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ADDRESS

THE WAR AGAINST INFLATION

By

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P. M.

I have little patience with those who tell us that the American people are not ready to meet the requirements of total war. The day when it could be said that our people were only ankle-deep in the war is long past. The American people - in the armed forces, in the factories, on the farms, in the mines, everywhere - are eager to do their part to win a people's war and a people's peace. They await only the opportunity to work, to fight and when need be to die in freedom's cause.

There is considerable, and not wholly unwarranted, optimism about our present military situation, particularly compared with what it was up to a few months ago. There is danger, however, that we may not fully appreciate the terrible stresses and strains upon our accustomed habits of living that we must be prepared to undergo during the coming year.

Our optimism will be justified only by our ability and willingness to accept the burdens and deprivations which will be required of all of us to carry through our war plans for 1943.

Those plans call for a very substantial increase in our war production over last year's record-breaking goals. They require at the same time the enlistment of additional millions into our armed forces. They contemplate, within a measurable period of time, the invasion of Europe, one of the greatest military operations ever planned in history - a military campaign, which no matter how successfully and brilliantly executed, will involve casualties such as this nation has never before endured. Supplies, in unprecedented volume, must flow constantly, and with consummate timing, over carefully guarded supply lines to the battle fronts. We must also pool our supplies with those of the experienced and well-trained troops of Britain and our other allies who will form a part of the invading armies and gladly share the burden of fighting and dying. We must continue our support of our gallant Russian allies, who, having withstood two all-out onslaughts of the Nazi's total might, are now driving the Nazis whimpering back toward a disillusioned Germany. We must send more help to our Chinese allies whose indomitable resistance constantly wears down the fighting strength of the Japanese military machine and holds for us the roads to Tokyo. We must also share our food with the peoples in free and liberated countries who are helping us to beat back our treacherous and still powerful enemies.

It will require the fullest mobilization of our manpower and our resources to carry out these war plans for 1943. It will require the wholehearted cooperation of agriculture, labor and industry to carry out these plans with the self-restraint and self-discipline necessary to avoid inflation and to preserve our system of free labor and free enterprise.

In the years before the war, we were struggling to improve the standard of living of the mass of our people. After the war is over, this struggle of man to better himself will continue. But we must face the fact that there is no way that we can hope to improve or even to sustain our customary standards of living during the coming war year. We shall be able to retain for our consumer needs at home only a fraction of our total production. Although we shall not have to endure the shame of poverty amid

plenty that we did in 1932, we shall in fact have little more goods to use or consume at home than we did at the depth of the depression. We must all prepare to adopt for the duration a spartan standard of living and to take patriotic pride in it. There is no way of giving any one group of our people a substantial additional part of the nation's goods or income without hurting all the rest of us.

Despite the rises in wages and prices which have thus far occurred, we have been able to maintain a fair balance between various producers and workers. There are inequities in the wages paid in every industry and in every factory. This has always been true. We cannot hope while fighting a total war to eliminate all the real or fancied inequalities of man. Our task is to see that the present balance does not change for the worse and that those on the lower rungs of the economic ladder are not ground down below the margin of subsistence.

In considering the ability of the wage earner to meet the increased cost of living, we cannot look simply at the basic hourly wage rates, even though such rates have risen far in excess of the increased cost of living. Men are working more than 40 hours per week. For the hours over 40, they are paid time and one-half. The average weekly earnings of all factory workers (that is, the amount the worker takes home in his pay envelope) have increased more than 50% since January 1941, and more than 60% since September 1939.

Millions formerly unemployed, or on relief and WPA, now have full-time jobs. Millions more who formerly worked two or three days per week are now earning overtime pay. Other millions who formerly worked in low-paid occupations have been trained to become skilled mechanics at higher wages. Where a year ago one pay envelope came into the home on pay day, now two and sometimes three are received. The family requires no more shelter, <sup>little</sup> more food, and <sup>little</sup> more clothes, but the income of the family is far in excess of any increase in the cost of living to the family.

Taking into account the rise of living costs - which must and shall be halted - the actual weekly purchasing power of the average industrial worker is still 36% more than it was in September, 1939.

In other words, the American industrial worker and his family today enjoy the highest purchasing power that has ever existed in this or any other country. If we preserve and protect this purchasing power, it will constitute the basis of an unparalleled prosperity for American workers in the post-war period.

Rising prices will, on the other hand, destroy this purchasing power. A frantic race between rising wages and rising prices, far from helping labor, will only ruin and degrade the worker and his family, depriving them of all the gains they have so painfully built up over the years.

The position of the farmers is equally favorable. The relation of farm costs to farm income is the most favorable ever attained in our history. Between 1939 and 1942 total costs of farm production increased by 38 per cent; and farm production increased by 20 per cent. During the same period farm prices rose on the average by 71 per cent. Since 1939



unit farm prices have increased almost as much as 5 times unit farm costs. As a result of this extremely favorable relationship of costs to prices, the net farm income after all costs in 1942, stood at the highest level in our history, one billion dollars above the peak earned during the inflationary year 1919.

In a year of total war, we cannot iron out all the inequalities in the wage structure nor remove all the imperfections, real or fancied, in the farm parity formula. Certainly it would not be in the real interest of the farmers to introduce any change in this formula which would give him a temporary and illusory advantage during the war and which would, if applied year in and year out, actually reduce parity prices to the farmer.

The Stabilization Act of October 2, 1942 contains the most significant and beneficial legislation enacted for the farmer since the Agricultural Adjustment Act. It proceeds on the principle recommended by the President in his message of September 7, 1942, that there should be "a floor under prices of farm products, in order to maintain stability in the farm market for a reasonable future time" after the war. It provides a guaranty to the farmer of 85 to 90 per cent of parity prices on basic crops during the war and for at least two crop years after the first day of January following the formal declaration of the termination of the war. That is a real effort to protect the farmer against post-war deflation. But the effort will fail if we cannot prevent runaway inflation.

Our struggle against rising prices during this war has thus far been successful as compared with World War I. October 1942 was the 38th month of the present war. In those 38 months, wholesale prices have risen 33.3 per cent. In the same period during the last war wholesale prices rose 83.5 per cent. Between August, 1939 and October, 1942, the cost of living rose 20.7 per cent; in the comparable period of the last war the cost of living went up 32.2 per cent.

The situation today in many respects is potentially more dangerous than it was during the last war. In the last war we were obliged at the peak to devote only slightly more than a quarter of our output to war, while today we are already putting nearly a half of our output into our war effort.

We must not refuse to face the very real dangers in the present situation and especially the threat of creeping inflation. Between May, 1942, when the general price ceilings were imposed, and December 15, 1942, the cost of food rose 9.1 percent, but because rents and other items did not increase so much, the cost of living rose only 3.8%. With certain foods very scarce and the price of others very high, it is natural that the average housewife should feel that the cost of living has risen even higher than these figures would indicate. But it has risen and this creeping inflation must not be allowed to continue and to nullify all the progress we have made.

Higher prices and higher wages will not bring us more food. They will not enable us to buy more canned goods or sugar, because these items are rationed. They will not enable us to buy automobiles or electric refrigerators, because these articles are not for sale. They will simply cause us to out-bid each other in grabbing for the food and goods available. They will increase our income, but the government will be forced to

recapture the excess income in higher taxes. Higher prices will not help the merchant or farmer, but they will bring hardships and suffering to widows, to old folks with fixed incomes, to the school-teachers, and to the unorganized workers in low-paid occupations. They will make unbearable the burden of the woman who has been allotted \$50 a month upon which to live while her husband or her son has gone to the front to fight and possibly die for you and me.

We must not retreat in our fight to stabilize the cost of living. The Act of Congress provided that prices <sup>wages</sup> and salaries affecting the cost of living should be stabilized and except as otherwise provided in the Act such stabilization should, so far as practicable, be on the basis of levels existing September 15, 1942. We must hold that line. We must adhere firmly to that program. There must be no further increases in wages beyond the little Steel formula except in limited and special cases to correct patently gross inequities and to rectify plainly substandard wages. Today the National War Labor Board reaffirmed this policy in its decision in the meat packers' case. There must be no further price increases unless and to the limited extent required by law to meet clearly established cost increases which cannot generally be absorbed out of profits.

We must bring under effective control all food prices. We must break up the black markets. Some of the talk about black markets is exaggerated, but by no means all. Price Administrator Brown is making a determined effort to exterminate them. <sup>He needs money but even more he needs your help.</sup> The man who helped the bootlegger in prohibition days hurt only himself. The woman who today encourages a merchant to bootleg food is hurting her loved ones, her country and herself.

To ensure the effective and uniform administration of the policies which I have announced, I have requested the National War Labor Board to make no increase in wage rates which will change existing wage policies or which affects directly or indirectly an entire industry or substantial portion thereof without prior consultation with me. And I have also requested the Price Administrator not to approve any increase in general price ceilings without first consulting me. It is my purpose to exercise all the powers granted by law to prevent any further increase in the basic and essential cost of subsistence living. I am assured by all the agencies of government concerned that I shall have in this effort their wholehearted cooperation.

This policy of holding basic prices and basic wages firmly at their present levels does not preclude the limited use of price incentives or wage incentives to increase production. But such incentive payments must not be used as an excuse for a general increase in wages or prices. We cannot hand out incentives so freely that they only cancel each other and add to our inflationary gap.

In the labor field it has been customary to pay overtime for work in excess of the normal hours. Overtime payments have been an effective aid to increased production during the war. Paying more for the same work makes for inflation. Paying more for extra work does not.

To make more effective use of our manpower during the war period the President has today signed an Executive Order establishing a minimum 48 hour work week, without affecting the workers' existing right to overtime pay. Many war industries are already working 48 hours or more a week,



but the order will compel other industries to go on a minimum 48 hour week wherever feasible. The general adoption of the 48 hour week will enable us to get more work out of our limited labor supply. While overtime payments will add to the wage bill, the addition will be largely made up by the increased production secured. And we shall thereby release manpower for the armed forces, for war industry and for the farms.

Secretary Lickard has recently introduced incentive payments into our farm program as a means of securing increased farm production. Although, the general relation of total farm costs to farm prices is extremely favorable, the farmer must incur unusually high costs in expanding the output of some crops beyond current peak level. To provide this additional output the farmer must shift from non-essential to essential war crops and must bring less fertile acreage into use. He must expand output in face of inadequate supplies of fertilizers, inadequate replacements of equipment, and inadequate manpower. Incentive payments will enable us to increase production without increasing prices.

Some people have dubbed incentive payments subsidies, thinking thereby to condemn them. I disagree. To me they seem essentially sound economically. They will increase the production of basic foodstuffs just as they have been used to increase the production of copper and other critical materials. They cannot be said to be unfair to anyone.

General and indiscriminate wage and price increases will not solve any of our real problems. They will not give us increased manpower. They will not give us increased production. They are advantageous to the groups that get them only so long as other groups can be kept from getting them. The apparent advantages obtained by the groups benefited will prove short-lived and illusory during the war and will bring retribution even on these groups when the war is over. Those who demand them are only demanding another depression.

No man hates regimentation more than I do. But I would be less than honest if I told you that the stresses and strains on our civilian economy could be met without a high degree of regimentation in our civilian as well as our military life. With the proper spirit and understanding among our people that regimentation may be largely self-regimentation. But whatever you call it, each one of us will have to take his place and play his part on our team.

When we are drafting men and youths into the armed forces at \$600 a year, we cannot let other men and women work where they please, when they please, - or allow them or persuade them to jump from one job or business to another because it pays more. No business man, no farmer and no worker has a right to look upon this war as an opportunity for personal profit.

We must all serve and I am sure that we want to serve where we are best fitted and most needed. Last week Mr. McNutt, the Chairman of the Manpower Commission took action to control the hiring of workers in critical labor shortage areas. In the future, workers may be guided to employment where they are most urgently needed. In the future, they must not leave essential employment whether in the factory or on the farm without good cause.

Last year many workers upon farms and in dairies went to industrial plants to get higher wages. They were splendid farm workers; they are in different mechanics. As we have urged men to volunteer for military service, we should urge these men to return to the farms where they are needed, even if the compensation is loss. If they refuse to go, their draft deferments should be cancelled. If some men can be drafted and sent abroad at \$50 per month, every civilian must go where he can render the greatest service, even if it means less money.

Rationing can equalize some hardships, but it cannot blot out shortages. Nobody likes complicated rationing, but it is important for all of us to remember that the purpose of rationing is not to take goods away from us, but to see that the goods we have are equitably shared. If we evade the rationing rules, we are not playing a trick on some bureaucrat. We are taking something that belongs to our neighbor or something that our boys across the sea should have. Every man who buys on the black market is stealing from his fellowman.

We in the East are forbidden to drive for pleasure not because some bureaucrat at Washington enjoys our discomfort, but because the tank cars are needed to carry fuel oil to keep our homes above 60 degrees and to protect our children from pneumonia; and because our tankers are needed to carry high-octane gas to our boys who are bombing Berlin and Bizerte. Who but the slacker could begrudge this sacrifice?

As shortages grow, shopping for the average man and woman becomes more difficult. We do not find the things we customarily buy and we don't always know what else to buy. We are all working now to devise simplified and standardized utility articles so that while we may have less fashion and variety, we shall be able to get more readily the simple things we really need.

But in this field I do not think we should rely exclusively on Government. Within the limits of war-time restrictions there is still room for manufacturers and processors to sense the need of the times and to take an active part in the development of utility articles which give the people what they need at the lowest possible price and in a form which makes the most effective use of critical foods and materials.

We cannot evade the hard and grim realities of the war. We can take pride and even pleasure in simple living - or we can grumble about our deprivations and make ourselves and those about us miserable. As fathers and brothers, wives and sisters of our fighting men let us show that we too have what it takes to win a total war for freedom.

But even if our manpower is used most effectively and our supplies husbanded most prudently, there still is inherent danger in a situation where our national consumer income is so abnormally large in relation to the goods available for consumption. There is a 16 billion dollar gap. We must tax ourselves to close that gap.

Inasmuch as the great volume of surplus consumer income is in the hands of the lower-middle income groups, a part of the additional taxation which must fall heavily on this group should take the form of post-war credits or compulsory savings. Then there will be no feeling that from a long-term standpoint we are departing from the progressive principle of taxing in accordance with ability to pay. We must not shirk from high taxation during wartime. It is one of the most effective and most practical safeguards against inflation. If we can draft a mother's only son, we should not hesitate to draft her neighbor's surplus dollars.



Corporate profits before taxes have risen to unprecedented peaks. Apart from certain loopholes in the tax system, however, the great bulk of the excess profits is turned to the government through excess profit taxes. But in the struggle to achieve stable prices and stable costs, it would be desirable to keep costs and prices down rather than to let excess profits accumulate, even though most of them are ultimately recaptured by the government. Excess profits provoke inflationary wage demands. An excess profits tax is no excuse for maintaining exorbitant prices or for saddling excessive costs on the government or on consumers.

The casualties of war are many and cruel. The greatest and most irreparable loss is of course on the battlefield. But there are also casualties on the civilian front. Families are broken up, businesses are destroyed. When many people are bearing great sorrows bravely and silently, there must be no feeling that anybody is trying to profit from the war. When heavy taxes are being imposed on those scarcely above the margin of subsistence, there should not be even the basis for a suspicion that people in the higher income brackets are not bearing their full share of the burden of the war.

We are in total war. We are fighting for a common future. For that future we must all make common sacrifices. We must go through and come out of this war strong and confident. We want, and the world needs, a powerful and prosperous America so that we may achieve an enduring peace. We do not want a return to the deflation that followed the last war, when wheat dropped from \$2.16 to \$1.03; when corn fell from \$1.52 to 52¢; when cotton declined from 35¢ to 15¢ and hogs from \$16.39 to \$7.63; when a large part of our farm lands was foreclosed; when wages fell and returning soldiers tramped the streets hunting for work, when some men went into bankruptcy and some into suicides' graves.

This time we must hold the line against inflation and deflation. This time we must win the peace for the sake of ourselves and all humanity.

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