From Priorities to Rationing

By FRANK CHODOROV

The day after New Year's the newspapers headlined an ominous report of the Federal Reserve System. It was ominous in both its timing and its content. It was obviously intended to reach Congressmen before they convened, and was a warning against inflation.

The concern of member banks is indicated by the broad program of legislation which the report holds essential to a sound fiscal policy in the defense drive. It suggests ending the President's authority to devaluate the dollar, and the Treasury's power to issue greenbacks, and money based on silver; it advocates selling government securities to individuals and corporations rather than to banks which must unload them; it asks for a larger debt limit; it calls for tax increases to meet defense outlays. The burden of all these suggestions is merely this: beware of inflation.

Just how inflation is inherent in a war economy, how it comes about, what preventive methods are resorted to, what social consequences follow this disruption of our financial system, are not matters of conjecture. The world has experienced the process in recent years so often and so vividly that its general pattern is definitely known.

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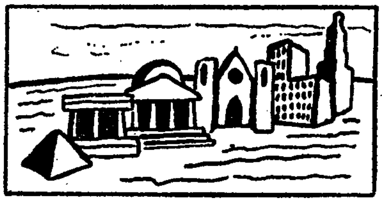
When the purpose of production is the satisfaction of desires—that is, for ordinary business—any increase in demand tends to create new supply. True, holders of monopoly sources curtail production in order to reap greater profits. But, even with monopoly products higher prices tend to attract capital to the production of substitutes or to call marginal lands into use. "Higher prices" is the signal that more goods are being demanded, and, where the market is not fettered by bureaucratic control (or monopoly) the goods will flow into it to level off the price structure.

This economic movement does not take place when the object of production is sheer waste. If, for instance, ships were built for the purpose of sinking immediately they left the quays capital would hesitate about going into the ship-building business; even if payment were guaranteed by taxes, capital knows that such production violates the principle that trade is an exchange of satisfactions for satisfactions, and that production for destruction is uneconomic. That is why capital must be guaranteed not merely interest, but also its replacement, before engaging in war business. The lure of evanescent (taxable) profits is not enough—and the increased plant equipment necessary for war orders is not forthcoming. When competition from private orders sets in the government exercises its power of control by limiting the supply of raw material to its competitor, the public. This process of control is called "Priorities."



Last October Mr. Roosevelt appointed a four-man priorities board to work out a system of allotting materials, whenever a shortage made it necessary, to both military and commercial production. Like the Defense Commission this new board is still without administrative power; its advisory power has already manifested itself in "suggestions" to logjammed suppliers that defense deliveries come ahead of more profitable private orders. Edicts will replace such advisory tactics when the military machine is geared to absorb all of the nation's productive capacity above the necessaries of life, as determined by the Board.

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Production allocation is an integral part of the priorities system. In addition to War Department orders there are orders from private firms making war goods. Still other orders are from municipalities building airfields, bridges, roads—all essential to mobilization and defense. War time orders from Britain, Canada and South America also come into the picture; and exportable things must be made to obtain foreign credits for the purchase of military essentials. Somebody has to decide who will get what, since production capacity to meet the demand cannot and will not increase correspondingly.

Already mobilization experts of the War Department have a plan requiring that defense orders for certain commodities, such as aviation gasoline and machine tools, be filled ahead of all other orders on the manufacturers' books. Bethlehem Steel is at full capacity on Navy work. Copper is getting scarce. At any moment allocation by executive order will supplant the present voluntary priority status.

What will be the effect on prices? Therein lies the danger to our economy, and to the social and political order of the future. Allocation of raw materials in favor of things made for war purposes reduces the number of things that can be made for the satisfaction of desires. The higgling of the market forces up the prices of these things. Rising prices cannot call forth new products —as they would if the market were operating on a free basis. Unless wages are increased the public must go without.

But, though commodity prices advance first, wages cannot lag far behind. The absorption of larger numbers of workers in the armament industries makes for a shortage of labor, and the price of labor reacts in the same way as the price of commodities. The pay-rolls of the armament plants come pouring into the goods market. Everybody is bidding for the restricted supply of clothing, automobiles, food supplies, services of all kinds. And, so long as the operations of the market are not further hampered by bureaucracy, prices will rise until they meet the highest bids.

Price inflation must bring about social discontent. When the worker finds that his money-wage will not procure for him the satisfactions for which he works his interest in working lags. He demands more wages —or else. But production must go on, particularly production of those things the worker does not want, munitions. The government is then faced with the alternative of issuing more money for pay-rolls or attempting to regulate the market— that is, by money inflation or by price control.

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Money inflation takes place whenever the government issues any kind of negotiable securities. The movement is not necessarily limited to increasing the amount of currency in circulation; nor is lowering the gold reserve in itself inflationary. Any increase of the number of chips issued with the government's seal, and which the public will accept in lieu of things, is inflation. Since the government does not intend to pay the cost of war by taxation, it borrows and issues bonds, and bonds become money.

Price inflation is thus followed by money inflation, even if the dreaded printing-press dollars do not appear. It must be remembered, however, that money inflation is of little social consequence until the new money hits the market. Capital and labor must use this money to buy things with before people begin to be aware of its existence. It is in terms of satisfactions that we measure the value of money; what will it buy? And when the public realizes that money cannot buy satisfactions the trouble starts. The mule before whose nose the unachievable bundle of hay always dangles may become disgusted with the proceedings.

It is to avoid this lack of confidence in money that schemes for price control are resorted to. Parenthetically, it should be noted that inflation for the deliberate purpose of repudiating the national debt is attended with political repercussions which politicians dislike; and it is a recourse taken only when the national house of cards is ready to collapse anyhow, as in Russia and Germany. Inflation, despite the economists who lay all economic movements to political enactments, is a creeping disease which results automatically from all make-work programs, including rearmament; that is, from expending human effort on the making of things that do not produce satisfactions. To put it more directly, inflation is the red ink of a national economy in which there is too much overhead cost. It comes because the economic structure is wrong at bottom, not because politicians want it.

To avoid the growing discrepancy between money-wages and commodity prices in a war economy, the political tendency is to attempt to hold prices down by force. This attempt cannot succeed. No police system is so ubiquitous as to control what people will give for what they want. Values are psychological, and even the regimented Russian mind cannot determine what price, in labor or things, it will put on something that will satisfy a craving. A market place will arise whenever one boy has two pocket-knives and no tops, while his companion has tops in abundance. If a third lad is the regulator, will he not also yearn for tops and pocket-knives? Even the police have desires on the satisfactions of which they unconsciously place values; even the police have a price.

Price control is always defeated by secret trading — the black-bourse technique. It is therefore ineffective. But it is also a costly method, costly in taxes and politically costly in that it arouses the social unrest inimical to war morale. And yet, when the inflationary spiral gets under way and the irritation of the frustrated wage-earner in the market place begins to manifest itself, price control is the first thing the politico-economist thinks about. That is because the only other control measure, of which we will speak later, is even more drastic in its social consequences. In the last war—we weren't in it long enough to see the control plans worked out, nor was our debt burden so great as to hasten the inflationary movement—"top prices" were placed on many basic products, particularly foods. Already our present Defense Commission has by suggestion and intimation thwarted the tendency toward higher prices in essential minerals.

The cereal price controls attempted by Mr. Hoover, when he had charge of the job in the Wilson regime, were notoriously ineffective. You can tell a farmer at what price per bushel he must sell his wheat, but you cannot prevent his accepting bonuses or gifts. And how can you stop the selling of grade B for grade A prices, or the substitution of labels?

In the recent cases of price control through suggestion, or by voluntary cooperation, the only commodities affected were those in the hands of the monopolies. Aluminum, steel, copper and such things are subject to state control, because the monopolies which own them are creatures of state privilege; the sources of supply can be taken over by the State. But aluminum pots, steel knives and copper tea-kettles are fabricated by competitive factories and are subject therefore to market conditions. The wage-earner buys hair pins, not iron ore. Price control of basic materials reduces the profits of the monopolists for a time, but it does not hold down to wage level the prices of commodities.

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The only other known method of restraining the flight of prices is the restriction of competition among workers for the things they want. Since supply control must increase value, to reduce value we must effect demand control. That is rationing.

Rationing is really money inflation in reverse. If your money cannot buy things, what is it good for? Why work for it? Why save it? You might try sending it to Mexico for safe-keeping or for investment. To overcome this tendency of money to fly away from restrictions our rationed economy has implements; besides, with a world at war what assurance have you that your money will ever come back, or that if it does come back it will not have shrunk considerably because of taxes and tariffs? No, money is not much good to you when your government decides how much you can eat, what you must wear, when you can see a movie.

In fact, rationing of things is accompanied by rationing of wages. Why let workers have wages when there are no things for wages to buy? The next step to rationing goods, then, is to nationalize labor and to subject it to status. All contractual conditions are suspended. Only the State has being; the individual as an economic unit ceases to exist. And that is the only way to prevent inflation.

But, this drastic measure can be put into operation only when fear of extinction completely overpowers every instinct of human expression, when mere existence has become the aim of life. The propaganda machinery must create the fear of an invading enemy. Not until mass fear results in mass resignation is it possible to even attempt rationing, or to expect that it will not produce violent social unrest; particularly in America, where the tradition of "unalienable rights" is inherent in the folkway.

Yet the necessity for rationing to avoid inflation is present long before this mass acceptance can be depended upon. Other methods, partially or momentarily effective, must be resorted to while the public mind is being prepared for the full dose.

Among other suggestions are those that derive from a plan suggested by the English economist, John Maynard Keynes. In essence, the plan is to prevent sky-rocketing of prices by withholding from the market a part of the pay-roll, issuing for this part securities which will be of no value until after the war. This is in fact only compulsory saving. The worker receives some negotiable money for his services plus a claim on future production. If his money-wage will enable him to live in reasonable comfort, and while his patriotic fervor overcomes his desire for more satisfactions, this scheme may work. But a claim on future production also has a value, which some speculative genius may put a price upon; and a doctor's bill or the desire for a good drunk may induce the worker to part with his future claim. This will put money into the market, though less than the face value of the claim which the worker sold.

Another scheme for preventing the inflationary tendency of high wages in a restricted-production market is to cut wages by taxation. This amounts to taking the wages from the worker before they hit the market. But for this scheme to be effective there must be no time lag between wage payments and wage purchases; the tax must be imposed before the wage increases become effective. A wage-income tax (taking the levy out of the pay envelope) or a general sales tax that rises automatically with the rise of wages are recognized methods.

And so, until we are prepared to accept rationing, we will have priorities, price controls, allocation, forced savings plans, wage-reducing taxes—all attempting to prevent the market place from showing up the financial dislocation of a war economy.

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