THE OUTLOOK

Freeze Will Mean Squeeze

Profit margins will be cut as price system goes out of the window. Trial-and-error period is ahead for OPA and business men. WPB adopts new plant policy to speed war production.

Business entered a new era this week. When Leon Henderson formally announced price ceilings on a multitude of goods, services, and rents (page 14), an economic revolution took place. The price system gave way to government regulation of production (through WPB) and distribution (through OPA).

No longer can prices respond to the play of supply and demand. They are fixed–at the highest levels of March–effective for retailers on May 18, and for manufacturers and wholesalers on May 11.

Orders Canceled

The immediate effect of the "freeze" was to bring business men to a sudden stop, for breathcatching and stocktaking. It was like the bank holiday, back in March, 1933, when people wondered what life would be like without checking accounts. This week, business men wondered how they could carry on without a flexible price system.

Retailers, particularly, were disturbed. This was reflected in civilian goods markets. Both manufacturers and wholesalers received cancellations or holdups on orders; home offices wired department store buyers to defer commitments.

Retail Squeeze

The reason is fairly clear. Since September, 1939, retail prices have lagged behind manufacturers' and wholesalers' quotations. This is customary. Merchandisers habitually price-mark goods for current sale on the basis of previously-purchased inventories. And gradually retail prices make up any lag. But now, with all prices simultaneously frozen, retailers are squeezed.

They must replace merchandise at March prices, but they will be selling them at prices arrived at several months before on the basis of low-cost inventories (BW–Apr.11'42,p13). Hence they won't collect their normal markups. In Canada, in many cases of this type, the administration has "rolled back" wholesalers' and manufacturers' prices. OPA, however, has indicated that it will use the "roll-back" very sparingly.

Manufacturers and wholesalers also will be squeezed. Since March, wage rates have gone up; overtime has increased; and raw materials quotations have advanced. But those increased operating costs will have to be absorbed, instead of passed on. Thus the effect of the Henderson order is to cut back prices all along the line and reduce profit margins.

Like NRA Days

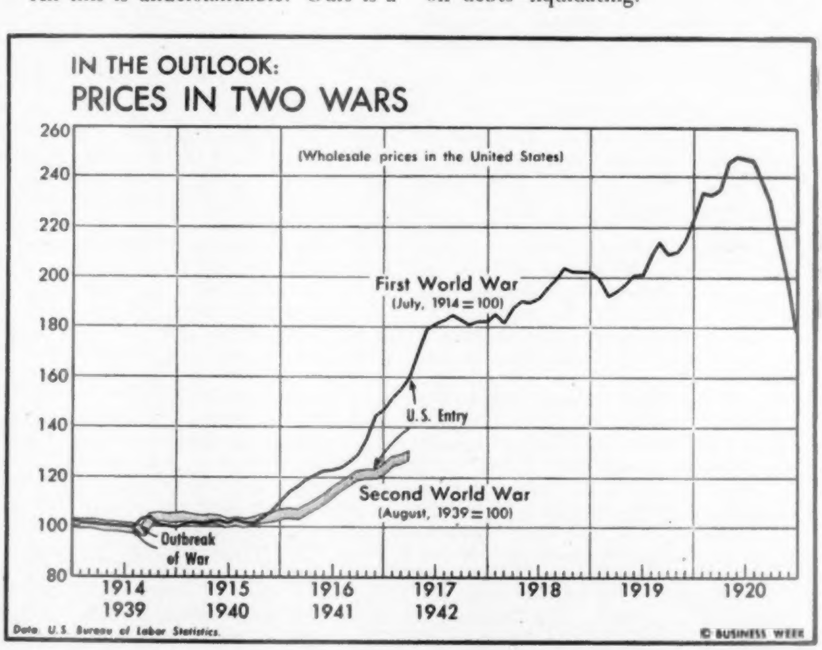
But the imposition of price ceilings is just the beginning of business troubles. Not only will profits be foreshortened, but a vast system of checking, inspecting, and policing of price structures will have to be devised; grades and standards established; methods of figuring markups on new merchandise worked out (BW–Apr.11'42,p88). Indeed, business men can be certain that OPA regulations will be issued, canceled and reissued. It will be NRA days all over again.

All this is understandable. Ours is a huge job (page 84). And Mr. Henderson and his aides will have to learn from their own–not some other country's experience. Techniques will have to be developed by trial and error, very much as the War Production Board learned that the way to control critical materials was to allocate them, not issue priorities. Moreover, on top of price control, sugar rationing starts this week. If it goes over fairly well, business men can conclude that other scarce consumer goods soon will be rationed.

Commercial Loans Drop

Meanwhile, this week WPB took a significant step. Hereafter, war-plant contracts will be confined, so far as possible, to facilities producing basic raw materials–steel, copper, aluminum, magnesium, etc.–on the theory that such materials are becoming the critical bottleneck in war expansion. Conversion will be depended on for expanding fabricating capacity.

And here's an interesting fact. For the last six weeks commercial loans have been declining. This signalizes a change in trend. What's happened is this: Retailers–especially dealers in durable consumers' goods–have not been able to replace stocks. So they've been paying off debts–liquidating.



Here is an actual lesson in inflation. During the last war, price control was not adopted in the United States until mid-1917, and then the regulation was piecemeal. Result: Prices advanced sharply, ultimately collapsing in 1920. In this war, the government has been more forehanded. A year ago, the Administration imposed ceilings on such key commodities as copper, steel, etc. Result: Prices have not risen as fast as last time.

The Price Freeze—What It Is and How It Works

The General Maximum Price Regulation, issued by the Office of Price Administration this week, is the Administration's principal weapon in the fight against inflation. In a single order Price Administrator Henderson set a ceiling on the prices of nearly all goods and services. Coupled with orders paving the way for federal control of rents in designated "Defense Areas" in 46 states, it is an attempt to freeze the cost of living as of last month.

Beginning May 18, retail prices must not exceed the highest levels charged by *the individual seller* during March.

Beginning May 11, manufacturer and wholesale prices and prices for wholesale and industrial services must not exceed the highest March levels charged *by the individual producer, processor, distributor, or service-purveyor.*

Beginning July 1, retail prices for services in connection with a commodity must not be higher than those charged during March.

Effective immediately, all retailers, wholesalers, manufacturers, and sellers of services must preserve existing records of sales made during March in order to apply the maximum prices permitted when the ceiling goes into effect.

On and after May 18, every retail store must publicly display the ceiling prices for selected "cost of living" commodities —about 100 products and groups of products—and after July 1, the retailer must have a prepared statement of the highest prices for *all* commodities or services which he delivered or supplied during March. This may be examined by anyone upon request.

Licensing Is Automatic

Licensing of all retailers and wholesalers is automatically effective as of the date the ceiling applies to their articles or services. A nationwide registration of every retail and wholesale outlet will be undertaken in the near future. Each store or business establishment will be required to register separately on forms issued by OPA. No limitation is imposed by this regulation on the opening of new outlets. Application of such control is under consideration but for the time being every new store automatically receives a license and takes its maximum prices from the nearest store of the same general type or class.

Issued in conformity with the Price Control Act this license gives OPA a basis for action against stores which refuse to conform to regulations. Machinery will be set up to afford relief where possible, but in the case of willful violators of regulations OPA may ask a court to suspend, for as long as 12 months, the license of a store. Without a license a store cannot operate.

All existing OPA price schedules and regulations issued in the past continue in full force and effect. Commodities covered by existing 60-day regulations will, upon expiration, automatically come within the general ceiling regulation unless otherwise treated by separate orders. OPA will continue to issue separate orders on products of a nature requiring special pricing treatment.

Excluded Commodities

Commodities not covered by the maximum price ceiling fall generally into three classifications:

(1) Those exempted by the provisions of the Price Control Act either (a) because they do not fall within the law's definition of a "commodity"—this excludes advertising, motion pictures, wages, common carrier and public utility rates, insurance, real estate, and professional fees—or (b) by reason of the law's special treatment of agricultural commodities, unless and until they attain a level reflecting a substantial premium over parity. OPA estimates that foodstuffs included under the general price ceiling constitute from 60% to 70% in dollar volume of the household food budget. Administrator Henderson admits, however, that this coverage at the consumption level is not sufficient to detract from the practical necessity for amendment of the Price Control Act to establish "parity" as the ceiling on farm prices, as recommended by the President (page 15). If Congress accepts this recommendation, it is Henderson's intention to set maximum prices for certain farm products.

(2) Commodities which do not have organized markets and for which it would be almost impossible to determine maximum prices, either on the basis of previous sales or prices for comparable articles. Examples are highly seasonal fresh vegetables, fresh fish and game, objects of art, stamps and coins.

(3) Primary raw materials, such as timber, coal and mineral ores, all prices for which are substantially controlled by ceilings already in effect.

Specifically listed as excepted are: any raw and unprocessed agricultural or greenhouse commodity in substantially its original state, except bananas; eggs and poultry; all milk products, including butter, cheese, condensed and evaporated milk (but not fluid milk or fluid cream sold at retail or ice cream); flour (but not packaged cake mixes and other packaged flour mixes); mutton and lamb; fresh fish and seafood and game; dried prunes, dry edible beans, leaf tobacco (whether dried or green), nuts (but not peanuts); linseed oil, linseed cake and linseed meal, mixed feed for animals, and manure; living animals, wild or domestic; books, magazines, motion pictures, periodicals, newspapers and material furnished for publication by press association or feature services; domestic ores and ore concentrates; stumpage, logs and pulp wood; stamps and coins, precious stones, antiques and knotted oriental rugs, etchings, sculptures and other objects of art; used automobiles; securities; all waste materials up to the level of the industrial consumer; zinc, lead and tin industrial residues; antimony ore and concentrates; instrument jewel bearings.

No ceilings are put on food or beverages sold for consumption on premises by hotels, restaurants, and similar establishments because the possibilities of cutting quality and quantity served are so numerous that enforcement of price ceilings would be extremely difficult. Other transactions exempted because of their individual or special nature include sales and deliveries: by a farmer of commodities grown and processed on his farm such as smoked ham, to a total of not more than $75 in any one month; by an owner of used household effects or other personal property; by a merchant, mechanic, or person rendering professional services of his used supplies or equipment not acquired by him for the purpose of sale; by a breeder, trapper or hunter of pelts or furs to a total not to exceed $75 a month. Also specifically exempt are used household or personal effects sold at bona-fide auction.

Relief for the Retailers

OPA's object in using a whole month for the pricing period was to produce as fair a maximum as possible. A shorter period might have fastened a retail-store to maximum prices at which goods were sold at bargain sales or as loss leaders. In fixing the effective date of the retail price ceiling one week after wholesalers' and manufacturers' ceiling OPA intends to give retail stores some opportunity to buy supplies at March wholesale prices before returning to March retail prices themselves. If a seller finds his maximum prices are abnormally low compared with prevailing maximum prices for the same or competing articles or services he may petition OPA for relief.

If a seller's maximum prices are in line with those of other retailers, but the retailers as a group can make little or no profit or even have to sell at a loss, they may also petition OPA for relief.

Retailers are certain to be the principal complainants because of the inevitable lag in price movements. Thus in March, a retailer may have sold a given item of merchandise at $1.00, having purchased it six months earlier at 60¢. At the same time he may in March have had to pay 70¢ for that item to replenish inventory, expecting to advance his selling price proportionately in order to preserve his 40% selling margin. Now he is stuck with the $1.00 maximum price and cannot take more than a 30% margin, unless he can obtain relief from OPA.

OPA has made it clear that that relief can only take the form of a "roll back" of prices at the manufacturing and wholesale levels. It will not permit the retail price to advance beyond $1.00, but it will attempt to get relief for the dealer, if it is justified, by forcing suppliers to reduce prices below the 70¢ level which they would be entitled to charge under the price freeze.

BUSINESS AND THE NEW WAR ECONOMY

President's anti-inflation program wins general approval, but many individual groups oppose one or another of his seven points. "Reasonableness" of profits is among the baffling items.

Few indeed were the voices raised this week in disagreement with President Roosevelt's anti-inflation program as a whole. As the Chief Executive noted in his Tuesday night broadcast, all seem to agree with every point save the one "which steps on their own individual toes." What he failed to mention was that more than one of the points can come down on a single set of toes.

Even on points such as greatly increased saving through purchase of war bonds there is some lack of unanimity. Everyone's for it, but there are many who believe it should be made compulsory sooner rather than later. On the subject of the obviously much-needed price fixing, the issuance of the order was much easier than getting the necessary compliance at the outset.

There are points on both individual and corporate income taxes that are hard to swallow. Farmer and laborer alike think they have been done in, but each is quite sure that the other got exactly what was coming to him.

Studious consideration of the President's program leads to several doubts, a few admonitions; yet this is the first over-all effort to get at the rising cost of living, and as such it's most certainly welcomed in principle.

Taxes and "Reasonable" Profits

In his tax proposals, President Roosevelt handed Congress a difficult problem in semantics. For the legislators must decide what the President means by keeping "personal and corporation profits at a reasonable rate, the word 'reasonable' being defined at a low level."

The President went on to specify that $25,000 should be the maximum individual income. This would mean that his $75,000 salary could never net him more than a third that much, and this would put him on a par with Prime Minister Churchill, who can retain only about £6,500 from his £10,000 earnings. (In Great Britain, to all practical purposes, the maximum income is $26,000 a year.)

• **And for Corporations?**—However, the President did not define what he meant by a "low level" of income for corporations. And that is bound to lead to a wrangle in Congress. In its tax proposals, the Treasury tried to put a limit on corporate incomes with a stiff graduated excess-profits tax. But there was no ceiling, based on the profits of past years.

Great problem in setting a ceiling is to get a fair, or reasonable, base. One possibility is to set a high, almost confiscatory, tax on profits above a certain amount earned in the past—say average earnings between 1936 and 1939; or the single year 1941; or the higher (or lower) of the two possibilities. In that way, each corporation would have its own ceiling; and would know exactly how far it could go in earning power.

• **Problem for Congress**—Upshot of the President's tax theories will be to prolong the debate over the Treasury tax bill now before Congress. Congress is not apt to accept the idea of a $25,000 top on individual incomes; it would play hob with personal commitments—insurance policies, debts, household establishments, etc.

And Congress is more likely to write down, instead of up, the current corporation tax plan which calls for a 24% normal tax, 31% surtax, and excess-profits taxes up to 75% (BW—Mar.7 '42,p13).

But probably the President never expected to get what he asked for. He's playing politics, to convince labor and the farmer that he really wants to freeze everything.

Fixed Prices Need Enforcement

Now that the price control order (page 14) has been made public—in substantially the form that was expected (BW—Apr.18'42,p5)—the big problem becomes one of administration. The retailers, of course, don't like the order because it failed to eliminate the so-called "squeeze" between wholesale and retail prices.

The Office of Price Administration is setting up a Retail Trade and Services Division, under Merle Fainsod, to give ear to such squawks.

Meanwhile several hundred field offices—probably around 400 or 500—will be established to deal with local flareups. When all's said and done, it's probable that a lot of manufacturer and wholesaler prices will have to be rolled back. Theoretically, the rollback need not be extensive—but wait till 1,700,000 retailers start shouting in chorus.

• **Boards by Thousands**—As for the consumer, he's supposed to air his complaints first to OPA offices, and later probably to rationing boards, of which there are now 9,000.

Thus, between retailers and consumers, the administrative machinery of OPA is bound to be immensely expanded. And its immensity will be vulnerable to the complaint of politics and favoritism. Undoubtedly foreseeing this, OPA has made its order tough—much more so than expected.

More Rationing—and Soon

Closest ally of price control is rationing. If increased consumer purchasing power is not to create a scramble for scarce goods, resulting in "black markets," then the amount of each scarce commodity to be had by every individual must be arbitrarily settled.

Vastly increased needs of many homely articles by the armed forces and for lend-lease will shortly make themselves felt in a greatly increased degree. Wool, cotton, and rayon fabrics for clothing, heavy leather for men's shoes, staple items of the kitchen like fats and oils are not yet too hard to get, but the squeeze is coming—and so is rationing on an important scale.

Labor Gets a Jolt

"I believe that stabilizing the cost of living will mean that wages in general can and should be kept at existing scales." That was the sentence in the Roosevelt message which promised to halt the advance in hourly wage rates which have climbed steadily since July, 1940 (from a national average of 66.7¢ to 80.3¢, measured by Department of Labor figures).

It also brought near-consternation into the councils of organized labor; it promised to put an end to an era of collective bargaining and union growth.

• **What the Policy Means**—If the Roosevelt policy is put into practice as it was enunciated before Congress it will wash away one powerful incentive for union membership. A union which cannot get wage increases is only half a union and can count on only half the loyalty and support of workers.

There'll be no law on wages—yet. The National War Labor Board will put the Roosevelt directive into effect in the cases which come before it, with some latitude, however.

Farm Resentment Strong

Beaten once before when he tried to hold back farm price-lifters, Roosevelt jumped into certain trouble when he returned to the farm fight in his anti-inflation message. Farm spokesmen, after saying that farm price lowering without equal checking of labor's wages was not to be thought of, said provisions of the existing Emergency Price Control Act were restraining enough.

By suggesting that prices be nailed to

parity, Roosevelt implied rejection of the four-option levels of the present price control law. These represent minima at which OPA can now roof farm products. The four, highest of which constitutes the lowest point OPA can use as a ceiling, are: 110% of parity; market price on Oct. 1, 1941; market price on Dec. 15, 1941; and the average price from mid-1919 to mid-1929.

The suggested flat 100% of parity as a limit would hurt some farm prices, merely curtail hopes of others. Most products now are limited by 110% of parity, which in their case is the highest of the four levels.

• How Crops Would Fare—Grains could climb 20% and better to reach parity. Butter, eggs, and poultry would have to quit about where they are, since they are now right close to parity. Flax would have a little room to rise, livestock would have to come down some. Cotton, now about parity, would lose no ground, but since it is one product limited by the 1919–29 average (4¢ a lb. higher than cotton parity) would lose the chance to rise that 4¢.

Imposition of Roosevelt's flat parity ceilings would just about balance out farm ingredients in the cost of living at present levels, cutting some, allowing rising-room for others. Over-all price ceilings in all fields—retail prices, wages, etc.—would stabilize parities, help hold farm prices stationary. But the indignation among farmers would be huge.

More War Bonds—or Else

Voluntary purchase of war bonds by individuals unquestionably is one of the most desirable of goals, both in financing the war and in warding off inflation. Yet not everyone will see eye-to-eye with the President as to "every dime and every dollar not vitally needed"; some people will think they need money for purposes clearly not essential.

Hence, the compulsory purchase plan which the President so far rejects remains a very live issue. Even Morgenthau's goal of 10% of national income voluntarily going into war bonds would raise a bit less than a billion a month—leaving the Treasury with the responsibility of huge open-market borrowing (perhaps $2,000,000,000) every month even if tax revenues sharply increase.

Tighter Credit Rules

Even before the President urged the discouragement of instalment sales, it was apparent that the Federal Reserve Board was hard at work whipping together an order to toughen still further its rules on credit. Heretofore the volume of small loans has not been effectively controlled, and charge accounts have been under no restraints whatever. Plugging of these loopholes is the present objective.

Business of War

Production is uppermost as U.S. Chamber of Commerce meets, but President's tax ideas and labor stand jar members.

Though the surroundings were strange—Chicago instead of Washington for the first time since 1918—the situation of the United States Chamber of Commerce convention last week was thoroughly familiar. Perennial plight of this organization, or perhaps its continuous good fortune, is that the politico-business situation always provides issues over which the membership can develop whole-hearted excitement. As the advance announcements of this year's conclave were being publicized in midwinter, national unity after Pearl Harbor had reached a new high. The skies were

When delegates to the U.S. Chamber of Commerce meeting in Chicago this week selected Eric A. Johnston of Spokane for their new president, they certainly picked a glutton for extracurricular punishment. Head of the Brown-Johnston Co., and Columbia Electric & Mfg. Co., Johnston has found time to serve in various official capacities as well as on an endless list of committees of his local chamber, the U.S. Chamber and the Manufacturers Assn. of the Inland Empire, of which he is a past president.

clear, and everything was jake. The convention's slogan was accordingly set: "Let's Get It Done."

But in the interval it became apparent to apprehensive members that unless something could be done to abort the trend, the National War Labor Board's mediation (page 71) might award maintenance of membership or a union shop to every certified local with gumption enough to work up a lusty labor dispute and hold out until its case could come up. A secondary danger, but still a danger, was that the Chamber's favorite war-finance, anti-inflation program for a sales tax and a withholding tax would wither on the vine for lack of Administration support.

• A Program Sparks—Last Monday, as the early-bird arrivals began lining up to get their convention badges, President Roosevelt's message to Congress (page 15) confirmed their worst fears. By plugging for the heaviest-ever corporation and individual income taxes and sidestepping any hint of restraint on organized labor's ambitions for union security, the President probably accounted for the extra heavy registration that swarmed into Chicago during the next two days—up 30% from the 1,700 last year.

Major interest of everyone was, of course, the successful prosecution of the war. But two big worries also pervaded everything. The union shop and wartime taxation were in the background thinking not only of the speakers who were Chamber leaders—mostly top-flight business men—but also of the corridor and cocktail-bar conversationalists among whom were Main Street merchants who constitute the national organization's rank and file. In the committee room and open session debates about these threats to the members' credos of management control and monetary stability, all danger of a tediously tranquil meeting vanished.

• Four Points of Stress—In his keynote address last Tuesday, the president of the Chamber, Albert W. Hawkes of Congoleum-Nairn, bore down upon four major topics. Of the positions he took on these subjects, none was exactly a surprise. Mr. Hawkes cautioned workers against losing their right as individuals to work without union interference; he came out strongly for a 48-hour working week before overtime premiums; he urged reduction in nonwar governmental expenditures; he warned of rocks ahead on any course guided toward excessive taxation in the upper brackets.

At last year's convention delegates were primarily interested in getting defense industries for their home towns. This year most of them had forgotten about town boosting, were thinking and talking rather in terms of the munitions output that they had already attained.

• Ahead on War Contracts—Members of the Chamber's headquarters staff, vis-

STAR INSPECTION

In Seattle where the Boeing bombers grow, Lt. Gen. William S. Knudsen last week wound up a two-month cross-country inspection trip of 170 war production plants by following the construction of a Flying Fortress, step by step. He was accompanied by Boeing's president, Philip G. Johnson.

iting with hundreds of friends among the manufacturers, report that their plants are delivering finished war goods far ahead of their contractual schedules and that plant additions which they have under construction are likewise running ahead of par. Most of them seem confident that their lead over bogey will increase rather than shrink in the coming months.

Reports from business associations confirmed this impression of progress with specific fact and figure presentations on war construction, housing, transportation, manufacturing, critical materials, vocational training, and civilian defense.

• Real Good Neighbors—Current interest in Latin-American trade was testified less by government speakers than by business men who told of good-neighborly sentiments in terms of dollars-and-cents commercial volume that they now have and think they can hold.

The armed services took over one evening and invented a new style in convention entertainment that will doubtless be used by every association able to land the act for its meeting. The Army led off with a typical soldiers' mess dinner, cooked on field stoves and served to the delegates; the Coast Guard rescued a shipwrecked sailor from the ballroom balcony; the Navy showed off—with due discretion—its secret airplane detector, and wheeled a gun crew into action complete with the firing of blank shells.

Have a Seat?

For a small consideration you can sit with those among the Wall St. mighty who haven't turned to night club singing.

A versatile follower of trends is George E. Price. A headliner in the days of vaudeville, he financed purchase of a New York Stock Exchange seat when he saw his end of the show business going under. He stuck to the exchange as senior partner of his brokerage firm until he saw it turning just about as sick as anything he'd ever seen from the footlights, and then turned to the nighteries—although still holding his control of the brokerage firm.

• Comeback at La Conga—He made his comeback in entertainment as master of ceremonies at La Conga in New York City. Last winter he song-and-danced in Miami's gay spots, then returned to Broadway as star of the La Martinique revue.

Currently, he's on the feature spot at the Mayfair Club in Boston and spends his spare time preparing a radio program for (he hopes) a cigarette company sponsor. With whatever time is left over, he tends to policy formation and decision-making at long range for his brokerage firm, George E. Price & Co.

• He's Not the Only One—Price isn't the only discouraged Wall Streeter. Actual sales of stock exchange memberships are averaging from six to eight a month, although something like one-fourth of these are interpartnership or other transfers for a nominal consideration. About 18% of the transfers represent liquidation of estates of deceased members.

Nearly one-eighth of the sellers remain around Wall Street as partners or employees of the firm with which they were associated. Almost 8% decide that they've had enough and just plain retire.

• War Calls Some—A growing percentage now are going into war work. Last year Frank Beane, of Fenner & Beane, son of the late Alpheus C. Beane, transferred his membership, retired from the firm, and went directly into the Steel Division of the Office of Production Management. Charles S. O'Neil of McClave & Co. sailed to Trinidad on a construction job. John B. Huhn saw the world—mostly Florida—with the Navy. Henry Steele Roberts stole away from dull Wall Street for a more satisfying job in New England.

Several others became subcontractors on defense jobs. One entered the musical business, another became a publisher, still another is now a shipyard executive. Fully half of those who have sold their seats, however, are still seen around Wall Street in one capacity or another.

• Taking Losses—With seats going at around $17,000, a 45-year-low, most sellers are taking losses, even though they perhaps earned a worth-while income while on the membership rolls. John W. Foster, for instance, paid $480,000 for his membership back in 1928 and sold in 1941 for less than 5¢ on the dollar. Last month Foster again became a member by purchasing a seat for $17,000.

A fortunate few sold out at the high prices of 10 to 15 years ago and now are buying back their seats at a considerable saving. Bond McEnany & Co., for instance, sold their membership eight years ago, stayed in business as a cotton firm, and recently repurchased.

• Handsome Turns—The securities firm of Strandberg, McGreevy & Co. of Kansas City in 1915 bought a Big Board seat for $60,000. Partner Milton C. McGreevy took over the membership in 1929 and sold it a year later for $465,000 when his firm, then McGreevy & Co., merged with Harris, Upham & Co. Last year McGreevy's son bought a membership for $27,000.

Another handsome turn was completed by Francis S. Page, who bought a seat in 1912 for $59,000 and sold it in 1930 for $467,000 plus $109,000 for a right to the one-fourth seat dividend in a one-for-every-four splitup. He bought in again and now is an independent operator who winters in Florida and summers in New York. Some of the pur-

THE TREND

PUTTING THE FREEZE IN PERSPECTIVE

President Roosevelt has taken the big plunge—toward control of the nation's price structure. But he did not go all the way and adopt the Bernard M. Baruch formula: Freeze all prices and wages at once, and then police them. Such a forthright program would not set well with the farm block or labor-leaning congressmen. So, in drawing up his price plan, the President mixed politics with his economics.

Instead of demanding outright freezing of agricultural prices, Mr. Roosevelt merely asked Congress for legislation to permit placing ceilings on agricultural commodities when they reach parity. That means that farm prices are still fluid—they still can move. And if the goods the farmer customarily buys go up in price, then farm prices likewise can go up. As for wages, the President declared it to be the policy of the government to keep them "stabilized;" but he left the execution of that policy to the National Labor Relations Board. He has yet to issue a formal directive: Keep wages where they are.

• **The net result** is that two major sectors of our economy —farm prices and wage rates—can still exert an upward pressure on the general price structure, despite Mr. Henderson's over-all ceilings. And that spells trouble. If wages go up, then costs all along the line will go up, and manufacturers, wholesalers, and retailers in self-protection will want to boost prices. Similarly, if farm prices advance, they will push up foodstuff prices all along the line. Thus, the Roosevelt plan—underneath—has explosive possibilities.

That, however, does not mean that the plan won't work. But it does impose a tremendous burden upon the Office of Price Administration. For, indirectly, it becomes the responsibility of Mr. Henderson to keep workers from demanding higher wages and to see that farm parity levels do not rise.

• **Consider the ingenious construction** of the Roosevelt-Henderson scheme of price control. Theoretically, wages are free: workers can appeal to the Labor Board for increased rates. Theoretically, too, farm prices are free: they can go up if the cost of goods the farmer buys advances. Yet, if Mr. Henderson is able—by careful policing of the overall price structure—to keep the general cost of living down, then workers will not be able to argue before the Labor Board that increased living costs justify wage boosts. Nor will farm parity prices rise either.

That, then, is the economic strategy that politics forced upon the President: You prevent the cost of living from rising, and thereby, indirectly, you freeze the wage and farm-price structure. And that explains why, in his price order, Henderson laid so much stress on "cost of living commodities." Their retail price ceilings must be plainly visible to the public, so that housewives can readily determine which stores offer the best buys. Such comparisons, in a competitive market, may tend to exert a down-pull on prices, which is precisely what Mr. Henderson is aiming at.

However, it is well to note that this ingenious cost-of-living price-control scheme is only part of a broad attack on inflation. Remember this: The war effort creates a tremendous amount of purchasing power. At the same time it cuts down the production of civilian goods. That builds up an almost overpowering demand for merchandise that isn't there. And excess purchasing power—the "hot money" of wartime—burns holes in consumers' pockets. But as yet, President Roosevelt has offered no formal plan to siphon this excess purchasing power off the market. Consumer abstinence is left on a voluntary-savings, or catch-as-catch-can, basis (BW—Mar.18'42,p84).

• **And that toughens** Henderson's task. What is quite apt to happen is this: As supplies of merchandise gradually run out, some manufacturers, wholesalers, and retailers will try to hoard what they have in stock. They'll have to be "induced" to sell. So hidden bonuses will creep into the price structure; and these bonuses will be "passed along" to the ultimate consumer in the form of concealed price rises. In effect, an economic tug-of-war will take place. On the one side, the posting of price ceilings tends to pull prices down; but on the other side "hot money" tends to pull prices up.

That tug-of-war has occurred in every country that has ever attempted price control, as individual cupidity for goods inevitably spills over into "black markets." Despite awesome penalties, illegal markets exist in Germany, Italy, and Japan. And it is only realistic to recognize the probability that black markets will spring up in the United States, where the policing job is the vastest ever undertaken anywhere. For in this country we have, by all odds, the greatest supply of consumer goods in the world, hence the greatest number of items to be "ceilinged" and watched.

• **All of which suggests** that the Office of Price Administration may develop into the most important agency of economic control in the country—more important even than the War Production Board. But it also suggests that ultimately, to relieve the pressure on Henderson, the President will have to tackle the "hot money" problem with a systematic forced-savings program.

In the meantime, the business man will do well to keep a close weather eye on the cost-of-living index. For it is the basic indicator of whether wages and farm prices can be kept under control, whether the Roosevelt price-freeze program can be made to work.

The Editors of Business Week