

DEFENSE PRODUCTION ACT AMENDMENTS OF 1951

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

RECOMMENDING

CERTAIN CHANGES IN THE DEFENSE PRODUCTION ACT OF 1951

AUGUST 23 (legislative day, August 1), 1951.—Read; referred to the Committee on Banking and Currency and ordered to be printed

To the Congress of the United States:

On July 31, when I signed S. 1717, the Defense Production Act Amendments of 1951, I stated that, after the executive agencies had studied this law carefully, I would submit to the Congress recommendations to revise and strengthen it.

S. 1717 was passed by the Congress on July 30. This gave me only 1 day in which to act. Had I disapproved the measure, all production controls, as well as price, wage, rent, and credit controls, would have expired at midnight, July 31.

The dangers in the international situation made it unsafe to permit any interruption in our mobilization program. It would be gambling with the security of the Nation to delay rearmament for any reason. These imperative considerations left me no choice but to sign the act, despite the grave weaknesses in some of its provisions, particularly those relating to price control.

As I pointed out at that time, these weaknesses may well have most serious consequences for the people of this country and for all free peoples everywhere.

Economic preparedness is just as vital as military preparedness to the security of the Nation and the defense of freedom. The dangers of economic unpreparedness should be just as clear to us as are the dangers of military unpreparedness.

We cannot have military strength without economic strength. We cannot rearm if our economy is ravaged by inflation.

The price of a pound of meat, the buying power of the wages of our workers, the stability of agriculture, the soundness of our currency—

these things can decide the success or failure of the whole mobilization program.

If we can hold down the prices of the things we have to buy, and maintain the purchasing power of the American dollar, we can carry out this vast defense effort and make our country secure.

But if we encourage prices to rise, if we allow the value of our dollar to be eaten away by inflation, then we will jeopardize our whole program of defense.

If we did that, our tax dollars would not buy enough guns and armament. The wages of our workers and the incomes of our farmers would not enable them to keep up with the rising cost of living. How then could we expect them to work harder and longer to produce the things we need?

They would see our defense program made into a spectacle of unequal burdens and unfair rewards—enrichment and profiteering for the few, economic hardship and misery for the many. Such unfairness would breed resentment, distrust, and lack of faith among our people, sapping the strength of our democracy.

We must not let that happen.

Throughout the world, free nations look to us for strength and leadership in the united effort for security and peace. The joining of our strength with theirs has provided the rallying point for freedom everywhere. This unity of effort is the only hope for stopping Communist expansionism and aggression. Its effectiveness has already been proved.

But inflation threatens this whole effort. Inflation would hurt our own defense program which is the keystone of the defense of the free world. Furthermore, it would injure the efforts of our allies to build up their strength for our common defense. In the end, it could bring on the kind of economic collapse that would give the Communists a cheap and easy victory over the free nations.

With the stakes so high we cannot gamble with legislation that raises prices and invites inflation.

The Congress recognized this last year in passing the original Defense Production Act. The need to be fully prepared, economically as well as militarily, prompted the Eighty-first Congress a year ago to include price controls in the act.

The powers granted in that act were generally sufficient to do the job. After the Chinese Communist aggression occurred in November and brought on a new wave of panic buying, it was these powers which enabled us to meet and check the price spiral that followed. As soon as a skeleton staff had been organized by the stabilization agencies, the Government used these powers to impose a general price-wage freeze.

This was successful. Following the price-wage freeze of January 26, prices generally leveled off and some even turned downward.

Since the imposition of controls, the rise in the cost of living has been held to less than 1 percent. Wholesale prices today are below the level of last January.

But this does not mean that the inflationary danger is past. Quite the contrary. The greatest danger of high prices is ahead, and we need stronger, not weaker, laws to control it.

Our spending for national security is now at an annual rate of about \$40 billion. A year from now it will be at an annual rate of

more than \$60 billion. This will mean that 20 percent of our national production will be devoted to security purposes. As this process continues, present inventories of consumer goods will dwindle, and defense demands will keep them from being fully replenished. Incomes will be increased by defense work. There will be more money and less goods. Unless our controls are strong, prices will rise sharply.

Furthermore, depending upon international events, we face the possibility, at any time, of other waves of panic buying—like those last summer and fall—which would create new pressures on prices.

It was with these prospects in mind that I submitted to the Congress on April 26 a series of recommendations to strengthen the law. However, instead of strengthening the law, the Congress turned in the opposite direction and impaired the Government's ability to prevent inflation. It amended the Defense Production Act to require higher price ceilings.

The stabilization agencies cannot at this time estimate the total cost of the price boosts which the new law may require—the total ransom consumers will have to pay to this induced inflation. The cost may well be huge—billions and billions of dollars. The tragedy is that it is so unnecessary.

Action should be taken now to change the new law to prevent needless price increases. I urge the Congress not to wait until irreparable damage has been done to our economy. It should act promptly to take out of the act the new amendments that unnecessarily raise price ceilings.

There are three amendments which are the worst provisions of the new law. If allowed to stand, they will do the greatest damage to our price controls and create the most hardship for our people. I urge the Congress to reconsider and repeal them.

The first of these is the Capehart amendment.

This amendment permits individual sellers to pass on to consumers all cost increases in the 13 months since Korea, whether or not there is any justification for the higher prices.

The Capehart amendment saddles the consumers of America with a promissory note of higher prices payable to business on demand. And business can choose its own time to present this demand note to a helpless public.

The amendment is unnecessary. Under the previous law, there was ample provision for price relief to sellers who legitimately needed it. The fact that this amendment was not needed is amply demonstrated by the remarkable level of business profits during the last few months.

The Capehart amendment is an economic booby trap. If it had simply and openly provided a straight across-the-board increase in ceiling prices, the damage to price control would have been clear and clean. But the delayed action fuzes in this amendment make it all the more insidious and all the more dangerous because these fuzes are set to explode at the very moment when they will do the most damage—when inflationary pressures become most acute.

The amendment will make price control regulations more complicated and endanger the development of dollars-and-cents ceilings which are so helpful both to business and to the consumer—and so important to effective enforcement of controls. The Office of Price Stabilization had been planning to speed up the issuance of dollars-

and-cents ceilings posted for everyone to see. This program will now be greatly hampered, and in many cases probably made impossible.

It is also clear that the Capehart amendment will shift more of the burden of our defense program to the shoulders of those least able to bear it. All along the line, under the Capehart amendment, business is protected. Business is told that it need not absorb rising costs. But no such assurance is extended to the consumer, the wage earner, and the people living on pensions and other fixed incomes. They stand at the end of the line, and the effect of the Capehart amendment is to take all rising costs—the cost of materials, of labor, overhead, advertising, corporate salaries—everything—out of their pockets. Some of these people may be able to get belated increases in their incomes, but others have no hope of this, and all of them will suffer.

The direct price-raising effects of this amendment are by no means the whole story. Equally serious are the enormous administrative and accounting burdens which this amendment imposes on both Government and business. The amendment may create a tremendous burden of individual price adjustments for the stabilization agencies to handle. The making of these adjustments will be particularly complex because it will require cost data which most business concerns are not equipped to supply, except on the basis of arbitrary guesses. The result will be to discriminate against small businesses which do not have the accounting staffs to compile the complex cost figures required by the amendment.

I cannot believe that the Congress was aware of the difficulties it was imposing on the whole business community—not to speak of the consumer or the Government—by its approval of this provision.

The second of the three amendments which do the most damage is the Herlong amendment, guaranteeing pre-Korean percentage mark-ups for distributors.

Under the guise of giving wholesalers and retailers their customary percentage mark-ups on the things they sell, this amendment invites America's 2 million distributors to become commission salesmen for inflation. It offers them a percentage stake in every price increase.

The Congress knows full well the bad effects of the cost-plus-a-percentage-of-cost principle in procurement contracts, and that is why it has limited such types of contracts to very exceptional circumstances. But here in the Herlong amendment we have a full-blown cost-plus system applied to everything that the consumer buys.

The maintenance of percentage margins in this fashion is not needed to assure the distributor a fair deal under price control. What is needed—and what the stabilization agencies were providing—is a proper recognition of increases in distributors' operating costs. But there is no reason why distributors should be allowed to make wind-fall commissions to cover increased operating costs that do not actually occur. There is no justification for compulsory universal application of customary percentage margins, which is what the new law requires.

Compulsory use of percentage mark-ups simply means that price increases at the manufacturing and processing levels are pyramided before they get to the consumer level. And since the new law, through the Capehart amendment, assures price increases at the producer level, the consumer has been caught between the hammer of the Capehart increases and the anvil of the Herlong increases.

It is not only the consumers in the cities who will be hurt by this. Farmers will feel this squeeze, too.

In the initial stages of inflation, the farmer appears to be helped by rising prices. But this is largely an illusion.

Industrial prices tend to rise right along with farm prices and to keep on rising after farm prices level off. Because of the sharp increases in prices paid by farmers for goods used on the farm, the current purchasing power of farmers' net incomes is actually 14 percent less than it was in 1947. Processors' and handlers' margins on food products have been rising. Although consumers' prices were fairly steady during the months from February to June, the farmer's share of the consumer's food dollar fell by 4 percent while the share going to processors and handlers rose by 4 percent. This trend is certain to be magnified by the operation of the Capehart and Herlong amendments.

The third provision of the new law which will do great damage to our price controls is the Butler-Hope amendment, prohibiting slaughter quotas.

Regardless of the reasons which prompted its enactment, this amendment does what Congress certainly had no intention of doing—it puts the black marketeer back in the meat business. And it makes him harder to catch.

This amendment knocked out the quota system which had previously been in effect on livestock slaughtering. Under the previous system, every legitimate slaughterer—large or small—was assured his fair share of all the livestock sent to market by the farmers and ranchers of America.

Quotas are a form of allocation, similar to our present system for allocating minerals, metals, and other scarce commodities during the emergency.

Imagine the chaos in our economy if those materials were not under allocation right now. Yet, that is exactly what will happen in the meat industry without a quota system.

Without quotas, the scramble for scarce supplies increases the pressures to violate ceiling prices. The black marketeer, who cares nothing about ceiling prices, finds it much easier to muscle in on the business of his legitimate competitor. This unrestricted competition for limited supplies inevitably boosts prices, and is likely to make it impossible to have any successful control of meat prices for consumers.

These three amendments, taken together, spell a real and unnecessary increase in the cost of living. Our people have demonstrated that they are ready to make every sacrifice necessary to defend our freedom and our way of life. But no one has a right to force them to make sacrifices that are unnecessary. Higher prices for food and clothing, and for many other day-to-day needs of the family, are unnecessary sacrifices which may be imposed on the American people by this law.

I am well aware that the Congress has recently completed long and intensive study of these price-control issues. I appreciate the hard work that was done in committee and on the floor in trying to meet these issues seriously and sincerely. I know that many other weakening amendments were rejected by the Congress. But even so, we cannot afford to overlook the urgent problems that these three amendments have created for the economic stability of the country.

Bills have already been introduced in the Congress to restore the power to fix slaughter quotas which was taken away by the Butler-Hope amendment. I urge the Congress to act quickly on these bills and also to repeal the Capehart and Herlong amendments as promptly as possible.

Pending corrective action by the Congress, the stabilization agencies will, of course, administer the law as fairly and effectively as possible, despite the difficulties created by these amendments. I have instructed the agencies to do the best they can to minimize the many operating problems these amendments create and to preserve the structure of price control from administrative collapse.

I must point out in this connection the importance of adequate appropriations for the administration of our stabilization program. The House of Representatives has recently slashed appropriations for the stabilization agencies—as well as for the defense production agencies. These cuts are a serious blow to our economic controls and our whole defense effort.

If they remain in effect, they will be every bit as damaging to defense production and to stabilization as the amendments weakening the Defense Production Act.

I ask the Congress to restore these appropriation requests.

The steps I have requested are the most important actions which the Congress can now take in support of our stabilization program. In addition, as soon as time permits, it is my hope that the Congress will review and reconsider those other amendments to the new law which weaken our price and credit and production controls. At the same time, I hope the Congress will take up once again those of my recommendations for strengthening the Defense Production Act, which were not incorporated in the law just passed. Among other things, the lack of authority for the Government to build defense plants where necessary is becoming an increasingly pressing problem.

I also ask the Congress to repeal promptly the provision of the act which places new restrictions on our imports of fats and oils and dairy products. These restrictions are unnecessary for the protection of domestic producers, who are amply safeguarded under other laws, and they run counter to our national policy of reciprocal trade agreements.

I ask the Congress to approach the task of revising our stabilization laws with the basic intent of bringing those laws into line with the spirit of our democracy. Too often the price-control law is discussed as though its purpose were just to protect businessmen or farmers or labor unions from any harm. That is not the case.

The essential purpose of the price-control law is to protect all our people from the disaster of higher and higher prices. It is consumers—housewives, old people, children, pensioned veterans—that we should keep uppermost in our minds when we write price-control laws. We can and should be fair to those who produce—but they are naturally in a strong position in a period of inflation. It is the millions and millions of families living on fixed and limited incomes who need protection most. They are the ones who suffer most when prices go up and up and up.

I hope the Congress will act decisively, and with these considerations in mind, to meet the inflationary danger that faces our Nation.

HARRY S. TRUMAN.

THE WHITE HOUSE, August 23, 1951.