Date is probably wrong; probably is Feb. 5, 1943

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MINUTES OF MEETING

February 5, 1942, 11:00 A. M.

East Wing, White House

Present: The Director (Presiding)
Mr. Wickard
Mr. Jones
Miss Perkins
Mr. Bell (Acting Secretary of Treasury)
Mr. Smith
Mr. Eccles
Mr. Brown
Mr. Davis
Mr. Green
Mr. Murray
Mr. Patton
Mr. O'Neal
Mr. Flanders

1. The Director read a letter from Mr. Eccles outlining the progress made by the Federal Reserve Board in reducing outstanding consumer credit from $9,700,000,000 to $6,400,000,000. Mr. Smith offered to prepare also a statement as to the pre-payment of long term indebtedness, including Land Bank mortgages, Home Owners' Loan Corporation indebtedness, etc.

2. Mr. Brown commented on the possibility of reducing price ceilings wherever excessive profits exist. He reviewed briefly the legal basis of the exercise of such power which, in his opinion, is derived primarily from the original Price Control Act of 1942 rather than the Act of October 2, 1942.

Mr. Brown reported some progress in the reduction of excessive profits, but expressed the opinion that more vigorous action was now required in order to counter-balance other necessary increases in the cost of living. He listed certain reductions of excessive profits already achieved by the Office of Price Administration, which total about $650,000,000. Mr. Brown also called attention to the proceedings now pending before the Interstate Commerce Commission in an effort to obtain a rescission of the rate increases granted early in 1942. If this effort is successful, it will result in an additional saving of $450,000,000 to shippers and passengers.

Mr. Brown also called attention to the substantial savings achieved by the armed services through the renegotiation of contracts; and to the recent $50,000,000 reduction in long distance telephone rates achieved by the Federal Communications Commission.

Mr. Brown pointed out the difficulty in reducing prices in those industries where a wide spread exists between the production costs of the most efficient producers and those of the marginal producers. In many such cases, the Price Administrator is faced with the alternative of either permitting excessive profits to accrue to the low cost producer or forcing the high cost producer out of business.

Mr. Brown pointed to the retail grocery business as an example. In that case, however, due to the large number of units existing, with the consequent pressure of competitive forces, it was felt probable that the low cost chain stores would sell below the ceiling price, thus reflecting additional savings to consumers and leaving somewhat the same competitive situation as would exist in the absence of price control. It was suggested that, in those industries dominated by a comparatively small number of highly integrated producers, it would be possible to solve this problem through a pooling arrangement, whereby a certain proportion of the profits of the low cost producers would be captured and pooled in order to permit high cost producers to operate under ceiling prices.

Mr. Murray inquired as to the relation between the Office of Price Administration and the armed services in connection with procurement. Mr.

Brown replied that renegotiation of contracts was within the sole control of the procurement agencies, but that authority over the original purchase price on military articles has been defined by an agreement between the Office of Price Administration and the services -- an agreement under which a considerable part of the legal authority of the Office of Price Administration had been abandoned. The services had, however, agreed to consult the Office of Price Administration in connection with their prices and policies. The arrangement, stated Mr. Brown, had not proved entirely satisfactory and was now under reconsideration.

3. Mr. Murray stated that living costs were still not under control. The only criterion by which the worker and his wife can judge the cost of living is the contents of their market basket, he stated. Mr. Murray called attention to the enormous increases in food prices during the past year. Eggs, he said, have risen from 40 cents to 79 cents a dozen; butter from 37 cents to 62 cents a pound; bacon from 29 cents to 59 cents a pound; and vegetables by 60 percent or more.

How, he inquired, can the worker and his wife reconcile these facts with the reports of the Bureau of Labor Statistics?

Mr. Flanders reminded Mr. Murray that foods constitute only about one-third of the cost of living, and stated that many other items have not increased so rapidly as food stuffs, which have risen 34 percent since 1939 and 9.7 percent since May, 1942. The total cost of living, he stated, has risen about 18.8 percent since January, 1941.

Mr. Davis agreed as to the utmost importance of this question to the War Labor Board. There is constant controversy as to the accuracy of the figures of the Bureau of Labor Statistics. Mr. Davis suggested that the Board call in the Research Directors of the various labor organizations and settle this question for once and all. The Director and Miss Perkins agreed with this suggestion.

Mr. Murray replied that labor had reluctantly accepted the so-called "Little Steel Formula" on the basis of anticipated price control and rationing. These he stated, have not taken place. The entire country is polluted with black markets, especially in meat, and black market conditions are not accurately reflected in the figures of the Bureau of Labor Statistics. Mr. Murray also reminded the Board members that a number of important cases are now pending before the War Labor Board which are frequently affected by this issue, involving altogether more than three million workers.

Mr. Eccles stated that the problem was inevitably created by a situation in which the available purchasing power exceeds the supply of consumer goods. This discrepancy will not be corrected by increasing wages. Rather, he stated, wage increases would accelerate the lack of balance and make the problem more difficult to solve.

Mr. Murray did not entirely disagree, but emphasized the necessity of stronger price control, more extensive rationing and adequate enforcement policies.

The Director stated that it was his firm intention to stand upon the stabilization policy of the Act of October 2; and that we must, in order to do this, hold prices and wages in line and wipe out black markets.

Mr. Wickard stated that, despite price increases, the people are now eating more beef than ever before in our history. The real problem is to obtain an adequate distribution of the existing supply; and this will probably require the licensing of slaughters and the speedy institution of consumer rationing.

Mr. Patton reminded the Board that, while workers are now consuming more in many cases than formerly, many of them also require more food in order to maintain their productive efficiency, since millions who formerly worked on WPA, or were unemployed, or worked part time, are now engaged in full time or overtime work in heavy industry.

Mr. Eccles stated that the problem of the black market is made more difficult during wintertime by the increased illicit slaughtering on the farms.

Mr. Green stated that while living costs may have risen less than food prices, the average worker and his family buy food every day and other items less frequently. Therefore, it is very difficult to convince the worker that the cost of living has not risen much more than the government indices would indicate.

There followed a general discussion of the "Little Steel Formula" with statements by Mr. Green and Mr. Murray emphasizing the necessity of preserving some flexibility in the wage structure in order to take care of man power and production problems.

4. The Director then read to the public representatives on the Board his proposed statement with reference to the rationing of shoes. After general discussion, the Board members unanimously approved the proposed rationing plan.

The Board adjourned at 1:30 to meet again at 11:00 on Friday, February 19, 1943.