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THE PROBLEMS OF PRICE CONTROL

11 January 1952

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Mr. Michael V. DiSalle, Director of Price Stabilization of the Economic Stabilization Agency, was born in New York City, 6 June 1908. He was educated at Georgetown University, attending the college and the school of law. He has an honorary degree from Notre Dame University. He began his practice in Toledo, Ohio, as an attorney for the Home Owners Loan Corporation. His first public office came as a member of the Ohio State Legislature in the 1930's. He was a member of the Toledo City Council since 1941 and was serving as Mayor when called to Washington to serve as Director of Price Stabilization in November 1950. Mr. DiSalle gained national recognition for his formation and sponsorship of the Toledo Labor-Management Citizens Committee, which was a major factor in insuring industrial peace in Toledo industries. The plan has been adopted by a number of cities and has been mentioned as a model for a national mediation formula. He is a past president of the Ohio State Mayor's Association and was an active leader in the United States Conference of Mayors.

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GENERAL HOLMAN: Our speaker, Mr. Michael V. DiSalle, was appointed Director of Price Stabilization of the Economic Stabilization Agency on 30 November 1950.

Since that date much progress has been made in the fight against inflation, but the fight is by no means over--nor will it be as long as a very large fraction of our productive effort must be diverted to the rearmament program. Just what this has involved and how these gains have been won is the subject of our lecture this morning.

Mr. DiSalle, we appreciate greatly your willingness to be with us today and extend to you a hearty welcome to the Industrial College.

MR. DiSALLE: General Holman and gentlemen: If this time a year ago someone wanted to make me a small bet as to whether I would be here this morning talking to you gentlemen as the Director of the Office of Price Stabilization, I would have taken it without any hesitation; I didn't expect to be here. And if I had known how long I would be here, I wouldn't have come. I came down on a very temporary basis and brought just a few persons with me, because I wanted to be more mobile.

I received an appointment by the President which said that I was to serve at his pleasure. So I wasn't very much startled just a few days afterward when the phone rang and my secretary said, "The President is on the line." Thinking back for a moment, I thought maybe his pleasure was over. But he was just trying to encourage me.

When I appeared before the Senate committee considering my confirmation, a great many Senators had already made up their minds that mandatory controls were necessary. I was perfectly open on the subject. I didn't know whether mandatory controls were necessary. I didn't know whether a program of voluntary controls would work. I wasn't so sure that selective controls might not be the answer. And so from the day of my appointment I began to make as complete a study as possible--under the pressure of time--in order to determine whether there was some avenue other than compulsory or mandatory controls.

I went into the question of voluntary controls. There was very little else to do. I was the first man in the Office of Price Stabilization. On 19 December 1950, just one week after I had been sworn in, I issued standards of voluntary compliance in an effort to try that method, as the law suggested we first should do.

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We waited after the issuance of the standards to see whether they would take hold. In the meantime we were recruiting our force.

Early in January one of the largest midwest manufacturers came to see me and laid down a list of 500 of his suppliers. He said this: "We tried to comply with your voluntary order. We rolled back our prices to 1 December. But this is what 500 of our suppliers did." I looked them over and found that of those 500 suppliers, 468 had increased their prices from 1 to 32 percent. He said: "If you allow them to do that, I don't see how you can still expect us to hold our prices." Of course, although we wanted him to hold his prices, we knew that we couldn't ask him to continue to absorb such cost increases and stay in business.

That wasn't an isolated case. We estimated at that time that 8 or 9 percent of the people of the country had adhered to the voluntary standards and the balance had increased their prices. Some increased them because they had to, because of cost increases; but some, because they felt that this was the time to get what they could while the getting was good.

Inflation had begun to take hold in earnest. From June of 1950, immediately after the Korean invasion, to January of 1951, the cost of living in the United States had risen approximately 8 percent. We were in a wage-price spiral, that could have been ruinous if some definite and drastic action had not been taken. On 26 January 1951, in spite of the fact that we had very little organization, we issued the general freeze; and from that time on we have managed in some fashion to hold down the pressures that ordinarily exist in a country that is engaged in a great defense effort.

From 15 February 1951 to date the cost of living in the United States has increased about 2.6 percent. When I say "to date" that is up to 15 November 1951 the last date for which the statistics are available.

Since the issuance of the general ceiling price regulation we have done the best we could. We have issued temporary regulations to meet specific situations in specific industries, but we have tried as fast as possible to develop more effective "tailored" regulations.

In February and March we issued basic regulations at the retail level. We issued CPR 7, which is a regulation designed to maintain margins in the dry goods area, including department stores, variety stores, mail order houses, and most specialty shops. We issued grocery regulations, control margins for distributors. Next we proceeded with wholesale regulations and with broad manufacturing regulations; then with regulations that were specifically designed for particular industries.

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Wherever it was feasible, we issued dollars-and-cents ceilings. Our present policy is to issue as many of them as possible, because people know just what they are. They have proved the best type of control.

A program of this kind is not a simple one. It is tremendously complex. We are dealing with some 4 million business concerns, producing and selling an estimated 8 to 10 million items. It has been a full-time job.

I get tremendous pleasure out of reading all the easy answers--as to what we can do and what we can't do--the editorial comments from across the country. Everybody knows exactly what ought to be done and why it should be done. For example, we are subjected to a great deal of ridicule for some actions that we take. Of course, you men in the military service know what that is; you get your share of it too.

In the general ceiling price regulation, we froze everything across the board. We just didn't have the time to make a distinction between essential and nonessential items. We have since decontrolled items used exclusively for military purposes and rely upon military purchasing practices to keep those prices from rising excessively. We have also decontrolled certain other items which are of very little importance in the cost of living. When you read in the paper about the fact that we have decontrolled French fried worms or dinosaur skeletons, and items of that kind, people say: "What is this? Why did you freeze them in the first place?" Well, there wasn't any way we could deal with them differently.

Among the problems that have caused us the most trouble have been the scarce metals, meats, cotton, and those items which are primarily imported. For example, we import 70 percent of our wool. So whatever control we impose domestically often has to be flexible. We are more or less subject to world prices; if they fluctuate, we can't impose inflexible controls, because we have no control at the basic source.

In some fields where prices had risen immoderately, we have been able to achieve some rollback after a great deal of struggle. After much difficulty we have been able to effect control of livestock and beef prices; that problem is out of the way, at least temporarily.

Other problems that we have to face are caused by the parity provisions of the Defense Production Act of 1950. That says we cannot impose controls on any agricultural commodity that is below parity. The Defense Production Act of 1951 added the so-called Capehart Amendment which says that we must reflect all cost increases that occurred from Korea to 26 July--all cost increases both direct and indirect. The Herlong Amendment, which has likewise been added, provides that we must maintain the percentage margins for distributors existing before Korea. If an item cost a dollar before Korea, and

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the retailer was operating at a 50 percent markup, we felt that if the same item should go to two dollars, a 50 percent markup would give him a greater return in dollars than he might be entitled to. We felt that we should have some flexibility in making that determination. But the law took it away from us.

In the face of difficulties that we have with imported items, the restrictive amendments that Congress passed, and the parity provisions of the act, we do the best that we can to maintain some kind of restraint.

We could help in some measure by stronger indirect controls. I can't go along with those people who agitate for indirect controls as the only means of attempting to control inflation. When they talk about indirect controls, they are talking about higher taxes, credit restrictions, and less government expenditures.

Now, on the question of higher taxes--they are not talking about higher taxes on the higher levels of income. Indeed those taxes are already rather high. They are talking about higher taxes on the lower income groups, the people who have the least purchasing power.

But the same groups that for years have been discussing the fact that higher taxes are destroying incentive and should not be imposed on business and the higher income groups certainly cannot maintain that higher taxes at the working level will not also act as a deterrent to incentive at a time when the Nation needs the productive effort of these people. I don't think it is just or equitable to expect a man to work extra hours a week and pay him overtime for that work and then take it away from him in the form of taxes, and still expect that man to have the same incentive to produce that he had before that tax was imposed. So we have a practical problem whether the working people will go along with a tax measure of that kind, or if they did go along, whether that measure would be equitable and just in view of our present circumstances. And so, although we will have some higher taxes, we simply will not get the kind of taxes that are necessary to make indirect controls effective.

Regarding the next point--the credit restrictions--certainly we should have all the credit restrictions that are possible. But today we are asking American industry to expand its productive capacity. Industry is not in a position to do it on a cash basis. The money for that expansion is going to have to come from either private or government lending sources. So in the next few years we will have not restricted credit but expanded credit in this country.

The third possibility is less government expenditures; that one is easy to answer. If we did away with all the civilian expenditures of the Government, the expenditures of the Federal Government for the

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next fiscal year still would be the highest they have ever been in peacetime, because we have embarked on a very high level of military expenditures. So we are not going to have less government spending; we are going to have more.

On the three arguments of the agitators for indirect controls we say: "Certainly we ought to get all the help we can get from indirect controls; but reliance on indirect controls alone would be destructive, because they just can't do the job at a time when we are geared to high production."

All this money is going to get into the monetary channels of the Nation. We are not going to have the goods to absorb that money. So I see inflation when we have more money bidding for limited goods. A situation like that is the pattern for the inflation that has destroyed more nations than have ever been destroyed by conquest.

The other serious situation ahead of us that the Nation is going to have to face is the question whether we will be willing as a nation to put up with these minor transitory irritations, or whether we are going to do away with the effect necessary to keep this Nation strong. Certainly there is no question about it, that if we wanted to do away with our defense expenditures, we wouldn't have any trouble with inflation; this Nation could absorb the level of ordinary government expenditures without any trouble at all.

So the real inflationary impact will come from the almost 100 billion dollars that we have available for the next fiscal year for-- defense expenditures--the carry-over from last year, the new appropriations, whatever appropriations have been made for aid to our allies, and for expansion of defense plants.

I don't know whether the people realize how serious it is. As I have gone around the country, I have come to the conclusion that they are more aware of the difficulties that face us, both domestic and international, than a great many of the government people give them credit for. But I think it is time that we joined this Nation together. We just can't have feuds between the Republicans and the Democrats, between the North and the South, the East and the West, between the Administration and Congress. We have to get together; we have to work this problem out.

During the year 1951 there were a lot of headlines about what was happening. It was a terribly confused year. But when you look back at it, you find that 1951 was a pretty good year. Our production machinery had been getting into gear. We may not have moved as fast as we would have liked in getting it into high gear. We didn't do as good a job as some people would like us to do. But a good job was done. For a year like 1951, to have possibly a 3 percent cost of living increase in 12 months is not too serious a rise. A pretty good job was done all around.

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We have had a pretty fair expansion of our military forces, when we look back. As 1952 begins we find the Nation much stronger, much better able to meet its problems, than it was at the beginning of 1951. I am sure that if we continue our pace as well as we can and increase the tempo where we can, we will find at the end of 1952 and the beginning of 1953 the Nation still stronger and better able to meet the problems that we will have to face, whatever they might be.

There isn't any question but that we can give up this job if we want to. But if we give it up, the kind of freedom that we and everybody else are enjoying would not be able to continue. If we rely on England, France, or Germany to do it--no other nation in the world can do it. Certainly no nation knows that better than we do.

Only a short time ago I visited some of the European countries in connection with an international conference at Geneva. I had the opportunity of visiting a great many of the countries in Europe. I wanted to get out and talk with a great many of the people. I came to the conclusion, which I have never seen in print anywhere--I didn't do anything really to support it, because my visit was very brief--that the best of all selling talks for the American brand of democracy was the GI. He went over there and continued to live the same kind of life as was lived in the United States. He was considerate to people. When he saw people that were hungry, he shared his food with them. He was kind to children. He gave the small and the great the same consideration. They became greatly enamored of the product of our democracy.

When I would go into a country, I was asked if I knew Jack, Joe, or Pete. Jack was from New York, Joe was from North Carolina, Pete was from California; but they thought I should know them because they were such nice fellows.

I visited a small town that my father came from; he had left it when he was about 14 years old. Although for a great many years I had looked forward to visiting that town because of the many stories he had told me about it, when I left the town, the impression I took with me was not of the buildings, the streets, and the places that my father had talked about. The impression was that of a little boy about 10 or 11 years old who had attached himself to me when I arrived and followed me around all day long. He had attached himself in the same way to an American soldier who had treated him kindly. He asked me if I knew the soldier. Of course, I didn't know him. Then he asked me questions about the United States. I told him what a great country it is and how great the opportunity here is for boys like him. He was very serious about the whole thing. The last thing I remember when I left the town was this boy, with his big eyes and his serious face. I put my hand on his head and said: "Son, I would like to see you in the United States." He turned to me and said: "God willing, sir, I will be there."

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It wasn't the voice of a boy; it was the voice of every serious man in the country. He wasn't just speaking his views; he was speaking the views of thousands and thousands of people who have come into contact with democracy. All they ever think of is seeking the same opportunity for themselves.

We have to guard this Nation's freedom. If we fall, the whole free world falls. If we destroy ourselves economically, we destroy ourselves militarily.

So we have a real responsibility, possibly one of the greatest responsibilities that any nation has faced at any time in history. I am sure that if we have the common sense to use the techniques that we have, with the resources that we have and the knowledge of the history of nations, we can do the kind of job that has to be done in order that we may continue to be the inspiration that the free world looks for.

DR. KRESS: You have all heard Mr. DiSalle on the radio and seen him on the TV screen. You know he can take care of himself in any kind of situation, so don't pull any punches.

QUESTION: Mr. DiSalle, in view of the popular resistance to control and lacking a full emergency of the Pearl Harbor type, it seems to me that some form of public education is necessary in order to condition the American people who are resisting most of these controls. Would you comment on what type of public relations program or public education program your office is interested in?

MR. DISALLE: First of all, I wouldn't agree that controls are resisted by the American people as a whole. Every poll that has been taken indicates that the vast majority of the American people feel that real controls are necessary. Of course, the people who are opposed to them are more vocal and get heard from more. It is necessary to educate them.

But you don't get very far educating some people about our ceilings. They all come in and talk to me and say I am a very reasonable person. That is the first thing they say. When they leave, they say that I have become unreasonable all of a sudden.

We have the same trouble as a great many others do so far as the public relations program is concerned, and that is the limitations that Congress places on the budget for that kind of activity. We have in the entire United States only 380 people, including clerical help, in the public information field. We have 104 offices, including the office in the Pentagon.

In our district offices we have one person handling the public information program. You can readily see how overwhelmed they are in the contacts

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with Congressmen, radio stations, TV stations, newspapers, and other information seekers with reference to the actions that we are taking daily; also how much time they have to conduct a public education program in addition to that.

But we are organizing voluntary groups, committees, in various cities, and using those committees to take over various strata within the community, to come to luncheon clubs, labor organization, business clubs--wherever they want people to explain the program.

I think that more people are going along with the program today than there were six months ago. We have over 152 million people to try to convince with 380 people. It is not an easy job, because some of the actions that we take require a lot of explanation as to why we took those actions.

It is the same as with the military program. I am sure you realize how difficult it is to sell people on the idea that information expenditures are necessary for the military program. Still the military program certainly is something that ought to be more readily explainable to people than the control program. Some people don't want any kind of control. It is just another problem and we are trying to do the best we can with it.

QUESTION: Will you explain the possible necessity of using the price subsidies that proved successful in World War II in handling that situation?

MR. DISALLE: There is a great deal of difference of opinion as to whether those subsidies were successful during World War II or not. I haven't been able to nail down exactly whether the subsidies that we had ever resulted in any benefit to the consumer. There were some kinds of differential subsidies, for example, on marginal mines, that were very successful. Also the "buy and sell" programs were subsidy programs on imported commodities. We may have to go to some of those programs. In the "buy and sell" program we would buy at the world price and bring the goods into the domestic economy at the domestic ceiling price. In the differential subsidies we would pay a premium price for the product of some submarginal producers, such as some mines that had been pretty much exhausted, where the production costs ran higher than they did in the ordinary processes.

But we have some real questions. Let us say that we have "X" Company, a copper producer, that during the year 1951 earned 200 million dollars. He owns some properties that he claims are submarginal properties. There is a question whether we should pay a subsidy to those mines for their submarginal production, or whether we might not require the producer to work those mines at a slight loss and make only 198 million dollars.

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QUESTION: You and several previous speakers have pointed out and justified the fact that the cost of living increased only about 3 percent in the last year. The inference of that is that it is inevitable that there will be a slight increase in the cost of living. Is it possible to get the thing down to a stable upper limit to which inflation can go?

MR. DiSALLE: I have my doubts whether at a time like this you can do that. For example, we import wool at an uncontrolled price. We can't expect manufacturers of wool textiles to sell below their cost. Higher import prices will have to be reflected in domestic selling prices.

That strikes everywhere. The high prices that the farmers get for their grain is reflected in the price of bread. When the worker buys the farmer's products at a high price, he expects to be paid a higher wage in order to buy it. That is just a very elementary illustration that indicates the difficulties that we have in attempting to freeze and keep things frozen, because you don't have everything under your control.

We might take an illustration in our own country of the Maine sardines. In Maine people pack about two million cases in an ordinary year. But this year they had a very poor catch. They probably won't pack over a million cases. The cost of processing that kind of a pack will be higher per case than other years. If we want those sardines on the market, we will have to make whatever adjustment is necessary in order to make allowance for the fact that their catch is so much smaller. We had the same situation in salmon off the coast of Oregon. Last year we had a lot of fruits and vegetables that were damaged in storage. We had to make an allowance to meet that additional cost of processing the damaged fruit.

So you constantly have situations of that kind arising. In ordinary times maybe producers should operate at a loss if they couldn't find a market for that product at higher prices. But these aren't ordinary times. They will find a market for their product at higher prices. There isn't a thing you can do to prevent it. We have to let them sell at prices that are fair and equitable. If we made regulations that required merchants and manufacturers to sell at a loss, they wouldn't be fair and equitable. Those are the situations that we have.

During the past year we had one month when the increase in the cost of living was only one-tenth of one percent, and one month when there was no increase. But in the fall, when fresh fruits and vegetables take their seasonal peak, and with the increase in the price of wool and the consequent increase in the price of fall apparel--those two items alone accounted for much of the increase in the cost of living. Everything else remained more or less stable. There was a 7 percent increase in apparel over the year and a 20 percent increase

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in the price of fresh fruits and vegetables, which weren't under control, because they were below parity. Those two items accounted for one-fourth of the total increase that we have had during the past year.

QUESTION: I think you intimated that one of the most inflationary pressures we have is the military expenditures. In view of that would you comment on whether you think that military buying should be under price control, whether it should have ceilings? If so, how would you do it?

MR. DISALLE: We are attempting to impose controls on military buying as well as other buying, that is, for dual-purpose items. For example, let us take silk--if a type of silk is used by the civilian economy and the military is buying it, we put on a ceiling price. Meat is handled the same way.

When it comes to strictly military items, such as tanks, it is very difficult to impose any kind of ceiling price. For the purpose of better coordinating our program with the military buying, we have now set up a committee, with a chairman from our office, to study the policies of military procurement. I have every reason to believe that this committee will do a pretty good job. On it there is representation from the Munitions Board, the National Production Administration, the Atomic Energy Commission, and our office. I think that this committee may do a very good job of getting this policy down to the point where if a situation arises where military items cannot be purchased at what we feel are reasonable levels, we will impose ceilings.

QUESTION: Another speaker came in from a nongovernment agency with some suggestion that we have an economic general staff acceptable to the civilian and the military. Would you comment on that?

MR. DISALLE: The President does have the Council of Economic Advisers. They, I think, more or less serve that function. They are charged with advising the President and the Congress on the state of the union and the economic outlook.

I don't know whether the suggestion that he made would be expandable to that kind of operation or not. But the Council of Economic Advisers does report to the President on the state of the Nation and does make recommendations pertaining to the economic outlook. I think that the results have been very good. I think the difficulty lies in attempting to translate their suggestions into affirmative action.

QUESTION: Approximately 100 billion dollars have already been allocated by the Congress for defense; and yet the full impact has not been felt, I believe. Production is supposed to reach the peak around the end of this year and then continue about two years. Do you feel that the present controls are sufficient; and, if not, what additional controls do you think we should have?

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MR. DiSALLE: I don't think the present act is strong enough to do the kind of job that has to be done in view of the impact that we face. In view of the recent amendments to the act, which reduce our effectiveness, I think the program to hold inflation requires a stronger law.

Also I think that we ought to have some sort of ceiling on parity, on the establishment of the parity price, so that it doesn't continue to escalate. A fair example is the price of hogs. Hogs were below the parity of 20 dollars a year ago. They were below the parity of 21 dollars and 50 cents eight or nine months later because of the continuing climb of parity. That makes it very difficult for us to attempt to establish ceilings at the wholesale and retail levels, as the price of the live product continues to move upward. So I think a freeze of parity would be very helpful.

I think that greater administrative flexibility, so that we would not have to recognize increases which in themselves are inflationary, would be very helpful. I think that closer coordination between the allocation authorities and the price control authorities would be extremely helpful. I believe that elimination of some of the things that the Harvard Report mentioned would help.

This present act gives us some sort of tools to work with and we will be able to do a fair kind of job, but not nearly the kind of job that might be done if we had all the tools we need.

QUESTION: Would you discuss the peacetime effectiveness of rationing as a control under the present system? I am not so much concerned with the equitable distribution of scarce goods, but to temper the pressure for price increases by holding down the demand.

MR. DiSALLE: Right at the present time that is not one of our troubles. We have ample production of both consumers' soft goods and consumers' hard goods. I don't think that rationing would be of any great assistance.

I think rationing in those areas, if we should run into a short supply, would be very helpful. But it is not a problem today.

QUESTION: If the proposed increase in the armed forces goes through, it will add almost a billion dollars a year to our pay roll. Do you think that it will have a measurable effect upon the price index?

MR. DiSALLE: That all depends on what the people do with that billion dollars.

I don't think enough stress has been placed on savings as a deterrent to inflation. If people are going to use that money to

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bid up scarce items--and some items may be scarce next year--that surely may contribute very much to inflation. I am not too worried about the short supply of consumers' durable goods, such as appliances, television, and radio, because we do have large inventories of these.

I wish I knew what the people are going to buy with that billion dollars. If they are going to take it and put it away--buy bonds with it or put in in the bank--we wouldn't care if it were two billion dollars.

QUESTION: There is eventually going to be a point where we will have reached saturation for our mobilization and defense rearmament. At that time we expect that there will be reconversion and we will reach decontrol. What planning is being done and what do you consider the point where we would reach the time when we can relax the present controls, direct as well as indirect?

MR. DISALLE: I don't know whether we should ever get rid of the indirect controls. We may not apply them, but I think they should always be there. The direct controls, I think, can be relaxed at the moment we feel that we are able to produce both for our military and civilian needs. Mr. Wilson has said that sometime in 1953 we will reach that point; that then we can relax the direct controls.

We are beginning to work on standards for decontrol. Those standards will take into consideration not only the available supply, not only the production of goods that may exist in the near future, but also what the productive facilities for those goods will be.

As a matter of fact, we are very anxious to reach the point where we can decontrol. On the other hand, even though today we have some areas that are apparently soft, like textiles, we doubt very much if we can relax overnight our effort to keep prices down. There is very little chance of decontrol at present, even though apparently the production at the moment seems to be ample and the supply seems to be ample.

After Korea, textiles, for example, took a tremendous rise. After we imposed ceilings, they fell. Although they are now 4 or 5 percent higher than before Korea, they are tremendously lower than what they were in January 1951. There has been strong pressure to decontrol in those fields, but up until now I have said "No" because I just don't know what is going to happen overnight at some places.

QUESTION: Do you think that the whole problem might be helped by reducing corporation taxes as well as reducing parity and the pressure for higher wages?

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MR. DISALLE: Well, I don't know whether reducing corporation taxes would reduce the pressure for wages. I would suppose that if you reduced corporate taxes and the earnings were even higher than they are now, the pressure for wage increases would be greater; the workers would be fighting to get a bigger share of the earnings because they are greater.

Higher corporate taxes create more pressure for higher prices. We have been able to resist that up to this point, because our earning standards are based on the earnings before taxes. Higher taxes produce pressure for increased prices in order to give the corporations larger net earnings after taxes.

I just don't think that would be very helpful in our current program. I am not sure that higher earnings wouldn't lead to greater pressures, since there would be more money available to do a good many things that ordinarily would not have to be done if those earnings were not greater.

QUESTION: I have heard criticism made that the Defense Production Act, as first enacted, gave the Administration all the power it needed to move promptly into this field; but, it didn't move very rapidly. Then, of course, the new act was passed, with its rather crippling amendments. Can you tell us what the practical difficulties were that kept the Administration from actually being very prompt in its restrictions right after the first act was passed?

MR. DISALLE: June 24 was the date when the North Koreans started their invasion. Prices began to rise immediately. It took Congress about 60 days to pass the act. In that time wholesale prices on raw commodities moved up substantially--8 percent. The Consumer Price Index went up about 3 percent.

After 8 September 1950 there was a better outlook in Korea. People generally felt that we would arrive at an end there, and prices began to level off. There was no great increase in prices during the months of September and October; there was quite a leveling off.

In November, when the Chinese Communists joined the fight in Korea, prices began to move very fast. The Administration was reluctant to get into a program of direct controls, remembering what the difficulties were with the direct control program in World War II. At that time the agitators for indirect controls had the upper hand. They felt that indirect controls--higher taxes, credit restrictions--would do the job. So evidently the Administration went along with that line of thinking. Its advisers were reluctant to get into a program of direct controls. They believed that indirect controls would do the job.

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When the Chinese intervention in Korea started the rise of prices was renewed; a great debate began in Congress between the advocates of direct controls and the advocates of indirect controls. That also added some stimulus to the upward price movement. So it was may be six or eight weeks after the Chinese intervention when we got into the program of direct controls.

In the meantime the CPI had moved up another 5 percent and the wholesale index had gone up another 9 percent, to 17 percent. Even so it was difficult to get anybody to come in on that kind of program at a time when everybody thought the North Korean campaign wouldn't last very long. I think that was the real problem at that time--the belief that the Korean action wouldn't last long to maintain the pressure.

Naturally, the economic pressures weren't great on Congress. There were no shortages of goods. There were plenty of goods available. The rising of prices was just a psychological thing at different levels. Consumers wanted to buy just because they thought there were going to be shortages and they wouldn't be able to buy later. When they bought automobiles and everything else, they did it just to make sure of getting them. The merchants in turn built up their inventories because they thought there would be shortages and things would be hard to get. The manufacturers realized that sooner or later the productive capacity would be diverted to war materiel. All this placed a great strain on the material resources. It was the combination of all these factors that had the result of pushing the prices up.

QUESTION: I think the anticipation of government regulations was a strong factor in this price movement. I would like to hear your conjecture on the practicability of removing controls today on those items where inventories are high, for instance, beef, without the threat of slapping controls on and a crippling price later on. I wonder if the ceiling prices that we have are not targets that people hold in anticipation of the removal of the crippling ceiling prices later.

MR. DISALLE: Beef is a good example. Farm prices of cattle moved up about 20 or 25 percent between June and January. Price regulations on livestock are very technical things. We didn't have the technical people. Anyway, when we froze other prices we didn't move in on the live cattle prices. There had been a substantial rise in live cattle but we were assured that there was no likelihood of their going much higher. So we did not move immediately with controls on live cattle.

From January to April the prices went up an additional 4 percent. In the meantime we had imposed controls on meat at the wholesale and retail levels. So in order to relieve the situation, we had a choice of either rolling back the live cattle prices or increasing the consumer prices. So we rolled back the live cattle prices.

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We have found that wherever it was asserted that decontrol would be productive of lower prices, it never has been carried out in fact. Every time we have decontrolled anything, the prices have gone up. What the answer to that is I don't know; but that has been our constant experience.

On the other hand so far as ceiling prices being targets is concerned, I need only to point out the case of tallow and hides. Hides moved up very fast at first. When the Army came around and wanted to buy 10 million pairs of shoes sometime in January, speculators started bidding up the price on hides; so we made a determination of what the price should be and we rolled back the price of hides about 18 percent. After we rolled back the price of hides, the speculators dropped out of the market and the hide prices dropped below our ceiling.

We have recently revised those ceilings downward, not down to the actual bottom but down to what we felt level. Hides are continuing to drop below the ceiling; I think the reason why they are dropping is because we restricted the area of speculation that had existed in the market at that time.

Tallow was the same sort of thing. Tallow, as I remember has averaged about 10 cents over the past 10 years. Early in 1951 it rose to 18 cents from the low point of 4.75 cents just before Korea. We rolled back tallow to 15 cents but the price continued to drop. We have now imposed new ceilings at about 10.5 cents on tallow. The market price was about 7.75 cents at that time. Tallow has dropped further since the imposition of these new ceilings. I think the reason here is the same--the restriction of speculation.

So in a substantial amount those items have fallen below the ceilings that were established during the early part of 1951. They haven't moved up to our ceilings as a target. We have had a little trouble with the grocery industry, because the grocers' margins are not too good, that is, their over-all margins, because they are below ceilings on many items. We have a problem different now from that in World War II; as a result of shortages, ceilings and over-all margins were maintained on all items.

No, I think as long as there is any danger, as long as there is a lot of talk about prices, as long as there is going to be a great expenditure of money on the part of the Government for military effort, we cannot take a chance in removing the ceilings in any substantial areas.

There has been quite an argument that we should remove the ceilings, the direct controls, from everything in order to encourage production. From 1941 to 1946 we lived in a controlled economy. We were at war. Today labor, manufacturers, and people generally point to the productive achievements of that period. Not only our friends but our enemies agree

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that American production had a great deal to do with the winning of the war. We produced at the highest rate as a nation that has ever been known up to that point. That was in a controlled economy.

QUESTION: Do you think we should have price control on our foreign trade and in particular on the important strategic short materials that we are buying for our stockpile?

MR. DiSALLE: We haven't had a completely effective program of price control on materials that we import. On copper we have been able to work out an agreement at 27.5 cents, but we get it domestically for 24.5 cents. The world price of copper is higher. On wool and some of the other materials that are largely imported, the best we can do is to take the imported article at its world price. We can't do too much about the price.

One solution involves more effective international allocations of materials. A joint economic staff working on the international basis could be valuable to us, because there is no sense in bidding against our allies for scarce materials. There ought to be some sort of agreement worked out on the allocation of existing materials, so that we are not cutting each other's throats and still are doing something on scarce materials in the way of keeping them from the enemy. I think such an economic staff on an international basis would be extremely helpful to our control efforts.

QUESTION: Some people in the leather industry feel that the industry representatives are not brought into the decision sufficiently beforehand in arriving at any ceiling price. What procedure do you follow in arriving at that and to what extent do you bring the industry representatives into the picture.

MR. DiSALLE: We make our surveys in our economic staff. We work out the outline of a regulation. We always have economists and business specialists working together on the regulation.

At last the regulation is brought in. We have an industry advisory committee which is selected, in accordance with the act of Congress, from large and small and medium--sized producers in this field. So we have a representative industry advisory committee to whom we submit the regulation before any action is taken.

Wherever practical, we take the industry's advice in writing the regulation. But most of the industrialists feel that they are not consulted sufficiently. When we rolled back the price on hides, they thought they weren't properly consulted about it. We talked with them for two days about that. But where we are responsible for price control, we don't think it is proper for us, when we propose to lower a price, to always take the advice: "Please don't lower my price." So we do talk with them and then we take our action based upon the best judgment that we can form.

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There are a great many cases where the industry advisory committee advances good practical reasons why the price that we are talking about is not equitable. We have made those adjustments.

We have over 500 industry advisory committees, consisting of almost 9,000 businessmen. They are consulted. You would be surprised how much consultation they have. But it is impossible to call everybody in from every industry.

DR. KRESS: Mr. DiSalle, on behalf of the students and the faculty, I thank you, sir, for a great deal of instruction.

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