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PRENTISS BROWN'S STATEMENT

Washington, June 15--Statement of Price Administrator Prentiss M. Brown in opening two-day wholesale and retail food industry meeting at Hotel Washington.

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Gentlemen, let me express to you at the very outset my deep appreciation for your being here. The Office of Price Administration is embarked upon a completely new program of food price control, a program to replace one which you and I both know is badly in need of revision. This new program must work. If it fails, if the price of foods, the basic element in the budget of every family, is not effectively stabilized, then the stabilization program as a whole must collapse and we shall suffer a major defeat on the home front. This defeat, I need not remind you, will make difficult the winning of the war. It will make impossible the winning of the peace, for it will leave our economy shattered and helpless.

I repeat, this program must work. I am confident that with your help it can and it will work. Together, working shoulder to shoulder, we can do the job.

It was a little over a year ago that the President announced his 7-point program to stabilize the American economy. The Office of Price Administration, under that National Economic Program, was directed to hold the line on retail prices and the cost of living. With your collaboration, the general maximum price regulation was written and issued. That regulation is a landmark in our fight to control inflation. Had it not been issued, the cost of living would have risen, not the 10 per cent it had increased since May, 1942, but 10 times 10 per cent. For in the spring of 1942 the pressures upon the economy had grown to dimensions we had never before known, and we were confronted, not with the threat, but with the certainty of galloping inflation unless prompt and vigorous action were taken. In the general maximum price regulation we took that prompt and vigorous action and we stopped the sweep toward uncontrolled inflation. That, I am confident, will be the verdict of history.

We did not, however, succeed in stabilizing the cost of living, and this for four reasons.

First, the tax and savings program failed to siphon off a sufficient proportion of excess purchasing power.

Second, Because of lack of jurisdiction, the War Labor Board was unable to stabilize wages, before last October 2.

Third, because of inadequate powers to control farm prices, costs to food processors continued to increase, forcing upward adjustment in their prices.

Fourth, because of inadequate use of subsidies which might have been employed to meet the pressure of rising costs, it was impossible to avoid upward adjustment of retail prices and the cost of living.

Indeed, these gaps in our controls were far more damaging than the increases in ceiling prices themselves would indicate. These gaps were responsible for the growing complexity and unworkability of our entire program to control food prices, as a result of which prices have run considerably above ceiling levels. The general maximum price regulation itself was a simple regulation. In effect, it said to the seller, "You may not charge a higher price than you charged in March, 1942." Every time, however, that a price had to be increased to afford relief to a seller, a new regulation had to be written or an old one had to be amended. In providing relief to sellers, we were obliged to multiply the number of regulations under which the trade operated. In consequence, the simplicity and understandability of the controls steadily diminished. In a recent survey we found that food prices at retail were on the average 5 per cent above the levels established by our regulations. This, I am sure, was not a reflection on the patriotism and honesty of the trade as a whole. It stemmed in great part from the complexity of the regulations. When the history of this period is written, it will be recorded that it was the retailers of the country who held back the forces of inflation while the instruments of stabilization were being forged and full understanding of their use was being developed.

Today our position is far different from what it was a year ago. We have powers we did not have at that time. We have the know-how we did not have then, and we propose to use that, too. We have all learned the hard way that we cannot stabilize costs and that we cannot stabilize costs unless we stabilize prices. We have

been directed to hold the line. We shall hold it. The food price program we are developing is a hold-the-line program.

For many months, as you know, our thinking ran in terms of substituting a margin control technique for price freezes. This thinking was based on the fact costs were not being firmly held and that distributors were being squeezed by the pressure of rising costs against fixed price ceilings. We were fully aware, of course, of the dangers of margin control. First, we knew that margin control invites the seller to seek out the highest-cost supplier, since the higher the cost, the higher are the dollar margins. We knew that this would mean that sellers would reach out to suppliers at greater and greater distances, scrambling the smooth flow of supplies through the channels of distribution and imposing great and unnecessary burdens on an over-worked transportation system.

Second, we knew that margin control would eliminate a powerful factor making for enforcement of price control. So long as a seller is himself subject to a fixed price ceiling, the protection of his own position will induce him to examine carefully the price charged him by his supplier. In my judgement, the trade itself, each seller watching his supplier, has enforced our regulations to date far more than we have. Finally, we knew that margin control would eliminate any possible assistance from consumers themselves in securing compliance without retail price control, for the consumer would have no way of knowing what the legal price was. This would place a crushing burden upon our enforcement staff, a burden which they could not carry nonetheless, so long as it appeared that costs of goods would continue to increase, we felt it necessary to protect the distributive trades through the substitution of margin control for our freeze regulations.

The executive order of April 8, the hold-the-line order, has changed the picture radically. The Administration is determined, inflexibly determined, to stabilize wages and the cost of living. It must be recognized, of course, that there will be some prices and some costs which it will be impossible to hold, if production is not to be impaired. Where such price and cost increases are unavoidable, the Administration is determined to protect the cost of living and the wage

structure through the judicious use of Government subsidies. In the light of the hold-the-line order, the substitution of margin control for the direct fixings of prices themselves is no longer necessary. Indeed, it is wholly inconsistent with the hold-the-line policy. Accordingly, we have abandoned all thought of such substitution.

The heart of our food price control program now is the establishment of community dollars-and-cents prices for every important element in the consumer's food budget. This is the simplest and most effective type of price control we can possibly devise. There will be no doubt in the mind of either buyer or seller as to what the ceiling price is.

In establishing these prices, we have classified retail and wholesale establishments and set a different price for each class. These differences in prices reflect not only the differences in the cost of doing business but the historical pricing practice of the trade. The decision to establish different prices for different classes of distributors was made only after the most careful consideration. We were faced with a difficult choice. If uniform prices between sellers were to be established, this required either that the prices of the small and higher cost independents be brought down toward the level of the chains or that the prices of the chains be raised to the level of the independents. If we took the former course, this meant putting large numbers of independents out of business. This was unthinkable. If we chose the latter course, it meant a substantial increase in the cost of living and a very great increase in the profits of chain distributors. In time of war, this would be intolerable. The only course was to adhere to normal business practice and to maintain the price differences which have always existed.

I have heard the fear expressed that the publication of these price differences will place the independent at a competitive disadvantage. I do not share that fear. The difference in prices charged by large and small distributors has been no secret. For years it has been advertised daily in the press and over the air. Nonetheless, small distributors have continued to do business. There are many reasons for this,

the most important of which are the convenience of location and the personal relationship between retailer and housewife.

Since the outbreak of war, these factors have assumed even greater importance. Difficulties of transportation encourage shopping in the neighborhood stores and scarcity of goods places a premium on the personal relationship between the independent retailer and his customers. The growing importance of these factors is reflected in the marked increase in the proportion of food sales by independent stores. This proportion, the department of Commerce reports, was 66.5 per cent in the first quarter of this year as compared with 60 per cent in the first quarter a year ago. Our minds are not closed on this issue, however, and if this trend should for any reason be reversed, the office will take appropriate steps to preserve the position of the small retailer.

Fear has also been expressed that the margins provided retailers and wholesalers under the dollars-and-cents ceilings are inadequate to preserve a healthy distributive system. I do not believe that this is true. Dollar margins over replacement costs for food distributors stood in March of this year 25 per cent above the average for the period 1935-39 and 13 per cent above the average for 1942. Percentage mark-ups over replacement costs were somewhat lower than in pre-war years, but a decline of percentage mark-ups has always been associated with a rise in the volume of business done.

The volume of business has increased very substantially in recent years. Total sales of retail food stores amounted to \$15.8 billions in 1942, 55 per cent above 1939 and 25 per cent above 1941. Continuation of the upward trend is indicated by reports on the first quarter of 1943, which show sales running 21.5 per cent above the first quarter of 1942.

The rise in dollar margins, together with the expansion of the volume of business, has resulted in record-breaking profits. Profits in 1942 before taxes for the large food chains stood 156 per cent above the level of 1939. Over the same period, profits of incorporated food wholesalers showed an even greater increase. While

specific profit data on the independent food establishments are not published, the net income of proprietors /individuals and partnerships/ in retail trade as a whole is estimated to have increased 64 per cent between 1936-39 and 1942.

The health and financial soundness of distribution is reflected also in Dun's insolvency index /the number of failures per 10,000 enterprises/. This index reached a low of 22.3 in February of this year, as compared with 50.1 in February of 1941 and 62.0 in February of 1942. Business failures at the present time are at the lowest level in half a century. To be sure, we have not yet had experience under the dollars-and-cents ceilings. It may turn out that the margins of distributors have been squeezed. I give you my assurance that we shall watch the situation for developments in this respect and that if they appear we shall move promptly to provide relief.

Now, in an operation of this magnitude, there must of course be numerous instances in which the prices and the margins established are inappropriate. Some of these situations we know. Others you will bring to our attention. With your help, I am confident that we can provide fair and equitable prices throughout the system, while still holding the line. I should be less than frank, however, if I did not say that you will be called upon to make sacrifices despite all the adjustments that can and will be made. This is war, and this is what we must expect--all of us.

The community dollars-and-cents price program will be pushed with the utmost vigor with regard to both the number of commodities and the number of communities covered. Nonetheless, it will never be possible to include all commodities and all communities in the program. For the commodities and the areas which will not be included, it is necessary to provide a simple and understandable price regulation to replace the present structure of regulations. Accordingly, we propose to issue a single regulation to cover all food sales not included under the community price program. This regulation will specify the margins which the trade is to use in computing ceiling prices. Once these prices have been computed, they will stand until such time as the Office, by regulation, changes the processor's price. This

regulation is designed to fix prices, not to control them through margins. It is out of the question today to consider any technique which would open up price ceilings to continual recalculation. The reasons for this I have already put before you. In view of the hold-the-line order, the principle is not open to discussion. On all other aspects of the regulation, including the margins themselves--indeed, on the other aspects of our entire food price program--we very much need and want your help.

Gentlemen, the lines of national policy have been laid down by the Congress and the President. It is my task to translate that policy into performance. It is a task of enormous difficulty and complexity. I know how serious will be the consequences of blundering action. I cannot do my job at all without the benefit of your knowledge and your experience. I cannot do it well without your help and collaboration. I know I can count on you.