
Franklin D. Roosevelt — “The Great Communicator”
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**Message to Congress re the Commodity Credit
Corporation**

P.B. 11

File

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7-3-43.

TO THE HOUSE OF REPRESENTATIVES:

H. R. 2869, to continue the Commodity Credit Corporation as an agency of the United States, is before me. This measure will become law only over my strenuous objection and protest.

The Congress is aware of my deep interest in the Commodity Credit Corporation. It was created by me under Executive Order issued October 16, 1933 to meet a grave and critical emergency. It has proved to be useful not only in an emergency, but under other conditions. It has an essential function to perform in our war food production program. It should and must be continued.

But this is not a bill to continue the Commodity Credit Corporation. It is a bill to hamstring the Commodity Credit Corporation. It places new and unwarranted restrictions on the use of its funds and on the powers heretofore given to the Administration to stabilize the cost of living. These restrictions would prevent our giving to farmers the assistance they need in carrying out our new food production programs, so essential to feed our citizens and our soldiers. They would make it impossible for us to stop the rising cost of living.

As the measure now stands, this is an inflation bill, a high-cost-of-living bill, a food shortage bill.

There is, for instance, a provision in section 6(a) which prohibits the establishment of a maximum price for any raw or processed agricultural commodity which will reflect to the producers thereof a price less than the support price heretofore or hereafter announced by the War Food Administrator, or less than the higher of the maximum prices provided in section 3 of the Act of October 2, 1942.

I have tried to analyze this section and to translate it into common sense English. Frankly, I do not know what it means.

If the provision merely means that if the support price is higher than the maximum price established under the Act of October 2, 1942, the commodity must be purchased from the producer at the support price or the

farmer must be paid the difference between the support price and the maximum price, the provision would serve no purpose. That is now, as I understand it, the law.

If on the other hand, despite language which looks the other way, the provision were construed to mean that the maximum price must be fixed so as to yield to the producer the support price without the payment of any subsidy, the provision would require the immediate upward adjustments in the ceiling prices for many basic food products. Prices for dry edible beans, cheese, canned vegetables, sugar, and, in some markets, fluid milk would immediately go up because the support prices for these products are higher than their present ceiling prices.

If the provision were so construed, it would not only immediately increase the cost of living but it would make it impossible for us to adopt support programs needed to increase production without causing a still further rise in the cost of living. Undoubtedly if we must in each case weigh the advantages of a support program against the disadvantages of an increase in the cost of living, many support programs which might otherwise be adopted will be rejected, and other support programs, although finally adopted, will inevitably be delayed.

Section 6(b) of the bill prohibits, with specified exceptions, the making of any subsidy or other payment other than those which have accrued prior to August 1, 1943, if such a payment is designed either (1) to reduce or roll back maximum and support prices or (2) as a substitute for increasing maximum prices or support prices, unless such payments are specifically authorized by the Congress. The specified exceptions are rigidly limited. Subsidies or other payments can be made until the end of the current crop year on any agricultural commodity other than milk or livestock if, prior to June 15, 1943, the government was committed to make them. Wheat can be sold for feeding purposes at not less than the parity price for corn. Maximum and support prices on domestic fats and oils and

oil seeds can be adjusted as necessary to assure adequate production.

Section 7 seeks to subject to the War Food Administration's control all the powers given under section 2(e) of the Emergency Price Control Act in respect to the purchase, sale, storage and use of foods. I am sure that the War Food Administration is amply capable of handling such a task. But even its hands are shackled by the imposition of rigid restrictions which were included neither in the original Price Control Act nor in the Act of October 2, 1942.

Section 7 provides that purchases can be made only at prices which reflect to the farmer not less than the maximum price provided in the Act of October 2, 1942, or the announced support price, whichever is the higher. No purchases can be made for the purpose of reducing any maximum price. No purchases can be made for the purpose of resale at a loss unless made under a program announced prior to July 1, 1943. Even under pre-existing commitments, the government is not authorized to make purchases which will involve losses in excess of \$150,000,000. It apparently prohibits any purchase and sale program involving any loss for the 1944 crop. Commodities purchased are not to be sold for less than the maximum price limitations provided in the Act of October 2, 1942 or contrary to section 2(f) of the Price Control Act. It is far from clear that this last restriction does not nullify the exception in section 6 permitting wheat to be sold for feed at the corn parity price.

It is not clear whether the restrictions in sections 6 and 7 are cumulative or whether the Congress wished to draw a distinction between direct subsidies and trading losses resulting from the purchase and resale of foods.

Reputable lawyers could, I am advised, argue that section 6 completely nullifies section 7. If I should agree, then the bill would be even more inflationary. If I should take the contrary view, I may be sure that I will be accused of misconstruing the law.

Many other serious complications and difficulties in administering and construing the bill have been brought to my attention. But if I attempted to deal with ^{all of} them here my message would become as complicated and confused as the language of the bill itself.

When farm prices were low, in time of peace, no one in either branch of government ever suggested that the Commodity Credit Corporation should be forbidden to take losses in its operations. Now, in the critical emergency of war, it is proposed to tie the Corporation's hands in ways undreamed of in less strenuous days.

No matter how this measure is interpreted, it will have a devastating effect upon our economy and our war effort about which I believe the Congress and the American people ought clearly to be warned.

1. This bill blacks out the program to reduce the cost of living. In other words, it completely outlaws the recent reductions in the price of meat and butter which we instituted in order to help get the cost of living back down from the height to which it has risen in recent months.

By this measure, the Congress will compel every housewife to pay 5¢ a pound more for every piece of butter that goes on her table, and to pay higher prices for every pork chop, every ounce of beef, every slice of ham or bacon which goes to feed her family.

2. This measure will make it virtually impossible to institute any additional measures to reduce the cost of living or even to hold the line.

3. The bill denies to the executive any power to purchase farm products for resale at a loss or to make incentive payments to obtain increased production of foodstuffs without the approval of the Congress. I do not believe that the Congress has had an opportunity to know or to consider how seriously it may cripple our entire food program.

It is proper for the Congress to set the limits within which our food programs must operate and the principles to which they must conform.

But there is not time to submit each specific food program for Congressional approval. Crops will not wait for Congressional debate. To require specific approval of each specific program is in effect a prohibition.

In order to obtain a greater production of important war foods it may be necessary to establish special incentives for our farmers. We are asking our agricultural producers to change their farming methods and to grow new crops to which they are unaccustomed and which we need greatly in place of the old crops to which they are accustomed and which we may not need so greatly. It may often be difficult for the War Food Administrator to decide just how great an incentive is required for this purpose. This bill does not prevent the continued use of generous incentive payments to obtain strategic war materials other than food. Yet food is as important as any other strategic war material.

This measure, however, would mean that every additional dollar paid to the farmer to get the extra war crops we need to feed our soldiers abroad would reduce the purchasing power of the limited allowances of their wives and children at home.

Such a restrictive measure would serve only to set the soldier, the worker, and the unorganized consumer at war with the farmer.

The original price control act gave the government certain powers to regulate prices. In the summer of last year I informed the Congress that the Administration could not control the cost of living and prevent inflation unless it was given more adequate power to stabilize wages and food prices. Thereafter the Congress passed the Act of October 2, 1942, which authorized me to stabilize prices, wages and salaries affecting the cost of living so far as practicable on the basis of the levels which existed on September 15, 1942.

The measure now before me virtually nullifies the Act of October 2, 1942. This government cannot effectively stabilize the cost of living if it cannot stabilize the cost of necessary foods. As a matter

of fact this measure even takes from the government powers which it was given under the first Price Control Act.

As the danger of inflation grows, the Congress would by this bill put new shackles on those whose duty it is to fight inflation. The fight against inflation cannot be won that way.

To get our economy to work I realize that we cannot rigidly freeze all prices or all wages. In some cases we must pay higher prices to producers to get the extra war production which we need because that extra production costs more to produce. We must likewise put more money in the worker's pay envelope when he works longer hours or when he does more skilled or efficient work, or when his pay is insufficient to keep him on a decent subsistence level. But with a well-balanced combination of measures we must keep wage rates and consumers' food prices from rising if we wish to hold down living costs.

Our wage stabilization program is and must be dependent on the stabilization of the cost of living. This is expressly recognized in the Act of October 2, 1942. The Little Steel formula was based on the fact that there had been a rise of approximately 15 percent in the cost of living between January, 1941 and May, 1942, for which rise workers could be compensated by wage increases.

The cost of living is now about 8 percent above the level of May, 1942, and about 6 percent above last September. There has been an increase in the average worker's weekly pay check since September. This increase has come primarily through longer hours and through the shift of workers into war industries from lower-paid civilian occupations, although increases in wage rates to correct inequities have played a part. But there are many workers who have enjoyed no increase in earnings.

It is too easy to act on the assumption that all consumers have surplus purchasing power; and that the high earnings of some workers in munitions plants are enjoyed by every worker's family. This easy assumption overlooks the 4,000,000 wage workers still earning less than 40¢ per hour, and millions of others whose incomes are almost as low. It ignores the fact that more than 4 million families have not had an increase of more than 5 percent in their income during the last 18 months. It further ignores the millions of salaried, white-collar workers -- the school teachers, the clergymen, the state, county and city officials, the policemen, the firemen, the clerks -- whose salaries have remained low, but whose living standards are being cruelly and inequitably slashed by higher food prices. It equally ignores others on fixed incomes -- the dependent mother of the soldier boy with her scant \$37 per month, the widow living off the proceeds of her husband's insurance policy, and the old age pensioner.

These millions are entitled to be protected against skyrocketing food costs. It is my duty to guard them against the ravages of inflation -- and I shall guard them unless the Congress shackles my hand.

These unorganized millions must not become the forgotten men and women of our war economy.

The plea has been urged on behalf of industrial workers that if the cost of living is not cut to September, or even to May, 1942, levels, wage rates should be raised to compensate. But to raise wages because living costs have risen will be at best only a temporary solution. Raising wage rates increases the cost of production, both of war goods and of the goods whose prices make up the cost of living. It also increases consumers' spending power. The combined effect of increased spending power and increased production cost is inevitably a further rise in the cost of living; and at the same time the money cost of the war increases. In short, to give people more money because prices are rising does not cure the evil, but makes it worse. This is precisely what is meant by the "inflationary spiral."

To prevent this spiral of rising costs and prices we must hold firm to the stabilization of wage rates. But to do this, we must assure workers that they can get a fair share of available goods on legitimate markets, and at prices "so far as practicable on the basis of the levels which existed on September 15", as prescribed by the Act of October 2.

Whatever theoretical choices may conceivably be open to us, practically we will have only two. We must keep the cost of living more nearly in line with the level prescribed in the law or we will not be able to hold the wage line or protect the millions of men and women living on low salaries and small fixed incomes. If wages rise the cost of living will not stand where it is; it will go up and the inflationary spiral will gain strength.

I do not think that a reduction of all living costs or wage increases to the September level is practicable. We all must be prepared in total war to accept a substantial cut in our accustomed standards of living. But we must definitely stop the rising trend of living and push back the price to consumers of important key commodities in the family market basket.

When I talk of important key commodities I do not mean fur coats, or tailored suits or caviar. I mean the necessities of life, things like bread, milk, butter, sugar, coffee, ordinary meats, fats and canned foods, things that plain working folk must have. We must not only keep the price of these necessities down, but we must increase, when we can, the supply which helps relieve the pressures for higher prices and helps reduce the temptations of the black markets. With the improvement in the war against the submarine we may even be able soon to remove sugar and possibly later coffee from the ration list. But we cannot hope in a period of total war to increase the supply of ^{all} necessities sufficiently to relieve the price situation.

To reduce the price of key necessities or even to hold some of them at present levels, we either will have to reduce producers' prices and distributors' margins or we will have to use subsidies.

That does not mean that we can achieve stabilization by subsidies alone, without firm price and wage policies, adequate fiscal measures, and positive programs to assure that adequate supplies of essentials at legitimate prices will be available in the legitimate markets.

But the experience of other countries like Canada and England does demonstrate that limited subsidies can and must be effectively used as a key weapon to control inflation.

The alternative to such action would be more costly to the Treasury and to the people. If we do not take the course of action I have suggested, we shall be charged with having failed to stabilize the cost of living, as the Act of October 2, 1942, directed us to do, and there will be increasing demands for the workers of the nation for a drastic modification of the Little Steel formula.

If a 10 percent overall increase in wages should occur as a consequence of our failure to stabilize living costs, that added cost of labor alone would cause an increase of not less than $4\frac{1}{2}$ percent in the general level of prices. That would increase our annual war costs approximately $4\frac{1}{2}$ billion dollars. For we are spending 100 billions per annum for war and every rise of one percent in the prices the government pays, adds approximately one billion to the government's war expenditures. I say approximately because some of the expenditures would not automatically be increased. A 10 percent wage increase would, moreover, increase the cost of living by at least $4\frac{1}{2}$ percent and would cost consumers at least 4 billion dollars a year.

And, what is more, if we should have to abandon the hold-the-line order and to allow wages to rise we would have no assurance that we would be able to hold living costs stable even at a higher level. Rising costs would continue to press against the price and wage levels and these would be forced higher still. Rising wages would add to the excess purchasing

power, and an enlarged inflationary gap would make the fiscal task of absorbing excess purchasing power by higher taxes and enforced savings unmanageable. Those with meagre wages and small fixed incomes would be ground below the margin of fair subsistence.

I need not tell the Congress the devastation which will be wrought, far and wide, on the farmer, the worker, and the business man, if the fires of inflation ever got out of control. The farmers will never forget the deflation following the last war and the sufferings they then endured.

To protect the farmer it is not necessary to oppress the consumer. The way to protect the farmer is to authorize the Commodity Credit Corporation to pay the farmer what he should get for his products and to sell those products at a loss if need be to keep the cost of living down. That may be a subsidy, but that is the only way to avoid inflation which will be ruinous to farmer and consumer alike. If we prohibit subsidies and allow the cost of living to rise, as this bill does, whatever support prices we make to the farmer will be nullified by the inflation of all prices and all costs.

I have just been informed that the preliminary figures indicate that between May 15 and June 15 there was a decrease of 1 percent in food prices. This is the first decline in the food price index in more than a year. This bill would wipe out that decline and start anew a rise in the cost of living. I cannot by signing it share the responsibility for that rise and its disastrous consequences.

Those in command of our war economy like those in command of our armies must be endowed with adequate authority to meet emergency situations as they arise.

Subsidies to help hold down living costs and at the same time protect the farmer should be applied only in strictly limited and clearly defined circumstances. Such subsidies should be confined to goods essential to the maintenance of a reasonable wartime standard of living for the people. Wherever the grant of subsidies at flat rates would involve gross windfall profits for low-cost producers, processors or distributors, they

should be granted on a differential basis to cover the special burdens of small business and high-cost producers.

I do not intend to permit farm prices and farm incomes to be depressed. Today the ~~new~~ aggregate ^{net} income of farmers like that of the workers is larger than ever before. As a result of my recommendation of September 7, 1942, that a floor be established for farm prices, Congress by the Act of October 2, 1942, guaranteed to farmers 90 percent of parity on most farm products during the war and for at least two crop years thereafter -- a guaranty given to no other group. If further payments to farmers are necessary to enable them to make the added outlays required to increase the production of war crops, those payments should and will be made.

But unless the Congress leaves with the Executive branch the means of seeing to it that further increases in producers' prices do not increase the cost of living, the Executive branch cannot accept responsibility for holding the wage line or for stopping the ~~already accelerating~~ inflationary spiral.

If I am to hold the line, my hands must be left reasonably free to hold it even-handedly.

In this task of saving our free economy, Congress and the Executive must work together, as a team. H. R. 2869 marks a definite retreat from economic stability toward uncontrolled inflation. That retreat cannot be made with my approval.

I sincerely hope that if the Congress cannot agree before its recess on legislation which will remove the serious defects in this bill, it will pass a joint resolution continuing the life of the Commodity Credit Corporation and providing the increase in borrowing power until the Congress has time to agree upon an appropriate measure. The officials of the Executive departments will welcome an opportunity to furnish information and be of assistance.

I return the Bill without my signature.

The White House,

July 2, 1943.

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TO THE HOUSE OF REPRESENTATIVES:

H. R. 2869, to continue the Commodity Credit Corporation as an agency of the United States, is before me. This measure will become law only over my strenuous objection and protest.

The Congress is aware of my deep interest in the Commodity Credit Corporation. It was organized to meet a grave and critical emergency under the authority of an Executive Order issued by me on October 16, 1933. It has proved to be useful not only in an emergency, but under other conditions. It has an essential function to perform in our war food production program. It should and must be continued.

But this is not a bill to continue the Commodity Credit Corporation. It is a bill to hamstring the Commodity Credit Corporation. It places new and unwarranted restrictions on the use of its funds and on the powers heretofore given to the Administration to stabilize the cost of living. These restrictions will make it infinitely more difficult to give to the farmers the aid they need in meeting their war crop goals. These restrictions make it impossible for the Administration to hold down the cost of living.

As the measure now stands, this is an inflation bill, a high-cost-of-living bill, a food shortage bill.

There is, for instance, a provision in section 6(a) which prohibits the establishment of a maximum price for any raw or processed agricultural commodity which will reflect to the producers thereof a price less than

the support price heretofore or hereafter announced by the War Food Administrator, or less than the higher of the maximum prices provided in section 3 of the Act of October 2, 1942.

I have tried to analyze this section and to translate it into common sense English. Frankly I do not know what it means. If the provision merely means that if the support price is higher than the maximum price established under the Act of October 2, 1942, the commodity must be purchased from the producer at the support price or the farmer must be paid the difference between the support price and the maximum price, the provision would serve no purpose. That is now, as I understand it, the law. If on the other hand, the provision means, as it has been urged on the floor of Congress, that the maximum price must be fixed as to yield to the producer the support price without the payment of any subsidy, the provision would require the immediate upward adjustments in the ceiling prices for many basic food products. Prices for dry edible beans, cheese, canned vegetables, sugar, and in some markets, fluid milk would go up because the maximum prices for these products are higher than the support price. If that is the proper construction of the provision it would be impossible, despite language which looks the other way in other sections, for the government to enter into any program to increase war crops based on a support

price higher than the existing ceiling price, unless it raised the ceiling price up to the level of the support price.

So construed the provision would immediately increase the cost of living and would make it impossible for us to adopt support programs to increase production without causing a still further rise in the cost of living. Undoubtedly if we must in each case weigh the advantages of a support program against the disadvantages of the increase in the cost of living it will cause the adoption of many support programs to be delayed and some programs which would have otherwise been adopted will be rejected.

Section 6(b) of the bill prohibits, with specified exceptions, the making of any subsidy or other payment other than those which have accrued prior to August 1, 1943, if such a payment is designed either (1) to reduce or roll back maximum and support prices or (2) as a substitute for increasing maximum prices or support prices, unless such payments are specifically authorized by the Congress. The specified exceptions are rigidly limited. Subsidies or other payments can be made until the end of the current crop year on any agricultural commodity other than milk or livestock if, prior to June 15, 1943, the government was committed to make them. Wheat can be sold for feeding purposes at not less than the parity price for corn. Maximum and support prices on domestic fats and oils and

oil seeds can be adjusted as necessary to assure adequate production.

Section 7 seeks to subject to the War Food Administration's control all the powers given under section 2(e) of the Emergency Price Control Act in respect to the purchase, sale, storage and use of foods. I am sure that the War Food Administration is amply capable of handling such a task. But even their hands are shackled by the imposition of rigid restrictions which were included neither in the original price control act nor in the Act of October 2, 1942. Section 7 provides that purchases can be made only at prices which reflect to the farmer not less than the maximum price provided in the Act of October 2, 1942, or the announced support price, whichever is the higher. No purchases can be made for the purpose of reducing or rolling back any maximum price. No purchases can be made for the purpose of resale at a loss unless made under a program announced prior to July 1, 1943. Even under pre-existing commitments, the Government is not authorized to make purchases which will involve losses in excess of 150,000,000. It apparently prohibits any purchase and sale program involving any loss for the 1944 crop. Commodities purchased are not to be sold for less than the maximum price limitations provided in the Act of October 2, 1942 or contrary to section 2(f) of the Price Control Act. It is far from clear that this last restriction does not nullify the

exception in section 6 permitting wheat to be sold for feed at the corn parity price.

These restrictions not only limit the funds available to the War Food Administration but, unless I am wholly mistaken, prevent it from conducting new and desirable food programs essential to feed our citizens, our soldiers and our comrades in arms.

It is not clear whether the restrictions in sections 6 and 7 are cumulative or whether the Congress wished to draw a distinction between direct subsidies and trading losses resulting from the purchase and resale of foods.

Reputable lawyers could, I am advised, argue that section 6 completely nullifies section 7. If I should agree, then the bill would be even more inflationary. If I should take the contrary view, I may be sure that some members of the Congress and some members of the press will accuse me of misconstruing the law.

Many other serious complications and difficulties in administering and construing the bill have been brought to my attention. But my message would become as complicated and confused as the language of the bill itself if I attempted to deal with them here.

At best, the bill is a crippling, shackling, and vicious inflationary measure. If it ever becomes law it will hamstring the executive arm in its determination to get food to win the war and in its fight against inflation and the high cost of living.

When farm prices were low, in time of peace, no one in either branch of government ever suggested that the Commodity Credit Corporation should be forbidden to take losses in its operations. Now, in the critical emergency of war, it is proposed to ^{tie} ~~lose~~ the Corporation's hands in ways undreamed of in less strenuous days. If those who now seek inflation shall succeed, and inevitable reap the whirlwind of deflation and we are once more called on to rescue agriculture from ruin, and farms from foreclosures, the proponents of this measure may yet regret their handiwork.

No matter how this measure is interpreted, it is intended to have a certain deadly effect about which I believe the Congress and the American people ought clearly to be warned.

1. This bill knocks the program to reduce the cost of living into a cocked hat. In other words, it completely outlaws the recent reductions in the price of meat and butter which we instituted in order to help get the cost of living back down from the height to which it has risen in recent months.

By this measure, the Congress will compel every housewife to pay

5¢ a pound more for every piece of butter that goes on her table, and to pay higher prices for every port chop, every ounce of hamburger, every slice of ham or bacon which goes to feed her family.

2. This measure will make it impossible to institute any additional measures to reduce the cost of living or even to hold our already faltering line.

3. The bill denies to the executive any power to purchase farm products for resale at a loss or to subsidize the production of foodstuffs without the approval of the Congress. I do not believe that the Congress has had an opportunity to know or to consider how seriously it may cripple our entire food program. In many cases in order to obtain a greater production of important staple foods it may be necessary to establish certain incentives for our farmers. We are asking our agricultural producers in many cases to change their farming methods and to grow new crops to which they are unaccustomed and which we need greatly in place of the old crops to which they are accustomed and which we may not need so greatly. It may often be difficult for a War Food Administrator to judge just how great an incentive may be required for this purpose. Of course, if the Government could treat these crops as munitions of war it would be possible to provide generous incentives through purchase and resale operations in the same way we have provided for munitions manufacturers.

This measure, however, would require that every additional dollar paid to the farmer to get the extra war crops we need for our soldiers abroad must come out of the hide of their wives and children at home.

Such a restrictive measure would serve only to set the farmer at war with the soldier, the worker, and the unorganized consumer.

The original price control act gave the government certain powers to regulate prices. In the summer of last year I informed the Congress that the Administration could not control the cost of living and prevent inflation unless it was given more adequate power to stabilize wages and food prices. Thereafter the Congress passed the Act of October 2, 1942, which authorized me to stabilize prices, wages and salaries affecting the cost of living so far as practicable on the basis of the levels which existed on September 15, 1942.

The measure now before me virtually nullifies the Act of October 2, 1942. This government cannot effectively stabilize the cost of living if it cannot stabilize the costs of the necessities of life. As a matter of fact this measure even takes from the government powers which it was given under the first price control act.

As the danger of inflation grows we are putting new shackles on those whose duty it is to fight inflation. The fight against inflation

cannot be won that way.

To get our economy to work I realize that we cannot rigidly freeze all prices or all wages. In some cases we must pay higher prices to producers to get the extra war production which we need because that extra production may cost more to produce. We must likewise put more money in the worker's pay envelope when he works longer hours or when he does more skilled or efficient work, or when his pay is insufficient to keep him on a decent subsistence level. But with a well-balanced combination of measures we must keep wage rates and consumers' food prices from rising if we wish to hold down living costs.

Our wage stabilization program is and must be dependent on the stabilization of the cost of living. This is expressly recognized in the Act of October 2, 1942. The Little Steel formula was based on the fact that there had been a rise of approximately 15 percent in the cost of living between January 1941 and May, 1942, for which rise workers could be compensated by wage increases.

Many workers contend that stabilization of wage rates has been more effective in recent months than stabilization ^{of} prices. The cost of living is now about 8 percent above the level of May, 1942, and about 6 percent above last September. There has been an increase in the average

worker's weekly pay check since September. This increase has come primarily through longer hours and through shift of workers into war industries from lower-paid civilian occupations, although increases in wage rates to correct inequities have played a part. But there are many workers who have enjoyed no increase in earnings.

It is too easy to act on the assumption that all consumers have surplus purchasing power; and that the high earnings of some workers in munitions plants are enjoyed by every worker's family. This easy assumption overlooks the 7,000,000 wage workers still earning less than 40¢ per hour, and millions of others whose incomes are almost as low. It ignores the millions of ~~salaried~~ white collar workers — the school teachers, the state, county and city officials, the policemen, the firemen, the clerks — *the clergy* whose salaries have remained low, but whose living standards are being cruelly and inequitably slashed by higher food prices. It equally ignores those on fixed incomes — the dependent mother of the soldier boy with her scant \$50 per month, the widow living off the proceeds of her husband's insurance policy, and the old age pensioner.

These millions are entitled to be protected against skyrocketing food costs. It is my duty to guard ^{them} against the ravages of inflation — and I shall guard them unless the Congress shackles my hand.

These unorganized millions must not become the forgotten men and women of our war economy.

The plea has been urged on behalf of industrial workers that if the cost of living is not cut to September, or even to May, 1942, levels, wage rates should be raised to compensate. But to raise wages because living costs have risen will be at best only a temporary solution. Raising wage rates increases the cost of production, both of war goods and of the goods whose prices make up the cost of living. It also increases consumers' spending power. The combined effect of increased spending power and increased production cost is inevitably a further rise in the cost of living; and at the same time the money cost of the war increases. In short, to give people more money because prices are rising does not cure the evil, but makes it worse. This is precisely what is meant by the "inflationary spiral."

To prevent this spiral of rising costs and prices we must hold firm to the stabilization of wage rates. But to do this, we must assure workers that they can get a fair share of available goods on legitimate markets, and at prices "so far as practicable on the basis of the levels which existed on September 15", as prescribed by the Act of October 2.

Whatever theoretical choices may conceivably be open to us, practically we will have only two. We must keep the cost of living more nearly in line with the level prescribed in the law or we will not be able to hold the wage line or protect the millions of men and women living on small fixed incomes. If wages rise the cost of living will not stand where it is; it will go up and the inflationary spiral will gain strength.

I do not think that a roll back of all living costs or wage increases to the September level is practicable. We all must be prepared in total war to accept a substantial cut in our accustomed standards of living. But we must definitely stop the rising trend of living and push back the price to consumers of important key commodities in the family market basket.

When I talk of important key commodities I do not mean fur coats, or tailored suits or caviar. I mean the necessities of life, things like bread, milk, butter, sugar, coffee, ordinary meats, fats and canned foods, things that plain working folk need. We must not only keep the price of these necessities down, but we must increase when we can the supply which helps relieve the pressures for higher prices and reduces the temptations of the black markets. With the improvement in the war against the submarine we may even be able soon to remove sugar and possibly later coffee from

the ration list. But we cannot hope in a period of total war to increase the supply of necessities sufficiently to relieve the price situation.

To roll back the price of key necessities or even to hold some of them at present levels, we will have either to reduce producers' prices and distributors' margins or we must use subsidies.

There may be cases where producers' prices and dealers' margins can fairly be reduced. But both the Congress and the Administration have been concerned with setting support prices for strategic materials and crops so as to obtain the needed production. To throw most of the burden of stabilization on producers' prices would be to abandon this policy. Distributors' margins likewise can carry only a part of the burden -- especially in view of the hardships unavoidably imposed on them by the war. Thus a limited program of subsidies or government trading losses such as was clearly authorized in the original price control act is clearly necessary as a part of any practical stabilization program.

That does not mean that we can achieve stabilization by subsidies alone, without firm price and wage policies, adequate fiscal measures, and positive programs to assure that adequate supplies of essentials at legitimate prices will be available in the legitimate markets.

But the experience of other countries like Canada and England does demonstrate that limited subsidies can and must be effectively used

as key weapon to control inflation.

I am deeply convinced that limited subsidies or government trading losses are necessary to prevent the inflationary spiral from getting beyond control.

I am deeply convinced that a limited and judicious use of subsidies is the cheapest, practical course open to us. It will take something less than a half billion dollars for each percentage point we undertake to hold back the cost of living.

The only alternative to such action will be more costly to the Treasury and to the people. If we do not take the course of action I have suggested, we shall be charged with having failed to stabilize the cost of living, as the Act of October 2, 1942, directed us to do, and there will be increasing demands for the workers of the nation for a modification of the Little Steel formula. An increase in labor costs will add substantially more to our war expenditures than the limited amount of subsidies necessary to stabilize the cost of living and to protect those whose incomes have not increased.

If 10 percent overall increase in wages should occur as a consequence of our failure to stabilize living costs, that added cost of labor alone would cause an increase of not less than $4\frac{1}{2}$ percent in the general level of prices. That would increase our annual war costs approxi-

mately $4\frac{1}{2}$ billion dollars. For we are spending 100 billions per annum for war and every rise of one percent in the prices the government pays, adds approximately one billion to the government's war expenditures. I say approximately because some of the expenditures would not automatically be increased. A 10 percent wage increase would, moreover increase the cost of living by at least $4\frac{1}{2}$ percent and would cost consumers at least 4 billion dollars a year.

And, what is more, if we should have to abandon the hold-the-line order and to allow wages to rise we would have no assurance that we would be able to hold living costs stable even at a higher level. Rising costs would continue to press against the price and wage levels and these would be forced higher still. Rising wages would add to the excess purchasing power, and an enlarged inflationary gap would make the fiscal task of absorbing excess purchasing power by higher taxes and enforced savings unmanageable. Those with small fixed incomes, widows and old folks with small pensions, the white-collar and unorganized workers, the soldiers' wives and children with small dependency allowances, would be ground below the margin of fair subsistence.

I need not tell the Congress the devastation which will be wrought, far and wide, on the farmer, the worker and the business man, if the fires

of inflation ever get out of control. The farmers will never forget the deflation following the last war and the sufferings they then endured.

I have been considering primarily the need of subsidies to stop and in some instances reduce rising consumers' costs in order to avoid further wage increases which would accelerate the inflationary spiral, and in order to protect our unorganized consumers. We have for some time by support programs, benefit payments and premium plans provided inducements to get the war crops and the war materials we need. We shall have to continue to use support prices and incentive payments to secure in requisite volume the needed war crops and war materials. But if we want to avoid inflation we must see that these rising costs are not passed on to the consumers. For if consumers' food prices are not kept down it will be increasingly difficult to hold the wage line, and if the wage line is not held, the support prices and incentive payments which we make to producers will be nullified by the inflation of all prices and all costs. The way to protect the farmer is ^{To} not oppress the consumer. The way to protect the farmer is to authorize the Commodity Credit Corporation to pay the farmer what he should get for his products and to sell those products at a loss if need be to keep the cost of living down. That may be a subsidy, but that is the only way to avoid inflation which will be ruinous to farmer and consumer alike.

Those in command of our war economy like those in command of our armies must be endowed with adequate authority to meet emergency situations as they arise.

Subsidies to help hold down living costs should be applied only in strictly limited and clearly defined circumstances. Such subsidies should be confined to goods important to the maintenance of a reasonable wartime standard of living for the people. Wherever the grant of subsidies at flat rates would involve gross windfall profits for low-cost producers, processors or distributors, subsidies should be granted on a differential basis to cover the special burdens of high-cost producers. *generally the small producers*

Some of the provisions of the bill almost completely tie the hands of the Administration in the use of subsidies as a weapon with which to fight inflation. They would force a substantial increase in the cost of living and almost inevitably cause a break in the wage line.

I do not intend to permit farm prices and farm incomes to be depressed. Today farmers' incomes in the aggregate give farmers a greater purchasing power than they have ever before enjoyed. Upon my recommendation of September 7, 1942, Congress by the Act of October 2, 1942, guaranteed to farmers 90 percent of parity on their basic crops during the war and for at least two crop years thereafter -- a guaranty given to no other group. If further payments to the farmers are necessary to enable them to make

the added outlays required to increase the production of war crops, those payments should and will be made.

But unless the Congress leaves with the Executive branch the means of seeing to it that further increases in producers' prices do not increase the cost of living, the Executive branch cannot accept responsibility for holding the wage line or for stopping the already accelerating inflationary spiral.

If I am to hold the line, my hands must be left reasonably free to hold it even-handedly.

In this task of saving our free economy, Congress and the Executive must work together, as a team. H. R. 2869 marks a definite retreat from economic stability toward uncontrolled inflation. That retreat cannot be made with my approval.

I return the Bill without my signature.

TO THE HOUSE OF REPRESENTATIVES:

H. R. 2869, to continue the Commodity Credit Corporation as an agency of the United States, is before me. This measure will become law only over my strenuous objection and protest.

The Congress is aware of my deep interest in the Commodity Credit Corporation. It was created by me under Executive Order issued October 16, 1933 to meet a grave and critical emergency. It has proved to be useful not only in an emergency, but under other conditions. It has an essential function to perform in our war food production program. It should and must be continued.

But this is not a bill to continue the Commodity Credit Corporation. It is a bill to hamstring the Commodity Credit Corporation. It places new and unwarranted restrictions on the use of its funds and on the powers heretofore given to the Administration to stabilize the cost of living. These restrictions would prevent our giving to ~~the~~ ^{Production} farmers the assistance they need in carrying out our new food ~~program~~, so essential to feed our citizens and our soldiers. They would make it impossible for us to stop the rising cost of living.

As the measure now stands, this is an inflation bill, a high-cost-of-living bill, a food shortage bill.

There is, for instance, a provision in section 6(a) which prohibits the establishment of a maximum price for any raw or processed agricultural commodity which will reflect to the producers thereof a price less than the support price heretofore or hereafter announced by the War Food Administrator, or less than the higher of the maximum prices provided in section 3 of the Act of October 2, 1942.

I have tried to analyze this section and to translate it into common sense English. Frankly I do not know what it means.

If the provision merely means that if the support price is higher than the maximum price established under the Act of October 2, 1942, the commodity must be purchased from the producer at the support price or the

farmer must be paid the difference between the support price and the maximum price, the provision would serve no purpose. That is now, as I understand it, the law.

If on the other hand, despite language which looks the other way, the provision were construed to mean that the maximum price must be fixed so as to yield to the producer the support price without the payment of any subsidy, the provision would require the immediate upward adjustments in the ceiling prices for many basic food products. Prices for dry edible beans, cheese, canned vegetables, sugar, and, in some markets, fluid milk would immediately go up because the support prices for these products are higher than their present ceiling prices.

If the provision were so construed, it would not only immediately increase the cost of living but it would make it impossible for us to adopt support programs needed to increase production without causing a still further rise in the cost of living. Undoubtedly if we must in each case weigh the advantages of a support program against the disadvantages of an increase in the cost of living, many support programs which might otherwise be adopted will be rejected, and other support programs, although finally adopted, will inevitably be delayed.

Section 6(b) of the bill prohibits, with specified exceptions, the making of any subsidy or other payment other than those which have accrued prior to August 1, 1943, if such a payment is designed either (1) to reduce or roll back maximum and support prices or (2) as a substitute for increasing maximum prices or support prices, unless such payments are specifically authorized by the Congress. The specified exceptions are rigidly limited. Subsidies or other payments can be made until the end of the current crop year on any agricultural commodity other than milk or livestock and, prior to June 15, 1943, the government was committed to make them. Wheat can be sold for feeding purposes at not less than the parity price for corn. Maximum and support prices on domestic fats and oils and

oil seeds can be adjusted as necessary to assure adequate production.

Section 7 seeks to subject to the War Food Administration's control all the powers given under section 2(e) of the Emergency Price Control Act in respect to the purchase, sale, storage and use of foods. I am sure that the War Food Administration is amply capable of handling such a task. But even ^{its} these hands are shackled by the imposition of rigid restrictions which were included neither in the original Price Control Act nor in the Act of October 2, 1942.

Section 7 provides that purchases can be made only at prices which reflect to the farmer not less than the maximum price provided in the Act of October 2, 1942, or the announced support price, whichever is the higher. No purchases can be made for the purpose of reducing any maximum price. No purchases can be made for the purpose of resale at a loss unless made under a program announced prior to July 1, 1943. Even under pre-existing commitments, the government is not authorized to make purchases which will involve losses in excess of \$150,000,000. It apparently prohibits any purchase and sale program involving any loss for the 1944 crop. Commodities purchased are not to be sold for less than the maximum price limitations provided in the Act of October 2, 1942 or contrary to section 2(f) of the Price Control Act. It is far from clear that this last restriction does not nullify the exception in section 6 permitting wheat to be sold for feed at the corn parity price.

It is not clear whether the restrictions in sections 6 and 7 are cumulative or whether the Congress wished to draw a distinction between direct subsidies and trading losses resulting from the purchase and resale of foods.

Reputable lawyers could, I am advised, argue that section 6 completely nullifies section 7. If I should agree, then the bill would be even more inflationary. If I should take the contrary view, I may be sure that I will be accused of misconstruing the law.

Many other serious complications and difficulties in administering and construing the bill have been brought to my attention. But if I attempted to deal with ^{all of} them here my message would become as complicated and confused as the language of the bill itself.

When farm prices were low, in time of peace, no one in either branch of government ever suggested that the Commodity Credit Corporation should be forbidden to take losses in its operations. Now, in the critical emergency of war, it is proposed to tie the Corporation's hands in ways undreamed of in less strenuous days.

No matter how this measure is interpreted, it will have a devastating effect upon our economy and our war effort about which I believe the Congress and the American people ought clearly to be warned.

1. This bill blanks out the program to reduce the cost of living. In other words, it completely outlaws the recent reductions in the price of meat and butter which we instituted in order to help get the cost of living back down from the height to which it has risen in recent months.

By this measure, the Congress will compel every housewife to pay 5¢ a pound more for every piece of butter that goes on her table, and to pay higher prices for every pork chop, every ounce of beef, every slice of ham or bacon which goes to feed her family.

2. This measure will make it virtually impossible to institute any additional measures to reduce the cost of living or even to hold ~~the~~ ^{the} ~~downward~~ ^{the} ~~retarding~~ line.

3. The bill denies to the executive any power to purchase farm products for resale at a loss or to make incentive payments to obtain increased production of foodstuffs without the approval of the Congress. I do not believe that the Congress has had an opportunity to know or to consider how seriously it may cripple our entire food program.

It is proper for the Congress to set the limits within which our food programs must operate and the principles to which they must conform.

But there is not time to submit each specific food program for Congressional approval. Crops will not wait for Congressional debate. To require specific approval of each specific program is in effect a prohibition.

~~In many cases~~ ^{In} order to obtain a greater production of important war foods it may be necessary to establish ~~certain~~ ^{special} incentives for our farmers. We are asking our agricultural producers ~~in many cases~~ to change their farming methods and to grow new crops to which they are unaccustomed and which we need greatly in place of the old crops to which they are accustomed and which we may not need so greatly. It may often be difficult for the War Food Administrator to decide just how great an incentive ~~may~~ ^{be} required for this purpose. This bill does not prevent the continued use of generous incentive payments to obtain strategic war materials other than food. Yet food is as important as any other strategic war material.

This measure, however, would ^{mean} require that every additional dollar paid to the farmer to get the extra war crops we need ^{to feed} our soldiers abroad ~~would reduce the purchasing power of the limited allowances~~ ^{sent home with them} of their wives and children at home.

Such a restrictive measure would serve only to set the soldier, the worker, and the unorganized consumer at war with the farmer.

The original price control act gave the government certain powers to regulate prices. In the summer of last year, I informed the Congress that the Administration could not control the cost of living and prevent inflation unless it was given more adequate power to stabilize wages and food prices. Thereafter the Congress passed the Act of October 2, 1942, which authorized me to stabilize prices, wages and salaries affecting the cost of living so far as practicable on the basis of the levels which existed on September 15, 1942.

The measure now before me virtually nullifies the Act of October 2, 1942. This government cannot effectively stabilize the cost of living if it cannot stabilize the ^{cost of necessary foods} ~~costs of the necessities of life~~. As a matter

of fact this measure even takes from the government powers which it was given under the first Price Control Act.

As the danger of inflation grows, the Congress would by this bill put new shackles on those whose duty it is to fight inflation. The fight against inflation cannot be won that way.

To get our economy to work I realize that we cannot rigidly freeze all prices or all wages. In some cases we must pay higher prices to producers to get the extra war production which we need because that extra production costs more to produce. We must likewise put more money in the worker's pay envelope when he works longer hours or when he does more skilled or efficient work, or when his pay is insufficient to keep him on a decent subsistence level. But with a well-balanced combination of measures we must keep wage rates and consumers' food prices from rising if we wish to hold down living costs.

Our wage stabilization program is and must be dependent on the stabilization of the cost of living. This is expressly recognized in the Act of October 2, 1942. The Little Steel formula was based on the fact that there had been a rise of approximately 15 percent in the cost of living between January, 1941 and May, 1942, for which rise workers could be compensated by wage increases.

~~Many workers contend that stabilization of wage rates has been more effective in recent months than stabilization of prices.~~ The cost of living is now about 8 percent above the level of May, 1942, and about 6 percent above last September. There has been an increase in the average worker's weekly pay check since September. This increase has come primarily through longer hours and through the shift of workers into war industries from lower-paid civilian occupations, although increases in wage rates to correct inequities have played a part. But there are many workers who have enjoyed no increase in earnings.

It is too easy to act on the assumption that all consumers have surplus purchasing power; and that the high earnings of some workers in munitions plants are enjoyed by every worker's family. This easy assumption overlooks the 4,000,000 wage workers still earning less than 40¢ per hour, and millions of others whose incomes are almost as low. It ignores the fact that more than 4 million families have not had an increase of more than 5 percent in their income during the last ^{eighteen months} ~~two years~~. It further ignores the millions of salaried, white-collar workers — the school teachers, the clergymen, the state, county and city officials, the policemen, the firemen, the clerks — whose salaries have remained low, but whose living standards are being cruelly and inequitably slashed by higher food prices. It equally ignores ^{office} ~~those~~ on fixed incomes — the dependent mother of the soldier boy with her scant \$37 per month, the widow living off the proceeds of her husband's insurance policy, and the old age pensioner.

These millions are entitled to be protected against skyrocketing food costs. It is my duty to guard them against the ravages of inflation — and I shall guard them unless the Congress shackles my hand.

These unorganized millions must not become the forgotten men and women of our war economy.

The plea has been urged on behalf of industrial workers that if the cost of living is not cut to September, or even to May, 1942, levels, wage rates should be raised to compensate. But to raise wages because living costs have risen will be at best only a temporary solution. Raising wage rates increases the cost of production, both of war goods and of the goods whose prices make up the cost of living. It also increases consumers' spending power. The combined effect of increased spending power and increased production cost is inevitably a further rise in the cost of living and at the same time the money cost of the war increases. In short, to give people more money because prices are rising does not cure the evil, but makes it worse. This is precisely what is meant by the "inflationary spiral."

To prevent this spiral of rising costs and prices we must hold firm to the stabilization of wage rates. But to do this, we must assure workers that they can get a fair share of available goods ~~on legitimate~~ markets, and at prices "so far as practicable on the basis of the levels which existed on September 15", as prescribed by the Act of October 2.

Whatever theoretical choices may conceivably be open to us, practically we will have only two. We must keep the cost of living more nearly in line with the level prescribed in the law or we will not be able to hold the wage line or protect the millions of men and women living on low salaries and small fixed incomes. If wages rise, the cost of living will not stand where it is; it will go up and the inflationary spiral will gain strength.

I do not think that a ~~substantial~~ ^{reduction} of all living costs or wage increases to the September level is practicable. We all must be prepared in total war to accept a substantial cut in our accustomed standards of living. But we must definitely stop the rising trend of living and push back the price to consumers of important key commodities in the family market basket.

When I talk of important key commodities I do not mean fur coats, or tailored suits or caviar. I mean the necessities of life, things like bread, milk, butter, sugar, coffee, ordinary meats, fats and canned foods, things that plain working folk must have. We must not only keep the price of these necessities down, but we must increase, when we can, the supply which helps relieve the pressures for higher prices and helps reduce the temptations of the black markets. With the improvement in the war against the submarine we may even be able soon to remove sugar and possibly later, coffee from the ration list. But we cannot hope in a period of total war to increase the supply of ^{all} necessities sufficiently to relieve the price situation.

To reduce the price of key necessities or even to hold some of them at present levels, we either will have to reduce producers' prices and distributors' margins or we will have to use subsidies.

That does not mean that we can achieve stabilization by subsidies alone, without firm price and wage policies, adequate fiscal measures, and positive programs to assure that adequate supplies of essentials at legitimate prices will be available in the legitimate markets.

But the experience of other countries like Canada and England does demonstrate that limited subsidies can and must be effectively used as a key weapon to control inflation.

The alternative to such action would be more costly to the Treasury and to the people. If we do not take the course of action I have suggested, we shall be charged with having failed to stabilize the cost of living, as the Act of October 2, 1942, directed us to do, and there will be increasing demands ~~from~~ the workers of the nation for a drastic modification of the Little Steel formula.

If a 10 percent overall increase in wages should occur as a consequence of our failure to stabilize living costs, that added cost of labor alone would cause an increase of not less than $\frac{1}{2}$ percent in the general level of prices. That would increase our annual war costs approximately $\frac{1}{2}$ billion dollars. For we are spending 100 billions per annum for war and every rise of one percent in the prices the government pays, adds approximately one billion to the government's war expenditures. I say approximately because some of the expenditures would not automatically be increased. A 10 percent wage increase would, moreover, increase the cost of living by at least $\frac{1}{2}$ percent and would cost consumers at least 1 billion dollars a year.

And, what is more, if we should have to abandon the hold-the-line order and to allow wages to rise we would have no assurance that we would be able to hold living costs stable even at a higher level. Rising costs would continue to press against the price and wage levels and these would be forced higher still. Rising wages would add to the excess purchasing

power, and an enlarged inflationary gap would make the fiscal task of absorbing excess purchasing power by higher taxes and enforced savings unmanageable. Those with meagre wages and small fixed incomes would be ground below the margin of fair subsistence.

I need not tell the Congress the devastation which will be wrought, far and wide, on the farmer, the worker, and the business man, if the fires of inflation ever got out of control. The farmers will never forget the deflation following the last war and the sufferings they then endured.

To protect the farmer it is not necessary to oppress the consumer. The way to protect the farmer is to authorize the Commodity Credit Corporation to pay the farmer what he should get for his products and to sell those products at a loss if need be to keep the cost of living down. That may be a subsidy, but that is the only way to avoid inflation which will be ruinous to farmer and consumer alike. If we prohibit subsidies and allow the cost of living to rise, as this bill does, whatever support prices we make to the farmer will be nullified by the inflation of all prices and all costs.

I have just been informed that the preliminary figures indicate that between May 15 and June 15 there was a decrease of 1 percent in food prices. This is the first decline in the food price index in more than a year. This bill would wipe out that decline and start anew a rise in the cost of living. I cannot by signing it share the responsibility for that rise and its disastrous consequences.

Those in command of our war economy like those in command of our armies must be endowed with adequate authority to meet emergency situations as they arise.

Subsidies to help hold down living costs and at the same time protect the farmer should be applied only in strictly limited and clearly defined circumstances. Such subsidies should be confined to goods essential to the maintenance of a reasonable wartime standard of living for the people. Wherever the grant of subsidies at flat rates would involve gross windfall profits for low-cost producers, processors or distributors, they

should be granted on a differential basis to cover the special burdens of small business and high-cost producers.

I do not intend to permit farm prices and farm incomes to be depressed. Today the ~~entire~~ ^{net} aggregate income of farmers like that of the workers is larger than ever before. As a result of my recommendation of September 7, 1942, that a floor be established for farm prices, Congress by the Act of October 2, 1942, guaranteed to farmers 90 percent of parity on most farm products during the war and for at least two crop years thereafter — a guaranty given to no other group. If further payments to farmers are necessary to enable them to make the added outlays required to increase the production of war crops, those payments should and will be made.

But unless the Congress leaves with the Executive branch the means of seeing to it that further increases in producers' prices do not increase the cost of living, the Executive branch cannot accept responsibility for holding the wage line or for stopping the ~~already-existing~~ inflationary spiral.

If I am to hold the line, my hands must be left reasonably free to hold it even-handedly.

In this task of saving our free economy, Congress and the Executive must work together, as a team. H. R. 2869 marks a definite retreat from economic stability toward uncontrolled inflation. That retreat cannot be made with my approval.

I sincerely hope that if the Congress cannot agree before its recess on legislation which will remove the serious defects in this bill, it will pass a joint resolution continuing the life of the Commodity Credit Corporation and providing the increase in borrowing power until the Congress has time to agree upon an appropriate measure. The officials of the Executive departments will welcome an opportunity to furnish information and be of assistance.

I return the Bill without my signature.

The White House,

July 2, 1943.

July 2, 1943

CONFIDENTIAL: To be held in STRICT CONFIDENCE and no portion, synopsis or intimation to be published or given out until the READING of the President's Message has begun in the House of Representatives. Extreme care must therefore be exercised to avoid premature publication.

STEPHEN EARLY
Secretary to the President

TO THE HOUSE OF REPRESENTATIVES:

H. R. 2869, to continue the Commodity Credit Corporation as an agency of the United States, is before me. This measure will become law only over my strenuous objection and protest.

The Congress is aware of my deep interest in the Commodity Credit Corporation. It was created by me under Executive Order issued October 16, 1933 to meet a grave and critical emergency. It has proved to be useful not only in an emergency, but under other conditions. It has an essential function to perform in our war food production program. It should and must be continued.

But this is not a bill to continue the Commodity Credit Corporation. It is a bill to hamstring the Commodity Credit Corporation. It places new and unwarranted restrictions on the use of its funds and on the powers heretofore given to the Administration to stabilize the cost of living. These restrictions would prevent our giving to farmers the assistance they need in carrying out our new food production programs, so essential to feed our citizens and our soldiers. They would make it impossible for us to stop the rising cost of living.

As the measure now stands, this is an inflation bill, a high-cost-of-living bill, a food shortage bill.

There is, for instance, a provision in section 6(a) which prohibits the establishment of a maximum price for any raw or processed agricultural commodity which will reflect to the producers thereof a price less than the support price heretofore or hereafter announced by the War Food Administrator, or less than the higher of the maximum prices provided in section 3 of the Act of October 2, 1942.

I have tried to analyze this section and to translate it into common sense English. Frankly I do not know what it means.

If the provision merely means that if the support price is higher than the maximum price established under the Act of October 2, 1942, the commodity must be purchased from the producer at the support price or the farmer must be paid the difference between the support price and the maximum price, the provision would serve no purpose. That is now, as I understand it, the law.

If on the other hand, despite language which looks the other way, the provision were construed to mean that the maximum price must be fixed so as to yield to the producer the support price without the payment of any subsidy, the provision would require the immediate upward adjustments in the ceiling prices for many basic food products. Prices for dry edible beans, cheese, canned vegetables, sugar, and, in some markets, fluid milk would immediately go up because the support prices for these products are higher than their present ceiling prices.

If the provision were so construed, it would not only immediately increase the cost of living but it would make it impossible for us to adopt support programs needed to increase production without causing a still further rise in the cost of living. Undoubtedly if we must in each case weigh the advantages of a support program against the disadvantages of an increase in the cost of living, many support programs which might otherwise be adopted will be rejected, and other support programs, although finally adopted, will inevitably be delayed.

Section 6(b) of the bill prohibits, with specified exceptions, the making of any subsidy or other payment other than those which have accrued prior to August 1, 1943, if such a payment is designed either (a) to reduce or roll back maximum and support prices or (b) as a substitute for increasing maximum prices or support prices, unless such payments are specifically authorized by the Congress. The specified exceptions are rigidly limited. Subsidies or other payments can be made until the end of the current crop year on any agricultural commodity other than milk or livestock if, prior to June 15, 1943, the government was committed to make them. Wheat can be sold for feeding purposes at not less than the parity price for corn. Maximum and support prices on domestic fats and oils and oil seeds can be adjusted as necessary to assure adequate production.

Section 7 seeks to subject to the War Food Administration's control all the power given under section 2(e) of the Emergency Price Control Act in respect to the purchase, sale, storage and use of foods. I am sure that the War Food Administration is amply capable of handling such a task. But even its hands are shackled by the imposition of rigid restrictions which were included neither in the original Price Control Act nor in the Act of October 2, 1942.

Section 7 provides that purchases can be made only at prices which reflect to the farmer not less than the maximum price provided in the Act of October 2, 1942, or the announced support price, whichever is the higher. No purchases can be made for the purpose of reducing any maximum price. No purchases can be made for the purpose of resale at a loss unless made under a program announced prior to July 1, 1943. Even under pre-existing commitments, the government is not authorized to make purchases which will involve losses in excess of \$150,000,000. It apparently prohibits any purchase and sale program involving any loss for the 1944 crop. Commodities purchased are not to be sold for less than the maximum price limitations provided in the Act of October 2, 1942 or contrary to section 2(f) of the Price Control Act. It is far from clear that this last restriction does not nullify the exception in section 6 permitting wheat to be sold for feed at the corn parity price.

It is not clear whether the restrictions in sections 6 and 7 are cumulative or whether the Congress wished to draw a distinction between direct subsidies and trading losses resulting from the purchase and resale of foods.

Reputable lawyers could, I am advised, argue that section 6 completely nullifies section 7. If I should agree, then the bill would be even more inflationary. If I should take the contrary view, I may be sure that I will be accused of misconstruing the law.

"Any other serious complications and difficulties in administering and construing the bill have been brought to my attention. But if I attempted to deal with all of them here my message would become as complicated and confused as the language of the bill itself.

When farm prices were low, in time of peace, no one in either branch of government ever suggested that the Commodity Credit Corporation should be forbidden to take losses in its operations. Now, in the critical emergency of war, it is proposed to tie the Corporation's hands in ways undreamed of in less strenuous days.

No matter how this measure is interpreted, it will have a devastating effect upon our economy and our war effort about which I believe the Congress and the American people ought clearly to be warned.

1. This bill blacks out the program to reduce the cost of living. In other words, it completely outlaws the recent reductions in the price of meat and butter which we instituted in order to help get the cost of living back down from the height to which it has risen in recent months.

By this measure, the Congress will compel every housewife to pay 5¢ a pound more for every piece of butter that goes on her table, and to pay higher prices for every pork chop, every ounce of beef, every slice of ham or bacon which goes to feed her family.

2. This measure will make it virtually impossible to institute any additional measures to reduce the cost of living or even to hold the line.

3. The bill denies to the executive any power to purchase farm products for resale at a loss or to make incentive payments to obtain increased production of foodstuffs without the approval of the Congress. I do not believe that the Congress has had an opportunity to know or to consider how seriously it may cripple our entire food program.

It is proper for the Congress to set the limits within which our food programs must operate and the principles to which they must conform. But there is not time to submit each specific food program for Congressional approval. Crops will not wait for Congressional debate. To require specific approval of each specific program is in effect a prohibition.

In order to obtain a greater production of important war foods it may be necessary to establish special incentives for our farmers. We are asking our agricultural producers to change their farming methods and to grow new crops to which they are unaccustomed and which we need greatly in place of the old crops to which they are accustomed and which we may not need so greatly. It may often be difficult for the War Food Administrator to decide just how great an incentive is required for this purpose. This bill does not prevent the continued use of generous incentive payments to obtain strategic war materials other than food. Yet food is as important as any other strategic war material.

This measure, however, would mean that every additional dollar paid to the farmer to get the extra war crops we need to feed our soldiers abroad would reduce the purchasing power of the limited allowances of their wives and children at home.

Such a restrictive measure would serve only to set the soldier, the worker, and the unorganized consumer at war with the farmer.

The original price control act gave the government certain powers to regulate prices. In the summer of last year I informed the Congress that the Administration could not control the cost of living and prevent inflation unless it was given more adequate power to stabilize wages and food prices. Thereafter the Congress passed the Act of October 2, 1942, which authorized me to stabilize prices, wages and salaries affecting the cost of living so far as practicable on the basis of the levels which existed on September 15, 1942.

The measure now before me virtually nullifies the Act of October 2, 1942. This government cannot effectively stabilize the cost of living if it cannot stabilize the cost of necessary foods. As a matter of fact this measure even takes from the government powers which it was given under the first Price Control Act.

As the danger of inflation grows, the Congress would by this bill put new shackles on those whose duty it is to fight inflation. The fight against inflation cannot be won that way.

To get our economy to work I realize that we cannot rigidly freeze all prices or all wages. In some cases we must pay higher prices to producers to get the extra war production which we need because that extra production costs more to produce. We must likewise put more money in the worker's pay envelope when he works longer hours or when he does more skilled or efficient work, or when his pay is insufficient to keep him on a decent subsistence level. But with a well-balanced combination of measures we must keep wage rates and consumers' food prices from rising if we wish to hold down living costs.

Our wage stabilization program is and must be dependent on the stabilization of the cost of living. This is expressly recognized in the Act of October 2, 1942. The Little Steel formula was based on the fact that there had been a rise of approximately 15 percent in the cost of living between January, 1941 and May, 1942, for which rise workers could be compensated by wage increases.

The cost of living is now about 8 percent above the level of May, 1942, and about 6 percent above last September. There has been an increase in the average worker's weekly pay check since September. This increase has come primarily through longer hours and through the shift of workers into war industries from lower-paid civilian occupations, although increases in wage rates to correct inequities have played a part. But there are many workers who have enjoyed no increase in earnings.

It is too easy to act on the assumption that all consumers have surplus purchasing power; and that the high earnings of some workers in munitions plants are enjoyed by every worker's family. This easy assumption overlooks the 4,000,000 wage workers still earning less than 40¢ per hour, and millions of others whose incomes are almost as low. It ignores the fact that more than 4 million families have not had an increase of more than 5 percent in their income during the last eighteen months. It further ignores the millions of salaried, white-collar workers -- the school teachers, the clergymen, the state, county and city officials, the policemen, the firemen, the clerks -- whose salaries have remained low, but whose living standards are being cruelly and inequitably slashed by higher food prices. It equally ignores others on fixed incomes -- the dependent mother of the soldier boy with her scant \$37 per month, the widow living off the proceeds of her husband's insurance policy, and the old age pensioner.

These millions are entitled to be protected against skyrocketing food costs. It is my duty to guard them against the ravages of inflation -- and I shall guard them unless the Congress shackles my hand.

These unorganized millions must not become the forgotten men and women of our war economy.

The plan has been urged on behalf of industrial workers that if the cost of living is not cut to September, or even to May, 1942, levels, wage rates should be raised to compensate. But to raise wages because living costs have risen will be at best only a temporary solution. Raising wage rates increases the cost of production, both of war goods and of the goods whose prices make up the cost of living. It also increases consumers' spending power. The combined effect of increased spending power and increased production cost is inevitably a further rise in the cost of living; and at the same time the money cost of the war increases. In short, to give people more money because prices are rising does not cure the evil, but makes it worse. This is precisely what is meant by the "inflationary spiral."

To prevent this spiral of rising costs and prices we must hold firm to the stabilization of wage rates. But to do this, we must assure workers that they can get a fair share of available goods on legitimate markets, and at prices "so far as practicable on the basis of the levels which existed on September 15", as prescribed by the Act of October 2.

Whatever theoretical choices may conceivably be open to us, practically we will have only two. We must keep the cost of living more nearly in line with the level prescribed in the law or we will not be able to hold the wage line or protect the millions of men and women living on low salaries and small fixed incomes. If wages rise, the cost of living will not stand where it is; it will go up and the inflationary spiral will gain strength.

I do not think that a reduction of all living costs or wage increases to the September level is practicable. We all must be prepared in total war to accept a substantial cut in our accustomed standards of living. But we must definitely stop the rising trend of living and push back the price of some of the important key commodities in the family market basket.

When I talk of important key commodities I do not mean fur coats, or tailored suits or caviar. I mean the necessities of life, things like bread, milk, butter, sugar, coffee, ordinary meats, fats and canned foods, things that plain working folk must have. We must not only keep the price of these necessities down, but we must increase, when we can, the supply which helps relieve the pressures for higher prices and helps reduce the temptations of the black markets. With the improvement in the war against the submarine we may even be able soon to remove sugar and possibly later coffee from the ration list. But we cannot hope in a period of total war to increase the supply of all necessities sufficiently to relieve the price situation.

To reduce the price of key necessities or even to hold some of them at present levels, we either will have to reduce producers' prices and distributors' margins or we will have to use subsidies.

That does not mean that we can achieve stabilization by subsidies alone, without firm price and wage policies, adequate fiscal measures, and positive programs to assure that adequate supplies of essentials at legitimate prices will be available in the legitimate markets.

But the experience of other countries like Canada and England does demonstrate that limited subsidies can and must be effectively used as a key weapon to control inflation.

The alternative to such action would be more costly to the Treasury and to the people. If we do not take the course of action I have suggested, we shall be charged with having failed to stabilize the cost of living, as the Act of October 2, 1942, directed us to do, and there will be increasing demands from the workers of the nation for a drastic modification of the Little Steel formula.

If a 10 percent overall increase in wages should occur as a consequence of our failure to stabilize living costs, that added cost of labor alone would cause an increase of not less than $4\frac{1}{2}$ percent in the general level of prices. That would increase our annual war costs approximately $4\frac{1}{2}$ billion dollars. For we are spending 100 billions per annum for war and every rise of one percent in the prices the government pays, adds approximately one billion to the government's war expenditures. I say approximately because some of the expenditures would not automatically be increased. A 10 percent wage increase would, moreover, increase the cost of living by at least $4\frac{1}{2}$ percent and would cost consumers at least 4 billion dollars a year.

And, what is more, if we should have to abandon the hold-the-line order and to allow wages to rise we would have no assurance that we would be able to hold living costs stable even at a higher level. Rising costs would continue to press against the price and wage levels and these would be forced higher still. Rising wages would add to the excess purchasing power, and an enlarged inflationary gap would make the fiscal task of absorbing excess purchasing power by higher taxes and enforced savings unmanageable. Those with meagre wages and small fixed incomes would be ground below the margin of fair subsistence.

I need not tell the Congress the devastation which will be wrought, far and wide, on the farmer, the worker, and the business man, if the fires of inflation ever get out of control. The farmers will never forget the deflation following the last war and the sufferings they then endured.

To protect the farmer it is not necessary to oppress the consumer. The way to protect the farmer is to authorize the Commodity Credit Corporation to pay the farmer what he should get for his products and to sell those products at a loss if need be to keep the cost of living down. That may be a subsidy, but that is the only way to avoid inflation which will be ruinous to farmer and consumer alike. If we prohibit subsidies and allow the cost of living to rise, as this bill does, whatever support prices we make to the farmer will be nullified by the inflation of all prices and all costs.

I have just been informed that the preliminary figures indicate that between May 15 and June 15 there was a decrease of 1 percent in food prices. This is the first decline in the food price index in more than a year. This bill would wipe out that decline and start anew a rise in the cost of living. I cannot by signing it share the responsibility for that rise and its disastrous consequences.

Those in command of our war economy like those in command of our armie must be endowed with adequate authority to meet emergency situations as they arise.

Subsidies to help hold down living costs and at the same time protect the farmer should be applied only in strictly limited and clearly defined circumstances. Such subsidies should be confined to goods essential to the maintenance of a reasonable wartime standard of living for the people. Wherever the grant of subsidies at flat rates would involve gross windfall profits for low-cost producers, processors or distributors, they should be granted on a differential basis to cover the special burdens of small business and high-cost producers.

I do not intend to permit farm prices and farm incomes to be depressed. Today the aggregate net income of farmers like that of the workers is larger than ever before. As a result of my recommendation of September 7, 1942, that a floor be established for farm prices, Congress by the Act of October 2, 1942, guaranteed to farmers 90 percent of parity on most farm products during the war and for at least two crop years thereafter -- a guaranty given to no other group. If further payments to farmers are necessary to enable them to make the added outlays required to increase the production of war crops, those payments should and will be made.

But unless the Congress leaves with the Executive branch the means of seeing to it that further increases in producers' prices do not increase the cost of living, the Executive branch cannot accept responsibility for holding the wage line or for stopping the inflationary spiral.

If I am to hold the line, my hands must be left reasonably free to hold it even-handedly.

In this task of saving our free economy, Congress and the Executive must work together, as a team. H. R. 2869 marks a definite retreat from economic stability toward uncontrolled inflation. That retreat cannot be made with my approval.

I sincerely hope that if the Congress cannot agree before its recess on legislation which will remove the serious defects in this Bill, it will pass a joint resolution continuing the life of the Commodity Credit Corporation and providing the increase in borrowing power until the Congress has time to agree upon an appropriate measure. The officials of the Executive departments will welcome an opportunity to furnish information and be of assistance.

I return the Bill without my signature.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

July 2, 1943.

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