused, chiefly by the fact that a number of food commodities are exempt under existing law.

In the case of these exempt commodities the increases are even more startling. The cost of such food used by wage earners has been rising at an average of 3½ percent per month since May 1, 1942.

Prices received by farmers have risen 85 percent since the outbreak of the war in September 1939, and these prices are continuing to rise. Cash farm income, including Government payments, has increased from \$8,700,000,000 in 1939 to substantially more than \$15,000,000,000 in 1942. This is an increase of about 75 percent.

The movement of uncontrolled food prices since May 18, 1942, the date when price regulation became effective, has been so drastic as to constitute an immediate threat to the whole price structure, to the entire cost of living, and to any attempt to stabilize wages.

Within 2 months after the date that price regulation became effective, the prices of controlled foods actually fell seven-tenths of 1 percent. But uncontrolled foods advanced 7.3 percent during the same period, and are still going up.

To give some specific examples: From May to August of this year round steak and pork chops, which are controlled, showed a slight decline; but during the same

period lamb, which was uncontrolled up to July, advanced more than 10 percent and chickens have advanced more than 16 percent.

To take another example: Lard, which is a controlled product, dropped nearly 5 percent; whereas butter, which is uncontrolled, went up more than 6 percent or twice the normal seasonal rate. Oranges have gone up more than 25 percent although the normal seasonal increase is only about 6 or 7 percent.

Uncontrolled agricultural commodities include some of the most important of the foods and include the grain foods necessary for livestock. When you consider that in this category are wheat, corn, oats, barley, rye, dry beans, cotton, sweet-potatoes, apples, sheep, butterfat, wholesale milk, chickens, eggs, and oranges you can realize how important these products are to the pocketbook of the housewife.

The greatest danger is in dairy products, which are, as you know, most important items in the American diet. Butter, cheese, or evaporated milk are exempt under the Price Control Act. The prices for these have been going up so fast that they constitute a serious threat to an adequate supply of fluid milk. Unless we are able to get control of butter, cheese, and other dairy products in the very near future, the price of milk in large cities is certain to go up.

If wages should be stabilized and farm prices be permitted to rise at any rate like the present rate, workers will have to bear the major part of the increase. This we cannot ask. The Congress must realize that unless the existing control over farm prices is strengthened, we must abandon our efforts to stabilize wages and salaries and the cost of living. If that occurs, workers and farmers alike will not only suffer a reduction in real income, but will bring upon themselves and the Nation the unparalleled disaster of unchecked inflation.

The reason why price ceilings have not already been imposed on all food products is, as you know, that paragraph 3 of the Emergency Price Control Act prohibits such ceilings until farm prices as a whole have gone up beyond parity prices—far beyond—as high as an average of 16 percent beyond.

Although that restriction upon establishing ceilings for farm products usually is referred to as the 110-percent-of-parity limitation, it is much worse than that. The statute provides other limitations which are more drastic. Ceilings cannot be imposed, under the statute, on any product at a level below the market price on October 1, 1941, or December 15, 1941, or the average price for the period July 1, 1919, to June 30, 1929, or below 110 percent of current parity, whichever of those four levels is highest. As a result, the lowest average level for all farm commodities at which ceilings may be imposed is not 110 percent, but 116 percent of parity—some of the commodities going almost as high as 150 percent of parity.

Even more important is the psychological effect of such unfair privilege. It provides fuel for fires of resentment against farmers as a favored class. After all, parity is, by its very definition, a fair relationship between the prices of the things farmers sell and the things they buy. Calculations of parity must include all costs of production including the cost of labor. As a result parity prices may shift every time wage rates shift. Insisting that the ceilings on no farm commodity shall ever be lower than 110 percent of parity is asking for more than a fair price relationship with other prices.

In fact, the limitations on agricultural ceilings are now being cited by other groups as a reason for resisting economic controls that are needed in their own fields. The limitations will be a rallying point for such opposition as long as they are in effect.

As I urged in my message of April 27, 1942, "the original and excellent objective of obtaining parity for the farmers of the United States should be restored."

Our policy with respect to farm products should be guided by three principles: First, to hold the line against inflationary price increases. Second, to get the required production of necessary farm products. Third, to maintain the principle of parity for agriculture.

Agricultural ceilings should be permitted at either parity or at the price levels which prevailed at some recent date, whichever is higher. In most cases the formula would preserve the general structure of wholesale and retail price controls, and would also call out the volume of production needed. Also, it would preserve the parity principle.

In regard to increasing the total of our food production, one of the worries that a farmer has today is the shortage of labor for cultivating and harvesting crops. The time is soon coming when in many parts of the country we shall have to use seasonally the help of women and grown young people. I feel certain the Nation will cooperate wholeheartedly.

It not only would be unfair to labor to stabilize wages and do nothing about the cost of food; it would be equally unfair to the farmer. For we must all remember

that the farmer's wife buys many articles of food at the store for the use of her own family, and high prices hurt her pocketbook as much as that of the city housewife.

What is needed, therefore, is an over-all stabilization of prices, salaries, wages, and profits. That is necessary to the continued production of planes and tanks and ships and guns at the present constantly increasing rate.

We cannot hold the actual cost of food and clothing down to approximately the present level beyond October 1. But no one can give any assurances that the cost of living can be held down after that date.

Therefore, I ask the Congress to pass legislation under which the President would be specifically authorized to stabilize the cost of living, including the price of all farm commodities. The purpose should be to hold farm prices at parity, or at levels of a recent date, whichever is higher.

I ask the Congress to take this action by the 1st of October. Inaction on your part by that date will leave me with an inescapable responsibility to the people of this country to see to it that the war effort is no longer imperiled by threat of economic chaos.

In the event that the Congress should fail to act, and act adequately, I shall accept the responsibility, and I will act.

At the same time that farm prices are stabilized, wages can and will be stabilized also. This I will do.

The President has the powers, under the Constitution and under congressional acts, to take measures necessary to avert a disaster which would interfere with the winning of the war.

I have given the most thoughtful consideration to meeting this issue without further reference to the Congress. I have determined, however, on this vital matter to consult with the Congress.

There may be those who will say that, if the situation is as grave as I have stated it to be, I should use my powers and act now. I can only say that I have approached this problem from every angle, and that I have decided that the course of conduct which I am following in this case is consistent with my sense of responsibility as President in time of war, and with my deep and unalterable devotion to the processes of democracy.

The responsibilities of the President in wartime to protect the Nation are very grave. This total war, with our fighting fronts all over the world, makes the use of executive power far more essential than in any previous war.

If we were invaded, the people of this country would expect the President to use any and all means to repel the invader.

The Revolution and the War between the States were fought on our own soil, but today this war will be won or lost on other continents and remote seas.

I cannot tell what powers may have to be exercised in order to win this war.

The American people can be sure that I will use my powers with a full sense of my responsibility to the Constitution and to my country. The American people can also be sure that I shall not hesitate to use every power vested in me to accomplish the defeat of our enemies in any part of the world where our own safety demands such defeat.

When the war is won, the powers under which I act automatically revert to the people—to whom they belong.

In March and April 1933 this Nation faced a threatening domestic situation calling for the most drastic measures. The Congress, alive to the needs of that day, formulated and enacted whatever was required to do the job before it—without long debate, without party politics, and without heed to the pressures of any special group looking for advantages for itself.

I need not argue the point that the situation facing the Nation today is infinitely more critical than it was 10 years ago. We are fighting a war of survival. Nothing can yield to the over-all necessity of winning this war, and the winning of the war will be imperiled by a run-away domestic economy.

As a part of our general program on farm prices, I recommend that Congress in due time give consideration to the advisability of legislation which would place a floor under prices of farm products, in order to maintain stability in the farm market for a reasonable future time. In other words, we should find a practicable method which will not only enable us to place a reasonable ceiling or maximum price upon farm products but which will enable us also to guarantee to the farmer that he would receive a fair minimum price for his product for 1 year, or even 2 years—or whatever period is necessary after the end of the war. Every farmer remembers what happened to his prices after the last war. We can, I am sure, if we act promptly and wisely, stabilize the farmers' economy so that the post-war disaster of 1920 will not overtake him again.

The farmer, instead of looking forward to a new collapse in farm prices at the end of the war, should be able to look forward with assurance to receiving a fair minimum price for 1 or 2 years after the war. Such a national policy could be established by legislation.

In computing parity, we should continue to use the computations of the Bureau of Agricultural Economics made under the law as it stands today. And in determining whether a commodity has reached parity, we should include all the benefits received by the farmer from his Government under the Agricultural Adjustment Administration program, allocable to the particular commodity. For it is unfair to give a farmer a parity price, and, in addition, to pay him benefits which will give him far more than parity.

I have confidence that the American farmer who has been doing so much in the battle of production of food will do as much in this struggle against economic forces which make for the disaster of inflation; for nobody knows better than the farmer what happens when inflationary, wartime booms are permitted to become post-war panics.

With respect to point seven of the program of April 27, 1942, we have made certain credit rulings designed to curtail unnecessary buying; and whatever else has to be done along these lines will be done.

With respect to point 6, rationing is now in effect on some commodities, and when necessary, will be extended to others.

But with respect to point 1—a fair tax program—that still waits upon the Congress to act.

One of the most powerful weapons in our fight to stabilize living costs is taxation. It is a powerful weapon because it reduces the competition for consumers' goods—especially scarce foods.

The cooperation and self-restraint of the whole Nation will be required to stabilize the cost of living. The stabilization of the cost of living cannot be maintained without heavy taxes on everyone except persons with very low incomes. With such increases in the tax load, unfair tax distribution becomes less and less tolerable. We can rightfully expect the fullest cooperation and self-restraint only if the tax burden is being fairly levied in accordance with ability to pay.

This means that we must eliminate the tax exemption of interest on State and local securities, and other special privileges or loopholes in our tax law.

It means that in the higher income brackets, the tax rate should be such as to give the practical equivalent of a top limit on an individual's net income after taxes, approximating \$25,000. It means that we must recapture through taxation all wartime profits that are not necessary to maintain efficient all-out war production. Such provisions will give assurance that the sacrifices required by war are being equitably shared.

Next to military and naval victory, a victory along this economic front is of paramount importance. Without it our war production program will be hindered. Without it we would be allowing our young men, now risking their lives in the air, on land, and on the sea, to return to an economic mess of our own making.

The least that we at home can do for them is to see that our production increases every day so as to give them the weapons of war with which to fight, and to make sure that our economy at home continues to be one to which they can return with confidence and security.

THE WHITE HOUSE, September 7, 1942.

FRANKLIN D. ROOSEVELT.

II

THE NEED FOR LEGISLATION

The facts presented in the President's message and in testimony before your committee disclose clearly that certain basic factors affecting the cost of living are inadequately controlled in large part because of existing limitations upon administrative powers. In recent months, the economic situation has passed from the critical to the dangerous. There are impending immediately over the horizon such extreme inflationary increases in the cost of living as may jeopardize our entire war program and our economic stability.

The country's basic standards of living are being increasingly threatened by the upward pressure of uncontrolled items. For example, from the middle of May to the middle of August, the price of uncontrolled food items advanced 9.8 percent as contrasted with the price of controlled foods which dropped 0.3 percent. This increase in the prices of uncontrolled foods, which occurred at a rate of 40 percent a year, was responsible for substantially all of the increase in the cost of living during that period. These uncontrolled items represent 40 percent of all the food purchased by an average American family. Existing limitations of section 3 (a) and section 3 (c) of the Emergency Price Control Act of 1942 make it impossible adequately to deal with this situation.

This resolution authorizes the President to suspend section 3 (a) and 3 (c) of the Emergency Price Control Act of 1942. Prices received by farmers have risen 85 percent from August 1939 to August 1942. Prices paid by farmers have risen only 22 percent in the same period. As a result, the index of all farm prices has gone up from 70 percent of parity to 107 percent of parity. These gains are protected by the joint resolution. No maximum price may be established or maintained for any agricultural commodity or for any commodity processed or manufactured in whole or substantial part from any agricultural commodity below the price which will reflect to the producers of agricultural commodities either a parity price for that commodity or the highest price received by the producers between January 1 and September 15, 1942, adjusted for grade, location, and seasonal differentials.

Thus the joint resolution insures that the farmers will receive parity income, while at the same time insuring that the prices for agricultural commodities will not rise to such a further point as to threaten our entire national economy.

The situation with respect to wages and salaries is equally serious. Since 1939, hourly wage rates in all manufacturing industries have advanced about 30 percent and the aggregate of wages and salaries paid out has advanced 71 percent. From January 1, 1941, to May 1942, unit labor costs increased at the average rate of 1.1 percent per month. Unit labor costs will unquestionably increase still further, even apart from increases in wage rates, as a consequence of the loss of skilled workers, introduction of less skilled labor and inevitable transportation and other delays.

At present, salaries are wholly uncontrolled, and wage decisions of the War Labor Board are limited, under existing authority, to disputes brought before it by the parties. But full control of wages and salaries must proceed simultaneously with control of food cost. Wages and salaries cannot be wholly stabilized if the costs of the food that the employee buys continues to rise.

Higher wages and higher farm incomes give impetus to the rising inflationary tides in still another way, by expanding consumer purchasing power at a time when the volume of consumer goods, services, and other needs are rapidly diminishing.

Drastic action is imperative if we are not to have disastrous inflation. That action cannot wait until tomorrow, next week or next month. By then it will be too late. It must be taken now. To insure that there will be no delay the joint resolution requires the President on or before November 1, 1942, to issue a general order stabilizing prices, wages, and salaries affecting the cost of living.

III

ANALYSIS BY SECTIONS

Section 1 of the joint resolution, as reported, authorizes and directs the President, in order to aid in the effective prosecution of the war, to issue a general order on or before November 1, 1942, stabilizing prices, wages, and salaries, affecting the cost of living, and provides that such stabilization so far as practicable shall be on the basis of the levels which existed on September 15, 1942, except as otherwise provided in the joint resolution. The President may thereafter provide for making adjustments with respect to prices, wages, and salaries to the extent that he finds necessary to correct gross inequities, and in case such adjustments are by way of increases he may also act to the extent that he finds necessary to aid in the effective prosecution of the war. Existing controls with respect to rents are not affected.

Section 2 of the joint resolution as reported authorizes the President to promulgate such regulations as may be necessary and proper to carry out its provisions, and to exercise any power or authority conferred upon him by the resolution through such department, agency, or officer as he shall direct. Provision is also made for the suspension by the President of sections 3 (a) and 3 (c) of the Emergency Price Control Act of 1942 to the extent that such sections are inconsistent with the provisions of the resolution, and it is also provided that he may not under the authority of the resolution suspend any other law or part thereof.

Section 3 of the joint resolution as reported provides a new price limitation for the establishment or maintenance of maximum prices for any agricultural commodity or for any commodity processed or manufactured in whole or substantial part from any agricultural commodity. This new basis would not permit action to be taken under the joint resolution or otherwise with respect to the establishment or maintenance of such maximum prices if such prices will not reflect to producers of agricultural commodities either (1) the parity or comparable price for the commodity (adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials), or (2) the highest price received by such producers for the commodity between January 1 and September 15, 1942 (similarly adjusted), whichever is higher. The President may, however, without regard to the limitation contained in (2), adjust any such maximum price to the extent that he finds necessary to correct gross inequities. This is not true, however, with respect to the limitation contained in clause (1). It is further provided that modifications shall be made, under regulations to be prescribed by the President, in such maximum prices if it appears that such modifications are necessary to increase production of the commodity for war purposes, or if it is satisfactorily shown that by reason of increased labor or other costs to the producer of the agricultural commodity the maximum prices so established will result in gross inequities.

Section 4 of the joint resolution as reported imposes limitations upon any action taken under the authority of the resolution with respect to wages or salaries. No action is to be taken which is inconsistent with the provisions of the Fair Labor Standards Act of 1938, as amended, or the National Labor Relations Act. Also, no action is

to be taken under the resolution for the purpose of reducing wages or salaries for any particular work below the highest wages or salaries paid therefor between January 1 and September 15, 1942, except that the President may adjust such wages or salaries to the extent that he finds necessary to correct gross inequities.

Section 5 of the joint resolution as reported prohibits employers from paying, and employees from receiving, wages or salaries in contravention of regulations promulgated by the President. A penalty of not more than \$1,000 is provided for willful violations of such regulations. The President may also provide the extent to which any wage or salary payment made in contravention of such regulations shall be disregarded by governmental agencies in determining the costs or expenses of employers.

Section 6 of the joint resolution as reported provides for terminating the resolution and all regulations thereunder on June 30, 1944, or on such earlier date as the Congress by concurrent resolution, or the President by proclamation, may prescribe. An exception is made in the case of sections 8 and 9 relating to loans upon agricultural commodities by the Commodity Credit Corporation, since such sections are applicable to crops of the commodities for any calendar year which begins during the continuance of the present war.

Section 7 (a) of the joint resolution as reported extends the life of the Emergency Price Control Act of 1942 from June 30, 1943, to June 30, 1944.

Section 7 (b) provides for making applicable to regulations or orders issued by the Price Administrator in exercising any functions delegated to him under the resolution, all provisions (including prohibitions and penalties) of the Emergency Price Control Act of 1942 which are applicable with respect to orders or regulations under such act. This makes clear that all provisions of the Emergency Price Control Act, including administrative, procedural, and punitive sections, are applicable to regulations issued pursuant to any authority conferred under this joint resolution, as well as to regulations issued or to be issued by the Administrator under the Price Control Act.

Section 7 (c) provides that nothing in the resolution shall be construed to invalidate any provision of the Emergency Price Control Act of 1942 (except sections 3 (a) and 3 (c) of such act) or to invalidate any regulation, price schedule, or order issued or effective under such act. This section is intended to make it clear that any regulation heretofore or hereafter issued and valid under the Emergency Price Control Act is not in any way impaired.

Section 8 of the joint resolution as reported provides that, for crops for the year 1942 and subsequent years which begin during the continuance of the present war, the basic loan rate for the mandatory loans made by the Commodity Credit Corporation on the six basic agricultural commodities (wheat, corn, cotton, rice, tobacco, and peanuts) shall be 90 percent of parity instead of 85 percent of parity as provided by present law. In other respects these loans will be made subject to the provisions of present law. Loans will not be made on crops for which producers have disapproved marketing quotas.

Section 9 of the joint resolution as reported amends section 4 of the act of July 1, 1941 (the Steagall amendment), which now provides that whenever the Secretary of Agriculture finds it necessary to encourage the expansion of production of any nonbasic agricultural

commodity, he shall use the funds available to him so as to support (through commodity loans, purchases, or other operations) a price for such commodity of not less than 85 percent of the parity or comparable price. The amendments made by this joint resolution provide (1) that when the Secretary has undertaken to support the price of an agricultural commodity under this section, such support shall be continued until the end of the present war, (2) that the price shall be supported at not less than 90 percent of the parity or comparable price (in lieu of the present 85 percent), and (3) that for the purposes of the section peanuts shall be regarded as a basic commodity.

Section 10 of the resolution as reported defines the terms "wages" and "salaries" to include additional compensation on an annual or other basis paid by employers to their employees for personal services (excluding insurance and pension benefits in a reasonable amount to be determined by the President); but for any period prior to September 16, 1942, such additional compensation is to be taken into account only where it has been customarily paid. This means that additional compensation of employees in the form of bonuses, insurance or pension benefits, or other forms will be subject to stabilization and regulation under the joint resolution. In cases where employers have customarily paid such compensation in the past, they could, subject to the power to make adjustments to correct gross inequities, continue to make such payments. In cases where such compensation has not been customarily paid in the past, its payment in the future would be regarded as a wage or salary increase for the purposes of this joint resolution. However, an exception is made with respect to insurance and pension benefits, in a reasonable amount to be determined by the President, so that employers may in the future provide such benefits for their employees even though they have not provided such benefits in the past.

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PLACING A FLOOR UNDER PRICES OF FARM PRODUCTS

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

A RECOMMENDATION THAT CONGRESS PASS LEGISLATION
PLACING A FLOOR UNDER PRICES OF FARM PRODUCTS

SEPTEMBER 7, 1942.—Referred to the Committee on Banking and Currency and
ordered to be printed

WASHINGTON, D. C., September 7, 1942.

To the Congress of the United States:

Four months ago, on April 27, 1942, I laid before the Congress a seven-point national economic policy designed to stabilize the domestic economy of the United States for the period of the war. The objective of that program was to prevent any substantial further rise in the cost of living.

It is not necessary for me to enumerate again the disastrous results of a runaway cost of living—disastrous to all of us, farmers, laborers, businessmen—the Nation itself. When the cost of living spirals upward, everybody becomes poorer, because the money he has and the money he earns buys so much less. At the same time the cost of the war, paid ultimately from taxes of the people, is needlessly increased by many billions of dollars. The national debt, at the end of the war, would become unnecessarily greater. Indeed, the prevention of a spiraling domestic economy is a vital part of the winning of the war itself.

I reiterate the seven-point program which I presented April 27, 1942:

1. To keep the cost of living from spiraling upward, we must tax heavily, and in that process keep personal and corporate profits at a reasonable rate, the word "reasonable" being defined at a low level.

2. To keep the cost of living from spiraling upward, we must fix ceilings on the prices which consumers, retailers, wholesalers, and manufacturers pay for the things they buy; and ceilings on rents for dwellings in all areas affected by war industries.

3. To keep the cost of living from spiraling upward, we must stabilize the remuneration received by individuals for their work.

4. To keep the cost of living from spiraling upward, we must stabilize the prices received by growers for the products of their lands.

5. To keep the cost of living from spiraling upward, we must encourage all citizens to contribute to the cost of winning this war by purchasing War bonds with their earnings instead of using those earnings to buy articles which are not essential.

6. To keep the cost of living from spiraling upward, we must ration all essential commodities of which there is a scarcity, so that they may be distributed fairly among consumers and not merely in accordance with financial ability to pay high prices for them.

7. To keep the cost of living from spiraling upward, we must discourage credit and installment buying, and encourage the paying off of debts, mortgages, and other obligations; for this promotes savings, retards excessive buying, and adds to the amount available to the creditors for the purchase of War bonds.

In my message of 4 months ago, I pointed out that in order to succeed in our objective of stabilization it was necessary to move on all seven fronts at the same time; but that two of them called for legislation by the Congress before action could be taken. It was obvious then, and it is obvious now, that unless those two are realized, the whole objective must fail. These are points numbered 1 and 4—namely, an adequate tax program and a law permitting the fixing of price ceilings on farm products at parity prices.

I regret to have to call to your attention the fact that neither of these two essential pieces of legislation has as yet been enacted into law. That delay has now reached the point of danger to our whole economy.

However, we are carrying out, by Executive action, the other parts of the seven-point program which did not require congressional action.

Price ceilings have been fixed on practically all commodities (other than certain exempted agricultural products), and on rents in war-production areas of the United States.

This process of keeping prices and rents at reasonable levels constitutes one of the most far-reaching economic steps that this Nation has ever taken—in time of peace or war.

Our experience during the last 4 months has proved that general control of prices is possible—but only if that control is all inclusive. If, however, the costs of production, including labor, are left free to rise indiscriminately, or if other major elements in the costs of living are left unregulated, price control becomes impossible. If markets are flooded with purchasing power in excess of available goods, without taking adequate measures to siphon off the excess purchasing power, price control becomes likewise impossible.

Our entire effort to hold the cost of living at its present level is now being sapped and undermined by further increases in farm prices and in wages, and by an ever-continuing pressure on prices resulting from the rising purchasing power of our people.

Annual wage and salary disbursements have increased from 43.7 billion dollars in 1939 to an estimated 75 billion dollars in 1942. This represents an increase of 71 percent. To obtain a full appreciation of what that increase means, we should remember that 75 billion dollars is more than our total national income was during any single year in

the 1930's. Due to constantly increasing employment, overtime, and wage-rate increases, the annual wage and salary bill for the entire country has been rising by more than a billion dollars a month.

It is impossible for the cost of living to be stabilized while farm prices continue to rise. You cannot expect the laborer to maintain a fixed wage level if everything he wears and eats begins to go up drastically in price. On the other hand, it is impossible to keep any prices stable—farm prices or other prices—if wage rates, one of the most important elements in the cost of production, continue to increase.

But even if the process of stabilization of all prices and wages at present levels were to be brought about, there would still remain the great upward pressure on the cost of living created by the vast amount of purchasing power which has been earned in all sections of the country. The national income has been increasing since January 1, 1941, at the average rate of 2 percent each month. This purchasing power now exceeds by an estimated 20 billions the amount of goods which will be available for purchase by civilians this year. The result obviously is that people compete more and more for the available supply of goods; and the pressure of this great demand compared with the small supply—which will become smaller and smaller—continually threatens to disrupt our whole price structure.

A recent study by the Bureau of Labor Statistics has shown very strikingly how much the incomes of the average of families have gone up during the first quarter of 1942. If we assume that the income for the first quarter of 1942 is a fair basis for estimating what the family income will be for the entire year, the results of the study show that whereas less than one-fourth of all families in the United States received as much as \$2,500 in 1941, more than one-third will have \$2,500 or more in 1942. This shows how much the purchasing power of the average American family has gone up as a result of war production and how essential it is to control that purchasing power by taxation and by investment in War bonds.

We also know that as the war goes on there will not be an adequate supply of all civilian goods; that only through strict rationing, wherever necessary, will these goods be equitably distributed. We are determined that no group shall suffer a shrinkage of its normal quota of basic necessities because some richer group can buy all the available supply at high prices.

In normal peacetimes the ordinary processes of collective bargaining are sufficient in themselves. But in wartimes and particularly in times of greatly increasing prices, the Government itself has a very vital interest in seeing to it that wages are kept in balance with the rest of the economy. It is still the policy of the Federal Government to encourage free collective bargaining between employers and workers; and that policy will continue. Owing to the fact that costs of production are now, in so many cases, being passed on to the Government, and that so large a percentage of profits would be taken away by taxation, collective bargaining between employers and employees has changed a great deal from what it was in peacetimes. In times of danger to our economy the Government itself must step into the situation to see to it that the processes of collective bargaining and arbitration and conciliation are not permitted to break up the balances between the different economic factors in our system.

War calls for sacrifice. War makes sacrifice a privilege. That sacrifice will have to be expressed in terms of a lack of many of the things to which we all have become accustomed. Workers, farmers, white-collar people, and businessmen must expect that. No one can expect that, during the war, he will always be able to buy what he can buy today.

If we are to keep wages effectually stabilized, it becomes imperative, in fairness to the worker, to keep equally stable the cost of food and clothing and shelter and other articles used by workers.

Prices and rents should not be allowed to advance so drastically ahead of wage rates that the real wages of workers as of today—their ability to buy food and clothing and medical care—will be cut down. For if the cost of living goes up as fast as it is threatening to do in the immediate future, it will be unjust, in fact impossible, to deny workers rises in wages which would meet at least a part of that increase.

The cost of all food used by wage earners—controlled and uncontrolled—has been going up at the rate of 1½ percent per month since the price ceilings were set in May 1942. If this rise should be permitted to continue, the increased cost of food to wage earners next May would be more than 15 percent over the level which existed when the ceilings were set.

This would be equal to imposing a 15-percent sales tax on all food purchased by wage earners. Obviously no one would consider imposing such a tax.

This drastic increase has been caused, and will be caused, chiefly by the fact that a number of food commodities are exempt under existing law.

In the case of these exempt commodities the increases are even more startling. The cost of such food used by wage earners has been rising at an average of 3½ percent per month since May 1, 1942.

Prices received by farmers have risen 85 percent since the outbreak of the war in September 1939, and these prices are continuing to rise. Cash farm income, including Government payments, has increased from 8.7 billion dollars in 1939 to substantially more than 15 billion dollars in 1942. This is an increase of about 75 percent.

The movement of uncontrolled food prices since May 18, 1942, the date when price regulation became effective, has been so drastic as to constitute an immediate threat to the whole price structure, to the entire cost of living, and to any attempt to stabilize wages.

Within 2 months after the date that price regulation became effective, the prices of controlled foods actually fell seven-tenths of 1 percent. But uncontrolled foods advanced 7.3 percent during the same period, and are still going up.

To give some specific examples: From May to August of this year round steak and pork chops, which are controlled, showed a slight decline; but during the same period lamb, which was uncontrolled up to July, advanced more than 10 percent, and chickens have advanced more than 16 percent.

To take another example: Lard, which is a controlled product, dropped nearly 5 percent; whereas, butter, which is uncontrolled, went up more than 6 percent or twice the normal seasonal rate. Oranges have gone up more than 25 percent, although the normal seasonal increase is only about 6 or 7 percent.

Uncontrolled agricultural commodities include some of the most important of the foods and include the grain foods necessary for livestock. When you consider that in this category are wheat, corn, oats, barley, rye, dry beans, cotton, sweetpotatoes, apples, sheep, butterfat, wholesale milk, chickens, eggs, and oranges, you can realize how important these products are to the pocketbook of the housewife.

The greatest danger is in dairy products, which are, as you know, most important items in the American diet. Butter, cheese, and evaporated milk are exempt under the Price Control Act. The prices for these have been going up so fast that they constitute a serious threat to an adequate supply of fluid milk. Unless we are able to get control of butter, cheese, and other dairy products in the very near future, the price of milk in large cities is certain to go up.

If wages should be stabilized and farm prices be permitted to rise at any rate like the present rate, workers will have to bear the major part of the increase. This we cannot ask. The Congress must realize that unless the existing control over farm prices is strengthened, we must abandon our efforts to stabilize wages and salaries and the cost of living. If that occurs, workers and farmers alike will not only suffer a reduction in real income, but will bring upon themselves and the Nation the unparalleled disaster of unchecked inflation.

The reason why price ceilings have not already been imposed on all food products is, as you know, that paragraph 3 of the Emergency Price Control Act prohibits such ceilings until farm prices as a whole have gone up beyond parity prices—far beyond—as high as an average of 16 percent beyond.

Although that restriction upon establishing ceilings for farm products usually is referred to as the 110 percent of parity limitation, it is much worse than that. The statute provides other limitations which are more drastic. Ceilings cannot be imposed, under the statute, on any product at a level below the market price on October 1, 1941, or December 15, 1941, or the average price for the period July 1, 1919 to June 30, 1929, or below 110 percent of current parity, whichever of those four levels is highest. As a result, the lowest average level for all farm commodities at which ceilings may be imposed is not 110 percent, but 116 percent of parity—some of the commodities going almost as high as 150 percent of parity.

Even more important is the psychological effect of such unfair privilege. It provides fuel for fires of resentment against farmers as a favored class. After all, parity is, by its very definition, a fair relationship between the prices of the things farmers sell and the things they buy. Calculations of parity must include all costs of production including the cost of labor. As a result parity prices may shift every time wage rates shift. Insisting that the ceilings on no farm commodity shall ever be lower than 110 percent of parity is asking for more than a fair price relationship with other prices.

In fact, the limitations on agricultural ceilings are now being cited by other groups as a reason for resisting economic controls that are needed in their own fields. The limitations will be a rallying point for such opposition as long as they are in effect.

As I urged in my message of April 27, 1942, "the original and excellent objective of obtaining parity for the farmers of the United States should be restored."

Our policy with respect to farm products should be guided by three principles: First, to hold the line against inflationary price increases. Second, to get the required production of necessary farm products. Third, to maintain the principle of parity for agriculture.

Agricultural ceilings should be permitted at either parity or at the price levels which prevailed at some recent date, whichever is higher. In most cases the formula would preserve the general structure of wholesale and retail price controls, and would also call out the volume of production needed. Also, it would preserve the parity principle.

In regard to increasing the total of our food production, one of the worries that a farmer has today is the shortage of labor for cultivating and harvesting crops. The time is soon coming when in many parts of the country we shall have to use seasonally the help of women and grown young people. I feel certain the Nation will cooperate wholeheartedly.

It not only would be unfair to labor to stabilize wages and do nothing about the cost of food; it would be equally unfair to the farmer. For we must all remember that the farmer's wife buys many articles of food at the store for the use of her own family, and high prices hurt her pocketbook as much as that of the city housewife.

What is needed, therefore, is an over-all stabilization of prices, salaries, wages, and profits. That is necessary to the continued production of planes and tanks and ships and guns at the present constantly increasing rate.

We cannot hold the actual cost of food and clothing down to approximately the present level beyond October 1. But no one can give any assurances that the cost of living can be held down after that date.

Therefore, I ask the Congress to pass legislation under which the President would be specifically authorized to stabilize the cost of living, including the price of all farm commodities. The purpose should be to hold farm prices at parity, or at levels of a recent date, whichever is higher.

I ask the Congress to take this action by the 1st of October. Inaction on your part by that date will leave me with an inescapable responsibility to the people of this country to see to it that the war effort is no longer imperiled by threat of economic chaos.

In the event that the Congress should fail to act, and act adequately, I shall accept the responsibility, and I will act.

At the same time that farm prices are stabilized, wages can and will be stabilized also. This I will do.

The President has the powers, under the Constitution and under congressional acts, to take measures necessary to avert a disaster which would interfere with the winning of the war.

I have given the most thoughtful consideration to meeting this issue without further reference to the Congress. I have determined, however, on this vital matter to consult with the Congress.

There may be those who will say that, if the situation is as grave as I have stated it to be, I should use my powers and act now. I can only say that I have approached this problem from every angle, and that I have decided that the course of conduct which I am following in this case is consistent with my sense of responsibility as President in time of war, and with my deep and unalterable devotion to the processes of democracy.

The responsibilities of the President in wartime to protect the Nation are very grave. This total war, with our fighting fronts all over the world, makes the use of executive power far more essential than in any previous war.

If we were invaded the people of this country would expect the President to use any and all means to repel the invader.

The Revolution and the War between the States were fought on our own soil, but today this war will be won or lost on other continents and remote seas.

I cannot tell what powers may have to be exercised in order to win this war.

The American people can be sure that I will use my powers with a full sense of my responsibility to the Constitution and to my country. The American people can also be sure that I shall not hesitate to use every power vested in me to accomplish the defeat of our enemies in any part of the world where our own safety demands such defeat.

When the war is won, the powers under which I act automatically revert to the people—to whom they belong.

In March and April 1933, this Nation faced a threatening domestic situation calling for the most drastic measures. The Congress, alive to the needs of that day, formulated and enacted whatever was required to do the job before it—without long debate, without party politics and without heed to the pressures of any special group looking for advantages for itself.

I need not argue the point that the situation facing the Nation today is infinitely more critical than it was 10 years ago. We are fighting a war of survival. Nothing can yield to the over-all necessity of winning this war, and the winning of the war will be imperiled by a runaway domestic economy.

As a part of our general program on farm prices, I recommend that Congress in due time give consideration to the advisability of legislation which would place a floor under prices of farm products, in order to maintain stability in the farm market for a reasonable future time. In other words, we should find a practicable method which will not only enable us to place a reasonable ceiling or maximum price upon farm products but which will enable us also to guarantee to the farmer that he would receive a fair minimum price for his products for 1 year, or even 2 years—or whatever period is necessary after the end of the war. Every farmer remembers what happened to his prices after the last war. We can, I am sure, if we act promptly and wisely, stabilize the farmers' economy so that the post-war disaster of 1920 will not overtake him again.

The farmer, instead of looking forward to a new collapse in farm prices at the end of the war, should be able to look forward with assurance to receiving a fair minimum price for 1 or 2 years after the war. Such a national policy could be established by legislation.

In computing parity, we should continue to use the computations of the Bureau of Agricultural Economics made under the law as it stands today. And in determining whether a commodity has reached parity, we should include all the benefits received by the farmer from his Government under the A. A. A. program, allocable to the particular commodity. For it is unfair to give a farmer a parity price, and, in addition, to pay him benefits which will give him far more than parity.

I have confidence that the American farmer who has been doing so

much in the battle of production of food will do as much in this struggle against economic forces which make for the disaster of inflation; for nobody knows better than the farmer what happens when inflationary, wartime booms are permitted to become post-war panics.

With respect to point seven of the program of April 27, 1942, we have made certain credit rulings designed to curtail unnecessary buying; and whatever else has to be done along these lines will be done.

With respect to point six, rationing is now in effect on some commodities, and, when necessary, will be extended to others.

But with respect to point 1—a fair tax program—that still waits upon the Congress to act.

One of the most powerful weapons in our fight to stabilize living costs is taxation. It is a powerful weapon because it reduces the competition for consumers' goods—especially scarce foods.

The cooperation and self-restraint of the whole Nation will be required to stabilize the cost of living. The stabilization of the cost of living cannot be maintained without heavy taxes on everyone except persons with very low incomes. With such increases in the tax load, unfair tax distribution becomes less and less tolerable. We can rightfully expect the fullest cooperation and self-restraint only if the tax burden is being fairly levied in accordance with ability to pay.

This means that we must eliminate the tax exemption of interest on State and local securities, and other special privileges or loopholes in our tax law.

It means that in the higher income brackets, the tax rate should be such as to give the practical equivalent of a top limit on an individual's net income after taxes, approximating \$25,000. It means that we must recapture through taxation all wartime profits that are not necessary to maintain efficient all-out war production. Such provisions will give assurance that the sacrifices required by war are being equitably shared.

Next to military and naval victory, a victory along this economic front is of paramount importance. Without it our war production program will be hindered. Without it we would be allowing our young men, now risking their lives in the air, on land, and on the sea, to return to an economic mess of our own making. The least that we at home can do for them is to see that our production increases every day so as to give them the weapons of war with which to fight, and to make sure that our economy at home continues to be one to which they can return with confidence and security.

FRANKLIN D. ROOSEVELT.

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