

John Henderson

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OPA

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

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

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

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

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

hoarding are contagious.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### III TECHNIQUES OF COMMODITY RATIONING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

certain limitations.

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

#### IV ADMINISTRATIVE PROBLEMS OF RATIONING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B Voluntary rationing is defeated by individual self interest.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## VI RECOMMENDATION

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

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

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

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

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

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