

April 27, 1942

[Message to Congress - SIR Draft]

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FDR MESSAGE TO CONGRESS

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April 27, 1942 - Message to Congress

23-Page Draft sent in by AH-SL.GC (7) 4/11/42. Corrections by S.I.R.

Draft 1 - Carbon - with typed inserts A & B but no handwriting.

Draft 2 - Carbon - just lines on pages 6 & 7 to mark certain parts.

Third Draft - Carbon - S.I.R. corrections.

Fourth Draft - Carbon - S.I.R. corrections.

Fifth Draft - Carbon - S.I.R. corrections.

Memos from Judge Samuel Hall, Isidore Lubin, The Treasury, Leuchlin Currie, Milton Elov, Felix Frankfurter, Office of Price Administration and Civilian Supply (David Ginsburg - Counsel), Bernard Baruch, Bureau of the Budget, Joseph Proskauer, Hillman's staff, C.I.O., Office of Facts & Figures, A.F.L.

Brief Notes on Meeting in Cabinet Room, The White House, Friday, April 10, 1942 to Discuss Anti-inflation Measures.
S.I.R. longhand notes on above conference.



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AH-SL-06 4/9/42
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MESSAGE TO CONGRESS

A WAR PROGRAM TO PREVENT INFLATION

I. The Essentials of an Integrated Program

As of today the war is taking about one-third of the entire national income. Next year it will take more than one-half. All of this means great speed and great quantity of war production, both of which are essential to winning the war.

~~The sums needed for the war effort are unheard of and actually exceed our budget estimates.~~ ⁷ ~~Since~~ One year ago we were spending 750 million dollars a month for defense, war expenditures are now 3 billion dollars a month — one hundred million dollars every day. They will surpass 5 billion dollars a month before the end of this calendar year and will not recede until victory is won. The increase in war expenditures, it is now evident, will exceed the budget estimates which I presented to you three months ago. The tremendous increase in war expenditures, unless properly managed, will cause a dislocation of the national economy. If that should happen, it may seriously undermine the war effort. That is a menace as serious as a flank attack from the enemy.

The expenditure of these unprecedented sums means that more and more funds are entering the pocketbooks and bank accounts of nearly every civilian in the United States. While the flow of money is thus increasing, the supply of goods, both luxuries and neces-



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ities, normally available for purchase by civilians is being constantly cut down day by day, as raw materials and machinery are being turned into war use by the Government and as our enemies make inroads upon normal sources of supply from abroad. It is a simple, plain fact that no matter what our money income, we shall have no consumers' durable goods to buy — no automobiles, no household electrical appliances. Our excess money income will therefore go to increase the prices of bread, food, clothing and in general the necessities of life. The increase in wages will be entirely offset by increases in the cost of living. As the cost of living rises, there will naturally be a demand for higher wages. This, in turn, will cause a further bidding up of prices of the limited supplies — and so the endless circle becomes a disastrous spiral of inflation, ultimately ending in distortion, dislocation and chaotic derangement of the entire economy.

Today, our position is like that in the summer of 1916. In the first two years after the outbreak of the First World War, only a moderate price advance occurred. From 1914 to 1916 a great expansion of production and employment took place. But once this period was over, once production of civilian goods could no longer be increased, scarcities developed. At that moment an explosive rise in prices began. In 10 months, from July 1916 to May 1917, the wholesale index of prices rose 45 percent.



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Things are much the same today.

In April 1942, as in July 1916, a point has been reached where further price rises threaten to set in motion the vicious circle of inflation. The price rise of 1916 should have been stopped that summer. Today we shall do what we failed to do in 1916.

A piecemeal approach to the problems of production, price control, wage policy, and fiscal policy is no longer adequate. No single action alone on wages, or prices, or taxes will do the job. For example, a rise in prices now, in April 1942, cannot be prevented as long as increases in wage rates are not restricted. Yet, if the cost of living is allowed to rise, labor cannot be asked, in justice, to forego higher wages. And common sense tells us that rationing, while necessary to control specific scarcities, cannot alone hold back the flood tide of the current, rapidly rising purchasing power.

Severe taxation designed to drain off excess purchasing power is likewise ineffective by itself alone to prevent inflation, so long as these taxes can be offset by higher prices, higher wages, higher profits, or increased credit.

I have become convinced that the only effective course of action is a simultaneous attack on all these problems through an integrated program -- aimed simultaneously at wages, prices, profits, hours of work, farm commodities, and taxes, and control of credit. By passing a comprehensive program now -- and it must be now -- we can avoid issuing a future communique from the home front of "too little and too late."



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MESSAGE TO CONGRESS

A WAR PROGRAM TO PREVENT INFLATION

I. The Essentials of an Integrated Program

Three months ago I appeared before you and outlined a war production program of unprecedented size -- a program of planes, tanks, guns, and ships. It was a program necessary for victory. A few days later, I transmitted to you the estimates of expenditures required for the production program. Some skeptics at home and abroad questioned the possibility of even approaching the goals then set.

Today I can inform you that production and shipment of essential war material is making excellent progress. The cooperative effort of management and labor is bringing success on the production front. The development in war expenditures actually exceeds our budget estimates.

The sums needed for the war effort are unheard of indeed. Whereas one year ago we were spending 750 million dollars a month for defense, war expenditures are now 3 billion dollars a month -- one hundred million dollars every day. They will surpass 5 billion dollars a month before the end of this calendar year and will not recede until victory is won.

As of today the war is taking about one-third of the entire national income. Next year it will take more than one-half. All of this means great speed and great quantity of



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war production, both of which are essential to winning the war. The tremendous increase in war expenditure may, on the otherhand, also mean a dislocation of the national economy. If that should happen, it may seriously undermine the war effort. That is a menace as serious as a flank attack from the enemy.

The expenditure of these unprecedented sums means that more and more funds are entering the pocketbooks and bank accounts of nearly every civilian in the United States. While the flow of money is thus increasing, the supply of goods, both luxuries and necessities, normally available for purchase by civilians is being constantly out down day by day, as raw materials and machinery are being turned into war use by the Government and as our enemies make inroads upon normal sources of supply from abroad. ^P It is a simple, plain fact that the increase in the supply of spending money accompanied by a decrease in the quantity of purchasable goods must result in rapidly increasing prices. As prices rise, the cost of living will rise. When this increase is felt, there will naturally be a demand for higher wages, and perhaps higher profits. Costs will increase. This, in turn, will cause a further rise in prices — and so the endless circle becomes a disastrous spiral of inflation, ultimately ending in disaster. The time to stop this futile race between wages, prices, costs, and profits has arrived.

Today, our position is like that in the summer of 1916. In the first two years after the outbreak of the first World War, only a moderate price advance occurred. From 1914 to 1916 a great expansion



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of production and employment took place. But once this period was over, once production of civilian goods could no longer be increased, scarcities developed. At that moment an explosive rise in prices began. In 10 months, from July 1916 to May 1917, the wholesale index of prices rose 45 percent.

Things are much the same today.

In April 1942, as in July 1916, a point has been reached where further price rises threaten to set in motion the vicious circle of inflation. The price rise of 1916 should have been stopped that summer. Today we shall do what we failed to do in 1916.

A piecemeal approach to the problems of production, price control, wage policy, and fiscal policy is no longer adequate. ^{or indeed, just.} No single action alone on wages, or prices, or taxes will do the job. For example, a rise in prices now, in April 1942, cannot be prevented as long as increases in wage rates are not restricted. Yet, if the cost of living is allowed to rise, labor cannot be asked, in justice, to forego higher wages. Rationing has been advocated by some as a single cure for inflation, but ^{that will be wholly ineffective, for} all these increased wartime incomes will seek other outlets.

Severe taxation designed to drain off excess purchasing power will also be ineffective to prevent inflation by itself, so long as these taxes can be offset by higher prices, higher profits, or increased credit.

I have become convinced that the only effective course of action is a simultaneous attack on all these problems through ^{a comprehensive} an integrated program — aimed simultaneously at wages, prices, profits, hours of



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work, farm commodities, and taxes. By passing a comprehensive program now -- and it must be now -- we can avoid issuing a future communique from the home front of "too little and too late."

II. Executive Orders

The program I am about to present to you is an all-out attack on inflation directed at all fronts. It is a unified plan. Each portion of the program is vital to the success of the whole.

A large part of the powers necessary to cope with this situation has been placed at the disposal of the Executive by laws which have already been passed by Congress. I have proceeded to put the plan into effect to the limit of the broad executive powers you have conferred upon me. I have gone as far as I am able to go. A comprehensive all-out anti-inflationary program requires, however, additional legislation by the Congress.

I shall outline to you first the steps which I have already taken, and I shall then indicate the measures which, in my judgment, the Congress must enact in order to make the entire program effective and workable. [The Executive power has been used to freeze all prices and to stabilize rents. No further general increases in wage rates will be approved. I proclaim that the standard work week be 48 hours per week in war industries with retention of overtime pay above 40 hours per week. Consumer credit controls will be tightened. This is as far as I can go under the powers now at my command to prevent price inflation.]



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Price Ceiling

The first item on the program is the freezing of prices — prices of everything. I have instructed the Price Administrator to establish a ceiling for all commodities as far as it is possible under the Emergency Price Control Act of 1942. All commodity prices are *to be* stopped at the retail and wholesale level as well as at all stages of production and manufacture. This order, issued today, will be effective as of _____ and will be based on the prices prevailing between _____.

The entire price structure — farm prices, prices of manufacturers, wholesalers, and retailers — is currently in better balance on the whole than it has been for the past decade. This is a significant and fortunate fact. The present is therefore an opportune time for over-all price freezing.

I realize fully that rigid price freezing at all stages of production and distribution may result in difficulties and temporary inequalities. But I assure you there will always be an adequate supply of the real necessities of life available at reasonable cost to all citizens. This is a major concern of the Office of Price Administration.

In order to maintain rigid retail price ceilings, adjustments will be made wherever possible at the production and wholesale levels. In a few exceptional cases, producers' prices, adjusted to present retail prices, may be too low to bring forth the necessary volume of production. In such instances, subsidies of an appropriate character



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may be given to stimulate needed production, as provided in the Emergency Price Control Act. ^{however} _{in} Legislation is required to permit the freeing of certain agricultural commodities.

Retail prices will be rigidly held. The Government confidently expects the American people to support and sustain this price-freezing order at the retail level and to help assure its success through self-policing. Every buyer can help. Every housewife knows the prices that she has been paying in the immediate past. There are, therefore, millions of buyer-policemen willing to enforce the price-freezing order in their own self-interest. The administration of the act will, however, devolve upon local boards now being organized *by the Price Administrator.*

Rent Freezing

The control of prices must necessarily also include the control of rents. Rents are a large factor in every family budget. They are on the increase throughout the country. The Price Administrator has issued a declaration today setting forth the necessity for stabilization of rents in _____ defense areas. These areas include almost all industrial communities in the country and affect about 90 million of the population. Such action exhausts the power granted to the Price Administrator by the Emergency Price Control Act. ^D Legislation is needed to extend this power to the entire country.

Wage Freezing

If the cost of living is to be stabilized at present levels, wage rates, too, must be fixed at the levels now in effect. Stabilization



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of the cost of living, on the other hand, makes such action on the wage front both possible and fair to labor. Consequently, I have this day directed the War Labor Board to approve no further increases in basic wages or salaries, except in cases where compensation is now below 40 cents an hour, and I am so instructing other governmental agencies dealing with wages, production, and Government contracts.

Substandard wage rates below 40 cents an hour should remain free to rise. This exception avoids the creation of additional administrative problems involved in the control of wages for agricultural labor and domestic services. It also avoids conflict with the declared national policy of the Fair Labor Standards Act, in accordance with which the rates of remuneration are being raised to a minimum of 40 cents an hour in industry after industry.

Such policy enables us to preserve and increase the health and productivity of workers in the lowest income groups. To do less will impair the efficiency of war production.

Above the 40-cent level, exceptions to our general policy should be made only in those rare instances where readjustments may be necessary if war industries are to obtain or retain an adequate supply of labor. This exception will apply almost exclusively to certain new war plants not yet fully staffed and operating.



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The freezing of wage rates for the duration applies to jobs and tasks performed, not to individuals. That means that if a man holding a certain job now is promoted to a higher position, his rate of pay can be increased to that previously established for the new job to which he has been promoted. In this way, although no further increase in wage rates will be approved, individual workers will still have freedom and opportunity to qualify for new positions, for promotions, or for transfer to different and higher-rated jobs. It allows ample scope for ambition and intensification of productive activity.

The 48-Hour Work Week

Intimately mixed with the question of wages is the matter of hours of labor. In spite of the clear language of the statute, many people are still deceived by some newspapers, radio commentators, and anti-labor agitators into believing that people are now prohibited or discouraged from working more than 40 hours per week. The fact is the contrary. In some industries some men are working as high as 56 hours per week and more than half of the workers in the leading war industries are now working more than 40 hours per week.

The standard work week in war industries should be one which will result in the maximum production of war weapons. There is ample evidence that, with rare exceptions, a 48-hour week will produce the



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greatest output. Beyond that, a man's working efficiency begins to decrease so that additional labor does not result in a corresponding additional production. I believe, therefore, that a national policy of a 48-hour work week in war manufacturing should prevail and I have this day issued a proclamation to that effect. I also suggest that other industries adopt 48 hours as the standard work week for the duration of the war.

Overtime Pay

Under present law, time-and-a-half must be paid for work above 40 hours in many industries. In recent weeks, the repeal of the premium for overtime work has been suggested. With basic wage rates frozen, however, the elimination of overtime payments would constitute a substantial reduction in pay for millions of workers and would eliminate a useful incentive to production. It would mean that the value of the workers' pay envelopes would be materially cut. This I do not favor. I believe, therefore, that the overtime provisions of the Fair Labor Standards Act should remain unchanged.

In some plants double time is now being paid for work on Sunday. Such a provision is inconsistent with the all-out war effort and should be discontinued. One day of rest, if possible on Sunday or if necessary, on another day of the week, should be accorded to every worker. Owing to the necessity of keeping plants going seven days a week, it is obviously impossible to have the seventh day fall on Sunday for all workers in any particular plant. Working seven days a week should be



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definitely discouraged for the sake of the worker. When seven days' work is, however, insisted upon, the seventh day -- whether it is Sunday or not -- should pay double wages as a means of inducing at least one day's rest per week.

Double time for Sunday is an example of those restrictive provisions which were justified in a period of under-employment when stretching the work over the largest possible number of employees was desirable. In the present all-out war effort, there is no room for restrictive labor practices of any kind which hinder maximum production.

Of course, this overtime increased pay is a great impetus to inflation because the workmen naturally become eager, as do all of us, to use his new purchasing power to buy things.

There is a simple solution. In a time such as this, I believe that every worker will gladly loan his Government the money he would otherwise receive above his regular rate of compensation. I therefore propose that in every case where payment above straight time is due the worker, the premium above straight time shall be given in war bonds, payable in installments after the war is over.

Such a form of payment will not only help finance the war effort. It will also add to the worker's purchasing power after the war when the worker's war job will have disappeared. Above all, however, this method of paying overtime will immediately put a steady brake on inflation.



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Consumer Credit

As a further step in our attack upon inflation, I have asked the Board of Governors of the Federal Reserve System to tighten their controls over credit now being extended to consumers. Unless these controls are effective the restraining effects of taxation and Universal Saving may be easily avoided. It will do little good to reduce purchasing power by taxation and borrowing if consumption credit is not restricted as well. Installment loans which were placed under special limitations last fall should be subject to even more stringent restrictions. Other credit controls should be devised and made effective.

I shall also call upon the monetary and credit authorities to use all possibilities of encouraging more rapid repayment of outstanding debts. Money now spent in paying off debts, like money now spent in paying taxes or in buying defense bonds, has no chance to feed an inflationary movement. Let us not allow peacetime standards of credit extension or peacetime customs of gradual debt repayment, to maintain the present excessive volume of consumer spending. We can and must take advantage of the present period of high employment and high income to pay off at least part of our private debts, our mortgages on our homes, our debts on installment purchases, our debts due at stores, and debts due to the banks.



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III. Additional Legislation

Legislative Implementation *action necessary.*

The carrying out of the anti-inflation program has required the promulgation of Executive orders and proclamations, as well as letters of policy directed to appropriate agencies. I have used executive powers under existing statutes to the limit, to hold the situation down until the Congress can enact the necessary additional legislation. The executive and the legislative actions must dovetail in the integrated program. I have had the necessary legislation incorporated in one single bill. I am asking that it be introduced at once; that it be referred to special committees of the House and the Senate; and that it be enacted as promptly as is consonant with democratic procedures. I ask you to treat this program as a war measure equally important for victory as the manufacture of weapons ^{war} of which it is designed to facilitate.

~~The legislative program includes the request to extend the power to fix agricultural prices now enjoying the protection of standards above market price; to extend the power to permit ^{fixing} stabilization of rents for residential and business premises throughout the country. I ask the Congress further to control and reduce profits by taxation stiffer than that in pending bills. In order to mop up excessive purchasing power, I request that the present income tax exemptions be lowered, that a Universal Savings system be enacted and that war consumption taxes, limited to the duration of the war and to go into effect at a later date, be adopted. I ask, finally, that you give~~



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early consideration to the possibility of extending the social security program.

Limitation and Taxation of Profits

If wages and prices are frozen as a means of preventing inflation, profits must ^{of course} also be restricted. No favorites [whatever] can be played in a war program. Freezing of profits at the present level, similarly to the freezing of wages and salaries, would not be adequate because the profits of many corporations are unjustifiably high at the present time. Profits can be restricted by either rigid, direct limitation or a resolute policy of profits taxation. Taxation, in my opinion, is the better course.

The Treasury has submitted specific recommendations for revising present profits taxation. Absorption of profits of the magnitude suggested by the Treasury is essential to a comprehensive anti-inflationary program. *Treasury page to come.*

~~With that there can be no dispute. The subject, however, is quite technical, but at the expense of being misunderstood I must call to your attention several matters with respect to corporate taxation which need correction. In the first place, an adequate recapture of war profits must be provided. This can be accomplished by raising the highest rate in the excess profits tax bracket to 100 percent and by returning to corporations war bonds to the extent that the tax rates exceed 80 percent. In the second place, greater contributions~~



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toward Government expense and to the removal of inflationary pressures should be made by companies with earnings in excess of normal standards than by companies for the first time enjoying an improved level of business activity. This requires that normal corporate tax rates be reduced to 45 percent, or thereabouts, and that increasing reliance be placed upon the excess profits tax for the reduction of war profits. To accomplish this the permissible earnings attained before the excess profits tax applies should be reduced to 5 or 6 percent of invested capital instead of being maintained at 7 or 8 percent as in the pending bill. Likewise, the base period option in the pending tax bill should be reduced from 95 to 75 (60) percent. These changes will increase the excess profits taxes paid by the more prosperous corporations -- those with ability to pay -- but will still require every company to pay 45 percent of its earnings toward the support of the war. These changes have been incorporated in the Anti-Inflation Bill which I am presenting for your consideration.

(As a possible alternative to the preceding paragraphs:

It is necessary, however, in a program that freezes prices and wages, to increase the rates for the top brackets of the excess profits tax to 100 percent. In order to preserve the full incentive for economic management, I recommend enactment of the Treasury's proposals to return to the corporations taxes in excess of 80 percent of profits for purposes of post-war reconstruction. There may be



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~~controversy as to whether further improvements in such taxation are possible. I have instructed the Secretary of the Treasury to submit further specific proposals to you for tightening profits taxation. I urge immediate consideration of these proposals by Congress.~~

I recommend also that Government procurement authorities be authorized by law to renegotiate war contracts as a means of controlling profits, as proposed by the War Production Board and the military branches. The proper officers should be empowered to disallow excessive salaries, bonuses, or reserves, and to make whatever investigations are necessary to protect the Treasury from unwarranted charges.

Farm Price Legislation

The adequate control of our price-structure must include farm prices as well as the prices of other goods. Existing legislation prohibits ceilings on agricultural commodities unless they are substantially above parity. It provides that ceilings for farm products can be placed only at the highest of several standards, one of which is 110 percent of parity.

These provisions of the Emergency Price Control Act should be repealed. Otherwise there will be increases in farm prices which will affect the cost of living all along the line. For example, among prices now below parity are those of wheat, corn, and various feeds. Every farmer knows that rising feed prices will cause rising prices for livestock, dairy, and poultry products. The average farm price of corn was 83 percent of parity as of _____, and the price of



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feeds generally are well below parity at present. Any substantial rise in feed prices would make it impossible to keep the prices of meat, poultry, and dairy products at their present levels.

For a wide range of retail commodities into which agricultural products enter as raw materials, current market prices are at levels that permit price freezing now. This has been done. As soon as the necessary legislation can be passed, I recommend, in recognition and support of the parity objective of agriculture, placing the ceiling at parity for basic commodities whose prices are now below parity. For nonbasic commodities I recommend that a ceiling be set only as prices reach parity.

In further recognition of the parity objective and of the need for assuring adequate production of feeds and food, I suggest that such subsidies or price supports as are necessary to accomplish these purposes be maintained or established. I strongly recommend, however, the elimination of the provision in the House Agricultural Appropriation Bill, which rigidly limits the sale of Government-held commodities at less than parity.

Rent Control Legislation

I request that the Emergency Price Control Act be amended so as to confer upon the Price Administrator the power to freeze rents for residential and business premises throughout the country.



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Absorption of Purchasing Power
By Taxation and Universal Saving

We cannot ask labor to accept the freezing of wages unless, at the same time, we can assure the workers that retail prices be held stable. On the other hand, the Price Administrator cannot adequately control prices so long as the consumers seek to buy more goods than are available on the market. Two methods exist for limiting this excessive consumers' demand: the first is to ration all goods; the other is to draw off the dollars which would be spent for these goods — draw them off either by taxation or borrowing, or both. Wherever there is a scarcity of important goods, we shall ration. And it is wise to warn you that the rationing system will be extended in coming months. This alone, however, will not prevent inflation. Nothing short of comprehensive rationing of the entire volume of consumer purchasing, whether goods are scarce or not, and policed by drastic methods, would be effective. Moreover, even the most fully-developed rationing system must be supported, as foreign experience has shown, by fiscal measures that absorb excessive purchasing power and prevent excessive spending. It stands to reason, therefore, that a reasonable rationing system in a democratic country must be supported by adequate fiscal measures.

The increase in the demand for civilian goods comes mainly from the newly-created purchasing power which has accrued to agriculture and labor. The practical disappearance of unemployment, the increase in the labor force, the longer hours, and the increasing wage rates



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have led to a 25 percent increase in total pay rolls during the last year. Farm income has grown even faster than that.

With the increase in war expenditures, these developments are bound to continue at an accelerated pace. If we undertake now the stupendous task of freezing retail prices at current levels all around, it is plain that we must go further than the tax proposals now pending before Congress. I indicated in my Budget Message last January that the threat of inflation might compel resort to restrictive fiscal policies for absorbing mass purchasing power. I am determined to prevent inflation and will utilize all the weapons we can command even if it involves heavier taxation or the use of tax measures which in normal times I strongly dislike and vigorously oppose. The time has now come to apply these measures. The threat of inflation now is far more clear and direct than it was last January. Three measures should be enacted at once with provision for their enlargement, if necessary, during the second half of the fiscal year 1943. To this end, I have proposed:

First, a reduction of the income tax exemptions to \$500 for single persons; \$1,000 for married persons, with a \$250 exemption for each additional dependent. The rate in the lowest taxable income bracket should start at 12 percent, with upward graduation brought into accordance with the pending Treasury bill. The initial 12 percent



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rate should be collected at the source with provision for adjustment or rebate at the end of the year.

Second, in addition to broadening the tax base, a Universal Savings plan for all citizens except the lowest income groups should be adopted.

Under this plan there would be collected at the source 5 percent of gross income in excess of \$500 for single persons and \$1,000 for married persons, but in order to avoid undue hardship in the lowest brackets, a credit of ~~\$15~~ ^{\$} for each member of the family will be allowed.

The funds so deducted under this plan would be invested in war bonds. These savings would be redeemable in cash on a systematic redemption plan at the termination of the war.

In special hardship cases, such as serious illness or other catastrophes, a portion of such savings might be made available, under administrative control, to meet emergency needs. It is proposed to make this saving easy and administratively feasible by withholding savings at the source of income. This Universal Savings plan will supplement rather than supplant the voluntary system now in successful operation under the administration of the Secretary of the Treasury. It will provide a minimum investment program for every citizen or family. It will give each a larger financial stake in the United States Government and in the winning of the war.

Above all, it will put a brake on inflation, which can be tightened in case of need.



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Seward T. Rossmore

Third, I propose a War Consumption Tax, with the exemption of certain life necessities such as milk, bread, medicines, and essential clothing.

The administrative machinery for such a tax should be organized immediately after enactment so that collection can begin not later than January 1943. I propose to call this tax a War Consumption Tax because I wish to emphasize that a levy collected at the point of retail sale, while legitimate in a great war emergency, should never be permitted to become a permanent part of our tax program. I have always opposed — and still oppose — such a tax during peacetime. I reluctantly admit that consumption taxes may be needed before the end of the fiscal year if the danger of inflation is to be removed. But I suggest that the tax be specifically limited to the war period and that it automatically expire at the end of the war.

Wartime taxes must be judged by utterly different standards from those prevailing in times of peace. The restrictive aspect of the consumption tax commends itself now when we are striving to prevent inflation, whereas it would not in normal times. If we fail to use such taxation now we may inflict far greater injury upon those groups we have long tried to help. The repeal of the War Consumption Tax in the post-war period will not only restore Federal taxation to an ability-to-pay basis but will also help to stimulate consumption and employment for the benefit of all.



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The fiscal measures of this program demand heavy sacrifices from all of us. The war production program necessitates severe cuts in consumption. In this matter we have no choice. Consumption will in any event be curtailed for the simple reason that the goods will not be there to buy. If we do not curtail consumption by a rational program, the curtailment will none the less be made through the irrational method of inflation. The realities are there and imperious necessity stares us in the face. The fiscal measures proposed in this program are designed to spread the necessary curtailment in consumption and to spread them equitably. Almost half of all consumers' goods are bought by those not materially affected by the present income tax. In order to achieve the necessary cuts without inflation, these groups too must carry their share of the burden. The Universal Savings plan will compensate in substantial measure for the immediate sacrifices incurred.

I propose these measures, designed to absorb mass purchasing power, in the confidence that the Congress will enact the proposals of the Secretary of the Treasury that the loopholes in income and profit tax laws be closed, and that the exemptions in state and gift taxation be lowered. Every man and woman in our country is willing to contribute his or her share to the fight for freedom -- but we must be sure that there are no slackers.

These proposals for fiscal legislation are an integral part of our national program to stop inflation. If any part of this program



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falls of passage, the rest of it may collapse. This places a tremendous responsibility on the Congress.

War Bond Sale

Even the drastic measures for absorption of purchasing power that I am now proposing will leave the typical worker's family with considerably more income to spend, measured in terms of real purchasing power, than it had before the defense program started. More food, clothing, and other things are required by a population that is working hard, long hours than an underemployed labor force, but — I repeat — we must exercise restraint in nonessential consumption. We rely not alone upon compulsory measures. We depend also on the voluntary cooperation of every American man and woman. The Universal Savings plan must still be supplemented by voluntary investment in war bonds. Everybody has an obligation to invest in them each dollar that can be saved by cutting nonessential expenditures, thus diminishing the need for inflationary borrowing.

Social Security Legislation

I recommended in my Budget Message of January 1942 extension of the social security program. The social security program is not in itself an anti-inflationary program, although additional social security taxes would have that effect. Social security is a program that should be considered on its own merits as an improvement in our



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basic social institutions. The extension of the social security program can, however, through proper timing, facilitate the fight against inflation. In a period of full employment, more money will be collected than will be disbursed under the various benefit schemes. The money accruing to the social security funds in such a period will be invested in Treasury bonds and will assist in financing the war in a noninflationary manner. Social security is a Universal Savings system on a collective basis.

I have instructed the Federal Security Administrator and the Social Security Board to submit to the Congress specific proposals for extension of the social security program. I urge the Congress to give early consideration to this proposal so that the extension of the social security program may facilitate war finance now and may help us in the post-war period later.

Conclusions

I have directed all executive branches of the Government to adopt policies in harmony with this Message. All that can be done has been done. It remains for the Congress now to meet the challenge of the hour by the early passage of the additional legislation necessary to make permanent the immediate gains this day proclaimed.

With all the forces at my command I ask this Congress to act quickly. I have asked for and take full responsibility for the legislation requested. Its urgency is not even a subject for debate. Given the additional powers needed, the program will be completely and quickly executed.



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INTRODUCTION - DRAFT #1

the details of the program changes have to be made from time to time, in the light of actual war developments.

For example, at this time, three and a half months later, it seems necessary for us to increase, even over the January figures, our production of ships. In the same way, events since January led us to believe that the total of the tank program ought probably to be slightly modified, using a small percentage of the proposed tank production for the building of certain other items which were not planned for in the beginning.

As in the case of the three previous programs, it will take nearly a year before we get the new program into full production. Let us remember that there are not four or five items in the program but many thousands of items in the program. In the case of many items, we are today actually ahead of schedule. In other items we are slightly behind schedule, but the general average production of all the items is satisfactory.

In the actual details of manufacture it is natural that many people who do not know the problem or the process of making things, have listened to all kinds of people who saw no harm in spreading false facts abroad. Those people ranged from those who from selfish or political motives hoped to gain an advantage and did not themselves realize the harm they were doing, to those



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~~where's coming~~

I told my Press Conference the other day that I did not like the word "inflation" -- that I wanted something simpler -- and the only substitute I can think of are the words "rise in the cost of living". That, after all, is what appeals to you and me in our daily lives.

It is an interesting fact that from the beginning of the first World War up to the time we entered it -- two years and a half -- the cost of living in this country rose about 25%, and that during a similar period between 1939 and the Spring of 1942, our cost of living has gone up about 20%. But let us take another look. Between the Spring of 1917 and the Spring of 1919, the cost of living had gone up 75% or 80% -- nearly double -- and that I am most earnestly seeking, during the next year or two, is to prevent the cost of living from going up in similar fashion.



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There is one practical reason why we ought, insofar as possible, to stabilize the cost of living: that is that if the prices of durable good and consumer goods go up drastically, the average individual and the average family is going to be poorer and will, with justification, demand higher prices for what they have to sell -- higher prices for their vegetables and their live stock and their dairy products, etc.; and the man who works for wages will properly ask for higher wages, in order to keep his family alive. That means constant turmoil. It means instability in the lives of every one of us because we never know just what it will cost us next week or next month to buy the things we need.

The cost of living is, of course, principally effected in most things by the price of raw materials -- such as the things we eat or wear, and by the cost of the labor that enters into the raising and selling of them. Furthermore, history shows that after every period of a tremendous rise in the cost of living, the whole structure reverses its course and wages and prices go down abruptly and almost everybody in the country suffers.



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It is, therefore, necessary for this country to adopt a war time policy in order to stop any more abrupt rises in the cost of things that enter into the cost of living — and your Government is compelled by the danger of an abrupt rise to set forth a policy -- an objective -- in simple terms which, when it is understood, will, I am confident, be accepted by practically everybody because it is a policy and an objective which means that all of us give up in time of war the right to get rich at the expense of our fellow citizens.

As a first part of this policy, it is necessary to increase our taxes very heavily and to distribute those taxes as equitably and fairly as possible, on the general principle that people who are living on a bare subsistence level will pay the least and the people who have the most will pay the most. Naturally we want to pay in this generation as much as we possibly can toward the enormous cost of this war so that the next two generations will not have to a debt hanging over their heads and their lives.

We are now spending three billion dollars for war expenditures every month, and before this year is over we will be spending more than five billion dollars every month. But it is worth it if thereby our civilization survives.



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By next year more than half of our entire national income will be spent in the war effort, and by national income I mean all the money each individual citizen and partnership and corporation earn in the course of a year.

We must remember, too, that this national income of ours has gone up from about seventy-five billions in 1940 to an expected one hundred and twenty-five billion dollars in 1943. There are two reasons. First, millions more people are being employed, and at steadier employment; and, second, raw materials and crops and wages are at a higher level than ever before. There is more cash in our pocketbooks and bank accounts than at any time in our history.

The natural tendency is for people to want to buy a great many more articles with this extra cash. But here we run into another difficulty. The total supply of luxuries and necessities which you and I might ordinarily buy is being constantly cut down day by day. It is being cut down every time we take materials away from civilian use and put them into war production; every time machinery and factories are converted to war use; every time sources of supply from foreign countries are cut off by enemy action. We know that very soon automobiles and household appliances and hundreds of other articles will not be for sale at all.



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You and I do not have to be economists to realize that the tremendous scarcity of all kinds of goods creates a tendency for people to bid against each other and force the prices up. Therefore, we are putting into effect ceilings on more and more articles to prevent this from happening -- and, incidentally, to prevent an unpatriotic kind of profiteering. It is equally clear that unless we put a ceiling on prices we will be in the middle of a spiral because crop producers and wage earners will try to catch up with the prices of things they use. If you increase the buying capacity of one group in the community, you have to increase successively the buying power of other groups in the community -- and there is no end to the confusion and the competition among them. The setting of ceilings on prices is, therefore, the first step to stabilize the whole of our cost of living.

What then becomes of this greatly enlarged pool of dollars which comes from the great increase in the national income? First of all, a large part of it will be recaptured by the Government under the present and future tax law -- thus helping to pay for the war; and, second, it must be used by the individual citizen to subscribe to war bonds -- in other words, to lend the money to the Government to pay cash for the war and to give a nest-egg to the individual



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purchaser for him to use after the war is over, in order to prevent a complete slump while we are getting back to normal times.

I have thought of calling all of this "an economy of sacrifice" -- or, better still, "an equality of sacrifice". And yet, for the life of me, I cannot see that there is very much sacrifice involved in helping us to save the nation and all it stands for and, at the same time, lay some of our increased earnings aside for our own benefit after the war is over.

The element of sacrifice does come in only to the extent that we have got to do without certain things which we have become accustomed to. You will remember that a few years ago I spoke in a somewhat critical way of "the horse-and-buggy days". Most of us do not want to go back to those days but we are perfectly willing to do so in order to gain a great victory in this war. Besides there are not enough horses and buggies to go around, and the result is that while we cannot buy any new automobiles, we shall find ways and means of getting along with the old car and, incidentally, taking fewer rides. We shall have to do without a new radio set, but we must remember that twenty-five years ago we did not have any radio sets at all.



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Finally, I come to the problem of wage increases. In this case, too, I am not asking so much for the stressing of the word "sacrifice" as I am that they stress the word "equality". Labor today is getting wage rates that have gone up about 30% during the period that the cost of living has gone up about 20% -- and it is my personal opinion that during the period of the war the average of the pay of labor ought not to go up. In this I am consistent in applying the same rule to them as I would apply to higher farm prices and business profits, over and above a very reasonable level.

Organized labor has given up the right to strike during the continuation of the war -- and this is a fine action on their part. There has been provided a War Labor Board to which all questions may be taken and if their determination is not accepted, the matter can, through the accepted machinery, be settled finally by arbitration. The fact that the present machinery is working is evidenced by the, on the whole, excellent production results during the past four months. Out of approximately forty million workers in industry, strikes



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have effected far less than a half of one percent of production during this period. Yet many good citizens have been unnecessarily fooled by orators and writers who have sought to deceive them into believing that strikes are the rule instead of the very rare exception. As in England, where strikes were voluntarily outlawed by labor early in the war, we have a very occasional and generally very short strike of a very few people in an occasional individual plant. When that occurs, there is a certain type of newspaper in the United States which puts the fact that fifty men have struck in a small town on the front page as a "scare" story. I think of one case where that happened where the men, very mistakenly, went out because they did not like the language of their foreman. They were back at work next day and the papers that made a ~~xxxxxxx~~ "scarehead" story of it either left out the fact that they had returned to work from the next day's paper altogether or put it in a very inconspicuous place on the tenth page. That kind of misinformation applies, I am sorry to say, to some news radio commentators as well as to some newspapers.

May I say, too, that if no additional laws are passed by this Congress in regard to agricultural prices or affecting labor, I am firmly of the belief that under present circumstances the policy of the Government can be carried through



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with the laws as they stand today. The exception is in the case of controlling undue or excess profits. In that respect additional tax legislation is clearly necessary.

To sum up:

1. The policy of the Government is to put a ceiling on the price of what people buy and to prevent the manufacture of certain articles where this interferes with production of munitions of war.
2. It is the policy of the Government to seek legislation preventing undue or excess profits altogether and to limit excess salaries or individual incomes from investment.
3. It is the policy of the Government to retain parity prices for all farm products and to apply the same general rule for all other raw materials.
4. It is the policy of the Government, with the assistance of the machinery now in existence, to establish a similar parity for industrial wages. Using the machinery, however, to do justice and equity in those wage cases which are unjust or inequitable.

Before I stop I cannot do more than say a word about the progress of the war. As I have said before on several occasions, everything points to a continuation of this war



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for a year or two years or three years. I do not know what the official name will be that is given to this war in the future, but in talking with the Ambassadors and Ministers of the other twenty American Republics the other day I found general approval for the thought that this is a war for survival -- an actual life and death struggle to determine whether our form of civilization survives or is supplanted by the dictatorship system under which all men, except a dictator and the group that surrounds him, lose their essential freedoms -- those freedoms which are so ingrained in us and precious to us that we have the quiet determination that we would rather lay down our lives -- that we would make every possible sacrifice -- in order to retain them for the sake of ourselves and the sake of our children.

There have been many reverses, which should be properly called "local reverses", for they are local when we consider the size of the war and the fact that it covers nearly all of the world. We have to consider the important fact that seventy-five or eighty million Japanese are fighting against nations whose total populations are infinitely greater; that the Japanese have a capacity to reproduce airplanes and ships and other munitions of war that is infinitely inferior to the reproductive power of these articles by all of us whom



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they have attacked so wantonly. It is written in the stars of Heaven that in the long run Japan will be defeated by superior manpower and by superior production capacity.

On the other side of the world, the German and the Italians are in exactly the same position. As Russian resistance and Russian production capacity increases, as our own stream of the implements of war and our own Armies and Navies spread out to meet the enemy, Germany begins to realize that Hitler and his Nazis have passed their peak and are headed down-hill from now on.

It is a simple fact that the Russian people are doing more to hasten that end than all the rest of the United Nations put together. That is why it is incumbent on the twenty-five other United Nations to do all we can to strengthen the great fight of Russia, in order that Russia may destroy more and more German legions and destroy more and more German implements of war.

And it is equally incumbent on us ourselves to assist in taking the greatest possible toll of the enemy wherever we can get at him. That may sound like a harsh and cruel statement -- but our very existence is wrapped up in it, and the facts of war itself make destruction an inevitable prelude to victory.



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There are many minor ways in which the American people can help their Government and incidentally aid in stopping the rush to buy and the inevitable rise in the cost of living. One of these is for all Americans to use such parts of their income as they can to pay off their debts -- to pay off what they have borrowed on their insurance policies; to pay off what they owe on purchases made on the installment plan; to pay off their mortgages. Such payments mean, in the long run, that they will be put by their creditors into war bonds or into financing new plants for war production, and such payments will not increase the general cost of living. Every agency of the Government should help to persuade people to do this.



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There has been a lot of wild talk about the hours of labor and here again many people have given misinformation either without realizing it or in order to stir up trouble. For a great many years we have had a national industrial standard of forty hours of work a week, to be paid for at straight time -- with time and a half payments for any excess of hours.

No factory in the United States is limited to the employment of their people for forty hours a week. Your misinformants have tried to make you believe that munitions workers are limited ~~in~~ by law to forty hours a week, whereas the simple facts prove that almost all munition plants work far more than forty hours a week -- for they employ their labor for forty-four and forty-eight and fifty-eight and even more than sixty hours a week.

It is a further fact, established by careful study, that the average worker turns out at least as much or more actual production in forty-eight hours than in sixty hours a week; and in many types of work, calling for great concentration, men turn out as much work in forty hours as they do in forty-eight hours. It is a simple rule that very long weekly hours accomplish no greater production.



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Therefore, any effort to change the present standard of forty hours straight pay and time and a half for overtime will not increase production. Its only effect will be to cut the pay envelope of the worker every Saturday. If anybody thinks it is fair to do this, let him at the same time demand that the pay envelopes of farmers and middle men and salesmen and all other occupations be cut at the same time. I have no desire that the present incomes of farmers, industrial workers or anybody else, except in the very high brackets, be cut below the present scale.

All the minor details of employment can and should be worked out through the existing Government machinery. For example, if you listen to the "sand throwers" you must believe that factory workers are in the habit of working Sundays and getting double pay for that work. Because no human being ought to work more than six days out of every seven, the whole discussion sounds to me rather silly. I have sent out word all over the country that except in very rare and exceptional cases, every employee is to be given one day of rest in seven. Because we have to keep factories going seven days a week, we have to have what is known as "staggered shifts" so



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that the day of rest may come on Sunday or Monday or Tuesday or any other day in the week. It is a proved fact that workers turn out more work if they have one day of rest in seven than if they do not.



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D. H. 2

TO THE CONGRESS:

In certain ways the present world encircling war presents problems which were unthinkable during the First World War. But -- in other ways -- the circumstances of today parallel those of 1917-1918.

The theatres of combat today cover vastly greater areas. Many more millions of human beings are involved. The new factors of mechanical power, in the air and on the land, have produced radical changes in basic strategy and tactics.

We may take comfort from the fact that in the earlier war, for nearly four years, the forces of aggression and barbarism were in the ascendancy; and in this new war the nations resisting the Axis Powers may have to fight for a long time before they have won on the fields of battle.

Now, as then, the common enemy has all the advantage at the outset; now, as then, it has cost those who are defending our type of civilization bitter defeats and vast losses before they can establish the vital superiority in men and munitions which will turn the tide.



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Today we -- all the United Nations -- are still in this period of preparation -- producing those twin necessities for victory, trained men and adequate tools.

The United States was far better prepared for actual war on December 7, 1941 than it was on April 6, 1917. For over two years by a succession of Congressional Acts we had initiated and carried out safety measures for our own defense in growing volume and importance. There were the revisions of the Neutrality laws, the drastic increases of our Army and Navy, and the instruments of war which they needed, the Selective Service Act, and the Lend-Lease law.

Finally, after Pearl Harbor, the American people adopted a national program which would have been called fantastic by most of our population two years before. This program has called for the shifting of the major part of American industry from the products of peace to the weapons of war.

Inevitably -- but with the full approval of the nation -- it is dislocating industry, labor, agriculture and finance. It is disrupting, and will continue to disrupt, the normal manner of life of every American and every American family. In this, we



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follow the pattern of the first World War, although on a vastly greater scale.

In that earlier war, however, there were certain economic factors which produced unnecessary hardships, and these hardships continue long after the signing of the Armistice. I use the word "unnecessary" because it is my belief that a very great deal of the suffering which was caused then can be avoided now.

It is about the economic factors in war that I address you today. They relate primarily to an easily understood phrase which affects the lives of all of us -- the cost of living. In 1918 and 1919, because rises in the cost of living which came with the war were not checked in the beginning, people in this country paid nearly twice as much for the same things at the end of the war as they did at the start of it.

The rise in the cost of living during this war has begun to parallel the last. The time has definitely come when it must be stopped.

While the cost of living, since the Autumn of 1939, has gone up about 20% so far, based on the average prices of necessities,



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DRAFT #2

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we must now make a determined effort to keep it from rising another 60% or 80% during the next year or two -- an effort, indeed, to hold it to somewhere near the present level.

There are three obvious reasons for taking every step necessary to prevent this rise.

First, when the cost of living spirals upward week after week and month after month, people as a whole are bound to become poorer, because the pay envelope and the profit envelope lag behind retail prices. Second, the cost of carrying on the war by the Government and, therefore, by the people, will increase by many billions and if we do not pay to the limit of our ability now, we and our children will be burdened with unbearable debts in years to come. Third, there is an old and true saying that that which goes up must always come down -- and you and I know the hardships and heartaches we all went through in the bad years after the last war when Americans were losing their homes and were looking their farms and their savings and in vain for jobs.

We do not intend to present the same disastrous situation after the war to those men who today are fighting our battles in all parts of the world.



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We must therefore adopt as one of our principal domestic objectives the stabilization of the cost of living. The Government of the United States should provide a definite program to attain the end.

Relying on past and present experience, and leaving out dozens of details which relate far more to questions of method than to the objective itself, I recommend to the Congress the following points:

1. To keep the cost of living from spiraling upward, we must keep personal and corporate profits down to 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 and wholesalers and manufacturers pay for the things they buy.
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.



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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 Government War Bonds with their earnings instead of using those earnings to buy articles for their own use which of necessity are scarce.

6. To keep the cost of living from spiraling upward, we must ration all 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 encourages savings and adds to the ability of creditors so paid off to buy more War Bonds.

I know that you will appreciate that these seven principal points, each and every one of them, will contribute in substantial fashion to the main objective — keeping the cost of living down. I give the solemn assurance to the Congress that if the objective is not attained, and if the cost of living does continue to rise substantially, I will so advise the Congress and ask for any additional legislation which may be necessary.



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DRAFT #2

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Of the seven points which I have enumerated, it is my best judgment that only one of them requires legislation at the present time, for the very good reason that the Congress has already passed laws with respect to the others which seem adequate to meet the national policy enunciated.

In the one item where legislation is necessary, the subject is now under consideration in the House of Representatives. I refer to the first item -- the purpose of which is to keep excess profits down and, at the same time, raise further large sums for the financing of the war.

On this subject, I believe that the objective can be attained through tax processes. We are now spending, solely for war purposes, the sum of about one hundred million dollars every day of the week. But before this year is over that rate of expenditure will be doubled. This means that a sum equal to more than half of the entire national income -- more than 55% out of every \$1.00 made by any business or by any individual in the United States -- will be spent in the war effort.

Almost the whole of these billions is being and will be spent within the United States itself.

Profits must be taxed to the limit consistent with continued production. This means business profits -- not only in making munitions, but in making or selling anything else. Under the proposed new tax law we seek to take by taxation all undue or excess profits. It is incumbent upon the Congress to define undue or excess profits, and anything in excess of that specific figure should go automatically to the Government.

One of our difficulties is to write a law in which some clever people will not find loopholes, or in which some businesses will not be equitably included. I have suggested to the Chairman of the Committee on Ways and Means in the House of Representatives that some blanket clause could well cover, by a special tax, all profits of any kind of business which exceed the expressed definition of the legal profit figure.

At the same time, while the number of individual Americans affected is small, discrepancies between low personal incomes and very high personal incomes should be lessened, and I am inclined to believe that in time of grave national danger such as this no American citizen ought to have a net income, after he has paid his taxes, of more than \$25,000 a year. And any top limit objective



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should seek to cover those net incomes which are made up in whole or in large part by returns from non-taxable securities.

It is my belief that taxing such hitherto exempt incomes, by the method of surtaxes, would be wholly constitutional.

I earnestly hope that the Congress will pass a new tax bill at the earliest moment possible. Such action is imperative in the comprehensive all-out effort to keep the cost of living down.

I do not believe that it is necessary for me to go into great detail in relation to the other six items which I have summarized.

The second item, relating to price control on articles which consumers and manufacturers buy is, I think, definitely covered by existing law and is being put into effect as rapidly as possible. It is our effort to be fair, ~~and~~ but if our future experience reveals inequality or unfairness, corrections will, of course, be made.

The third item, seeking to stabilize remuneration for work, is also definitely covered at the present time by existing laws and Executive Orders. If the cost of living remains relatively



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stable, no one is going to be hurt. Strikes are at a minimum. Most workers in munition industries are working far more than forty hours a week and should continue to be paid at time and a half for overtime.

The question of double time for Sunday, however, is a very different one. It is true that one day of rest in seven should be given to every worker. But, if we are going to keep our plants going seven days a week, that seventh day of rest will have to be staggered, and it will therefore not fall on a Sunday for every worker. However, when extraordinary circumstances in any plant make it necessary for a laborer to work on his day of rest -- whether it be Sunday or not -- he should be paid double wages for that seventh day.

The War Labor Board machinery has been generally accepted by labor and industry for the settlement of all disputes and organized labor has given up its right to strike during the war. Existing contracts between employers and employees must, in all fairness, be carried out to the expiration of those contracts. The War Labor Board will, of course, seek to remove inequalities and to give due consideration to the elimination of sub-standards of living. I repeat that all of these processes, now in existence, will work equitably for the overwhelming



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proportion of our workers if we can keep the cost of living down, and this policy will guide all Government agencies.

In regard to item four -- prices of farm products -- the same general thesis holds true. For nearly nine years it has been the policy of the Government to seek an objective known as "parity" -- or, in other words, farm prices that give the farmer an assurance of equality in individual purchasing power with his fellow Americans who work in industry. Some of the products of the farms have not yet reached the stage of parity. Others have exceeded parity. Under existing legislation a ceiling cannot be placed on certain products until they reach a level somewhat above parity. I am confident however that with price ceilings imposed in accordance with law, the average of all farm products can be kept at a parity ceiling.

With respect to item five, the American people know that if we would raise the billions which we now need to pay for the war and at the same time prevent a disastrous rise in the cost of living, we shall have to double and more than double the scale of our savings. Every dime and dollar not vitally needed for absolute necessities should go into War Savings Bonds and Stamps



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to add to the striking power of our armed forces.

I have been urged by many persons and groups to recommend the adoption of a compulsory plan of savings by deducting a certain percentage of everyone's income. I prefer, however, to keep the voluntary plan in effect as long as possible and as long as it is effective to meet the needs.

With respect to item six, it is obviously fair that where there is not enough of any commodity to meet all civilian demands, those who can afford to pay more for it should not be preferred over those who cannot. I am confident that as to many basic necessities of life rationing will not be necessary because we shall strive to the utmost to have an adequate supply. But where any article becomes scarce rationing is the democratic, equitable solution.

Item seven should be made effective as soon as possible now that money is becoming plentiful. Those who comply with it will be grateful that they have done so when money becomes tighter after the war.

As to all of those items which do not require legislation, the executive departments and agencies whose functions and duties



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are involved, will begin as quickly and expeditiously as possible to carry them out.

The result will be to require of every one of us some share of sacrifice. Americans all will welcome this opportunity to share in the common effort of civilized mankind to preserve decency and dignity in modern life.



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THIRD DRAFT

TO THE CONGRESS:

In certain ways the present world encircling war presents problems which were unthinkable during the First World War. But -- in other ways -- the circumstances of today parallel those of 1917-1918.

The theatres of combat today cover vastly greater areas. Many more millions of human beings are involved. The new factors of mechanical power, in the air and on the land, have produced radical changes in basic strategy and tactics.

We may take comfort from the fact that in the earlier war, for nearly four years, the forces of aggression and barbarism were in the ascendancy; and in this new war the nations resisting the Axis Powers may have to fight for a long time before they have won on the fields of battle.

Now, as then, the common enemy has all the advantage at the outset; now, as then, it has cost to those who are defending our type of civilization before they can establish the vital superiority in men and munitions which will turn the tide.



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Today we -- all the United Nations -- are still in this period of preparation -- producing those twin necessities for victory, trained men and adequate tools.

The United States was far better prepared for actual war on December 7, 1941 than it was on April 6, 1917. For over two years by a succession of Congressional Acts we had carried out or initiated safety measures for our own defense in growing volume and importance. There were the revisions of the Neutrality laws, the ^{great} drastic increases of our Army and Navy, and the instruments of war which they needed, the Selective Service Act, and the Lend-Lease law.

Finally, after Pearl Harbor, the American people adopted a national program which would have been called fantastic by most of our population two years before. This program has called for the shifting of the major part of American industry from the products of peace to the weapons of war.

Inevitably -- but with the full approval of the nation -- it is dislocating industry, labor, agriculture and finance. It is disrupting, and will continue to disrupt, the normal manner of life of every American and every American family. In this,



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THIRD DRAFT

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we follow the pattern of the first World War, although on a vastly greater scale.

In that earlier war, however, there were certain economic factors which produced unnecessary hardships, and these hardships continued long after the signing of the Armistice. I use the word "unnecessary" because it is my belief that a very great deal of the suffering which was caused then can be avoided now.

It is about the economic factors in war that I address you today. They relate primarily to an easily understood phrase which affects the lives of all of us -- the cost of living. In 1918 and 1919, because rises in the cost of living which came with the war were not checked in the beginning, people in this country paid nearly twice as much for the same things at the end of the war as they did at the start of it.

The rise in the cost of living during this war has begun to parallel the last. The time has definitely come to stop the spiral.



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THIRD DRAFT

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While the cost of living, since the Autumn of 1939, has gone up about 20% so far, based on the average prices of necessities, we must now make a determined effort to keep it from rising another 60% or 80% during the next year or two -- an effort, indeed, to hold it to somewhere near the present level.

There are three obvious reasons for taking every step necessary to prevent this rise. I emphasize the words "every step" because no single step would be adequate alone. Action in one direction would be offset by inaction in other directions. Only an all-embracing program will suffice.

First, when the cost of living spirals upward week after week and month after month, people as a whole are bound to become poorer, because the pay envelope and the profit envelope lag behind rising retail prices. Second, the cost of carrying on the war by the Government and, therefore, by the people, will increase by many billions and if ^{that happens,} we do not pay to the limit of our ability now, we and our children will be burdened with ^{much higher} unbearable debts in years to come. Third, there is an old and true saying that that which goes up must always



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THIRD DRAFT

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come down -- and you and I know the hardships and heartaches we all went through in the bad years after the last war when Americans were losing their homes and their farms and their savings and were looking in vain for jobs.

We do not intend to present the same disastrous situation after the war to those men who today are fighting our battles in all parts of the world.

We must therefore adopt as one of our principal domestic objectives the stabilization of the cost of living.

The Government of the United States should provide a definite program to attain that end.

Relying on past and present experience, and leaving out dozens of details which relate far more to questions of method than to the objective itself, I list for the Congress the following points, which taken together may well be called our present national economic policy.

1. To keep the cost of living from spiraling upward, we must tax heavily and we must keep personal and corporate profits at a reasonable rate, the word "reasonable" being defined at a low level.



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DRAFT THREE

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2. To keep the cost of living from spiraling upward, we must fix ceilings on the prices which consumers and wholesalers and manufacturers pay for the things they buy.

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 Government War Bonds with their earnings instead of using those earnings to buy articles which of necessity are scarce. *are not scarce*

6. To keep the cost of living from spiraling upward, we must ration all 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 instalment buying and encourage



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THIRD DRAFT

- 7 -

the paying off of debts, mortgages, and other obligations; for this encourages savings and adds to the ability of creditors so paid off to buy more War Bonds.

I know that you will appreciate that these seven principal points, each and every one of them, will contribute in substantial fashion to the main objective -- keeping the cost of living down. Give the solemn assurance to the Congress that if the objective is not attained, and if the cost of living does continue to rise substantially, I will so advise the Congress and ask for any additional legislation which may be necessary.

Of the seven points which I have enumerated, it is my best judgment that only one of them requires legislation at the present time, for the very good reason that the Congress has already passed laws with respect to the others which seem adequate to meet the national policy enunciated.

In the one item where legislation is necessary, the subject is now under consideration in the House of Representatives. I refer to the first item -- the purpose of which is to keep excess profits down and, at the same time, raise further large sums for the financing of the war.



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THIRD DRAFT

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On this subject, I believe that the objective can be attained through tax processes. We are now spending, solely for war purposes, the sum of about one hundred million dollars every day of the week. But before this year is over that rate of expenditure will be doubled. This means that a sum equal to more than half of the entire national income -- more than 55¢ out of every \$1.00 made by any business or by any individual in the United States -- will be spent in the war effort.

Almost the whole of these billions is being and will be spent within the United States itself.

Profits must be taxed to the limit consistent with continued production. This means business profits -- not only in making munitions, but in making or selling anything else. Under the proposed new tax law we seek to take by taxation all undue or excess profits. It is incumbent upon the Congress to define undue or excess profits, and anything in excess of that specific figure should go automatically to the Government.

One of our difficulties is to write a law in which some clever people will not find loopholes, or in which some businesses will not be equitably included. I have suggested to the Chairman of the Committee on Ways and Means in the House



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THIRD DRAFT

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of Representatives that some blanket clause could well cover, by a special tax, all profits of any kind of business which exceed the expressed definition of the legal profit figure.

At the same time, while the number of individual Americans affected is small, discrepancies between low personal incomes and very high personal incomes should be lessened, and I am inclined to believe that in time of grave national danger such as this no American citizen ought to have a net income, after he has paid his taxes, of more than \$25,000 a year. And any top limit objective should seek to cover those net incomes which are made up in whole or in large part by returns from non-taxable securities. It is my belief that taxing such hitherto exempt incomes, by the method of surtaxes, would be wholly constitutional.

I earnestly hope that the Congress will pass a new tax bill at the earliest moment possible. Such action is imperative in the comprehensive all-out effort to keep the cost of living down.

I do not believe that it is necessary for me to go into great detail in relation to the other six items which I have summarized.



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The second item, relating to price control on articles which consumers and manufacturers buy is, I think, *substantially* definitely covered by existing law and is being put into effect as rapidly as possible. It is our effort to be fair, but if our future experience reveals inequality or unfairness, corrections will, of course, be made.

The third item, seeking to stabilize remuneration for work, is also definitely covered at the present time by existing laws and Executive Orders. If the cost of living remains relatively stable, no one is going to be hurt. Strikes are at a minimum. Most workers in munition industries are working far more than forty hours a week and should continue to be paid at time and a half for overtime. Otherwise, their weekly pay envelopes would be reduced.

The question of double time for Sunday, however, is a very different one. It is true that one day of rest in seven should be given to every worker. It is contrary to sound policy to make people work more than six consecutive days. But, if we are going to keep our plants going seven days a week, that seventh day of rest will have to be staggered, and it will



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THIRD DRAFT

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therefore not fall on a Sunday for every worker. However, when very rare emergency circumstances in a plant make it necessary for a laborer to work on his day of rest -- whether it be Sunday or not -- he should be paid double wages for that seventh day.

The War Labor Board machinery has been generally accepted by labor and industry for the settlement of all disputes and organized labor has given up its right to strike during the war. Existing contracts between employers and employees must, in all fairness, be carried out to the expiration of those contracts. The existing machinery, ending if necessary in the War Labor Board will, of course, continue to give due consideration to inequalities and the elimination of sub-standards of living. I repeat that all of these processes, now in existence, will work equitably for the overwhelming proportion of our workers if we can keep the cost of living down, and this policy will guide all Government agencies.

In regard to item four -- prices of farm products -- the same general thesis holds true. For nearly nine years it



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1955 PAPER, No. 1.

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has been the policy of the Government to seek an objective known as "parity" -- or, in other words, farm prices that give the farmer an assurance of equality in individual purchasing power with his fellow Americans who work in industry. Some of the products of the farms have not yet reached the stage of parity. Others have exceeded parity. Under existing legislation a ceiling cannot be placed on certain products until they reach a level somewhat above parity. I am confident, however, that with price ceilings imposed in accordance with law, the average of all farm products can be substantially kept at ^{about} parity ceiling.

Nancy

With respect to item five, the American people know that if we would raise the billions which we now need to pay for the war and at the same time prevent a disastrous rise in the cost of living, we shall have to double and more than double the scale of our savings. Every dime and dollar not vitally needed for absolute necessities should go into War Savings Bonds and stamps to add to the striking power of our armed forces.

I have been urged by many persons and groups to recommend the adoption of a compulsory plan of savings by deducting a



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certain percentage of everyone's income. I prefer, however, to keep the voluntary plan in effect as long as possible. That will depend on the immediate response of the American people.

With respect to item six, it is obviously fair that where there is not enough of any commodity to meet all civilian demands, those who can afford to pay more for the commodity should not be preferred over others who cannot. I am confident that as to many basic necessities of life rationing will not be necessary because we shall strive to the utmost to have an adequate supply. But where any article becomes scarce rationing is the democratic, equitable solution.

Item seven -- paying off debts -- should be made effective as soon as possible now that money is becoming plentiful. Those who comply with it will be grateful that they have done so when this war is over.

As to all of these items which do not require legislation, the executive departments and agencies whose functions are at and duties are involved, ~~xxxxx~~ work as expeditiously as possible in carrying out this whole broad policy.



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The result will be to require of every one of us some share of sacrifice. Americans all will welcome this opportunity to share in the common effort of civilized mankind to preserve decency and dignity in modern life.

The broad road which I am asking the American people to travel is in many ways a road of sacrifice, for we shall have to live our lives with less in the way of creature comforts than we have in time of peace. Some have called it an "economy of sacrifice", and we must interpret it in terms of the nobler concept — the "equality of sacrifice". For this is fundamentally a people's war -- and it must be followed by a people's peace. The achievement of victory in war and security in peace requires the participation of all the people in our common effort for our common cause.


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FOURTH DRAFT

TO THE CONGRESS OF THE UNITED STATES:

In certain ways the present world encircling war presents problems which were unimaginable during the First World War.

The theatres of combat today cover vastly greater areas. Many more millions of human beings are involved. The new factors of mechanical power, in the air and on the land and on the sea have produced radical changes in basic strategy and tactics.

In this new war the nations resisting the Axis Powers face an even greater challenge to their very existence. They fight more sinister foes; but their understanding of the magnitude of the task and the very firmness of their determination make victory certain in the long days to come.

But, in other ways, the circumstances of today parallel those of 1917-1918. Now, as in the last war, the common enemy has all the advantage at the outset; now, as then, it has and will cost bitter defeats and heavy losses to those who are defending our type of civilization, before they will be able to establish the vital superiority in men and munitions which will turn the tide.



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The United States was far better prepared for actual war on December 7, 1941 than it was on April 6, 1917. For over two years by a succession of Congressional Acts we had carried out or initiated safety measures for our own defense in growing volume and importance. There were the revisions of the Neutrality laws, the adoption of the Selective Service law and the Lend-Lease Law, and the great increases of our Army and Navy and the instruments of war which they needed.

Finally, after Pearl Harbor, the American people adopted a national program of war production which would have been called fantastic by most people two years before. It has required the shifting of the major part of American industry from the products of peace to the weapons of war.

Inevitably -- but with the full approval of the nation -- this enormous program is dislocating industry, labor, agriculture and finance. It is disrupting, and will continue to disrupt, the normal manner of life of every American and every American family. In this, we ^{have} follow the pattern of the first World War, although on a vastly greater scale.



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During that earlier war there were certain economic factors which produced unnecessary hardships; and these hardships continued long after the signing of the Armistice. I use the word "unnecessary" because it is my belief that a very great deal of the suffering which was caused then can be avoided now.

These economic factors relate primarily to an easily understood phrase which affects the lives of all of us -- the cost of living. Because rises in the cost of living which came with the last war were not checked in the beginning, people in this country in 1918 and 1919 paid nearly twice as much for the same things at the end of the war as they did at the start of it.

The rise in the cost of living during this war has begun to parallel the last. The time has definitely come to stop the spiral. (*Standard of living*)



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FOURTH DRAFT

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While the cost of living, based on the average prices of necessities, has gone up about 20% so far since the Autumn of 1939, we must now act to keep it from rising another 60% or 80% during the next year or two -- to hold it to somewhere near the present level.

There are obvious reasons for taking every step necessary to prevent this rise. I emphasize the words "every step" because no single step would be adequate by itself. Action in one direction alone would be offset by inaction in other directions. Only an all-embracing program will suffice.

When the cost of living spirals upward week after week and month after month, people as a whole are bound to become poorer, because the pay envelope ^{will be} lags behind rising retail prices. The price paid for carrying on the war by the Government and, therefore, by the people, will increase by many billions if prices go up and if that happens we and our children will be burdened with such higher debts in years to come. Furthermore, there is an old and true saying that that which goes up must always come down -- and you and I know the hardships and heartaches we all went through in the bad years after the last war, when Americans were losing



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FOURTH DRAFT

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their homes and their farms and their savings and were looking in vain for jobs.

We do not intend after this war to present the same disastrous situation to those brave men who today are fighting our battles in all parts of the world. That is the least that our soldiers, sailors and marines have a right to expect of us civilians in government, in industry, on the farm and in all other walks of life.

We must therefore adopt as one of our principal domestic objectives the stabilization of the cost of living, for this is essential to the fortification of our whole economic structure.

Relying on past and present experience, and leaving out masses of details which relate more to questions of method than to the objective itself, I list for the Congress the following points, which, taken together, may well be called our present national economic policy.

1. To keep the cost of living from spiraling upward, we must tax heavily and keep personal and corporate profits at a reasonable rate, the word "reasonable" being defined at a low level.



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2. To keep the cost of living from spiraling upward, we must fix ceilings on the prices which consumers and wholesalers and manufacturers pay for the things they buy.

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 Government 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 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.



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FOURTH DRAFT

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7. To keep the cost of living from spiraling upward we must discourage credit and instalment 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 for the purchase of War Bonds.

I know that you will appreciate that these seven principal points, each and every one of them, will contribute in substantial fashion to the great objective of keeping the cost of living down.

It is my best judgment that only ^{two} one of these points requires legislation at the present time, for the very good reason that the Congress has already passed laws with respect to the others which seem adequate to meet the national policy enunciated. I assure the Congress that if the required objectives are not attained, and if the cost of living does continue to rise substantially, I shall so advise the Congress, and shall ask for any additional legislation which may be necessary.



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In the one item where legislation is now necessary, the subject is under consideration in the House of Representatives. I refer to the first item -- the purpose of which is to keep excess profits down and, at the same time, raise further large sums for the financing of the war.

On this subject, I believe that the objective can be attained through tax processes. We are now spending, solely for war purposes, the sum of about one hundred million dollars every day of the week. But before this year is over that rate of expenditure will be doubled. This means that a sum equal to more than half of the entire national income will be spent in the war effort. Almost the whole of these billions is being and will be spent within the United States itself.

Profits must be taxed to the utmost limit consistent with continued production. This means all business profits -- not only in making munitions, but in making or selling anything else. Under the proposed new tax law we seek to take by taxation all undue or excess profits. It is incumbent upon the Congress to define undue or excess profits; and anything in excess of that specific figure should go automatically to the Government.



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FOURTH DRAFT

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One of our difficulties is to write a law in which some clever people will not find loopholes, or in which some businesses will not be equitably included. I have suggested to the Chairman of the Committee on Ways and Means in the House of Representatives that some blanket clause could well cover, by a special tax, all profits of any kind of business which exceed the expressed definition of the legal profit figure.

At the same time, while the number of individual Americans affected is small, discrepancies between low personal incomes and very high personal incomes should be lessened, and I therefore believe that in time of this grave national danger, when all excess income should go to win the war, no American citizen ought to have a net income, after he has paid his taxes, of more than \$25,000 a year. It is indefensible that those who enjoy large incomes from State and local securities should be immune from taxation while we are at war. Interest on such securities should be subject at least to surtaxes.

I earnestly hope that the Congress will pass a new tax bill at the earliest moment possible. Such action is imperative in the comprehensive all-out effort to keep the cost of living down. *and time is so short.*



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FOURTH DRAFT

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with the exception of some prices

The second item, relating to price control is adequately covered by existing law, and is being put into effect as rapidly as possible. It is our effort to be fair in all phases of price control; and if our future experience reveals inequality or unfairness, corrections will, of course, be made.

The third item, seeking to stabilize remuneration for work, is also covered at the present time by existing laws and executive orders. If the cost of living remains relatively stable, no one is going to be hurt. Most workers in munition industries are working far more than forty hours a week, and should continue to be paid at time and a half for overtime. Otherwise, their weekly pay envelopes would be reduced.

Concerning the question of double time for Sunday: it is contrary to sound policy to make people work more than six consecutive days. But, if we are going to keep our plants going seven days a week, that seventh day of rest will have to be "staggered", and it will therefore fall on different days for different workers. However, when very rare emergency



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~~FOURTH DRAFT~~

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circumstances in a plant make it necessary for a laborer to work on his day of rest — whether it be Sunday or not — he should be paid double wages for that seventh day.

The War Labor Board machinery has been generally accepted by labor and industry for the settlement of all disputes; and organized labor has given up its right to strike during the war. All strikes are at a minimum. Existing contracts between employers and employees must, in all fairness, be carried out to the expiration date of those contracts. The existing machinery for labor disputes will, of course, continue to give due consideration to inequalities and the elimination of sub-standards of living. I repeat that all of these processes, now in existence, will work equitably for the overwhelming proportion of our workers if we can keep the cost of living down. This policy will guide all Government agencies.

In regard to item four, prices of farm products: for nearly nine years it has been the policy of the Government to seek an objective known as "parity" — or, in other words, farm prices that give the farmer an assurance of equality in individual purchasing power with his fellow Americans who work in industry. Some of the products of the farms have not yet



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FOURTH DRAFT

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reached the stage of parity. Others have exceeded parity. Under existing legislation a ceiling cannot be placed on certain products until they reach a level somewhat above parity. I am confident, however, that with price ceilings imposed in accordance with law, the average of all farm products can be substantially kept at a parity level.

With respect to item five, the American people know that if we would raise the billions which we now need to pay for the war and at the same time prevent a disastrous rise in the cost of living, we shall have to double and more than double the scale of our savings. Every dime and dollar not vitally needed for absolute necessities should go into War Savings Bonds and Stamps to add to the striking power of our armed forces.

If these purchases are to have a material effect in restraining price increases they must be made out of current income. In almost every individual case they should be big enough to mean rigid self-denial, a substantial reduction for most of us in the scale of expenditure that is comfortable and easy for us. We cannot fight this war, we cannot exert our maximum effort, on a spend-as-usual basis. We cannot have



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all we want, if our soldiers and sailors are to have all they need.

I have been urged by many persons and groups to recommend the adoption of a compulsory plan of savings by deducting a certain percentage of everyone's income. I prefer, however, to keep the voluntary plan in effect as long as possible, and I hope for a magnificent response.

With respect to item six -- rationing -- it is obviously fair that where there is not enough of any commodity to meet all civilian demands, those who can afford to pay more for the commodity should not be privileged over others who cannot. I am confident that as to many basic necessities of life rationing will not be necessary, because we shall strive to the utmost to have an adequate supply. But where any article becomes scarce, rationing is the democratic, equitable solution.

Item seven -- paying off debts and curtailing instalment buying -- should be made effective as soon as possible now that money is becoming more plentiful. Those who comply with it will be grateful that they have done so, when this war is over. Elimination of private debts and an accumulation of savings will provide a form of insurance against post-war depression.



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As to all of these items which do not require legislation, the executive departments and agencies whose functions and duties are involved, are at work as expeditiously as possible in carrying out this whole broad policy.

The result will be to require of every one of us some share of sacrifice. Americans all will welcome this opportunity to share in the common effort of civilized mankind to preserve decency and dignity in modern life.

The broad road which I am asking the American people to travel is in many ways a road of sacrifice, for we shall have to live our lives with less in the way of creature comforts than we have in time of peace. Some have called it an "economy of sacrifice", but we must interpret it in terms of the nobler concepts -- the equality of sacrifice and the privilege of sacrifice. For this is fundamentally a people's war -- and it must be followed by a people's peace. The achievement of victory in war and security in peace requires the participation of all the people in the fight for our common cause.



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7-17-41 DRAFT

P. 02

THE CONGRESS OF THE UNITED STATES:

In certain ways the present world encircling war presents problems which were unimaginable during the First World War.

The theatres of combat today cover vastly greater areas. Many more millions of human beings are involved. The new factors of mechanical power, in the air and on the land and on the sea have produced radical changes in basic strategy and tactics.

In this new war the nations resisting the Axis Powers face an even greater challenge to their very existence. They fight more powerful, more sinister foes; but their understanding of the magnitude of the task and the very firmness of their determination make victory certain in the long days to come.

In some other ways, however, the circumstances of today parallel those of 1917-1918. Now, as in the last war, the common enemy has had all the advantage at the outset. Now, as then, bitter defeats and heavy losses must be endured by those who are defending our type of civilization, before we will be able to establish the vital superiority in men and munitions which will turn the tide.

The United States was far better prepared for actual war on December 7, 1941 than it was on April 6, 1917. For



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over two years, by a succession of Congressional Acts, we had carried out or initiated safety measures for our own defense in growing volume and importance. There were the revisions of the Neutrality Laws, the adoption of the Selective Service law and the Lend-Lease law, and the great increases of our Army and Navy and the instruments of war which they needed.

After Pearl Harbor, the American people adopted a national program of war production which would have been called fantastic by most people two years before. It has required the shifting of the major part of American industry from the products of peace to the weapons of war.

Inevitably -- but with the full approval of the nation -- this enormous program is dislocating industry, labor, agriculture and finance. It is disrupting, and will continue to disrupt, the normal manner of life of every American and every American family. In this, we repeat the pattern of the first World War, although on a vastly greater scale.

During that earlier war there were certain economic factors which produced unnecessary hardships; and these hardships continued long after the signing of the Armistice.



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FIFTH DRAFT

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I use the word "unnecessary" because it is my belief that a very great deal of the suffering which was caused then can be avoided now.

These economic factors relate primarily to an easily understood phrase which affects the lives of all of us -- the cost of living. Because rises in the cost of living which came with the last war were not checked in the beginning, people in this country paid more than twice as much for the same things in 1920 as they did in 1914.

The rise in the cost of living during this war has begun to parallel the last. The time has definitely come to stop the spiral. And we can face the fact that a drastic reduction in our standard of living must come.

While the cost of living, based on the average prices of necessaries, has gone up about 15% so far since the Autumn of 1939, we must now act to keep it from soaring another 75% during the next year or two -- to hold it to somewhere near the present level.

There are obvious reasons for taking every step necessary to prevent this rise. I emphasize the words "every step" because no single step would be adequate by itself. Action in one direction alone would be offset



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FIFTH DRAFT

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by inaction in other directions. Only an all-embracing program will suffice.

When the cost of living spirals upward week after week and month after month, people as a whole are bound to become poorer, because the pay envelope will then lag behind rising retail prices. The price paid for carrying on the war by the Government and, therefore, by the people, will increase by many billions if prices go up. Furthermore, there is an old and true saying that that which goes up must always come down -- and you and I know the hardships and heartaches we all went through in the bad years after the last war, when Americans were losing their homes and their farms and their savings and were looking in vain for jobs.

We do not intend after this war to present the same disastrous situation to those brave men who today are fighting our battles in all parts of the world. Safeguarding our economy at home is the very least that our soldiers, sailors and marines have a right to expect of us civilians in government, in industry, on the farm and in all other walks of life.

We must therefore adopt as one of our principal domestic objectives the stabilization of the cost of living, for this is essential to the fortification of our whole



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economic structure.

Relying on past and present experience, and leaving out masses of details which relate more to questions of method than to the objective itself, I list for the Congress the following points, which, taken together, may well be called our present national economic policy.

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.



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~~SECRET DRAFT~~

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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



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FIFTH DRAFT

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buying and adds to the amount available to the creditor for the purchase of War Bonds.

I know that you will appreciate that these seven principal points, each and every one of them, will contribute in substantial fashion to the great objective of keeping the cost of living down.

It is my best judgment that only two of these points require legislation at the present time, for the very good reason that the Congress has already passed laws with respect to the others which seem adequate to meet the national policy enunciated.

I assure the Congress that if the required objectives are not attained, and if the cost of living should continue to rise substantially, I shall so advise the Congress, and shall ask for any additional legislation which may be necessary.

In the first item, legislation is necessary, and the subject is now under consideration in the House of Representatives. Its purpose is to keep excess profits down and, at the same time, raise further large sums for the financing of the war.



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FIFTH DRAFT

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On this subject, I believe that the objective can be attained through tax processes. We are now spending, solely for war purposes, the sum of about one hundred million dollars every day of the week. But before this year is over that rate of expenditure will be doubled. This means that a sum equal to more than half of the entire national income will be spent in the war effort. Almost the whole of these billions is being and will be spent within the United States itself.

Profits must be taxed to the utmost limit consistent with continued production. This means all business profits -- not only in making munitions, but in making or selling anything else. Under the proposed new tax law we seek to take by taxation all undue or excess profits. It is incumbent upon the Congress to define undue or excess profits; and anything in excess of that specific figure should go to the Government.

One of our difficulties is to write a law in which some clever people will not find loopholes, or in which some businesses will not be equitably included. I have suggested to the Chairman of the Committee on Ways and Means in the House of Representatives that some blanket clause could well cover, by a special tax, all profits of any kind of



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FIFTH DRAFT

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business which exceed the expressed definition of the legal profit figure.

At the same time, while the number of individual Americans affected is small, discrepancies between low personal incomes and very high personal incomes should be lessened; and I therefore believe that in time of this grave national danger, when all excess income should go to win the war, no American citizen ought to have a net income, after he has paid his taxes, of more than \$25,000 a year. It is indefensible that those who enjoy large incomes from State and local securities should be immune from taxation while we are at war. Interest on such securities should be subject at least to surtaxes.

I earnestly hope that the Congress will pass a new tax bill at the earliest moment possible. Such action is imperative in the comprehensive all-out effort to keep the cost of living down -- and time is of the essence.

The second item, relating to price control is, with the exception of farm prices, adequately covered by existing law, and I have issued instructions to put this into effect immediately.



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It is our effort to be fair in all phases of price control, and if our future experience reveals inequality or unfairness, corrections will, of course, be made.

In respect to the third item seeking to stabilize remuneration for work legislation is not required under existing circumstances. I believe that stabilizing the cost of living will mean that wages in general can and should be kept at existing scales.

Organized labor has voluntarily given up its right to strike during the war. Therefore all stabilization or adjustment of wages will be settled by the War Labor Board machinery which has been generally accepted by industry and labor for the settlement of all disputes.

All strikes are at a minimum. Existing contracts between employers and employees must, in all fairness, be carried out to the expiration date of those contracts. The existing machinery for labor disputes will, of course, continue to give due consideration to inequalities and the elimination of sub-standards of living. I repeat that all of these processes, now in existence, will work equitably for the overwhelming proportion



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of all our workers if we can keep the cost of living down and stabilize their remuneration.

Most workers in munition industries are working far more than forty hours a week, and should continue to be paid at time and a half for overtime. Otherwise, their weekly pay envelopes would be reduced.

~~Concerning the question of double time for Sunday, it is contrary to sound policy to make people work more than six consecutive days. But, if we are going to keep our plants going seven days a week, that seventh day of rest will have to be "staggered", and it will therefore fall on different days for different workers. However, when very rare emergency circumstances in a plant make it necessary for a laborer to work on his day of rest -- whether it be Sunday or not -- he should be paid double wages for that seventh day, thus providing a deterrent for this kind of work.~~

These policies will guide all government agencies.

In regard to item four, prices of farm products: for nearly nine years it has been the policy of the Government to seek an objective known as "parity" -- or, in other words, farm



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FIFTH DRAFT

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prices that give the farmer an assurance of equality in individual purchasing power with his fellow Americans who work in industry. Some of the products of the farms have not yet reached the stage of parity. Others have exceeded parity. Under existing legislation a ceiling cannot be placed on certain products until they reach a level somewhat above parity.

This calls for the second legislative action which I have mentioned. Under a complicated formula in the existing law, prices for farm products -- prices which housewives have to pay for many articles of food -- may rise to 110% of parity or even higher. In the case of many articles this can mean a dangerous increase in the cost of living for the average family over present prices.

In fairness to the American people as a whole, and adhering to the purpose of keeping the cost of living from going up, I ask that this legislation be repealed, and that the original and excellent objective of obtaining parity for the farmers of the United States be restored.

It would be equally harmful to the process of keeping down the cost of living if any law were passed preventing the Government from selling any of its own surplus farm commodities at

the market price. As a national policy, the ceiling on farm products — in other words, the maximum prices to be received by the producers of these products -- should be set at parity.

With respect to item five, the American people know that if we would raise the billions which we now need to pay for the war and at the same time prevent a disastrous rise in the cost of living, we shall have to double and more than double the scale of our savings. Every dime and dollar not vitally needed for absolute necessities should go into War Savings Bonds and Stamps to add to the striking power of our armed forces.

If these purchases are to have a material effect in restraining price increases they must be made out of current income. In almost every individual case they should be big enough to mean rigid self-denial, a substantial reduction for most of us in the scale of expenditure that is comfortable and easy for us. We cannot fight this war, we cannot exert our maximum effort, on a spend-as-usual basis. We cannot have all we want, if our soldiers and sailors are to have all they need.

I have been urged by many persons and groups to recommend the adoption of a compulsory plan of savings by deducting a certain percentage of everyone's income. I prefer, however, to keep the voluntary plan in effect as long as possible, and I hope for a magnificent response.



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1938-1945, 70, 71

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With respect to item six -- rationing -- it is obviously fair that where there is not enough of any essential commodity to meet all civilian demands, those who can afford to pay more for the commodity should not be privileged over others who cannot. I am confident that as to many basic necessities of life rationing will not be necessary, because we shall strive to the utmost to have an adequate supply. But where any important article becomes scarce, rationing is the democratic, equitable solution.

Item seven -- paying off debts and curtailing instalment buying -- should be made effective as soon as possible now that money is becoming more plentiful. Those who comply with it will be grateful that they have done so, when this war is over. Elimination of private debts and an accumulation of savings will provide a form of insurance against post-war depression. The Federal agency responsible for the control of credit for instalment buying is taking appropriate action.

Indeed, as to all the items which do not require legislation, the executive departments and agencies whose functions and duties are involved, are at work as expeditiously as possible in carrying out this whole broad policy.



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FIFTH DRAFT

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The result will mean that each and every one of us will have to give up many things to which we are accustomed.

We shall have to live our lives with less in the way of creature comforts than we have in time of peace. Our standard of living will have to come down.

Some have called this an "economy of sacrifice". Some interpret it in terms that are more accurate -- the "equality of sacrifice". I have never been able to bring myself, however, to full acceptance of the word "sacrifice", because free men and women, bred in the concepts of democracy and wedded to the principles of democracy, deem it a privilege rather than a sacrifice to work and to fight for the perpetuation of the democratic ideal. It is, therefore, more true to call this total effort of the American people an "equality of privilege".

I firmly believe that Americans all will welcome this opportunity to share in the fight of civilized mankind to preserve decency and dignity in modern life. For this is fundamentally a people's war -- and it must be followed by a people's peace. The achievement of victory in war and security in peace requires the participation of all the people in the common effort for our common cause.



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Vest.

April 11, 1962

MEMORANDUM TO THE PRESIDENT:

This is a draft of the proposed radio talk on prices, wages, etc. There is not complete agreement on all of the items contained in this speech so far as the group which met here on Friday is concerned.

As to one matter, compulsory savings, I have indicated two alternatives. The compulsory savings idea is that of Wallace, Eccles, Henderson and Smith. The voluntary plan is that of the Treasury.

I have four extra carbon copies of the speech but have not distributed them to anyone. If you want them distributed, please let me know.

SAMUEL I. ROSENMAN



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sent file

OFFICE OF PRICE ADMINISTRATION AND CIVILIAN SUPPLY
WASHINGTON, D. C.

Office of the
GENERAL COUNSEL

April 11, 1942

MEMORANDUM TO JUDGE ROSENMAN

From: David Ginsburg *DG*

Leon gave Ken Galbraith and myself the redraft of the message a little while ago and asked that we comment on the section on price control. A few suggestions are enclosed together with a pamphlet you asked for and a copy of our freeze order. The latter is still being revised. We were most troubled by the discussion of agricultural prices contained in the redraft. I don't think new rent legislation is necessary.

I'll be in Ben's office this afternoon, at home tonight, and in the office tomorrow. Please call me if there's anything I can do.

Encs.



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Insert A, p. 6

[To be added to first ¶]

In some cases, where profits are abnormally high, prices must be reduced and costs absorbed. In other cases we can eliminate peacetime frills. Through economies in marketing and the standardization and simplification of products and services, important savings can be made which will avoid the need for price increases.

Insert B, p. 6

[In place of the ¶ on the previous page]

Retail prices must not be permitted to rise. To this principle we will hold fast. The Government confidently expects the American people to support and sustain this general price ceiling order, and to assure its success through cooperation and self-policing. In this program the consumer, the retailer, the wholesaler, the manufacturer and the Government must join in a united effort for the protection of all. To aid in administration, local boards which understand local conditions will be set up. Federal Administration will be decentralized. No patriotic person will knowingly charge or pay prices in excess of those which are now established as the maximum.

The Administrative problems in fixing all prices for all sellers and buyers are numerous and difficult -- that I am sure everyone must realize. It will take time to set up machinery to work out individual difficulties and to make individual adjustments. Here we must ask for goodwill and patience. These are part of the game. I am sure that every businessman, large or small, will gladly accept such inconveniences and hardship as the next few months may cause him, for he knows that the alternative is inflation and perhaps disaster.

Insert B, p. 6 (Cont'd)

we know that the overall price ceiling will work, for other countries have made it work. We are counting on the active assistance of every seller and every buyer to see that it works in the United States.



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[Substitute for farm price discussion
from bottom of p. 6 to end of section.]

(C)

The control of the cost of living requires that we control farm prices. Existing legislation does not permit placing ceilings on farm commodities until they are substantially above parity. However, farm prices have risen steadily in recent months and most such commodities are now near or above the standards established by the Emergency Price Control Act. Ceilings have been placed on the prices of these commodities and for these the buyer is protected against further increases. Some farm commodities have not yet reached 110 percent of parity or the other above-parity standards established in the price control legislation. Prices of such commodities, including various foods, butter, wheat and poultry products, may continue to rise. If farm feeds rise unduly, then farm costs will increase; and if dairy or poultry or wheat advance unduly this may threaten the absolute stability in the cost of living which this program is designed to ensure. Therefore, I recommend that the provisions of the price control act setting standards at 110 per cent of parity or above be amended to allow ceilings to be placed at parity levels. This will not reduce prices on farm products now above parity, but merely authorize the Government to establish ceilings on commodities as they reach parity. In war as in peace we must hold to the goal of parity for agriculture. I ask that we now return to that principle.

Let us also maintain the principle of the ever-normal granary. This was established in order that in emergencies like the present we might be assured of adequate supplies at fair prices. In keeping with this, I recommend that all restrictions on the sale or transfer of government-owned stocks of commodities be lifted and I recommend against all pending measures limiting the sales of such stocks. These sales are not inconsistent with a parity return to the farmer and I do not believe that the farmer chooses to profit



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by artificially created shortages of this character.

The control of prices necessarily must include the control of rents. The Congress has already provided the machinery for this control in the Emergency Price Control Act in areas affected by defense activity. Nearly every community is today engaged in war activity or is heavily affected by expenditures for war purposes. Therefore, the Price Administrator has today announced rent stabilization programs for a large number of urban areas throughout the country. These programs will ensure that communities with a total population of between 80 and 90 millions will be protected from inflationary rent advances.



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	MAR. 15. 1942 actual	PARITY at MAR. 15. 1942 100 %	110 % PARITY	BROWN HIGHEST 1929-1929	% which 3-15-42 price is of highest standard
Cotton	18.6	18.35	20.18	21.5	
Wheat	1.05	1.31	1.44		73%
Butterfat	35.7	40.4	44.4		80%
Eggs	25.8	26.1	28.7	DO. 15. 1941 34.1	← This is controlling.
Chickens	18	16.9	18.6	21.4	84
Lamb	10.36	8.69	9.56	10.98	94.4
Beans	4.60	4.99	5.49		83.8
Corn	78.4	95	104.5		75.

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From the Papers of

Samuel I. Rosenman

Text of Roosevelt's 'Cost of Living' Message

'Time Definitely Come to Stop the Spira'

To the Congress of the United States:

In certain ways the present world-enforcing war presents problems which were unimaginable during the First World War. The theaters of combat today cover vastly greater areas. Many more millions of human beings are involved. The new factors of mechanical power, in the air and on the land and on the sea, have produced radical changes in basic strategy and tactics.

In this new war the nations resisting the Axis powers face an even greater challenge to their very existence. They fight more powerful, more vicious foes, but their understanding of the magnitude of the task and the very firmness of their determination makes victory certain in the long days to come.

In some other ways, however, the circumstances of today parallel those of 1917-1918. Now, as in the last war, the common enemy has had all the advantage at the outset. Now, as then, bitter defeats and heavy losses must be endured by those who are defending civilization, before we will be able to establish the vital superiority in men and munitions which will turn the tide.

FAR BETTER PREPARED IN '41 THAN IN '17

The United States was far better prepared for actual war on Dec. 7, 1941, than it was on April 6, 1917. For over two years, by a succession of congressional acts, we had carried out an unrelated safety measures for our own defense in growing volume and importance. There were no laws of the neutrality laws, the adoption of the Selective Service law and the Lend-Lease law, and the great expansion of our Army and Navy and the instruments of war which they needed.

After Pearl Harbor, the American people adopted a national program of war production which would have been called fantastic by most people two years before. It has resulted in the making of the major part of American industry from the products of peace to the weapons of war.

Inevitably—but with the full approval of the nation—this enormous program is disrupting industry, labor, agriculture and finance; it is disrupting and will continue to disrupt, the normal manner of life of every American and every American family. In this we repeat the pattern of the First

World War, when the people were looking in vain for jobs.

We do not intend after this war to prevent the same disastrous situation to those brave men who today are fighting our battles in all parts of the world. Substantiating our economy at home is the very least that our soldiers, sailors and Marines have a right to expect of a civilian Government, in industry, on the farm, and in all other walks of life.

We must therefore adopt as one of our principal domestic objectives the stabilization of the cost of living, for this is essential to the fortification of our whole economic structure.

TO KEEP THE COST FROM SPIRALING UPWARD:

Relying on past and present experience, and leaving out matters of details which relate more to questions of method than to the objective itself, I bid for the Congress the following program, which, taken together, may well be called our present national economic policy.

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 this war by guaranteeing that war bonds with their earnings instead of using those earnings to buy articles which are not essential.

Employer: People of the U. S.



—New Area
President Roosevelt today joined 15,000,000 other men between the ages of 45-64 who registered under the draft act. James D. Hayes, chairman of local Draft Board No. 9 looks on as Mr. Roosevelt, who gave as his employer "The People of the United States," signs his card.



making or selling anything else. Under the proposed new tax law we seek to take by taxation all undue or excess profits. It is incumbent upon the Congress to define undue or excess profits, and anything in excess of that specific figure should go to the Government.

INDIFFERENT THAT RICH SHOULD BE IMPUNE

One of our difficulties is in writing a law in which some clever people will not find loopholes, or in which some businesses will not be equitably included. I have suggested to the chairman of the Committee on Ways and Means in the House of Representatives that some blanket clause could well cover, by a special tax, all profits of any kind of business which exceeded the expressed definition of the legal profit figure.

At the same time, while the number of individual Americans affected is small, discrepancies between low personal incomes and very high personal incomes should be removed, and it is my belief that in time of this

wise, their weekly pay envelopes would be reduced.

All these policies will give all Government agencies.

In regard to Item 4, prices of farm products: For nearly nine years it has been the policy of our Government to seek an objective known as "parity"—or, in other words, farm prices that give the farmer an amount of equality in individual purchasing power with his fellow Americans who work in industry. Some of the products of the farms have not yet reached the stage of parity. Others have exceeded parity. Under existing legislation a ceiling cannot be placed on certain products until they reach a level somewhat above parity.

This calls for the second legislative action which I have mentioned. Under a complicated formula in the existing law, prices for farm products—prices which otherwise have to pay for many articles of food—may rise to 110 per cent of parity or even higher. It is in the faith of the formula. In the case of many articles this can mean

of a compulsory plan of savings by deducting a certain percentage of everyone's income. I prefer, however, to keep the voluntary plan in effect as long as possible, and I hope for a magnificent response.

With respect to Item six—rationing—it is obviously fair that where there is no, enough of any essential commodity to meet all civilian demands, those who can afford to pay more for the commodity should not be privileged over others who cannot. I am confident that as to many basic necessities of life rationing will not be necessary, because we shall strive to the utmost to have an adequate supply. But where any important article becomes scarce, rationing is the democratic, equitable solution.

Item 7—paying off debts and curtailing installment buying—should be made effective as soon as possible now that money is becoming more plentiful. Those who comply with it will be grateful that they have done so, when this war is over. Elimination of 10 cent debts and 10 cent installment buying will provide a form of insurance against post-war depression. The Public Law is responsible for the control of credit for installment buying taking appropriate action.

AGENCIES AT WORK ON WHOLE POLICY

Indeed, as to all items which do not require legislation, the executive departments and agencies whose functions and duties are involved are at work as expeditiously as possible in carrying out this whole broad policy.

The things which we are doing for every one of us will have to give up many things to which we are accustomed. We shall have to give up with less in the way of creature comforts than we have in time of our peace. Our standard of living will have to come down.

Some have called this an "economy of sacrifice." Some interpret it in terms that are more accurate—the "equality of sacrifice." I have never been able to bring myself, however, to full acceptance of the word "sacrifice," because free men and women, bred in the concepts of democracy and wedded to the principle of democracy, do not want a privilege rather than a sacrifice to work and to fight for the perpetuation of the democratic ideal. It is, therefore, more true to call this total effort of the American people an "equality of privilege."

I firmly believe that Americans all will welcome the opportunity to share in the democratic ideal. It is, therefore, more true to call this total effort of the American people an "equality of privilege."

