

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date February 5, 1943

To Chairman Eccles

Subject: The Milk Situation

From Martin Krost

Attached is a memorandum dealing with the milk situation in southern California. The local situation there raises larger issues for national stabilization policy. It represents one small situation which will recur with respect to a multitude of other commodities in communities all over the country unless a strong stand is taken in favor of price stabilization now.

MK

Attachment



To: Mr. Byrnes

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carry out the adjustments in producer prices that they recognize to be necessary in order to develop a workable and integrated price structure for the country as a whole.

5. Thus OPA contemplates adjustments in producer prices (which, under the circumstances, will be upward in virtually all cases) but it is not contemplated lifting the price structure in the effort to exert a positive influence on production.

6. The main contention of Agriculture is that failure to permit price increases of the latter sort is likely to jeopardize milk production which, at best, will fall below their minimum goal of 122 billion pounds (as against about 120 billion pounds last year).

#### Comments

1. Everyone is agreed that maximum production of milk practically attainable is essential.

2. There is a limit to which a higher return to the producer will result in higher production -- it will not, for example, correct the basic difficulty that stems from manpower shortage. But it is agreed that an increased return to the producer may well be necessary and justified.

3. This being the case, incentive payments in some form are unquestionably to be preferred over price increases -- for reasons that need not, I am sure, be repeated here.

4. As in other situations, the producers of milk would prefer a higher return through higher prices. But this strikes at the very heart of the struggle to control prices. If we give way on prices first, what chance will there be to get support for constructive alternatives, such as incentive payments, wage and manpower controls, etc.? The opposition will not grow weaker, nor the struggle easier as time goes on.

5. If it were possible, by a local freeze in the Southern California region, to delay by any significant period of time the storm of protest and pressure that may well be aroused by a national freeze, I would be for it. The breathing space might permit us to get well along with Congress on authority for necessary subsidies and incentive payments and so to focus the pressure for increased returns to producers in support of such measures.

6. But OPA contends that action confined to California would only accentuate and hasten the need for action elsewhere.

7. It seems to me that the only hope is to try immediately to head up the impending fight on the right and not the wrong issue -- that is, on the constructive measures that must be taken to avert a continuing rise in the cost of living rather than on whether or not this or that price increase (much needed in the absence of constructive measures) is to be granted.

8. The Department of Agriculture should immediately formulate, for submission to Congress, specific recommendations for incentive payments and such other measures as may be required to proceed with a constructive agricultural program.

9. Is this not a situation far too broad and too basic for the Department of Agriculture or the OPA to handle alone? Would it not be desirable for the President again to present the issue to Congress and the country as to manpower, wages, distribution costs, rationing, taxes, savings -- all the basic elements involved in the effort to hold the cost of living down -- and at the same time to propose such legislation as may be needed? Let the country be emphatically reminded that only part of the people are factory workers, only part farmers, only part tradesmen, professional workers, etc.; but all are consumers and -- to say nothing of the interests of the men at the front -- all stand to lose if the cost of living is not held in check.

WRS:nk