

NATIONAL ECONOMIC POLICY

M E S S A G E

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

RECOMMENDATIONS FOR VARIOUS CHANGES IN INDUSTRY,
LABOR, AGRICULTURE, AND FINANCE

APRIL 27, 1942.—Referred to the Committee on Ways and Means and ordered to
be printed

THE WHITE HOUSE,
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To the Congress of the United States:

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

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

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

In some other ways, however, the circumstances of today parallel those of 1917-18. Now, as in the last war, the common enemy has had all the advantage at the outset. Now, as then, bitter defeats and heavy losses must be endured by those who are defending civilization, before we will be able to establish the vital superiority in men and munitions which will turn the tide.

The United States was far better prepared for actual war on December 7, 1941, than it was on April 6, 1917. For over 2 years, by a succession of congressional acts, we had carried out or initiated safety measures for our own defense in growing volume and importance. There were the revisions of the neutrality laws, the adoption of the

selective-service law, and the lend-lease law, and the great increases of our Army and Navy and the instruments of war which they needed.

After Pearl Harbor, the American people adopted a national program of war production which would have been called fantastic by most people 2 years before. It has required the shifting of the major part of American industry from the products of peace to the weapons of war.

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

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

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

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

While the cost of living, based on the average prices of necessities, has gone up about 15 percent so far since the autumn of 1939, we must now act to keep it from soaring another 80 percent or 90 percent during the next year or two—to hold it to somewhere near the present level.

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

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

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

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

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

1. To keep the cost of living from spiraling upward, we must tax heavily, and in that process keep personal and corporate profits at a reasonable rate, the word “reasonable” being defined at a low level.
2. To keep the cost of living from spiraling upward, we must fix ceilings on the prices which consumers, retailers, wholesalers, and manufacturers pay for the things they buy; and ceilings on rents for dwellings in all areas affected by war industries.
3. To keep the cost of living from spiraling upward, we must stabilize the remuneration received by individuals for their work.
4. To keep the cost of living from spiraling upward, we must stabilize the prices received by growers for the products of their lands.
5. To keep the cost of living from spiraling upward, we must encourage all citizens to contribute to the cost of winning this war by purchasing War Bonds with their earnings instead of using those earnings to buy articles which are not essential.
6. To keep the cost of living from spiraling upward, we must ration all essential commodities of which there is a scarcity, so that they may be distributed fairly among consumers and not merely in accordance with financial ability to pay high prices for them.
7. To keep the cost of living from spiraling upward, we must discourage credit and installment buying, and encourage the paying off of debts, mortgages, and other obligations; for this promotes savings, retards excessive buying, and adds to the amount available to the creditors for the purchase of War Bonds.

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

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

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

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

On this subject, I believe that the objective can be attained through tax processes. We are now spending, solely for war purposes, the sum of about \$100,000,000 every day of the week. But before this year is over that rate of expenditure will be doubled. This means that a sum equal to more than half of the entire national income will be spent in the war effort. Almost the whole of these billions is being and will be spent within the United States itself.

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

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

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

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

The second item, relating to price control is, with the exception of farm prices, adequately covered by existing law, and I have issued instructions to put this into effect immediately. It is our effort to be fair in all phases of price control; and if our future experience reveals inequality or unfairness, corrections will, of course, be made.

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

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

All strikes are at a minimum. Existing contracts between employers and employees must, in all fairness, be carried out to the expiration date of those contracts. The existing machinery for labor disputes will, of course, continue to give due consideration to inequalities and the elimination of substandards of living. I repeat that all of these processes, now in existence, will work equitably for the overwhelming proportion of all our workers if we can keep the cost of living down and stabilize their remuneration.

Most workers in munition industries are working far more than 40 hours a week, and should continue to be paid at time and a half for overtime. Otherwise, their weekly pay envelopes would be reduced.

All these policies will guide all Government agencies.

In regard to item four, prices of farm products: For nearly 9 years it has been the policy of the Government to seek an objective known as parity—or, in other words, farm prices that give the farmer an assurance of equality in individual purchasing power with his fellow Americans who work in industry. Some of the products of the farms have not yet reached the stage of parity. Others have exceeded parity. Under existing legislation a ceiling cannot be placed on certain products until they reach a level somewhat above parity.

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

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

It would be equally harmful to the process of keeping down the cost of living if any law were passed preventing the Government from selling any of its own surplus farm commodities at the market price. As a national policy, the ceiling on farm products—in other words, the maximum prices to be received by the producers of these products—should be set at parity.

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

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

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

With respect to item 6—rationing—it is obviously fair that where there is not enough of any essential commodity to meet all civilian demands, those who can afford to pay more for the commodity should not be privileged over others who cannot. I am confident that as to many basic necessities of life, rationing will not be necessary, because we shall strive to the utmost to have an adequate supply. But where any important article becomes scarce, rationing is the democratic, equitable solution.

Item seven—paying off debts and curtailing installment buying—should be made effective as soon as possible now that money is be-

coming more plentiful. Those who comply with it will be grateful that they have done so, when this war is over. Elimination of private debts and an accumulation of savings will provide a form of insurance against post-war depression. The Federal agency responsible for the control of credit for installment buying is taking appropriate action.

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

The result will mean that each and every one of us will have to give up many things to which we are accustomed. We shall have to live our lives with less in the way of creature comforts than we have in time of peace. Our standard of living will have to come down.

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

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

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