

September 7, 1942

[Price Stabilization]

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Memos from MacLeish, Byrnes, Grace Tully (transmitting message
from Sec. of Treasury to President), William H. Davis of
War Labor Board, Baruch (through Early).

Memo marked Sam in President's handwriting.

Memo marked later in President's handwriting.



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7-22
42

LEON HENDERSON

MR. PRESIDENT -

HEREWITH THE NEW VERSIONS OF A MESSAGE AND A JOINT RESOLUTION - MADE AFTER HEARING FROM JIMMY BYRNES. THE REVISIONS HAVE NOT BEEN CLEARED WITH WALLACE, PERKINS, NELSON, ETC. — BECAUSE OF HASTE.

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In order to stabilize costs
of production and prices,
the Pres. is authorized and
empowered ~~to~~ by such
regulations as he shall
see necessary to prescribe
~~the extent and manner to which~~
~~further increases~~
in wartime wages and the
prices of agricultural
commodities must ~~not~~ ^{if necessary}
be lawfully made.

JOINT RESOLUTION

To aid in stabilizing the cost of living

Resolved by the Senate and House of Representatives of
the United States of America in Congress assembled: ~~That when-~~
~~ever, in the judgment of the President,~~ it is necessary to combat
further rises in the cost of living which are inimical to the
general welfare and to the effective prosecution of the war, the
President is authorized and empowered:

Whereas
Now Therefore
(a) to prescribe, by such regulations as he shall
deem necessary in order to stabilize costs of produc-
tion and prices, the extent to which, and the manner in
which, further increases in salaries ~~and~~ wages ^{and the prices of} may be
lawfully made, or may be authorized or recognized for
any purpose by any Federal department or agency; and

(b) to direct that the prices of agricultural com-
modities shall be stabilized in like manner as the
prices of other commodities ^{under the Emergency Price}
Control Act of 1942, notwithstanding the limitations
of section 3 of that Act, or the provisions of any
other law.

The provisions of this Act and all regulations thereunder
shall terminate on June 30, 1943.



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ROUGH DRAFT

TO THE CONGRESS OF THE UNITED STATES:

I have addressed you many months ago in regard to a desired national policy which is essential to the orderly prosecution of the war with the maximum of national effort and at the same time providing for an orderly peace with the least dislocation possible after the war is crowned with victory. I spoke to you of that goal which I called the maintenance of the cost of living and the prevention of the spiralling of any of the component parts which make it up.

Since my message to the Congress of April 26th the actual cost of living figures show practically no change. As a whole they have not gone up nor have they gone down.

We have striven mightily toward that end.

Nevertheless, we are faced today with certain threats which make the continuation toward our goal of stabilization extremely difficult and threatening.

Frankly, our objective is being attacked on many sides. These attacks spring from specialized groups which are not disinterested. Or to put it another way, they are so

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interested in their own groups -- large and small -- that they show disregard and even disdain for all the other groups.

The time has come when I must ask the support of the Congress if we are to avoid starting a spiral into motion -- a motion which will gain speed which will confuse our efforts, cause dissension, and slow up the great war effort.

The American people as a whole believe in the objective. The American people as a whole are willing to make sacrifices to attain it.

The American people as a whole object to special privilege for any group -- agriculture, labor, business, sectionalism or anything else.

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Franklin D. Roosevelt

As the leaders of management and labor, we called on the President today to pledge our whole-hearted cooperation for uninterrupted war production. We assured him that our four organizations and their millions of members were uniting in a voluntary cooperative effort to do their utmost in achieving victory.

This is the first time in the history of America that the leaders of the four great labor and business organizations have come together on their own initiative and out of it we hope will develop a better understanding of management and labor for the solution of their common problems.



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President's Papers of


GENERAL COUNSEL
TREASURY DEPARTMENT
WASHINGTON

July 24, 1942

MEMORANDUM FOR THE SECRETARY



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From the Papers of
Samuel I. Rosenman

The attached memorandum shows how as a legal matter the freezing control statute gives the President powers to control wage levels and the prices of agricultural commodities.

Just as we control foreign-owned business enterprises through a licensing system and can block their accounts and regulate their money payments, so is their authority under the statute to control American-owned business enterprises, particularly where the purpose of the control is to help stabilize the dollar and protect the banking and credit structure of the country.

THE GENERAL COUNSEL OF THE TREASURY
WASHINGTON

July 24, 1942

MEMORANDUM FOR THE SECRETARY

Re: Use of Section 5(b) of Trading with
the enemy Act as amended by the First
War Powers Act in order to close the
loopholes in Government's price-control
program.

The newspapers report that the President has requested an opinion of the Attorney General as to the President's power under existing law to deal with agricultural commodity prices and wage levels.

As a purely legal matter, and without attempting to pass in any way upon the political and policy issues involved, I believe that the necessary legal powers to deal with the situation are already vested in the President under section 5(b) of the Trading with the enemy Act as amended by the First War Powers Act which provides as follows:

"During the time of war * * * the President may, through any agency that he may designate, or otherwise, and under such rules and regulations as he may prescribe, by means of instructions, licenses, or otherwise * * * investigate, regulate, or prohibit, any transactions in foreign exchange, transfers of credit or payments between, by, through, or to any banking institution, and the importing, exporting, hoarding, melting, or earmarking of gold or silver coin or bullion, currency or securities, * * * by any person, or with respect to any property, subject to the jurisdiction of the United

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FOR DEFENSE





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States * * * and the President may, in the manner hereinabove provided, take other and further measures not inconsistent herewith for the enforcement of this subdivision." (Underscoring added.)

The President also is given full powers to define any of the terms used in the statute.

This language is terse, but gives the President extremely broad powers to protect the value of the dollar and the entire banking and credit structure of the country.

In 1933 the President ordered the banking holiday and closed every bank in the United States under this provision of law and allowed them to reopen only under license. In other words he used this statute to freeze the accounts of all domestic banks and business firms.

In April 1940 the President issued Executive Order No. 8389 freezing the assets of Norway and Denmark under this same section and pursuant to its provisions the assets of more than 34 countries have been frozen since 1940. The freezing orders administered by the Treasury are based on this statute. Pursuant to these orders we already can control the wage policies and commodity prices for blocked business enterprises.

Under this section the President in August 1941 issued Executive Order No. 8843 regulating consumer credit in the United States and authorized the Board of Governors of the Federal Reserve System to administer the same (Regulation W). These regulations make it possible for the Board not only to regulate bank credit but also the credit policies of department stores and other retail businesses. Today individuals can get credit at stores only on terms dictated by the Board of Governors under section 5(b). Thus, this section already is being employed in the battle against inflation.

In a nutshell, under section 5(b) the President can deal with domestic business enterprises exactly as we dealt with foreign-owned business enterprises prior to Pearl Harbor.

Thus, he can license their business operations on condition that they do not pay wages above prescribed ceilings. It is important to remember that under section 5(b) there is adequate authority for licensing all American business in order to protect the value of the dollar and the nation's credit structure. The fact that recently the Treasury has employed section 5(b), primarily as an instrument of economic warfare and for dealing with foreign assets in no way militates against the legal authority to use it also on the domestic front as a vehicle for protecting the value of the dollar and the credit structure of the country.

Wage Ceilings

The quoted provisions of section 5(b) could be used in the present emergency in order to give the Government control over wage levels and otherwise to implement the price-control regulations heretofore adopted.

Specifically the President, by Executive Order, could freeze all or any wages or salaries at any level he found reasonable and desirable and, for that matter, also freeze all other income levels such as dividends and payments received by bondholders. This could be achieved by providing that no payment in excess of the ceiling fixed could be made through or by any banking institution or by any business or industry without a license.

By way of example, the President could prescribe a wage ceiling for the whole steel industry and stipulate that no wage payment could be made by the industry in excess of the ceiling unless licensed by the Office of Price Administration. Alternatively, he could block the accounts of the whole steel industry and then issue a general license authorizing payments on the condition that the industry adhere to prescribed wage ceilings.

Agricultural Commodities Ceilings

It is believed that section 5(b) could also be used effectively on agricultural commodity prices.

The Emergency Price Control Act of 1942 provided for price ceilings on agricultural commodities on condition,



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among others, that no ceiling be established at less than 110 percent of parity and then only with the approval of the Secretary of Agriculture.

Section 5(b) could be used to establish lower ceilings on agricultural commodities in the same manner as that outlined on wages except for section 3(f) of the Price Control Act which provides:

"No provision of this Act or of any existing law shall be construed to authorize any action contrary to the provisions and purposes of this section." (Underscoring added.)

This section may have the effect of preventing the direct regulation of agricultural price levels by way of section 5(b) or any other existing legislation.

However, it does not appear that the limitation in section 3(f) would have any effect on regulations under section 5(b) which related to the control of credit on agricultural products even though such credit regulations indirectly had the result of forcing the sale of such products at less than 110 percent of parity. Thus, many credit restrictions may indirectly affect the price of agricultural commodities without directly fixing prices.

For example: Under section 5(b) of the Trading with the enemy Act the President could order that no banking institution could loan any money on agricultural commodities unless the owner of such commodities would stipulate that he would sell them at, for instance, 100 percent of parity. (This action would be along the lines of that the President has done already under section 5(b) with respect to consumer credit administered by the Board of Governors of the Federal Reserve System.) Since agricultural production and the storage and processing of agricultural commodities are to a large extent financed on credit (or by corporations which could be brought under license), the effect of these regulations would be substantially to force the price of agricultural commodities down to 100 percent of parity.



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Moreover, the desirability of protecting our banking and credit structure against the disastrous effects of loans on inflated agricultural commodity values is important quite apart from the dangers of inflated prices. The experience of our agricultural banking and credit structure after the last World War only need be recalled to demonstrate the point.

This approach would be helpful in holding down the prices on agricultural commodities and would seem to avoid the limitations of the Price Control Act since no ceiling would be set on farm prices (and at least theoretically, farm products might still be sold at above parity).

Quite apart from the expediency of using section 5(b), the infinite flexibility possible under such section makes its use desirable in any event. Thus:

(a) Although price and wage levels are "frozen" the fact that exception can be made by license permits adjustment of levels in any areas where the general ceilings would interfere with production or result in inequalities or injustice.

(b) There are no legislative limitations on the ceilings which may be fixed and there is no provision for judicial review of such ceilings when fixed.

(c) The enforcement of ceilings and credit restrictions is facilitated by strong penalty provisions (ten years and ten thousand dollars for violations). Moreover, if need be, all banking institutions, industry and businesses can be placed under license and such licenses can be revoked by the executive without court action. This is a powerful enforcement device.

(d) This statute already has been used in our freezing control program to give us complete control over foreign-owned business enterprises within the United States and it is broad enough to give us the same control over purely domestic concerns.



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(e) The controls can be administered through any agency or agencies designated by the President.

It should be emphasized that this memorandum is concerned merely with the establishing of machinery to control agricultural commodity prices and wage levels and in no way purports to pass on the policy and political phases of such problems or the use of section 5(b) in the manner herein suggested.



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From the Papers of
Samuel I. Rosenman

TO THE CONGRESS OF THE UNITED STATES:

I recommend to the Congress the immediate enactment of legislation for the stabilization of wages and salaries, and for the more effective control of farm prices.

War means real hardships for all of us, even those on the civilian front. It is inevitable that we should undergo much greater hardships as we gather our strength for a truly all-out military effort against our enemies. As more and more of our material resources are mobilized to make the tools and implements of war for the armies of the democracies, it is inevitable that those of us who remain in our homes must undergo -- and willingly undergo -- more and more deprivations.

Hardships and deprivations in wartime are inevitable, but that does not mean that we cannot do much to avoid needlessly grievous hardships and needlessly inequitable deprivations if we act wisely, prudently and with sufficient foresight.

Three months ago I laid before the Congress a seven-point program designed to stabilize our domestic economy for the period of the war. The paramount objective of that program was the stabilization of the cost of living.

Stable living costs mean that workers can know that their living standard will not be whittled away by advancing prices and rents. They mean that farmers need not reckon with progressive increases in the prices of things they buy. They mean that business can operate on reasonable if low returns. They mean that all Americans can devote their full and vast energies to the service of their country, confident in the knowledge that all are sharing equitably in the responsibilities and sacrifices which it is their privilege to bear.



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At my direction on April 26, the Price Administrator stabilised prices and rents to the full extent of the powers available to his Office. Through the General Maximum Price Regulation and accompanying regulations on services and rents, maximum prices have been placed on the great proportion of the things Americans eat, wear and use. As a result, the rise in the cost of living which had proceeded steadily for many months has been virtually stopped.

Our effort to hold the cost of living at its present level is now endangered by higher wages and farm prices. If farm prices and wages continue to rise, other prices must be allowed to advance, and our whole program for stable living costs will be sapped and destroyed.

We have proved that general control of prices is possible, but only if it is ⁱⁿ ~~merely~~ general. It cannot be done if major elements in the cost of living are left uncontrolled, or if factors dominating costs of production are free to rise. It cannot be done if the markets are flooded with purchasing power in excess of available goods, without adequate measures to recapture the excess or sterilize it. To succeed, the program must be completed.

Every phase of it is essential. In the first point of that program I stated that "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 level, the word 'reasonable' being defined at a low level." I again urge upon you, as I have upon the Chairmen of the Committees having charge of revenue legislation, the importance of that phase of the program.

When I last addressed the Congress I also stated that, if need be, I would request additional legislation. The time has now come when additional legislation is necessary. To achieve full stability in the cost of living and to insure the wider stability essential for war production there must be restraint on all of the elements of cost. These include the prices of all commodities whether of farm or factory. They include the wages and salaries of all who engage in production.



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Samuel I. Rosenman

When the supply of goods is diminishing, increased wages and salaries add to the pressure on all prices by adding to the volume of purchasing power. But increased wage and salary costs may also necessitate increased prices on individual commodities. They may do it directly, by raising the cost of the particular commodity. Or they may do it indirectly if the workers in that industry gain an advantage over other workers which will have to be met by raising other wages and thus necessitating increases in the prices of other things. Both sources of increased prices must be guarded against.

The various groups of farmers and workers are now facing the prospect of a bitter and endless struggle of each group to get ahead of the others, or to catch up with the others, in the race between the incomes they get and the prices they have to pay. We have within our reach, through stabilizing the cost of living, the possibility of ending this hopeless race and offering to both farmers and workers a better prospect than they now face.

The farmer should be assured the favorable level of farm income which he has come to enjoy in recent months, and more if it can be had without raising the cost of living. Nor should any part of this favorable level of farm income be taken away by a rise in the prices of things the farmer buys.

The wage-earner should be assured that his standard of living will be maintained to the fullest extent permitted by the growing necessities of war. And with this should be coupled the knowledge that there will be enough of the basic necessities of food and clothing, more widely distributed than in time of peace, and that no group need suffer a shrinkage of its normal quota of these basic necessities through not having enough dollars to buy them because of runaway markets.

As to what the war necessity will permit, explanations have been repeatedly laid before the public in the last few months. The



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basic facts are that one man's income is another man's cost, and that the standard of living is limited not by dollars but by goods available for people to consume. The war is making us richer in dollars but poorer in the number and variety of the goods which we ordinarily consume. The supply of goods will be further curtailed by war needs. These facts are elementary. And it is urgent that we should recognize them now.

We must remember that the curtailment of supplies for consumers starts from the expanded level reached in the defense boom of 1941. The total supply of these goods has not yet fallen below the level at which it stood in 1939, before the war broke out. Since, as a class, only automobiles, refrigerators and other durable consumers goods have been heavily cut, this means that in terms of other things, the American people are at this moment appreciably better off than they were in 1939.

Nor is there any present prospect that Americans will have to skimp themselves in the supplies of such things as the basic food and clothing necessary to health and efficiency.

But for the very sake of preserving this relatively favorable position, so long as available supplies permit us to do so, we must see that the race for dollar incomes does not, by bringing higher prices, unnecessarily impoverish us all.

On the home front, then, although we cannot have all the goods we want, we shall have all we basically require. We must see to it that this reduced supply does not cost us more than it should, and is not unfairly distributed among us. This means effective price control and effective rationing of essential and scarce goods. In a democratic community there can even be satisfaction in such democratically shared deprivation. But price control and rationing cannot work successfully against an unlimited piling up of spendable dollar incomes, or against



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the pressure of uncontrolled markets in a most important sector of the cost of living.

Fears have been expressed that the exercise of controls over further increases in salaries and wages will put an end to collective bargaining. On that matter the record of this administration speaks for itself. Collective bargaining has been established as an institution in American life. If now we ask that the great power of collective bargaining should not be used temporarily for a particular purpose, we do not impair the institution. Rather we give assurance that it will be preserved. Like many other normal activities of peacetime, collective bargaining can be continued during the war period within limits which make for the public welfare.

I need not remind you that the recommended legislation is urgent; so urgent as to permit no delay. The success or failure of the program to prevent inflation is hanging in the balance, and will be determined very shortly by the course of events, which are moving with dangerous rapidity. I shall hope for legislative action as speedily as possible granting powers by which the course of these factors in our economic life may be controlled for the prevention of inflation.

The measure I am requesting is necessary to win the war. This is its justification. With the victory and with the peace that justification will pass.



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From the Peacetime
Services of
Samuel I. Rosenman

TO THE CONGRESS OF THE UNITED STATES:

Three months ago I laid before Congress a seven point program designed to stabilize our domestic economy for the period of the war. The paramount objective of that program was the stabilization of the cost of living.

Through the General Maximum Price Regulation and accompanying regulations on services and rents, maximum prices have been placed on the great proportion of the things Americans eat, wear, and use. As a result, the rise in the cost of living which had proceeded steadily for several months has been virtually stopped.

Our effort to hold the cost of living at its present level is now endangered by higher wages and farm prices. If they continue to rise, other prices must be allowed to advance. Price regulations will collapse and our whole program for stable living costs will be destroyed.

We have proved that the general control of prices is possible, but only if it is really general. It cannot be done if major elements in the cost of living or if factors dominating costs of production are left uncontrolled. To succeed the program must be completed.

It was my intention to ask additional legislation. I am now advised by responsible legislative leaders that the consideration of such legislation would probably take several months. I am reminded that the Price Control Act, which did not include the power to regulate wages, was enacted only after six months con-



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sideration. We cannot wait six months or even six weeks. The success or failure of the entire program to prevent the calamity of uncontrolled inflation is hanging in the balance.

I have, therefore, determined to use all the powers vested in me as President and Commander-in-Chief, under the Constitution and existing laws, to regulate the prices of all commodities, whether of farm or factory, and the wages and salaries of all who engage in production.

The first objective of the Order is to prevent any further increases in wages and salaries, except in accordance with regulations issued by a Wage Stabilization Board created by the Order. This is done through a direction to all federal departments and agencies that no further increases shall be authorized or recognized for any purposes except in accordance with such regulations. Thirty days' notice to the Board and compliance with the Board's regulations are mandatory before further increases will be authorized or recognized.

The second objective of the Order is to enable the Price Administrator to carry out the purposes of the Emergency Price Control Act of 1942, and to satisfy the requirements of Section 3 thereof as they relate to farm products, without permitting any further increases in the cost of living. This is done through a directive to the financing and buying and selling agencies of government to use their powers and funds to hold prices to the consumer at current levels.



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Fears have been expressed that the exercise of controls over further increases in wages and salaries will put an end to collective bargaining. On that matter the record of this administration speaks for itself. The right to bargain collectively has been established. If now we ask that this great power should not be used temporarily for a particular reason, we do not impair that right. On the contrary, we give assurance that it will be preserved.

If wages and salaries are controlled, the government must use its powers to see that the prices of things the worker has to buy are not permitted to rise and thus whittle away his income.

This action is necessary to win the war. It is no less necessary to win the peace. Uncontrolled inflation will pile up a public debt so high that it will place upon the people a cruel and impossible burden. It will create a price structure so inflated that it will be impossible for us to compete in the markets of the world. It will make peace time a period of suffering no less than war time.

If this Order shall prove inadequate to provide effective control, I shall then request the Congress to enact additional legislation.

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*Political Archer and Reserve Series
and Park, L. T.*

*From the Papers of
Samuel I. Rosenman*



DRAFT

TO THE CONGRESS OF THE UNITED STATES:

Four months ago, on April 27, 1942, I laid before the Congress a seven point national economic policy designed to stabilize within reasonable limits the domestic economy of the United States for the period of the war. The prime objective of that program was to prevent any substantial further rise in the cost of living. It is not necessary to enumerate again the disastrous result of a runaway cost of living — disastrous to all of us, farmers, laborers, business men, the Government itself. When the cost of living spirals upward everybody becomes poorer because the money he has or earns buys so much less; and the cost of the war ~~comes~~ ^{brought} by the Government collected from taxes of the people goes up ~~by~~ billions of dollars.

~~It is not necessary to~~ ^{I need not} point out to you or to the nation that next to winning the war itself the prevention of a spiraling domestic economy is the most important task of present day statesmanship. I reiterate the seven point program of April 27, 1942

1. To keep the cost of living from spiraling upward, we must tax heavily, and in that process keep personal and corporate profits at a reasonable rate, the word "reasonable" being defined at a low level.
2. To keep the cost of living from spiraling upward, we must fix ceilings on the prices which consumers, retailers, wholesalers and manufacturers pay for the things they buy; and ceilings on rents or 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



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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 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 to the creditors for the purchase of War Bonds.

I pointed out in my message of April twenty-seventh, four months ago, that to succeed in our objective of stabilization it was necessary to move on all seven points at once; but that two of the points required legislation. It was obvious then, and it is obvious now, that unless those two points are made possible by legislation the whole objective must fail. The two necessary pieces of legislation involve respectively point one and point four, namely the ~~enactment of a logical and~~ ^{an adequate} ~~far enough and~~ ^{and} ~~necessary~~ ^{enough} ~~the~~ ^{the} ~~enactment of a law permitting the fixing~~ of price ceilings on farm products at parity prices or at existing prices, whichever is higher.

Although these recommendations were made by me four months ago I regret to have to call to your attention the fact that neither



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in the price ceilings established by the
Price Administrator as

- 3 -

of these two essential pieces of legislation has as yet been enacted into law. On the other hand price ceilings have been fixed on ~~commodities~~ ^{financia} ~~and on rents in most areas~~ ^{includ} other commodities other than farm products under the authority provided in the

Price Control Act. As you know, the reason that farm prices were not included ^{inclusively} ~~in~~ that the Price Control Act ~~set~~ ^{not} specific limitations on the power of the President to fix such prices. In other words, the farmers were given a special advantage in the Price Control Act and it was definitely provided that no power given in any other statute should be construed to give the President the right to fix prices on farm ~~prices~~ until they had risen to levels above parity, in fact to 110% ^{approximately} of parity and in some cases even more. ^{the case of some basic staples, such as 125% of parity.}

Various regulations have been enacted to discourage credit and instalment buying. The National War Labor Board has made and is making a conscientious effort to stabilize the wage level as of May 1, 1942. Even if the process of stabilization of prices and farm prices and wages at certain levels were to be brought about, there would still remain the great upward pressure on the cost of living created by the vast amount of purchasing power which has been paid out to all groups ^{earned in the war effort by} in all sections of the country. This purchasing power exceeds even today by an estimated twenty billions the amount of civilian goods which can be purchased by civilians. The result obviously is that people with this excess amount of money begin to compete for the available supply of goods and the pressure of this great demand compared with the small supply continually threatens to disrupt ^{now} the whole price structure.

Add to this situation the fact that as the war continues the amount of goods available for civilian use will constantly decrease. The twenty billion dollar spread will eventually, therefore, get bigger and bigger and as a result the pressure on the price structure becomes heavier and heavier. Therefore, more and more of this excess purchasing power must be drained off by taxes or by purchase of ^{war} bonds or by some other expedient. The sale of ^{war} bonds contributes to this siphoning off process as will the increased tax bill if and when it is enacted.

scribbled

P
*We are
begin to
concentrate
on the
fact that
we are
at a
point
of great
dangerous
forewarning*

(A)

THE WHITE HOUSE
WASHINGTON

"provision of this Act or of any existing law shall be construed to authorize any action contrary to the provisions and purposes" of the act which set these high ceiling limits.



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In the meantime, the Price Administrator has stabilized prices and rents so far as he has been able to do so under his limited authority granted by the statute. Outside of the farm products, excluded from his freezing power until they have reached 110% or more of parity, maximum prices have already been placed on the great proportion of the things which we buy everyday, wear and use. *Thus their farm commodities* The process of freezing these prices, constitutes one of the most far-reaching economic steps that this nation or any other nation has taken in time of peace or war. As an immediate result of that *process*, the threatening rise in the cost of living, which had been going on month after month since the outbreak of the war in Europe, *and* ^{steps on May 1, 1942} virtually stopped. However, it will be impossible to maintain the present level of prices unless we can relieve the various pressures upon those prices. Therefore, our entire effort to hold the cost of living at its present level is now being sapped and undermined by further increases in farm prices and in wages and by an ever continuing increase in the purchasing power of our people. Our experience during the last four months has proved that general control of prices is possible, but that it is possible only if that control is really general. If, however, the costs of production, including labor, are free to rise or if major elements in the cost of living are left uncontrolled, price control is itself impossible. Or if markets are flooded with purchasing power in excess of available goods, without taking adequate measures to siphon off or sterilize the excess purchasing power, price control is likewise impossible. To succeed at all, the program must be complete and each part of it must be carried out with due consideration to all the other parts.

If I may give you a few figures as to cash farm income and wage and salary payments, you will appreciate how serious is *the resultant* ^{and rising farm prices} *sure* of rising farm prices and unrestrained wage increases upon the price ceilings which have been established and upon the cost of *living in general*. Cash farm income, including Government payments, has increased from \$7 billion dollars in 1939 to an estimated 15.1 billion dollars



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in 1942. This is an increase of 74%. Farm prices have risen 75% since the outbreak of the war in September 1939. These prices are continuing to rise.

During a single month from mid-May to mid-June, ~~which are discounted from price ceilings by the statute~~, ^{income} ~~retail food prices rose by nearly 5%.~~ This was the average increase in the prices of these foods. Many ^{other} ~~then~~ ^{than that average} rose by much more. As a result of rising farm prices some price ceilings at retail have already been broken, and many others, vital in the cost of living, are threatened.

Annual wage and salary disbursements have increased from 43.7 billion dollars in 1939 to an estimated 75 billion dollars in 1942. This represents an increase of 71%. ^{To offset the inflation of what} ~~that increase~~ ^{means,} ~~we~~ ^{should} ~~remember~~ ^{that} 75 billion dollars is more than our total national income during any single year from 1930 to 1941.

During the year ended last April average hourly earnings in manufacturing industries increased by something over 1½ a month; and the annual wage and salary bill increased by more than a billion dollars a month. Today average hourly earnings in manufacturing industries and the annual wage and salary bill are increasing at the same rate as they did prior to April 28.



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It is patently impossible for the cost of living to be stabilized while farm prices continue to rise. It is patently impossible for ~~other~~^{any} prices to remain stable while wages and salaries, the most important single element in the cost of production, continue to rise.

The farmer should be assured the favorable level of farm income which he has come to enjoy in recent months, ~~or parity, which ever is the higher.~~ ^{But} The farmer knows that a substantial part of this favorable level of farm income may be taken away by an extraordinary rise in the prices of things which the farmer buys.

The wage earner should be assured that his standard of living will be maintained ~~as~~ to the extent permitted by the growing necessities of war and of winning the war. ~~But we also know that we must be~~
~~We also know~~ coupled the knowledge that there will ^{not} be an adequate supply of all ~~civilian goods~~, basic necessities of food and clothing; that through rationing, if necessary, these goods will be more equitably distributed than in time of peace; ~~and~~ that no group need suffer a shrinkage of its normal quota of basic necessities through not having enough dollars to buy them because of runaway markets.

In the same way we must ~~also~~ realize that strenuous measures must be taken to remove the inflationary threat which is inherent in this vast excess of purchasing power on the market today. And in some instances we ~~must~~ all recognize the fact that if we are to maintain the existing price ceilings, or any ceilings near them, it may become necessary to grant subsidies to make up the spread between ^{our} price ceilings and ^{including} the costs of production.

All of these questions must be handled and watched at the same time. I have come to the conclusion that they cannot be ~~handled~~ ^{coordinated} ~~all~~ efficiently by uncoordinated action of the separate agencies acting



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independently of each other. Every wage increase ~~and~~ ^{farm} increase may have a direct effect on prices. Every increase in prices, has an immediate influence on wages. Every increase ^{in the cost of living} is important in determining whether subsidies should be granted, or whether additional fiscal forces should be employed to prevent too drastic an increase in purchasing power. Therefore some one agency must be created which can coordinate and direct concerted action by all the departments involved ^{with the} directed toward stabilizing the cost of living through all the powers of government.

I have therefore today established an Economic Stabilization Authority which will develop and put into effect a program of coordinated action for the prosecution of the war in its domestic economic aspects. For your convenience, a copy of the Executive Order establishing the Authority is annexed to this message.

Every factor which increases the amount of money in circulation has to be considered in conjunction with the question of how to sterilize or withdraw enough of it from the stream of purchasing power so as to avoid the danger of price spirals.

Prevention of unnecessary increases in the cost of living

all

As you will notice, this Authority is composed of the government agencies primarily interested in the question of inflation and the cost of living in all of its aspects — wages, prices, savings, taxation, and credit regulations, ~~subsidies, and rationing.~~ The Chairman of this Board will be a newly-appointed full-time officer of Government who, subject to the direction of the President and after consultation with the members of the Authority, will exercise the general power of ~~and to~~ formulating policy under which the entire program against inflation and a spiraling cost of living will be conducted. In the conference room of this Authority, with all of the various agencies interested in carrying out the seven point program, will be worked out the general policies which should be followed by each of the agencies concerned with each of the separate points, ~~in this way~~ instead of conflicting or disagreement there will be coordinated, comprehensive action. ~~It is intended that this agency will formulate a general policy on each of the subjects involved in the general question.~~

Pending the formulation of policies on various subjects, the Executive Order enunciates the policy of the Government with respect to wage increases. It is necessary that such policy be enunciated ~~now~~ instead of ~~writing~~, because the blunt fact is that if wage increases are permitted to continue in an unrestrained fashion there is great danger that the price structure will be affected ~~fairly immediately starting~~ ~~as a beginning~~ ~~so as to be more~~ of an exorbitant increase in the cost of living.

It must be remembered that whereas in normal peace times the ordinary processes of collective bargaining are sufficient ~~discreetly and from themselves,~~ and particularly in times of greatly increasing prices, the Government itself has a very vital interest in seeing to it that wages are kept in balance with the rest of the economy. It is still the policy of the Federal Government to encourage free collective bargaining between employers and workers, but in times of danger to our economy the Government itself must step into the situation to see to it that ~~necessarily~~ the normal



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and

processes of collective bargaining, ~~and even the processes of arbitration~~
~~are not permitted to~~
and conciliation ~~cannot~~ break up the mutual balances between the different
economic factors in our system.

Therefore, the policy which is enunciated by the President in
~~an~~
the ~~most~~ Executive Order seeks to stabilize wage increases along the
following general lines.

The National War Labor Board, in addition to its present
powers of passing upon wage and other industrial disputes, is given the
authority to pass upon any proposed voluntary wage increase. ~~It is~~
~~unpermitted~~
~~applications for wage increases, either voluntary or~~
~~otherwise, must~~
should be passed upon by the War Labor Board in accordance
with the policy enunciated, ~~and~~ in case wage increases are granted in
contravention of such policy or ~~in~~ contravention of the War Labor Board
decisions, then the amount of this unauthorized increase will not be
considered in any contract made by any government procurement agency;
nor will it be considered as an element in fixing the price of the com-
modity made by the workers receiving such increase; nor will it be
considered as a deduction for tax purposes. There are ~~other ways~~
in which the Government can enforce this policy and the directions
of the National War Labor Board ~~in~~ ~~in~~ ~~so~~ these. By use of its
~~priority~~
priority powers of materials and transportation and ~~commodities~~
and by use
of its control of the banking and currency and credit system of the
country, and ~~with~~ its powers to freeze funds, there is no doubt that
the Government has sufficient power if it becomes necessary to use it,
to enforce this policy. ~~The~~ ^{order} ~~Executive Order in paragraph~~ ~~would~~
~~permit the Chairman of the Economic Stabilization Authority to issue~~
~~directives to the various agencies of Government to enforce the policies~~
of the authority and the orders of the National War Labor Board by any
~~of its statutory powers~~ ^{order} The Order provides that wage increases ~~may~~ be
~~authorized or recognized only in any one of three prescribed~~
~~situations~~ ^{and} ~~in~~ ~~the following~~ ^{under} ~~situations~~. It will be
noted that the order does not direct that wage increases ^{must} be granted under
such circumstances, but merely permits ^{the granting thereof if the}



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This is essentially the so-called "Little Steel Formula" currently being used by the National War Labor Board in its decisions.

- 10 -

National War Labor Board is of opinion that they should be granted.

First, where less than 15% increase has been granted between January 1, 1941 and May 1, 1942, such increases may be allowed.

The purpose of this is to permit wages to keep up with increases in the cost of living between January 1, 1941 and May 1, 1942. This was approximately a 15% increase. In order to stabilize wages, the date of May 1, 1942 was selected because that is the approximate date on which the price fixing orders went into effect and the intention was to stabilize the cost of living as of that date so that the real wage (the purchasing power of the wage on May 1, 1942) should be the same as it was on January 1, 1941 on which date the cost of living first began its very perceptible increase.

Second, to eliminate substandards of living, wage rates are permitted to be increased. It is provided, however, that no wage rate in excess of 47¢ an hour should be regarded as substandard. The reason for fixing it at 47¢ is that the national policy as provided in the Fair Labor Standards Act was 40¢ before the war broke out and an allowance of an 18% increase in the cost of living is made, bringing the figure up to 47¢. This does not mean that all wages will be increased to a minimum of 47¢ per hour. It does mean that permission is granted to increase substandard wages ~~which are frequently~~ under that figure.

Third, inequalities in rates of pay, that is any unreasonable discriminations in wages between comparable jobs or comparable jobs in the same locality, may be corrected by wage adjustments.

However, there is one all inclusive limitation on the right of the War Labor Board to increase any wages. That is when it comes into conflict with the existing price structure. When either the National War Labor Board or the Price Administrator comes to the conclusion that any wage increase, voluntary or otherwise, will bring about an increase in the price of the commodity or service involved, then the question must be submitted to the Authority for approval. The Authority will then have to determine whether the wage increase should be granted or whether the price



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Director of Personnel
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ceiling should be raised or whether the difference should be made up in some form of Government subsidy. In that determination, of course, ~~financing~~, ~~interrelated~~ in the inflationary effect of wage increases all of the agencies of Government will have a voice, although the final determination will always be with the Chairman, subject to the approval of the President.

This policy repudiates wage freezing. It assures wage stabilization. It does not put an end to collective bargaining. This administration is the one which wrote the principle of collective bargaining ~~formalized~~ into the statutes of the United States. Its record on that subject is clear; and during the last decade under its supervision, collective bargaining has become established as an institution in American life. The policy does, however, provide that collective bargaining -- should be affected by the same considerations which affect so many other normal activities of peace time, that it ~~must be confined~~ ^{must be confined} during the war period within limits made necessary by the public welfare.

If we are to keep wages stabilized in the future, however, it becomes imperative to keep equally stable the cost of the food and the clothing and shelter and other articles used by workers. This does not mean that there will be any attempt to maintain ^{under this present} the standard of living of the workers during war time any more than the standard of living of any other person. War calls for sacrifice. War makes sacrifice a privilege. That sacrifice will be expressed in terms of deprivation of many of the things to which we have become accustomed. Therefore, in the future labor must expect that ^{Year to all} ~~Labor must not expect that it will~~ ^{we can buy} ~~we can buy~~ ^{as most all people do now} ~~as most all people do now~~ always be able to buy what ~~we can buy~~ ^{as we do now} or even what ~~we can buy~~ ^{we can buy} today.

But that is a different thing from saying that prices and rents should be allowed to advance so drastically that the real wages of workers, as of today, will be cut ^{about 40%} ~~down to nothing~~.

The Executive Branch of the Government has fixed price ceilings on nearly everything for which it had power. It has not fixed price ceilings on several very important articles of food, solely for the reason that under the Emergency Price Control Act of 1942 it is impos-



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sible to do so. Section 5 of that Act, after providing ~~that~~ ceilings cannot be fixed until prices of farm products have gone up to 110% of parity (and in some cases, more) provides as follows:

B
*(as in
Amendment)*
That is why it has become essential under the operation of law it is impossible to prevent a further costly and perhaps disastrous rise in farm prices.

The American farmer has never asked to be exempt from the sacrifice of war. Let there be no restrictions on the law enacted since Pearl Harbor which prefer farmers above other groups, and which prevent the Government from taking action vitally necessary to stabilize the home front. On April twenty-eighth I recommended to the Congress that the price law be corrected and the objective of parity for the farmers of the United States be restored. I make that recommendation again — and urge its immediate passage.

If the prices of farm products, including corn, are allowed to rise to the levels permitted by ~~Section 5~~, and if feeds other than corn rise no more than in proportion to the rise in corn prices, the annual cost of food and clothing to consumers will be raised by well over 5 billion dollars. These costs, which since August 1938 have risen over 50%, will rise 15% above their current level. *(Chart more about farm prices)* A decision to stabilize wages under these circumstances could not ~~be justified~~.

Our peacetime program to give the farmer parity prices and income was not based upon any theory of reducing the workers' share of the national income, of robbing Peter to pay Paul. It was based on the sound proposition that increasing the farmers' purchasing power would increase the demand for industrial goods, would increase employment for workers, and would increase the national income. But both farmers and workers must realize that in wartime there can be no increase in the production of goods for civilian use. And because our standard of living is measured in terms of goods, not dollar signs and dollar bills, there can be no improvement in our national standard of living while the supply of civilian goods is rapidly diminishing.



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- 15 -

In wartime, therefore, it is impossible to increase or even maintain the real income of farmers or workers without reducing the real income of other farmers or other workers. If farm prices are permitted to rise while wages are stabilized, workers will bear the whole cost of the increase. This we cannot ask. The Congress must realize that unless the existing control over farm prices is strengthened, we must abandon our efforts to stabilize wages and salaries and the cost of living during the present war. If that occurs, workers and farmers alike will not only suffer a reduction in real income, but will bring upon themselves and the Nation the unparalleled disaster of unchecked inflation. No increase in wages, no increase in farm prices, will compensate this generation and perhaps another for such a tragedy.

I have confidence that the American farmer who has been doing so much in the battle of production of food will do as much in this struggle against economic forces which make for the disaster of inflation, for nobody knows better than the farmer what happens when inflationary wartime booms are permitted to become post war panics. *his fanglepck* *Bon* *p.13*

In view of the fact that by Executive action wages will be stabilized, there seems to be no possible excuse for the Congress to fail to pass immediately legislation which would permit us to stabilize farm prices at parity or at existing prices, whichever is higher.

Unless this is done at once, it will obviously be impossible to hold wage levels where they are because it would be unfair to expect workers to pay runaway food prices with stabilized wages. Therefore, action must be taken at once by the Congress if this Executive Order is to have any effect at all.

One of the most powerful weapons in our fight to stabilize living costs is taxation. It is a powerful weapon because it reduces the competition for consumers' goods *by taking away part of the purchasing power used to buy these goods*. The provisions of the tax bill pending before Congress would increase revenue by much more than any previous measure in our history. If it becomes law, a full year's Federal tax collection would approach

\$24 billion. But in the fiscal year 1945 our Federal expenditures are expected to reach \$77 billion. Such expenditures mean that either in this bill or in the near future the amount of wartime taxation must be greatly increased.

Heavy wartime taxes do not create the economic sacrifices of war. The burden is already with us whether or not taxes are levied. ^{first} The function of wartime taxation is to distribute the inevitable burden more equitably. Fair distribution of the burden will be promoted by taxes which help in preventing a damaging rise in the cost of living.

The cooperation and self-restraint of the whole Nation will be required to stabilize the cost of living. With every increase in the tax load unfair tax distribution becomes less and less tolerable. We can rightly expect the fullest cooperation and self-restraint only if the tax burden is being fairly levied in accordance with ability to pay. This means that we must eliminate the tax exemption of interest on State and local securities and other special privileges or loopholes in our tax law. It means that in the higher income brackets the tax rate should be such as to give the practical equivalent of a top limit on income after taxes, approximating \$25,000. Such provisions will give assurance that the sacrifices required by war are being equitably shared.

As much of the income tax as is practicable should be collected at the source. The amount collected at the source would not be an additional tax but only a prepayment of regular income taxes. Such a collection mechanism would ease the burden of the heavy taxes the war requires; it would assure collection from the many ^{new} ~~new~~ millions of taxpayers; and it would make possible prompt adjustments in rates of collection necessitated by changing economic conditions.

Heavy wartime taxes will fall on all of us. We must spare only those whose incomes are at the minimum necessary for productive efficiency and decent living. We should avoid, ^{fairly,} ~~as far as possible,~~ such taxes as general sales taxes, ^{for they} ~~which~~ cut into that necessary



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Senate, U. S. House of Representatives
Senate, U. S. House of Representatives

minimum and, by raising the costs of goods, threaten to destroy the stabilization of living costs which we seek to maintain.

become a factor which may help

We must recapture through taxation all wartime profits that are not necessary to maintain efficient all-out war production. Provisions for a post-war rebate of a part of the corporate profits taxes would help to maintain the ^{the} ~~incentive~~ ^{for production} and would contribute to economic stability during the post-war readjustment of industry. Corporations having debt obligations which they cannot meet under ^{such} increased tax rates could be allowed to draw against their post-war rebates to help pay such debts. To allow debt ^{borrowing} ~~indebt~~ as an ordinary deduction and not as a credit against post-war rebates would be highly discriminatory in favor of debtor corporations. I realize that individuals also have their debt problems, but it does not seem feasible to allow a deduction for debt payments to individuals since such an allowance would discriminate sharply against those who have no debts. With our present individual tax rates we should, however, recognize the fact that debt burdens are frequently associated with illness and allow a deduction for unusually large medical expenses.

Closely connected with the subject of prices is that of subsidies. It may be necessary, in order to maintain the price level, for consumers of certain commodities to meet ^{by authorizing the} increased costs of production or transportation ^{of these commodities} ~~as circumstances demand~~. So far, that has been necessary only in a few isolated instances. If this central policy-making agency, the Economic Stabilization Authority, finds it necessary in the struggle to maintain the consumers cost of living within reasonable bounds, to ^{recommend} few further powers of subsidy and funds for that purpose, I know that the Congress will give it immediate and favorable consideration.

P. C. G.
~~In the same way all of the questions which enter into the determination of the best~~
~~proper way to prevent spiraling of the post of living will require some~~
~~legislative action, such as forced savings, rationing of purchasing power, increased taxation, etc.~~

I need not remind you that this matter is urgent; so urgent as



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to permit no delay. Success or failure of the program to prevent inflation is hanging in the balance, and will be determined very shortly by the course of events which are moving with dangerous rapidity. I shall hope for legislative action as speedily as possible granting powers by which the course of these factors in our economic life may be effectively controlled.



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From the Papers of
Samuel I. Rosenman

Augt 5, 1942

August 26, 1942

DRAFT

TO THE CONGRESS OF THE UNITED STATES:

Four months ago, on April 27, 1942, I laid before the Congress a seven-point national economic policy designed to stabilize within reasonable limits the domestic economy of the United States for the period of the war. The prime objective of that program was to prevent any substantial further rise in the cost of living.

It is not necessary for me to enumerate again the disastrous result of a runaway cost of living — disasters to all of us, farmers, laborers, businessmen, the government itself. When the cost of living spirals upward everybody becomes poorer, because the money he has and the money he earns buys so much less. At the same time the cost of the war, collected partly from taxes of the people, goes up needlessly by many billions of dollars. The only ones who benefit are people who owe money — debtors; for they are enabled to pay their debts incurred in a time of normal currency with money which is inflated currency. Indeed, next-to-winning the war itself, the prevention of a spiraling domestic economy is the ~~a primary~~ ^{most} important task of present day statesmanship; ~~it is a vital part of the winning of the war itself.~~

I reiterate the seven-point program which I presented

April 27, 1942:

1. To keep the cost of living from spiraling upward, we must tax heavily, and in that process keep personal and corporate profits at a reasonable rate, the word "reasonable" being defined at a low level.
2. To keep the cost of living from spiraling upward, we must fix ceilings on the prices which consumers, retailers, wholesalers and manufacturers pay for the things they buy; and ceilings on rents for dwellings in all areas affected by war industries.
3. To keep the cost of living from spiraling upward, we must stabilize the remuneration received by individuals for their work.



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Protect the People of
Samuel I. Rosenman

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 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 to the creditors for the purchase of War Bonds.

In my message of four months ago I pointed out that in order to succeed in our objective of stabilization it was necessary to move on all seven points at the same time; but that two of the points called for legislation by the Congress before action could be taken. It was obvious then, and it is obvious now, that unless those two points are made possible [by legislation] the whole objective must fail. The two points are necessary pieces of legislation involve respectively point-one-and-point-four, namely, an adequate tax program, and a law permitting the fixing of price ceilings on farm products at parity prices.



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- 3 -

Although these recommendations were made by me four months ago I regret to have to call to your attention the fact that neither of these two essential pieces of legislation has as yet been enacted into law. That delay has now reached the point of danger to our whole economy. We cannot afford to wait any longer.

We have begun, however, by executive action, to carry out the other parts of the seven-point program which did not require Congressional action.

For example, price ceilings have been fixed on practically all commodities (other than agricultural products) and on rents in most of the areas of the United States.

This process of freezing prices constitutes one of the most far-reaching economic steps that this nation or any other nation has taken in time of peace or war. As an immediate result of that step on May 18, 1942, the menacing rise in the cost of living, which had been going on month after month since the outbreak of the war in Europe, was temporarily halted. Indeed the over-all cost of living including food, rent, and all other commodities has increased only ^{insignificantly}. However, it is now absolutely impossible any longer to maintain the present level of prices unless we can relieve the various pressures upon those prices.

Our experience during the last four months has proved that general control of prices is possible — but only if that control is really general. If, however, the costs of production, including labor, are left free to rise or if major elements in the costs of living are left uncontrolled, price control becomes impossible. Or if markets are flooded with purchasing power in excess of available goods, without taking adequate measures to siphon off or sterilize the excess purchasing power, price control becomes likewise impossible. Our entire

Ang. 15, 1942
13% from May 15, 1942 to Aug. 15, 1942 or one
arrege of only .48¢ per month.



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- 4 -

effort to hold the cost of living at its present level is now being capped and undermined by further increases in farm prices and in wages and by an ever-continuing increase in the purchasing power of our people. It is still true, as it was four months ago, that to succeed at all the program must be complete, and each part of it must be carried out with due consideration to all the other parts.

Annual wage and salary disbursements have increased from 43.7 billion dollars in 1939 to an estimated 75 billion dollars in 1942. This represents an increase of 71%. To obtain a full appreciation of what that increase means, we should remember that 75 billion dollars is more than our total national income during any single year in the 1930's. From 1939 to 1941, During the year ended last April, average hourly earnings in manufacturing industries increased by something over 16% for the entire country. For men rising a month, and the annual wage and salary bill increased by more than a billion dollars a month. Today average hourly earnings in manufacturing industries and the annual wage and salary bill are increasing at the same rate as they did prior to April 28.

It is patently impossible for the cost of living to be stabilized while farm prices continue to rise. You cannot expect the laborer to maintain a fixed wage level if everything he wears and eats begins to go up drastically in price. On the other hand it is patently impossible to keep any prices stable — farm prices or other prices — if wages, one of the most important elements in the cost of production, continue to increase.

due to constantly increasing employment, overtime, and wage rate increases



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Even if the process of stabilization of prices and farm prices and wages at certain levels were to be brought about, there would still remain the great upward pressure on the cost of living created by the vast amount of purchasing power which has been earned in the war effort by all groups of citizens in all sections of the country. The national income has been increasing since Jan. 1, 1941 at the average rate of 2% each month. This purchasing power now exceeds by an estimated twenty billions the amount of civilian goods which can be purchased by civilians. The result obviously is that people with this excess amount of money compete more and more for the available supply of goods; and the pressure of this great demand ^{which will become smaller and smaller} compared with the small supply continually threatens to disrupt our whole price structure.

A recent study by the Bureau of Labor Statistics has shown very strikingly how much the incomes of city families have gone up during the first quarter of 1942. If we assume that the income for the first quarter of 1942 is a fair basis for estimating what the family income will be for the entire year, the results of the study

The results of the study show that whereas less than one-fourth of all families in the United States received as much as \$2500 in 1941, more than one-third will have \$2500 or more in 1942.

tion.

2. Twenty-eight per cent of our families will have an income of over \$2,500 in 1942. In 1941 only 22 per cent of our families were in this group.

3. For every hundred families that had incomes between \$1,000 and \$2,000 in 1941, seventy will remain in the



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- 5 -

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A recent study by the Bureau of Labor Statistics has shown very strikingly how much the incomes of city families have gone up during the first quarter of 1942. If we assume that the income for the first quarter of 1942 is a fair basis for estimating what the family income will be for the entire year, the results of the study show the following:

1. Whereas 36 per cent of our families were in the income group above \$2,000 in 1941, the number in this group in 1942 will constitute more than 40 per cent of our population.
2. Twenty-eight per cent of our families will have an income of over \$2,500 in 1942. In 1941 only 22 per cent of our families were in this group.
3. For every hundred families that had incomes between \$1,000 and \$2,000 in 1941, seventy will remain in the

~~same income group in 1942; twenty-two will rise to the \$2,000 - \$3,000 group; and one will be in the income group of \$5,000 and over.~~

~~4. For every hundred families in the \$2,000-\$3,000 group in 1941, twenty-seven will be in the group earning \$5,000 or more in 1942.~~

This shows how much the purchasing power of the average American family has gone up as a result of war production and how essential it is to regulate that purchasing power.

Add to this situation the fact that, as the war continues, the amount of war production income will increase while the amount of goods available for civilian use will constantly decrease. ~~The loan of more notes remain unchanged~~ twenty billion dollar spread will, therefore, get bigger and bigger and the pressure on the price structure will become heavier and heavier. Therefore, more and more of this excess purchasing power must be drained off by taxes or by the purchase of war bonds or by some other expedient.

* We also know that there will not be an adequate supply of all civilian goods; that only through rationing where necessary, will these goods be more equitably distributed than in time of peace. We are determined that no group need suffer a shrinkage of its normal quota of basic necessities through not having enough dollars to buy them because of runaway markets.

Strenuous measures must be taken to remove the inflationary threat which is inherent in this vast excess of purchasing power on the market today. And in some instances we will have to face the fact that if we are to maintain the existing price ceilings, or any ceilings near them, it may become necessary to grant subsidies to make up the spread between our price ceilings and increasing costs of production.



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From the Public to
Samuel I. Rosenman

All of these questions must be handled and watched at the same time. I have come to the conclusion that they cannot be administered efficiently by uncoordinated action of the separate agencies, all acting independently of each other. Every wage increase may have a direct effect on prices. Every increase in prices, particularly farm prices, has an immediate influence on wages. Every increase in the cost of production, including labor,^{with} is important in determining whether subsidies should be granted. Every factor which increases the amount of money in circulation has to be considered in conjunction with the question of how to sterilize or withdraw enough of it from the stream of purchasing power so as to avoid the danger of price spirals. Therefore some one agency must be created which can direct concerted action by all the departments involved with the objective of stabilizing the cost of living through all the powers of government.

I have, therefore, today appointed an Economic Stabilization Administrator, who will be charged with the responsibility of developing and effectuating a program of concerted action for the prevention of unnecessary increases in the cost of living. ^{For your convenience and information and} A copy of the Executive Order creating this new office and enumerating the powers and duties of the Administrator is annexed to this message.

The Administrator is provided with an advisory group consisting of all of the government agencies primarily interested in the questions of inflation and the cost of living in all of its aspects - wages, prices, subsidies, rationing, savings, credit regulations and taxation. In addition to the government agencies, the advisory group will also include the recognized leaders of labor and industry and agriculture. The Administrator will exercise the power of the

t. b. appointed by the President.



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From the *Papers of*
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President, subject to the President's approval, in formulating and carrying out the policy under which the entire program against a spiraling cost of living will be conducted.

Pending the formulation of policies on various subjects, involved in the general field of the cost of living the Executive Order enunciates the policy of the Government with respect to wage increases and farm prices. It is necessary that such policy be enunciated now instead of waiting, because the blunt fact is that if wages and farm prices are permitted to increase in an unrestrained fashion there is great danger that the entire price structure will be affected fairly immediately, starting an exorbitant increase in the cost of living.

[It must be remembered that whereas in normal peace time the ordinary processes of free collective bargaining are desirable and sufficient in themselves, in war times and particularly in times of greatly increasing prices, the Government itself has a very vital interest in seeing to it that wages are kept in balance with the rest of the economy. It is still the policy of the Federal Government, and it will be the policy, to encourage free collective bargaining between employers and workers. But in times of danger to our economy the Government itself must step into the situation to see to it that the normal



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~~processes of collective bargaining and arbitration and conciliation are not permitted to break up the balance between the different economic factors in our system.~~

The policy which is enunciated in the annexed Executive Order seeks to stabilize wage increases along the following general lines.

The National War Labor Board, in addition to its present powers of passing upon wage and other industrial disputes, is given the authority to pass upon any proposed voluntary wage increase, whether it is the result of voluntary agreement, collective bargaining, conciliation, or otherwise. Applications for all wage increases, either voluntary or otherwise, except in picayune amounts must be passed upon by the War Labor Board in accordance with the policy enunciated. In case wage increases are granted in contravention of such policy or of the War Labor Board decisions, then the amount of this unauthorized increase will not be considered in the cost of production in any contract made by any government procurement agency; nor will it be considered as an element in fixing the price of the commodity manufactured by the workers receiving such increase; nor will it be considered as a legal deduction for tax purposes. There are additional ways in which the Government can enforce this policy and the directions of the National War Labor Board. By the use of its priority powers over materials and transportation and electricity, and by use of its control of the banking and currency and credit system of the country, and by its right to freeze funds, there is no doubt that the Government has sufficient power, if it becomes necessary to use it, to enforce this wage policy.

The order provides that no wage increases from now on will be authorized or recognized by any government agency except in one of three prescribed circumstances. The order does not direct that wage increases must be granted under such circumstances; it merely permits them if the National War Labor Board is of opinion that they should be granted.



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First, where less than a 15% wage increase on an industry average basis has been granted between January 1, 1941 and May 1, 1942, increases may be allowed. The purpose of this is to permit wages to ^{make up} keep up with the increase in the cost of living between January 1, 1941 and May 1, 1942, an increase which amounted to approximately 15%.

This is essentially the so-called "little steel formula" currently being used by the National War Labor Board in its decisions. The date of May 1, 1942 was selected because that is the approximate date on which the price fixing orders went into effect under the Emergency Price Control Act. The intention was to stabilize the cost of living as of that date so that the real rate of wage on that date (that is the purchasing power of the wage) should be approximately the same as it was on January 1, 1941 on which date the cost of living first began its very perceptible increase. By the use of this formula, the National War Labor Board, by its decisions, has been stabilizing and bringing to rest the level of wages as of May 1, the day when the price level of commodities other than farm products was brought to rest. The order permits that to continue but fixes May 1, 1942 as the stabilization date, subject to certain limitations hereafter mentioned.

Second, to eliminate substandards of living, wage rates are permitted to be increased. ~~It is provided, however, that no wage rate in excess of 47¢ an hour should be regarded as substandard. The reason for fixing it at 47¢ is that the national policy before the European war broke out, as provided in the Fair Labor Standards Act, was 40¢; and an allowance is made of an 18% increase in the cost of living since that date, bringing the figure up to 47¢. This does not mean of course that all wages will be increased to a minimum of 47¢ per hour. It means only that permission is granted to increase substandard wages which are presently under that figure.~~

Third, inequalities in rates of pay, that is, any unreasonable



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discriminations in wages between comparable jobs in the same plant or comparable jobs in the same locality, may be corrected by wage adjustments.

However, there is one all inclusive limitation upon the right of the War Labor Board to increase any wages under any circumstances. That is when the wage increase comes into conflict with and disturbs the existing price structure. When either the National War Labor Board or the Price Administrator comes to the conclusion that any wage increase, voluntary or otherwise, will bring about an increase in the ^{ceiling} ~~padding~~ of the commodity or service involved, then the question must be submitted to the Economic Stabilization Administrator for approval. The Chairman will then have to determine whether or not the wage increase should be granted; and, if so, whether the price ceiling should be raised or whether the difference should be made up in some form of Government subsidy.

This policy repudiates wage freezing. It assures wage stabilization. It does not put an end to collective bargaining. This Administration was the one which first wrote the principle of collective bargaining into the statutes of the United States — and enforced it. Its record on that subject is clear; and during the last decade, under its supervision, collective bargaining has for the first time become established as an institution in American life. [The wage policy announced in the order provides that all wage questions should be determined by collective bargaining and should be submitted to the War Labor Board only after collective bargaining has broken down or has resulted in agreement.] But the order makes sure that collective bargaining should be affected by the same considerations which in war time affect so many other normal activities of peace time.

It must be remembered that whereas in normal peace times the ordinary processes of collective bargaining are sufficient in themselves, in war times and particularly in times of greatly increasing prices, the Government itself has a very vital interest in seeing to it that wages



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National Defense and Supply Service

ARMED FORCES
ARMED FORCES

Senate 1. Business
House Dept. 1. Business

*Going to the first step down's stabilization and now we have to take another step down to live down by stability.
Collective bargaining by conciliation and employers and employees a group deal, group deal strike.*

- 12 -

are kept in balance with the rest of the economy. It is still the policy of the Federal Government, and it will be the policy, to encourage free collective bargaining between employers and workers. In times of danger to our economy the Government itself must step into the situation to see to it that the normal processes of collective bargaining and arbitration and conciliation are not permitted to break up the balances between the different economic factors in our system.

If we are to keep wages effectually stabilized, however, it becomes imperative to keep equally stable the cost of the food and the clothing and shelter and other articles used by workers.

This does not mean that if prices do go up 1% or 20% after May 1, 1942, for example, wages must necessarily go up 1% or 20%. To follow that principle would be an attempt to maintain intact the present standard of living of workers during the war. This is just as impossible and as unwise as trying to maintain the standard of living of any person during war time. War calls for sacrifice. War makes sacrifice a privilege. That sacrifice will have to be expressed in terms of a lack of many of the things to which we all have become accustomed. Labor must expect that, as must all people. No one can expect that during the war he will always be able to buy what he can buy today.

But that is a different thing from saying that prices and rents should be allowed to advance so drastically ahead of wage rates that the real wages of workers as of today — their ability to buy food and clothing — will be cut down overwhelmingly. For if the cost of living goes up as fast as it is threatening to do in the immediate future, it will be unjust, in fact impossible, to deny workers an increase in wages which would meet at least a part of that increase.

The cost of all food used by wage earners — controlled and uncontrolled — has been going up at the rate of 1½ per cent per month since the price ceilings were set in May, 1942. If this rise should be permitted to continue, the increased cost of food to wage earners next May would be more than 15 per cent over the level which existed when the ceilings were set.

This would be equal to imposing a 15 per cent sales tax on all food purchased by wage earners. Obviously, no one would consider imposing such a tax. It should be equally out of the question to consider permitting this tax to be imposed indirectly by allowing these prices to go up 15 per cent.

This drastic increase has been caused and will be caused chiefly by the fact that a number of food commodities cannot be controlled under existing law. If we were to consider only the cost of food which cannot be controlled under the terms of existing law, the increases would be even more startling.



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The cost of food used by wage earners which cannot be controlled under the terms of the existing law has been rising at an average of $\frac{3}{4}\%$ per month since May 1, 1942. It is estimated that, unless checked, it will have risen at this rate ~~by 4% to 5%~~ ^{May 1st of course will raise the cost of these foods} ~~in one year from May 1, 1942.~~ During a single month, from mid-May to mid-June, ^{Half} retail food prices, which are exempted from price freezing by the statute, rose by nearly 5%. This was the average increase in the prices of these foods. Many of them rose by much more than that average. Farm ^{prices on-the-whole} ~~farmers~~ ^{85%} have risen ^{80%}, since the outbreak of the war in September, 1939, and these prices are continuing to rise. Cash farm income, including Government payments, has increased from 8.7 billion dollars in 1939 to substantially more than 15^{1/2} billion dollars in 1942. This is an increase of ~~30%~~ ^{about 75%}.

The movement of uncontrolled food prices since May 18, 1942, the date when price regulation became effective, has been so drastic as to constitute an immediate threat to the whole price structure, the entire cost of living, and to any attempt to stabilize wages. Within two months after the date that price regulation became effective, the prices of controlled foods, that is, foods on which it was permissible under the law to place a price ceiling, actually fell $\frac{7}{10}$ of one percent. But uncontrolled foods, that is, foods on which it was forbidden to place a ceiling, have advanced 7.5 percent and are still going up.

To give some specific examples: From May to August of this year round steak and pork chops, which are controlled, ^{showed} ~~had~~ a slight decline; but during the same period lamb, which was uncontrolled up to July, advanced more than 10 percent, and chickens have advanced more than 25 percent.

To take another example: Lard, which is a controlled product, dropped ^{more than six} nearly 5 percent, whereas butter, which is uncontrolled, went up ^{more than} 16 percent or twice the normal seasonal rate. Oranges have gone up more than 25 percent, although the normal seasonal increase is only about $\frac{1}{2}$ or $\frac{3}{4}$ percent.

These are retail prices. The Office of Price Administration places its ceilings on retail prices, but the ceiling cannot be below a price which will reflect to the farmers a price equal to the 110 percent or more of parity. It is obvious that as farm prices go up the pressure on the retail price ceiling becomes heavier and heavier. The fact is that ^{hogs} hogs have gone up more than a dollar a hundred since May, and are now selling in the Chicago market at the highest price in twenty-two years. Steers have been selling at the highest prices since 1929. Egg prices in the Chicago market have been the highest for ^{and} August



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- 14 -
since the inflation of 1920.

The agricultural commodities, the present price of which is below the ceiling which is possible under existing law, include some of the most important of the foods and include the grain foods necessary for livestock. When you consider that in this category are wheat, corn, oats, barley, rye, dry beans, cotton, sweet potatoes, apples, sheep, butter fat, wholesale milk, chickens, eggs and oranges, you can realize how important these products are to the pocketbook of the housewife. On all of these products it is impossible, under existing law, to place any ceiling until they have risen to 110% of parity or more.

The greatest danger is in dairy products, which are, as you know, most important items in the American diet. We cannot put a ceiling at present on butter, cheese or evaporated milk. The prices for these have been going up so fast that they even constitute a serious threat to the fluid milk prices themselves, although we do have a ceiling on fluid milk. The present high prices for butter and other dairy products are taking away a great deal of the milk which would otherwise go into the milk market. Unless we are able to get control of butter, cheese and other dairy products in the very near future, the price of milk in New York, Boston and other large cities is certain to go up.

If farm prices are permitted to rise at any rate like the present rate, while wages are stabilized, workers will have to bear the major part of the increase. This we cannot ask. The Congress must realize that unless the existing control over farm prices is strengthened, we must abandon our efforts to stabilize wages and salaries and the cost of living during the present war. If that occurs, workers and farmers alike will not only suffer a reduction in real income, but will bring upon themselves and the Nation the unparalleled disaster of unchecked inflation. No increase in wages, no increase in farm prices, will compensate this generation and perhaps another for such a tragedy.

The reason why price ceilings have not already been imposed as all food products is, as you know, that [§] 5 of the Emergency Price Control Act prohibits such ceilings until the prices have gone up beyond parity prices.

Although that restriction upon establishing ceilings for farm products usually is referred to as the 110 percent of parity limitation, it is much worse than that. The statute provides other limitations which are more drastic. Ceilings cannot be imposed, under the Statute, on any product at a level below the market



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price on October 1, 1941, or December 15, 1941, or the average price for the period July 1, 1919, to June 30, 1929, or below 110 percent of current parity, whichever of those four points is highest. As a result, the lowest average level for all farm commodities at which ceilings may be imposed is not 110 percent, but 116 percent of parity — some of the commodities going ^{almost} as high as 150 percent of parity.

During recent months prices of farm products have gone up considerably — many of them for good reason. Some of them have gone above parity — and in many instances there is good reason for this, too. It would neither be fair to farmers, nor in the national interest, to seek any great reduction in the prices farmers now are receiving. In other words, I do not think that present farm prices, even those now above parity, should be reduced to parity.

However, I am convinced that it is not in the national interest, nor in the long-range interest of farmers themselves, to continue a situation which makes it impossible to control the price of any farm commodity until it has reached 110 percent, or more, of the parity level.

The existing limitation is preventing, or may prevent, action which is essential to preserving the whole structure of wholesale and retail price control and the whole system of stabilizing the cost of living.

Far more important is the psychological effect of the present unfair privilege being given to the farm group. It provides fuel for fires of resentment against farmers as a favored class. After all, parity itself is by its very definition a fair relationship between the prices of the things farmers sell and the things they buy. Calculations of parity must include the wage rates that go into manufacture of industrial products, so that parity prices may shift every time wages shift. Insisting that the ceiling on no farm commodity shall ever be lower than 110 percent of parity is asking for more than a fair price relationship with non-farm prices.

In fact, the limitations on agricultural ceilings are now



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being cited by other groups as a reason for resisting economic controls that are needed in their own fields. The limitations will be a rallying point for such opposition as long as they are in effect.

As I urged in my message of April 27, 1942 "the original and excellent objective of obtaining parity for the farmers of the United States should be restored."

At the time the 110 per cent, and higher, limitation was adopted, those who favored it contended that farm products as a whole never could average parity throughout the year, unless ceilings on any product at less than 110 per cent of parity were forbidden. Since the legislation was adopted, however, the average of all farm prices ~~is now seven per cent above~~ has already ^{reached} parity, and the prevailing tendency is up, not down. Our ruling objective now is to win the war. This means harnessing our whole economy to that end. It means heading off inflation ~~by any and every legitimate means~~, ^{seven per cent above} practically any legitimate ~~means~~.

I realize that many thousands of farmers still have sub-standard incomes, just as the wages of many thousands of laborers still are below a decent minimum. Attention must be paid to the need of such low-income groups — farmer and labor alike. The fact is, however, that the national average of farm prices is now ^{seven per cent above} already at parity, and that the farm income for 1942 will be the largest on record.

Our policy with respect to farm products should be guided by three principles: First, to hold the line against inflationary price increases. Second, to get the required production of farm products necessary. Third, to maintain the principle of parity for agriculture.

Agricultural ceilings should be permitted at either parity or at the price levels which now prevail. In most cases the formula would preserve the general structure of wholesale and retail price controls, and would also call out the volume of production needed. Also, it would preserve the parity principle.

It not only would be unfair to labor to stabilize wages and do nothing about the cost of food; it is equally unfair to the farmer not to stabilize the cost of food. For we must all remember that the



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Message

- 17 -

farmer's wife herself purchases a great many articles of food for the use of the farm family - not only packaged food and canned food but many fresh foods which are not raised on the particular farm in question. And of course a great many farmers have to buy feed for their animals on the open markets and necessarily are interested in the price of these foods.

In view of the fact that the Congress has delayed acting on the question of farm prices for upwards of four months, and that there seems to be no likelihood of action being taken within a reasonable time, if at all, I have determined to use the extraordinary war powers of the President and Commander-in-Chief to accomplish the essential objective of preventing a spiraling cost of living.

(A) It goes without saying that I have ^{not lightly} decided to use such powers. only after the most careful and prolonged consideration and study. I have ~~not~~ done this ^{lightly}. I have done ~~this~~ in the conviction that it is absolutely necessary to keep our domestic economy in order and therefore necessary to carry on the swift production of everything required to win the war. In a most realistic sense a runaway economy, which would demoralize not only war workers but the families of all Americans, including those at the fighting front, would be as dangerous to the national defense as a great military or naval disaster. It is for that reason that I have decided that the only way to prevent it is by taking drastic steps to stabilize that economy. I have the opinion of the Attorney General of the United States that the Executive Order, insofar as it deals with farm prices and products, as well as in its other provisions, is constitutional and clearly within the scope of the war powers of the President.



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The executive order stabilizes farm prices in several ways.

First, it authorizes the Price Administrator to set ceilings on farm commodities at present prices if they have reached or exceeded parity and on other farm commodities as soon as they reach parity. This will enable him to treat farm prices in the same way as other necessities of life. The only things then excluded from price control will be the luxuries of life and the proper way to control the price of luxuries is not to buy them.

It is true that without further legislation we cannot impose criminal sanctions or civil penalties upon violators. But there are indirect methods of enforcing these ceilings just as there are indirect methods of enforcing wage stabilizations. By the use of the powers of government with respect to priorities, transportation, and the credit system, the ceilings, if established, will be maintained.

Secondly, I am authorizing the Economic Stabilization Administrator to take all necessary steps to prevent undue increase in the cost of farm products, including the requisitioning and purchase of all the crop of any commodity at a fixed price. He will also have authority, if necessary and advisable, to take steps to place a floor under farm prices in order to maintain stability in the farm price market for a reasonable future time. To do this effectively, it may be necessary not only to fix prices; it may be necessary for the Government to buy or requisition the entire crop of one or more of the farm commodities and to sell it at prices which will keep the cost of living down. This should not be done until and unless the price has reached parity.

The decisions as to which method to follow will have to be made by the Administrator, with the approval of the President, as the occasions present themselves. The objective is to find a practical



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method which will not only freeze the maximum price of farm products at parity or existing price, whichever is higher, but which will also guarantee to the farmer for one year or even two years after the end of the war that he would receive a fair minimum price for his product. The farmer, instead of looking forward to a collapse in prices at the end of the war, such as took place at the end of the last war, should be able to look forward with assurance to receiving a fair minimum price, for one or two years after the war.

It will be the policy of the Government to find such expedient. As a part of a policy of requisitioning food supply in order to keep prices from going up, we can guarantee to continue to buy for a period after the war at the same price, all of a farmer's crop which he cannot sell at that price to others. In this way we can keep the price from going below the minimum guarantee. I am sure that when the war is over the Government will be able to use these products, [for at least two years], not only for itself but to aid in feeding and rehabilitating the overrun and war stricken countries. I am directing the Economic Stabilization Administrator to work such plans out as quickly as possible.

In figuring parity, we shall of course continue to use the computations of the Bureau of Agricultural Economics made under existing law as it stands today. And in determining whether a commodity has reached parity for purposes of freezing we should include all the benefit payments received by the farmer from the Government under the AAA program, allocable to the particular commodity. It is unfair to give him a parity price and then in addition pay him benefits which will give him more than parity.

There will be instances, of course, when minor adjustments in this formula will be necessary. Exceptions might particularly be necessary when ceilings fixed in line with the formula would not be sufficient to stimulate a required volume of production. In these instances the



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- 20 -

Government should make up the difference to farmers through subsidies rather than through price increases which would be pyramided through processing and distribution channels and would force up the cost of living. The Government's present policy of selling grains for feed below the loan level is an effective example of the subsidy principle.

While so far we have just made a beginning in the use of subsidies to cut down living costs, we shall have to gradually extend this program. But subsidies should not be used merely to continue unequal privileges which one group may now have as compared with the others. They should be used primarily where it is fair and equitable to maintain a ^{fair} price level in spite of increased costs of production or transportation, or where it is the only way of keeping the cost of necessities of life down.

The use of subsidies in a limited and cautious way will cost the Government only a fraction of what would happen if prices were permitted to rise every time there is an increase in costs. One man's price is another man's cost; and if prices are permitted to rise in the earlier stages of production, the effect gets to be multiplied in all subsequent stages several fold before it reaches the final stage of consumption either by government or by consumers. At each stage the producer or distributor adds a percentage margin to his cost and the ultimate cost will inevitably greatly exceed the initial increase in cost which touched off the development. ^{In most cases} Sometimes it will be much cheaper to offset the original increase in cost by a subsidy. To permit any price to move up at this time is to create incentives and to set the stage for increases in other prices.

Canada which has had a general price ceiling since December 1941 has used subsidies as an effective technique in its battle against inflation. And in Great Britain where there is no general price ceiling, subsidies have been granted very effectively for ~~newly~~ food products. This whole question of subsidies for farm products as well as other products -- to keep the consumers' cost of living down -- is one of the major matters left for determination by the Executive Order to the Economic Stabilization Administrator.

I have confidence that the American farmer who has been doing so much in the battle of production of food will do as much in this struggle against economic forces which make for the disaster of inflation, for nobody knows better than the farmer what happens when inflationary, wartime booms are permitted to become post war panics.

With respect to point seven of the program of April 27, 1942, we have made certain credit rulings designed to curtail unnecessary buying; and whatever else has to be done along these lines will be done.

With respect to point six, rationing is now in effect on some commodities, and when necessary will be extended to others.

Put with respect to point one — a fair tax program -- that still waits upon the Congress to act.

One of the most powerful weapons in our fight to stabilize living costs is taxation. It is a powerful weapon because it reduces the competition for consumers' goods by taking away part of the purchasing power used to buy those goods.

The provisions of the tax bill pending now before the Congress would increase revenue by much more than any previous measure in our history. If it becomes law, a full year's Federal tax collection would approach twenty-four billion dollars. In the next fiscal year 1942 our Federal expenditures are expected to reach seventy-seven billion dollars. Such expenditures mean that either in this bill or in the near future the amount of wartime taxation must be greatly increased.

Heavy wartime taxes do not create the economic sacrifices of war. The burden of the war is already with us whether or not taxes are levied. Part of the function of wartime taxation is to distribute the inevitable burden more equitably. Fair distribution of the burden will be promoted by taxes which help in preventing a damaging rise in the cost of living.

The cooperation and self-restraint of the whole Nation will be required to stabilize the cost of living. With every increase in the tax load, unfair tax distribution becomes less and less tolerable. We can rightly expect the fullest cooperation and self-restraint, only if



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the tax burden is being fairly levied in accordance with ability to pay.

This means that we must eliminate the tax exemption of interest on State and local securities, and all the other special privileges or loopholes now existing in our tax law.

It means that in the higher income brackets, in order to give assurance that the sacrifices required by war are being equitably shared, the tax rate should be such as to give the practical equivalent of a top limit on income after taxes, approximating \$25,000.

I have provided in the Executive Order that salary increases hereafter granted to persons earning more than \$7500.00 per year will not be authorized or allowed or considered by Government agencies as deductions in tax returns or figuring price ceilings or computing costs in government contracts. This seems only a fair and equitable part in our campaign against increased costs of living.

For the same reason, in addition to asking you for legislation to curb excessive or unreasonable profits, I have provided in the Executive Order that such excessive profits shall not be considered by the Price Administrator in fixing prices and, where they are found to exist, might form the basis for reducing the price.

As much of the income tax as is practicable should be collected at the source. The amount so collected at the source would not be an additional tax but only a prepayment of regular income taxes. Such a collection mechanism would serve to ease the burden of the heavy taxes the war requires; it would assure collection from the many new millions of taxpayers; and it would make



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possible prompt adjustments in rates of collection necessitated by changing economic conditions.

Heavy wartime taxes will fall on all of us. We must spare only those whose incomes are at the minimum necessary for productive efficiency and decent living. We should avoid, therefore, insofar as possible, such taxes as general sales taxes. They cut into that necessary minimum; and, by raising the costs of goods, become a factor which may help threaten to destroy the very stabilization of living costs which we seek to maintain.

We must recapture through taxation all wartime profits that are not necessary to maintain efficient all-out war production. Provisions for a post-war rebate of a part of the corporate profits taxes would help to maintain the incentive for production and would contribute to economic stability during the post-war readjustment of industry.

Corporations having debt obligations which they cannot meet under increased tax rates should be allowed to draw against their post-war rebates to help pay such debts. To allow debt payments as an ordinary deduction and not as a credit against post-war rebates would be highly discriminatory in favor of debtor corporations.

I realize that individuals also have their debt problems, but it does not seem feasible to allow a deduction for debt payments to individuals since such an allowance would discriminate sharply against those who have no debts. With our present individual tax rates we should, however, recognize the fact that debt burdens are frequently associated with illness and allow a deduction for unusually large medical expenses.



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The action which I have taken today has been intended as an over-all attempt to stabilize the cost of living and to prevent a disastrous breakdown in domestic economy.

Next to military and naval victory, a victory along this front is of paramount importance. Without it, our war production program cannot succeed. Without it, we would be allowing our young men now risking their lives in the air, on land, and on the sea to return to an economic mess of our own making. The least that we can do for them at home is to see that our production increases every day so as to give them the weapons of war with which to fight and that our economy at home continues to be one to which they can return with safety and confidence and security.

In addition to passing the necessary tax legislation, the Congress will be called upon from time to time to implement this stabilization program with additional legislation wherever necessary. I am sure that the legislative branch of the Government will always cooperate with the executive branch to attain our great objective.



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August 22, 1942

DRAFT

TO THE CONGRESS OF THE UNITED STATES:

Four months ago, on April 27, 1942, I laid before the Congress a seven point national economic policy designed to stabilize within reasonable limits the domestic economy of the United States for the period of the war. The prime objective of that program was to prevent any substantial further rise in the cost of living.

It is not necessary to enumerate again the disastrous result of a runaway cost of living — disastrous to all of us, farmers, laborers, businessmen, the Government itself. When the cost of living spirals upward everybody becomes poorer because the money he has or earns buys so much less; and the cost of the war, collected partly from taxes of the people, goes up billions of dollars. I need not point out to the Congress or to the nation that next to winning the war itself the prevention of a spiraling domestic economy is the most important task of present day statesmanship.

I reiterate the seven point program of April 27, 1942:

1. To keep the cost of living from spiraling upward, we must tax heavily, and in that process keep personal and corporate profits at a reasonable rate, the word "reasonable" being defined at a low level.
2. To keep the cost of living from spiraling upward, we must fix ceilings on the prices which consumers, retailers, wholesalers and manufacturers pay for the things they buy; and ceilings on rents for dwellings in all areas affected by war industries.
3. To keep the cost of living from spiraling upward, we must stabilize the remuneration received by individuals for their work.
4. To keep the cost of living from spiraling upward, we must stabilize the prices received



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by growers for the products of their lands.

5. To keep the cost of living from spiraling upward, we must encourage all citizens to contribute to the cost of winning this war by purchasing War Bonds with their earnings instead of using those earnings to buy articles which are not essential.

6. To keep the cost of living from spiraling upward, we must ration all essential commodities of which there is a scarcity, so that they may be distributed fairly among consumers and not merely in accordance with financial ability to pay high prices for them.

7. To keep the cost of living from spiraling upward, we must discourage credit and installment buying, and encourage the paying off of debts, mortgages, and other obligations; for this promotes savings, retards excessive buying and adds to the amount available to the creditors for the purchase of War Bonds.

I pointed out in my message of four months ago, that to succeed in our objectives of stabilization it was necessary to move on all seven points at once; but that two of the points required legislation by the Congress. It was obvious then, and it is obvious now, that unless those two points are made possible by legislation the whole objective must fail. The two necessary pieces of legislation involve respectively point one and point four, namely an adequate tax program and a law permitting the fixing of price ceilings on farm products at parity prices or at existing prices, whichever is higher.

Although these recommendations were made by me four months ago I regret to have to call to your attention the fact that neither

of these two essential pieces of legislation has as yet been enacted into law.

On the other hand, under the authority provided in the Emergency Price Control Act, price ceilings have been fixed on practically all other commodities other than farm products and on rents in most areas. As you know, the reason that farm prices were not included in the ceiling established by the Price Administrator is that the Emergency Price Control Act includes specific limitations on the power of the President to fix such prices until they had risen to levels substantially above parity — in fact to 110% of parity and in the case of some products, as high as 125% of parity. In other words, the farmers were given a special advantage in the Act and it was definitely provided that no "provision of this Act or of any existing law shall be construed to authorize any action contrary to the provisions and provisions" of the Act which set these high ceiling limits.

We have begun to carry out the other parts of the seven point program. For example, various regulations have been enacted to discourage credit and instalment buying.

In the same way, the National War Labor Board has made and is making a conscientious effort to stabilize the wage level as of May 1, 1942.

Even if the process of stabilization of prices and farm prices and wages at certain levels were to be brought about, there would still remain the great upward pressure on the cost of living created by the vast amount of purchasing power which has been earned in the war effort by all groups of citizens in all sections of the country. This purchasing power exceeds even today by an estimated twenty billions the amount of civilian goods which can be purchased by civilians. The result obviously is that people with this excess amount of money compete more and more for the available supply of goods; and the pressure of this great demand compared with the small supply continually threatens to disrupt our whole price structure.



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Add to this situation the fact that, as the war continues, the amount of goods available for civilian use will constantly decrease. The twenty billion dollar spread will eventually, therefore, get bigger and bigger, and the pressure on the price structure will become heavier and heavier. Therefore, more and more of this excess purchasing power must be drained off by taxes or by the purchase of war bonds or by some other expedient.

The process of freezing prices, other than farm commodities, constitutes one of the most far-reaching economic steps that this nation or any other nation has taken in time of peace or war. As an immediate result of that step on May 1, 1942(?) the threatening rise in the cost of living, which had been going on month after month since the outbreak of the war in Europe, was virtually stopped. However, it will be absolutely impossible to maintain the present level of prices unless we can relieve the various pressures upon those prices. Our entire effort to hold the cost of living at its present level is now being sapped and undermined by further increases in farm prices and in wages and by an ever continuing increase in the purchasing power of our people.

Our experience during the last four months has proved that general control of prices is possible, but that it is possible only if that control is really general. If, however, the costs of production, including labor, are free to rise or if major elements in the cost of living are left uncontrolled, price control is itself impossible. Or if markets are flooded with purchasing power in excess of available goods, without taking adequate measures to siphon off or sterilize the excess purchasing power, price control is likewise impossible. To succeed at all, the program must be complete and each part of it must be carried out with due consideration to all the other parts.

If I may give you a few figures as to cash farm income, and rising farm prices, and increased wage and salary payments, you will appreciate how serious is this constant pressure upon the price ceilings which have been established and upon the cost of living in general.



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Cash farm income, including Government payments, has increased from 8.7 billion dollars in 1939 to an estimated 15.1 billion dollars in 1942. This is an increase of 74%. Farm prices on the whole have risen 75% since the outbreak of the war in September, 1939, and these prices are continuing to rise. During a single month, from mid-May to mid-June, retail food prices, which are exempted from price freezing by the statute, rose by nearly 5%. This was the average increase in the prices of these foods. Many of them rose by much more than that average. As a result of rising farm prices, some price ceilings at retail have already had to be broken, and many others, vital in the cost of living, are threatened.

Annual wage and salary disbursements have increased from 43.7 billion dollars in 1939 to an estimated 75 billion dollars in 1942. This represents an increase of 71%. To obtain a full appreciation of what that increase means, we should remember that 75 billion dollars is more than our total national income during any single year from 1930 to 1941. During the year ended last April average hourly earnings in manufacturing industries increased by something over 15% a month; and the annual wage and salary bill increased by more than a billion dollars a month. Today average hourly earnings in manufacturing industries and the annual wage and salary bill are increasing at the same rate as they did prior to April 28.

It is patently impossible for the cost of living to be stabilized while farm prices continue to rise. It is patently impossible for any prices to remain stable while wages and salaries, the most important single element in the cost of production, continue to rise.

The wage earner should be assured that his standard of living will be maintained to the extent permitted by the growing necessities of war and of winning the war.



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We also know that there will not be an adequate supply of all civilian goods; that through rationing, if necessary, these goods will be more equitably distributed than in time of peace. We are determined that no group need suffer a shrinkage of its normal quota of basic necessities through not having enough dollars to buy them because of runaway markets.

Strenuous measures must be taken to remove the inflationary threat which is inherent in this vast excess of purchasing power on the market today. And in some instances we will have to face the fact that if we are to maintain the existing price ceilings, or any ceilings near them, it may become necessary to grant subsidies to make up the spread between our price ceilings and increasing costs of production.

All of these questions must be handled and watched at the same time. I have come to the conclusion that they cannot be administered efficiently by uncoordinated action of the separate agencies, all acting independently of each other. Every wage increase may have a direct effect on prices. Every increase in prices, particularly farm prices, has an immediate influence on wages. Every increase in the cost of production, including labor, is important in determining whether subsidies should be granted. Every factor which increases the amount of money in circulation has to be considered in conjunction with the question of how to sterilize or withdraw enough of it from the stream of purchasing power so as to avoid the danger of price spirals. Therefore some one agency must be created which can direct concerted action by all the departments involved with the objective of stabilizing the cost of living through all the powers of government.

I have therefore today established an Economic Stabilization Authority which will develop and put into effect a program of coordinated action for the prevention of unnecessary increases in the cost of living. For your convenience, a copy of the Executive Order establishing the Authority is annexed to this message.



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As you will notice, this Authority is composed of all the government agencies primarily interested in the question of inflation and the cost of living in all of its aspects — wages, prices, subsidies, rationing, savings, taxation and credit regulations. The Chairman of this Board will be a newly-appointed full-time officer of the Government who, subject to the direction of the President and after consultation with the members of the Authority, will exercise the general power of formulating the policy under which the entire program against inflation and a spiraling cost of living will be conducted. In the conference room of this Authority, with all of the various agencies interested in carrying out the seven point program, will be worked out the general policies which should be followed by the agencies concerned with each of the separate points. In this way, instead of conflict or disagreement there will be coordinated, comprehensive action.

Pending the formulation of policies on various subjects, the Executive Order enunciates the policy of the Government with respect to wage increases. It is necessary that such policy be enunciated now instead of waiting, because the blunt fact is that if wage increases are permitted to continue in an unrestrained fashion there is great danger that the price structure will be affected fairly immediately, starting an exorbitant increase in the cost of living.

It must be remembered that whereas in normal peace times the ordinary processes of collective bargaining are desirable and sufficient in themselves, in war times and particularly in times of greatly increasing prices, the Government itself has a very vital interest in seeing to it that wages are kept in balance with the rest of the economy. It is still the policy of the Federal Government, and it will be the policy, to encourage free collective bargaining between employers and workers. But in times of danger to our economy the Government itself must step into the situation to see to it that the normal



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processes of collective bargaining and arbitration and conciliation are not permitted to break up the balances between the different economic factors in our system.

The policy which is enunciated in the annexed Executive Order seeks to stabilize wage increases along the following general lines.

The National War Labor Board, in addition to its present powers of passing upon wage and other industrial disputes, is given the authority to pass upon any proposed voluntary wage increase. Applications for wage increases, either voluntary or otherwise, must be passed upon by the War Labor Board in accordance with the policy enunciated. In case wage increases are granted in contravention of such policy or of the War Labor Board decisions, then the amount of this unauthorized increase will not be considered in any contract made by any government procurement agency; nor will it be considered as an element in fixing the price of the commodity made by the workers receiving such increases; nor will it be considered as a deduction for tax purposes. There are additional ways in which the Government can enforce this policy and the directions of the National War Labor Board. By the use of its priority powers over materials and transportation and electricity, and by use of its control of the banking and currency and credit system of the country, and its powers to freeze funds, there is no doubt that the Government has sufficient power, if it becomes necessary to use it, to enforce this wage policy.

The Order provides that wage increases will be authorized or recognized only in any one of three presented circumstances. It will be noted that the order does not direct that wage increases must be granted under such circumstances, but merely permits them if the



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National War Labor Board is of opinion that they should be granted.

First, where less than a 15½ increase on an industry average basis has been granted between January 1, 1941 and May 1, 1942, increases may be allowed. The purpose of this is to permit wages to keep up with increases in the cost of living between January 1, 1941 and May 1, 1942, which amounted to approximately 15%.

This is essentially the so-called "little steel formula" currently being used by the National War Labor Board in its decisions. The date of May 1, 1942 was selected because that is the approximate date on which the price fixing orders went into effect under the Emergency Price Control Act. The intention was to stabilize the cost of living as of that date so that the real rate of wage on that date (the purchasing power of the wage) should be approximately the same as it was on January 1, 1941 on which date the cost of living first began its very perceptible increases.

Second, to eliminate substandards of living, wage rates are permitted to be increased. It is provided, however, that no wage rate in excess of 47¢ an hour should be regarded as substandard. The reason for fixing it at 47¢ is that the national policy before the European war broke out, as provided in the Fair Labor Standards Act, was 40¢; and an allowance of an 18½ increase in the cost of living is made, bringing the figure up to 47¢. This does not mean that all wages will be increased to a minimum of 47¢ per hour. It does mean that permission is granted to increase substandard wages which are presently under that figure.

Third, inequalities in rates of pay, that is, any unreasonable discriminations in wages between comparable jobs or comparable jobs in the same locality, may be corrected by wage adjustments.

However, there is one all inclusive limitation on the right of the War Labor Board to increase any wages under any circumstances. That is when the wage increase comes into conflict with the existing price structure. When either the National War Labor Board or the Price Admin-



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istrator comes to the conclusion that any wage increase, voluntary or otherwise, will bring about an increase in the price of the commodity or service involved, then the question must be submitted to the Authority for approval. The Authority will then have to determine whether the wage increase should be granted or whether the price ceiling should be raised or whether the difference should be made up in some form of Government subsidy. In that determination, of course, all of the agencies of Government primarily interested in the inflationary effect of wage increases will have a voice, although the final determination will always be with the Chairman, subject to the approval of the President.

This policy repudiates wage freezing. It assures wage stabilization. It does not put an end to collective bargaining. It was this Administration which wrote the principle of collective bargaining into the statutes of the United States. Its record on that subject is clear; and during the last decade, under its supervision, collective bargaining has become established as an institution in American life. The policy does, however, provide that collective bargaining should be affected by the same considerations which affect so many other normal activities of peace time, that it must be confined within limits made necessary by the public welfare.

If we are to keep wages stabilized, however, it becomes imperative to keep equally stable the cost of the food and the clothing and shelter and other articles used by workers.

This does not mean that there will be any attempt to maintain intact the present standard of living of workers during the war any more than the standard of living of any other person. War calls for sacrifice. War makes sacrifice a privilege. That sacrifice will have to be expressed in terms of deprivation of many of the things to which we all have become accustomed. Therefore, in the future labor must expect that, as must all people. No one can expect that he will during the war always be able to buy what he can buy today.

But that is a different thing from saying that prices and rents should be allowed to advance so drastically ahead of wage rates that the real wages of workers, as of today, will be cut down overwhelmingly.



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That is why it has become essential to prevent a further costly and perhaps disastrous rise in farm prices. If the prices of farm products, including corn, are allowed to rise to the levels permitted by the present law, and if feeds other than corn rise no more than in proportion to the rise in corn prices, the annual cost of food and clothing to consumers will be raised by well over 5 billion dollars. These costs, which since August 1939 have risen over 30%, will rise 16½ above their current level. (INSERT MORE ABOUT FARM PRICES.)

Our peacetime program to give the farmer parity prices and income was not based upon any theory of reducing the workers' share of the national income, of robbing Peter to pay Paul. It was based on the sound proposition that increasing the farmers' purchasing power would increase the demand for industrial goods, would increase employment for workers, and would increase the national income. But both farmers and workers must realize that in wartime there can be no increase in the production of goods for civilian use. And because our standard of living is measured in terms of goods, not dollar signs and dollar bills, there can be no improvement in our national standard of living while the supply of civilian goods is rapidly diminishing.

In wartime, therefore, it is impossible to increase or even maintain the real income of farmers or workers without reducing the real income of other farmers or other workers. If farm prices are permitted to rise while wages are stabilized, workers will bear the whole cost of the increase. This we cannot ask. The Congress must realize that unless the existing control over farm prices is strengthened, we must abandon our efforts to stabilize wages and salaries and the cost of living during the present war. If that occurs, workers and farmers alike will not only suffer a reduction in real income, but will bring upon themselves and the Nation the unparalleled disaster of unchecked inflation. No increase in wages, no increase in farm prices, will compensate this generation and perhaps another for such a tragedy.



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In view of the fact that by Executive action wages will be stabilized, there seems to be no possible excuse for the Congress to fail to pass immediately legislation which would permit us to stabilize farm prices at parity or at existing prices, whichever is higher.

Unless this is done at once, it will obviously be impossible to hold wage levels where they are because it would be unfair to expect workers to pay runaway food prices with stabilized wages. Therefore, action must be taken at once by the Congress if this Executive Order is to have any effect at all.

I have confidence that the American farmer who has been doing so much in the battle of production of food will do as much in this struggle against economic forces which make for the disaster of inflation, for nobody knows better than the farmer what happens when inflationary wartime booms are permitted to become post war panics. On April twenty-eighth I recommended to the Congress that the price law be corrected and the objective of parity for the farmers of the United States be restored. I make that recommendation again -- and urge its immediate passage. *

One of the most powerful weapons in our fight to stabilize living costs is taxation. It is a powerful weapon because it reduces the competition for consumers' goods by taking away part of the purchasing power used to buy those goods.



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The provisions of the tax bill pending now before Congress would increase revenue by much more than any previous measure in our history. If it becomes law, a full year's Federal tax collection would approach twenty-four billion dollars. In the next fiscal year 1948 our Federal expenditures are expected to reach seventy-seven billion dollars. Such expenditures mean that either in this bill or in the near future the amount of wartime taxation must be greatly increased.

Heavy wartime taxes do not create the economic sacrifices of war. The burden of the war is already with us whether or not taxes are levied. Part of the function of wartime taxation is to distribute the inevitable burden more equitably. Fair distribution of the burden will be promoted by taxes which help in preventing a damaging rise in the cost of living.

The cooperation and self-restraint of the whole Nation will be required to stabilize the cost of living. With every increase in the tax load unfair tax distribution becomes less and less tolerable. We can rightly expect the fullest cooperation and self-restraint only if the tax burden is being fairly levied in accordance with ability to pay. This means that we must eliminate the tax exemption of interest on State and local securities and other special privileges or loopholes in our tax law. It means that in the higher income brackets the tax rate should be such as to give the practical equivalent of a top limit on income after taxes, approximating \$25,000. Such provisions will give assurance that the sacrifices required by war are being equitably shared.

As much of the income tax as is practicable should be collected at the source. The amount so collected at the source would not be an additional tax but only a prepayment of regular income taxes. Such a collection mechanism would serve to ease the burden of the heavy taxes the war requires; it would assure collection from the many new millions of taxpayers; and it would make possible prompt adjustments in rates of collection necessitated by changing economic conditions.



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Heavy wartime taxes will fall on all of us. We must spare only those whose incomes are at the minimum necessary for productive efficiency and decent living. We should avoid, therefore, insofar as possible, such taxes as general sales taxes, for they cut into that necessary minimum and, by raising the costs of goods, become a factor which may help threaten to destroy the stabilization of living costs which we seek to maintain.

We must recapture through taxation all wartime profits that are not necessary to maintain efficient all-out war production. Provisions for a post-war rebate of a part of the corporate profits taxes would help to maintain the incentive for production and would contribute to economic stability during the post-war readjustment of industry. Corporations having debt obligations which they cannot meet under increased tax rates should be allowed to draw against their post-war rebates to help pay such debts. To allow debt payments as an ordinary deduction and not as a credit against post-war rebates would be highly discriminatory in favor of debtor corporations. I realize that individuals also have their debt problems, but it does not seem feasible to allow a deduction for debt payments to individuals since such an allowance would discriminate sharply against those who have no debts. With our present individual tax rates we should, however, recognize the fact that debt burdens are frequently associated with illness and allow a deduction for unusually large medical expenses.

Closely connected with the subject of prices is that of subsidies. It may be necessary, in order to maintain the price level for consumers of certain commodities, to meet by subsidies the increased costs of production or transportation of those commodities. So far, that has been necessary only in a few isolated instances. If this central policy-making agency, the Economic Stabilization Authority, finds it necessary in the struggle to maintain the consumers' cost of living within reasonable bounds, to recommend further powers of subsidy and funds for that purpose, I know that the Congress will give it immediate and favorable consideration.



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I need not remind you that this matter is urgent; so urgent as to permit no delay. Success or failure of the program to prevent inflation is hanging in the balance, and will be determined very shortly by the course of events which are moving with dangerous rapidity. I shall hope for legislative action as speedily as possible granting powers by which the course of these factors in our economic life may be effectively controlled.



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16
17
18
19
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and the pages with errors marked.
The numbers on the first page
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The prevention of a spiraling domestic economy is a
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* reiterate the seven-point program which I presented

DRAFT #2

7 16 22
11 17 22
12 18 22
September 8, 1942

TO THE CONGRESS OF THE UNITED STATES:

Four months ago, on April 27, 1942, I laid before the Congress a seven-point national economic policy designed to stabilize within reasonable limits the domestic economy of the United States for the period of the war. The prime objective of that program was to prevent any substantial further rise in the cost of living.

It is not necessary for me to enumerate again the disastrous results of a runaway cost of living -- disastrous to all of us, farmers, laborers, businessmen, the nation itself. When the cost of living spirals upward everybody becomes poorer, because the money he has and the money he earns buys so much less.

At the same time the cost of the war, collected partly from taxes of the people is needlessly increased by many billions of dollars. The only ones who benefit are people who owe money - debtors; for they are enabled to pay their debts incurred in a time of normal currency with money which is inflated currency. Indeed, the prevention of a spiraling domestic economy is a primary task of present day statesmanship; it is a vital part of winning of the war itself.

I reiterate the seven-point program which I presented



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From the Papers of
Samuel I. Rosenman

DRAFT #2

-2-

April 27, 1942:

1. To keep the cost of living from spiraling upward, we must tax heavily, and in that process keep personal and corporate profits at a reasonable rate, the word "reasonable" being defined at a low level.
2. To keep the cost of living from spiraling upward, we must fix ceilings on the prices which consumers, retailers, wholesalers and manufacturers pay for the things they buy; and ceilings on rents for dwellings in all areas affected by war industries.
3. To keep the cost of living from spiraling upward, we must stabilize the remuneration received by individuals for their work.
4. To keep the cost of living from spiraling upward, we must stabilize the prices received by growers for the products of their lands.
5. To keep the cost of living from spiraling upward, we must encourage all citizens to contribute to the cost of winning this war by purchasing War Bonds with their earnings instead of using those earnings to buy articles which are not essential.



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6. To keep the cost of living from spiraling upward, we must ration all essential commodities of which there is a scarcity, so that they may be distributed fairly among consumers and not merely in accordance with financial ability to pay high prices for them.

7. To keep the cost of living from spiraling upward, we must discourage credit and installment buying, and encourage the paying off of debts, mortgages, and other obligations; for this promotes savings, retards excessive buying and adds to the amount available to the creditors for the purchase of War Bonds.

In my message of four months ago I pointed out that in order to succeed in our objective of stabilization it was necessary to move on all seven points at the same time; but that two of the points called for legislation by the Congress before action could be taken. It was obvious then, and it is obvious now, that unless these two points are made possible the whole objective must fail. The two points are one and four - namely, an adequate tax program, and a law permitting the fixing of price ceilings on farm products at parity prices.

Although these recommendations were made by me four months



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From the People to the People
Samuel I. Rosenman
Administrator

ago I regret to have to call to your attention the fact that neither of the two essential pieces of legislation has as yet been enacted into law. That delay has now reached the point of danger to our whole economy. We cannot afford to wait any longer.

We have begun, however, by executive action, to carry out the other parts of the seven-point program which did not require Congressional action.

For example, price ceilings have been fixed on practically all commodities (other than agricultural products) and on rents in most of the areas of the United States.

This process of freeing prices constitutes one of the most far-reaching economic steps that this nation or any other nation has taken in time of peace or war. As an immediate result of that step on May 18, 1942, the menacing rise in the cost of living, which had been going on month after month since the outbreak of the war in Europe, was temporarily halted. Indeed the over-all cost of living including food, rent, and all other commodities has increased only 1.3 percent from May 18, 1942 to August 18, 1942, or an average of only .4 percent per month.

However, it is now impossible any longer to maintain the present level of prices unless we can relieve the various



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Samuel I. Rosenman

pressures upon those prices.

Our experience during the last four months has proved that general control of prices is possible -- but only if that control is really general. If, however, the costs of production, including labor, are left free to rise indiscriminately or if major elements in the costs of living are left uncontrolled, price control becomes impossible. Or if markets are flooded with purchasing power in excess of available goods, without taking adequate measures to siphon off or sterilize the excess purchasing power, price control becomes likewise impossible. Our entire effort to hold the cost of living at its present level is now being sapped and undermined by further increases in farm prices and in wages and by an ever-continuing increase in the purchasing power of our people. It is still true, as it was four months ago, that to succeed at all the program must be complete, and each part of it must be carried out with due consideration to all the other parts.

Annual wage and salary disbursements have increased from 43.7 billion dollars in 1939 to an estimated 75 billion dollars in 1942. This represents an increase of 71%. To obtain a full appreciation of what that increase means, we should remember that 75 billion dollars is more than our total national income



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during any single year in the 1930's. During the year ended last April, average hourly earnings of factory workers increased by something over 1½ a month. Due to constantly increasing employment, overtime, and wage rate increases, the annual wage and salary bill for the entire country has been rising by more than a billion dollars a month. Today average hourly earnings in manufacturing industries and the annual wage and salary bill are increasing at the same rate as they did prior to April 28.

It is patently impossible for the cost of living to be stabilized while farm prices continue to rise. You cannot expect the laborer to maintain a fixed wage level if everything he wears and eats begins to go up drastically in price. On the other hand it is patently impossible to keep any prices stable -- farm prices or other prices -- if wages, one of the most important elements in the cost of production, continue to increase.

Even if the process of stabilization of prices and farm prices and wages at certain levels were to be brought about, there would still remain the great upward pressure on the cost of living created by the vast amount of purchasing power which has been earned in the war effort by all groups of citizens in all sections of the country. The national income



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has been increasing since January 1, 1941 at the average rate of 2% each month. Thus purchasing power now exceeds by an estimated twenty billions the amount of civilian goods which can be purchased by civilians. The result obviously is that people with this excess amount of money compete more and more for the available supply of goods; and the pressure of this great demand compared with the small supply which will become smaller and smaller continually threatens to disrupt our whole price structure.



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A recent study by the Bureau of Labor Statistics has shown very strikingly how much the income of city families have gone up during the first quarter of 1942. If we assume that the income for the first quarter of 1942 is a fair basis for estimating what the family income will be for the entire year, the results of the study show that whereas less than one-fourth of all families in the United States received as much as \$2,500 in 1941, more than one-third will have \$2,500 or more in 1942. This shows how much the purchasing power of the average American family has gone up as a result of war production and how essential it is to regulate that purchasing power.

Add to this situation the fact that, as the war continues, the amount of war production income will increase while the

amount of goods available for civilian use will constantly decrease. The twenty billion dollar spread will, therefore, get bigger and bigger even if wage rates remain unchanged; and the pressure on the price structure will become heavier and heavier. Therefore, more and more of this excess purchasing power must be drained off by taxes or by the purchase of war bonds or by some other expedient.



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Serial I. Budget
Shows the Progress of
Price Control Programs

We also know that there will not be an adequate supply of all civilian goods; that only through rationing where necessary, will these goods be more equitably distributed than in time of peace. We are determined that no group need suffer a shrinkage of its normal quota of basic necessities through not having enough dollars to buy them because of runaway markets.

Strenuous measures must be taken to remove the inflationary threat which is inherent in this vast excess of purchasing power on the market today. And in some instances we will have to face the fact that if we are to maintain the existing price ceilings, or any ceilings near them, it may become necessary to grant subsidies to make up the spread between our price ceilings and increasing costs of production.

All of these questions must be handled and watched at the same time. I have come to the conclusion that they cannot be

administered efficiently by uncoordinated action of the separate agencies, all acting independently of each other. Every wage increase may have a direct effect on prices. Every increase in prices, particularly farm prices, has an immediate influence on wages. Every increase in the cost of production, including labor costs, is important in determining whether subsidies should be granted. Every factor which increases the amount of money in circulation has to be considered in conjunction with the question of how to sterilize or withdraw enough of it from the stream of purchasing power so as to avoid the danger of price spirals. Therefore some one agency must be created which can direct concerted action by all the departments involved with the objective of stabilizing the cost of living through all the powers of government.

I have, therefore, today appointed an Economic Stabilization Administrator, who will be charged with the responsibility of developing and effectuating a program of concerted action for the prevention of unnecessary increases in the cost of living.

For your information and convenience a copy of the Executive Order creating this new office and enumerating the powers and duties of the Administrator is annexed to this message.

The Administrator is provided with an advisory group consisting of all of the government agencies primarily interested in the



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questions of inflation and the cost of living in all of its aspects - wages, prices, subsidies, rationing, savings, credit regulations and taxation. In addition to the government agencies the advisory group will also include recognized leaders of labor and industry and agriculture to be appointed by the President. The Administrator will exercise the power of the President, subject to the President's approval, in formulating and carrying out the policy under which the entire program against a spiraling cost of living will be conducted.

Pending the formulation of policies on various subjects, involved in the general field of the cost of living the Executive Order enunciates the policy of the Government with respect to wage increases and farm prices. It is necessary that such policy be enunciated now instead of waiting, because the blunt fact is that if wages and farm prices are permitted to increase in an unrestrained fashion there is great danger that the entire price structure will be affected fairly immediately, starting an exorbitant increase in the cost of living.



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The policy which is enunciated in the annexed Executive Order seeks to stabilize wage increases along the following general lines.

The National War Labor Board, in addition to its present powers of passing upon wage and other industrial disputes, is given the authority to pass upon any proposed voluntary wage increase, - whether it is the result of voluntary agreement, collective bargaining, conciliation, or otherwise. Applications for all wage increases, either voluntary or otherwise, except in picayune amounts must be passed upon by the War Labor Board in accordance with the policy enunciated. In case wage increases are granted in contravention of such policy or of the War Labor Board's directions, then the amount of this unauthorized increase will not be considered in the cost of production in any contract made by any government procurement agency; nor will it be considered as an element in fixing the price of the commodity manufactured by the workers receiving such increase; nor will it be considered as a legal deduction for tax purposes. There are additional ways in which the Government can enforce this policy and the directions of the National War Labor Board. By the use of its priority powers over materials and transportation and electricity, and by use of its control of the banking and currency and credit system of the country, and by its right to freeze funds, there is no doubt



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that the Government has sufficient power, if it becomes necessary to use it, to enforce this wage policy.

The order provides that no wage increases from now on will be authorized or recognized by any government agency except in one of four prescribed circumstances. The order does not direct that wage increases must be granted under such circumstances; it merely permits them if the National War Labor Board is of opinion that they should be granted.

First, where less than a 15% wage increase on an industry average basis has been granted between January 1, 1941 and May 1, 1942, increases may be allowed. The purpose of this is to permit wages to make up the increase in the cost of living between January 1, 1941 and May 1, 1942, an increase which amounted to approximately 15%.

This is essentially the so-called "little steel formula" currently being used by the National War Labor Board in its decisions. The date of May 1, 1942 was selected because that is the approximate date on which the price fixing orders went into effect under the Emergency Price Control Act. The intention was to stabilize the cost of living as of that date so that the real rate of wage on that date (that is the purchasing power of the



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DRAFT 2

- 13 -

wage} should be approximately the same as it was on January 1, 1941
on which date the cost of living first began its very perceptible
increase.

By the use of this formula, the National War Labor Board,
by its decisions, has been stabilizing and bringing to rest the
level of wages as of May 1, the day when the price level of
commodities other than farm products was brought to rest. The
order permits that to continue but fixes May 1, 1942 as the
stabilization date, subject to certain limitations hereafter mentioned.

Second, to eliminate substandards of living, wage rates are
permitted to be increased. This does not mean of course that all
wages will automatically be increased to these standards; it
means only that permission is granted to increase substandard wages
which are presently under that figure.

Third, inequalities in rates of pay, that is, any unreasonable
discriminations in wages between comparable jobs in the same plant
or comparable jobs in the same locality, may be corrected by wage
adjustments.

However, there is one all inclusive limitation upon the right
of the War Labor Board to increase any wages under any circumstances.



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That is when the wage increase comes into conflict with and disturbs the existing price structure. When either the National War Labor Board or the Price Administrator comes to the conclusion that any wage increase, voluntary or otherwise, will bring about an increase in the ceiling of the commodity or service involved, then the question must be submitted to the Economic Stabilization Administrator for approval. The Chairman will then have to determine whether or not the wage increase should be granted; and, if so, whether the price ceiling should be raised or whether the difference should be made up in some form of Government subsidy.

This policy repudiates wage freezing. It assures wage stabilization. It does not put an end to collective bargaining. This Administration was the one which first wrote the principle of collective bargaining into the statutes of the United States -- and enforced it. Its record on that subject is clear; and during the last decade, under its supervision, collective bargaining has for the first time become established as an institution in American life. But the order makes sure that collective bargaining should be affected by the same considerations which in war time affect so many other normal activities of peace times.



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It must be remembered that whereas in normal peace times the ordinary processes of collective bargaining are sufficient in themselves, in war times and particularly in times of greatly increasing prices, the Government itself has a very vital interest in seeing to it that wages are kept in balance with the rest of the economy. It is still the policy of the Federal Government, and it will be the policy, to encourage free collective bargaining between employers and workers. Owing to the fact that costs of production are now in so many cases being passed on to the government and that so large a percentage of profits is being taken away by taxation, collective bargaining between employers and employees has changed a great deal from peace times. In times of danger to our economy the Government itself must step into the situation to see to it that the normal processes of collective bargaining and arbitration and conciliation are not permitted to break up the balances between the different economic factors in our system.

If we are to keep wages effectively stabilized, however, it becomes imperative to keep equally stable the cost of the food and the clothing and shelter and other articles used by workers.

This does not mean that if prices do go up 1% or 2% after May 1, 1942, for example, wages must necessarily go up 1% or 2%. To follow that principle would be an attempt to maintain intact



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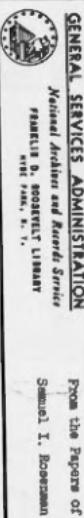
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the present standard of living of workers during the war. This is just as impossible and as unwise as trying to maintain the standard of living of any person during war time. War calls for sacrifice. War makes sacrifice a privilege. That sacrifice will have to be expressed in terms of a lack of many of the things to which we all have become accustomed. Labor must expect that, as must all people. No one can expect that during the war he will always be able to buy what he can buy today.

But that is a different thing from saying that prices and rents should be allowed to advance so drastically ahead of wage rates that the real wages of workers as of today — their ability to buy food and clothing — will be cut down overwhelmingly. For if the cost of living goes up as fast as it is threatening to do in the immediate future, it will be unjust, in fact impossible, to deny workers an increase in wages which would meet at least a part of that increase.

The cost of all food used by wage earners — controlled and uncontrolled — has been going up at the rate of 1½ per cent per month since the price ceilings were set in May, 1942. If this rise should be permitted to continue, the increased cost



of food to wage earners next May would be more than 15 per cent over the level which existed when the ceilings were set.

This would be equal to imposing a 15 per cent sales tax on all food purchased by wage earners. Obviously, no one would consider imposing such a tax. It should be equally out of the question to consider permitting this tax to be imposed indirectly by allowing those prices to go up 15 per cent.

This drastic increase has been caused and will be caused chiefly by the fact that a number of food commodities cannot be controlled under existing law. If we were to consider only the cost of food which cannot be controlled under the terms of existing law, the increases would be even more startling.

The cost of food used by wage earners which cannot be controlled under the terms of the existing law has been rising at an average of $\frac{1}{2}\%$ per month since May 1, 1942. It is estimated that ^{unless checked} this rate of increase will raise the cost of these foods by 40% in one year from May 1, 1942. (unless checked.)

During a single month, from mid-May to mid-June, 1942, those retail food prices which are exempted from price freezing by the statute, rose by nearly 5%. This was the average increase in the prices of these foods. Many of them rose by much more than



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that average. Prices received by farmers have risen 65% since the outbreak of the war in September, 1939, and these prices are continuing to rise. Cash farm income, including Government payments, has increased from 6.7 billion dollars in 1939 to substantially more than 15 billion dollars in 1942. This is an increase of about 75%.

The movement of uncontrolled food prices since May 18, 1942, the date when price regulation became effective, has been so drastic as to constitute an immediate threat to the whole price structure, the entire cost of living, and to any attempt to stabilize wages. Within two months after the date that price regulation became effective, the prices of controlled foods, that is, foods on which it was permissible under the law to place a price ceiling, actually fell 7/10 of one per cent. But uncontrolled foods, that is, foods on which it was forbidden to place a ceiling, have advanced 7.3 per cent and are still going up.

To give some specific examples: From May to August of this year round steak and pork chops, which are controlled, showed a slight decline; but during the same period lamb, which was uncontrolled up to July, advanced more than 10 per cent, and chickens have advanced more than 16 per cent.



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To take another example: Lard, which is a controlled product, dropped nearly 5 per cent, whereas butter, which is uncontrolled, went up more than six per cent or twice the normal seasonal rate. Oranges have gone up more than 25 per cent, although the normal seasonal increase is only about 6 or 7 per cent.

These are retail prices. The Office of Price Administration places its ceilings on retail prices, but the ceiling cannot be below a price which will reflect to the farmers a price equal to the 110 per cent or more of parity. It is obvious that as farm prices go up the pressure on the retail price ceiling becomes heavier and heavier. The fact is that some grades of steers have been selling at the highest prices since 1929. Egg prices in the Chicago market have been the highest for any August since the inflation of 1920.

The agricultural commodities, the present price of which is below the ceiling which is possible under existing law, include some of the most important of the foods and include the grain foods necessary for livestock. When you consider that in this category are wheat, corn, oats, barley, rye, dry beans, cotton, sweet potatoes, apples, sheep, butter fat, wholesale milk, chickens,



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eggs and oranges, you can realize how important these products are to the pocketbook of the housewife. On all of these products it is impossible, under existing law, to place any ceiling until they have risen to 110% of parity or more.

The greatest danger is in dairy products, which are, as you know, most important items in the American diet. We cannot put a ceiling at present on butter, cheese or evaporated milk. The prices for these have been going up so fast that they even constitute a serious threat to the fluid milk prices themselves, although we do have a ceiling on fluid milk. The present high prices for butter and other dairy products are taking away a great deal of the milk which would otherwise go into the milk market. Unless we are able to get control of butter, cheese and other dairy products in the very near future, the rise of milk in New York, Boston and other large cities is certain to go up.

If farm prices are permitted to rise at any rate like the present rate, while wages are stabilized, workers will have to bear the major part of the increase. This we cannot ask. The Congress must realize that unless the existing control over farm prices is strengthened, we must abandon our efforts to stabilize wages and ~~the cost of living~~ salaries and the cost of living



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during the present war. If that occurs, workers and farmers alike will not only suffer a reduction in real income, but will bring upon themselves and the Nation the unparalleled disaster of unchecked inflation. No increase in wages, no increase in farm prices, will compensate this generation and perhaps other generations for such a tragedy.

The reason why price ceilings have not already been imposed as all food products is, as you know, that paragraph 3 of the Emergency Price Control Act prohibits such ceilings until the prices have gone up beyond parity prices.

Although that restriction upon establishing ceilings for farm products usually is referred to as the 110 per cent of parity limitation, it is much worse than that. The statute provides other limitations which are more drastic. Ceilings cannot be imposed, under the Statute, on any product at a level below the market price on October 1, 1941, or December 15, 1941, or the average price for the period July 1, 1919, to June 30, 1929, or below 110 per cent of current parity, whichever of those four points is highest. As a result, the lowest average level for all farm commodities at which ceilings may be imposed is not 110 per cent, but 116 per cent of parity — some of the commodities going almost as high as 150 per cent of parity.



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During recent months prices of farm products have gone up considerably — many of them for good reason. Some of them have gone above parity — and in many instances there is good reason for this, too. It would neither be fair to farmers, nor in the national interest, to seek any great reduction in the prices farmers now are receiving. In other words, I do not think that present farm prices, even those now above parity, should be reduced to parity.

However, I am convinced that it is not in the national interest, nor in the long-range interest of farmers themselves, to continue a situation which makes it impossible to control the price of any farm commodity until it has reached 110 per cent, or more, of the parity level.

The existing limitation is preventing, or may prevent, action which is essential to preserving the whole structure of wholesale and retail price control and the whole system of stabilizing the cost of living.

Far more important is the psychological effect of the present unfair privilege being given to the farm group. It provides fuel for fires of resentment against farmers as a favored class. After all, parity itself is by its very definition a fair relationship.



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Samuel L. Bonsuken

between the prices of the things farmers sell and the things they buy. Calculations of parity must include all costs of production including the cost of labor, so that parity prices may shift every time wage rates shift. Insisting that the ceilings on no farm commodity shall ever be lower than 110 per cent of parity is asking for more than a fair price relationship with non-farm prices.

In fact, the limitations on agricultural ceilings are now being cited by other groups as a reason for resisting economic controls that are needed in their own fields. The limitations will be a rallying point for such opposition as long as they are in effect.

As I urged in my message of April 27, 1942, "the original and excellent objective of obtaining parity for the farmers of the United States should be restored".

At the time the 110 per cent, and higher, limitation was adopted, those who favored it contended that farm products as a whole never could average parity throughout the year, unless ceilings on any product at less than 110 per cent of parity were forbidden. Since the legislation was adopted, however, the average of all farm prices has already risen seven per cent above parity, and the prevailing tendency is up, not down. Our ruling objective now is to win the war. This means harnessing our whole



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FROM THE PAPERS OF
Samuel I. Rosenman

economy to that end. It means heading off inflation by any and every legitimate means.

I realize that many thousands of farmers still have sub-standard incomes, just as the wages of many thousands of laborers still are below a decent minimum. Attention must be paid to the need of such low-income groups — farmer and labor alike. The fact is, however, that the national average of farm prices is now seven per cent above parity, and that the farm income for 1942 will be the largest on record.

Our policy with respect to farm products should be guided by three principles: First, to hold the line against inflationary price increases. Second, to get the required production of farm products necessary. Third, to maintain the principle of parity for agriculture.

Agricultural ceilings should be permitted at either parity or at the price levels which now prevail. In most cases the formula would preserve the general structure of wholesale and retail price controls, and would also call out the volume of production needed. Also, it would preserve the parity principle.



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It not only would be unfair to labor to stabilize wages and do nothing about the cost of food; it is equally unfair to the farmer not to stabilize the cost of food. For we must all remember that the



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Samuel I. Rosenman

(Incl)
Seventh Draft

September 4, 1942

Draft of tax section for Judge Rosenman

One of the most powerful weapons in our fight to stabilize living costs is taxation. It is a powerful weapon because it reduces the competition for consumers' goods.

The provisions of the tax bill pending before Congress would increase revenue by much more than any previous measure in our history. If the bill became law in the form passed by the House, a full year's Federal tax collection would approach \$24 billion. But in the fiscal year 1943 our Federal expenditures are expected to reach \$77 billion. To help offset the pressure of this huge expenditure on our price structure and cost of living, a much more drastic tax measure is necessary. I recommend to the Congress the recent proposals of the Secretary of the Treasury for heavy taxes on spending and the provision for the post-war rebate of part of these taxes. They provide a valuable instrument for combating price rises.

Heavy wartime taxes do not create the economic sacrifices of war. The burden is already with us whether or not taxes are levied. The function of wartime taxation is to distribute



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Samuel I. Rosenman

the inevitable burden more equitably. Fair distribution of the burden will be promoted by taxes which help in preventing a damaging rise in the cost of living.

The cooperation and self-restraint of the whole Nation will be required to stabilize the cost of living. The stabilization of the cost of living cannot be maintained without heavy taxes on everyone except persons with very low incomes. With such increases in the tax load unfair tax distribution becomes less and less tolerable. We can rightly expect the fullest cooperation and self-restraint only if the tax burden is being fairly levied in accordance with ability to pay. This means that we must eliminate the tax exemption of interest on State and local securities and other special privileges or loopholes in our tax law. It means that in the higher income brackets the tax rate should be such as to give the practical equivalent of a top limit on income after taxes, approximating \$25,000. It means that we must recapture through taxation all wartime profits that are not necessary to maintain efficient all-out war production. Such provisions will give assurance that the sacrifices required by war are being equitably shared.



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As much of the income tax as is practicable should be collected at the source. Such a collection mechanism would ease the burden of the heavy taxes the war requires; it would assure collection from the many added millions of taxpayers; and it would make possible prompt adjustments in rates of collection necessitated by changing economic conditions.

Heavy wartime taxes will fall on all of us. We must spare only those whose incomes are at the minimum necessary for productive efficiency and decent living. We should avoid such taxes as general sales taxes, which would cut into that necessary minimum and, by raising the costs of goods, threaten to destroy the stabilization of living costs which we seek to maintain. The recently proposed spending tax would go far beyond the sales tax in discouraging spending, and would do so without cutting into the minimum living standard.



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1942

f 9/14/42

Mr. Hassett



Draft for President's Labor Day message.

OFFICE OF WAR INFORMATION

TO Mr. Hassett

FROM Milton MacKaye

Figures on average wages in 1887 and average wages now - Page 2 - were supplied by Messrs. Bowden and Hinrichs of the Bureau of Labor Statistics. Figures on farm cash incomes from Department of Agriculture. Figures on wages and salaries from National Income Unit of Department of Commerce. Estimate on number employed in war industries approximated from figures of Bureau of Labor Statistics and Bureau of Employment Security. Quotation from Sam Gompers taken from his own Labor Day message in 1921.

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There has never been a Labor Day as significant as this one. In a great many countries free labor has ceased to exist; a blackout of freedom has darkened Europe from the tip of Norway to the shores of the Aegean and sturdy working men who once walked erect in the sun now stumble and cower beneath the lash of the slavemasters. The rights of free labor and free man have vanished in the conquered lands. They are threatened and besieged everywhere.

This is indeed labor's grave hour as it is the grave hour of the farmer, the industrialist, the teacher and preacher, the aproned housewife, the smallest child in the cradle. All these are the beneficiaries and heirs of the democratic system, and it is democracy itself that the ~~evil~~ men of West and East hate and seek to destroy.

Happily, our good right arm is strong and growing stronger. In our own country, in the countries of our brother allies, the people who live by the sweat of their brows have risen mightily to the challenge of the struggle. They have given their sons to the military services. They have stoked the furnaces and hurried the factory wheels. They have made the planes and welded the tanks, riveted the ships and rolled the shells. Production of war materials here is now the greatest in our history, but it is not yet enough. It will be greater still.

This is an appropriate occasion to express my appreciation to the working peoples of the United States for the energy and