

Can a Democratic Government Control Prices?

An Interview with Joseph E. Davies of the Federal Trade Commission
Formerly U. S. Commissioner of Corporations

By GEORGE CREEL

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THE wonderful natural resources of the United States and the American genius for organization and industry make it possible for the population to live in comfort, health, and security. Instead of that, the great majority work in fear of to-morrow, and life itself is poisoned for the many by the sheer extortions of living. Not only does this leaping cost of the necessities of existence concern the happiness of millions, but it has equally vital bearing on the permanence of democratic institutions.

The government that permits such conditions is not a government that can or should endure. That there is full appreciation of the gravity of the problem is shown by the various investigations and innumerable laws that Congress is considering in connection with this thing called the "high cost of living." The solution, however, does not rest entirely with the President and the lawmakers; for fundamental action, after all, is largely dependent upon an enlightened, aggressive public opinion.

Mr. Joseph E. Davies has been a member of the Federal Trade Commission from its creation. Before that he was a leader in the great democratic movement in Wisconsin, the new type of lawyer, eager to be of social service, thinking in terms of the present, and refusing to be bound by every musty tradition of the past. By virtue of training and position, as well as by the bold, yet sanely constructive, trend of his thought, he is as able as any man in public life to speak with au-

thority on this question that terrifies America to-day.

What I asked of him was some big sweep that would take in the problem as a whole, breaking up crystallizations of thought and freeing the popular mind for original, independent thinking. Old ways have failed; people must break loose from habit and prepare for the new and untried.

"It is true," said Mr. Davies, when the general discussion had been concluded, "that even prior to the European War the advance of prices in the United States placed them almost one third higher than anywhere else in the world. For twenty years the purchasing power of American money has been diminishing steadily. What we got for a dollar in 1900 costs one dollar and fifty-four cents to-day."

"It is a mistake, however, to assume that unrestricted greed is entirely to blame, for certain natural causes have been at work. An increase in the volume of money, and in the use of credit as money, has necessarily raised prices. Then, too, there is the European War. It is not possible to withdraw thirty million men from the business of production without diminishing the supply, and on top of this there is an added demand for supplies, for investigations prove that the armies in the field are consuming more than the same men consumed when the nations were at peace.

"Nor is it fair for the people of the United States to imagine that they are alone in their misery. The average in-

crease in the price of food-stuffs in England on September 1, 1916, as compared with July, 1914, was 65 per cent.; in Berlin, for the same period, it was 117 per cent.; in Vienna, 149 per cent.; in Norway, 71 per cent.; in Switzerland, 40 per cent.; in Canada, 15 per cent., while in France, what could have been bought by a family for \$193.77 cents in 1914 now costs \$292. In March, 1916, the American consul in Sweden reported that of twenty-nine articles of ordinary household consumption, twenty-six showed an increase in price ranging from 3 to 125 per cent.

"As for the United States," he continued, "the average retail prices of food have shown a steady increase by months. Taking one hundred in 1915 as a basis, the prices charged in May, 1916, were \$1.07, July, \$1.09, August, \$1.12, and September, \$1.16. In plain terms, what could be bought for one dollar in 1915 cost \$1.16 in September, 1916.

"Money wages, it is true, have gone up, but the increase has not been as rapid as the increase in the cost of living, so that, as a matter of fact, real wages have decreased. It must be borne in mind also that these money-wage increases have been secured by the better class of workers, who, through combined effort, have been able to *compel*. Those unskilled and not united, constituting the majority of labor, have had the smallest increase; so that in two ways the load of higher prices has fallen squarely on those shoulders in the nation that are least able to bear it."

"Is n't it out of just such conditions that revolutions have always come?" I interrupted.

"No question about that," he assented quickly; "and never think that the danger is n't realized. Governments all over the world are making more adequate protection for the consumer a first task. Even before the war the problem was acute in Europe, and in Germany and England particularly effort was being made to solve it. Unemployment and sick insurance, old-age pensions, coöperative ventures, and home building by municipali-

ties—all had as their object the increase of real wages by giving something through the agency of the state that would otherwise have taken money out of the money wage.

"Since 1914 both the belligerent and the neutral nations of Europe have been compelled to adopt a more direct approach. Generally speaking, these government activities have been developed along five different lines.

"First, an attempt to fix by law the maximum price of articles. Germany took the lead in this method. France, Greece, Italy, the Netherlands, Russia, and Spain followed the German example, making provision that municipal authorities alone, or else in coöperation with the military authorities, might fix maximum prices. In Egypt this power was delegated to a commission. Denmark fixed by law a maximum price for flour. Turkey passed laws setting fixed prices for petroleum, sugar, and flour. The home secretary of the British Government met with representatives of retail federations, and a standing committee was appointed to advise as to the maximum retail prices of food-stuffs. Bulgaria empowered municipalities to place maximum prices on all table and other living necessities. The difficulties entailed in such a scheme are of course the great diversity of conditions in different localities and the tremendous detail in administration to compel performance.

"Second, the direct entrance of the government into the business of producing in order to provide competition and to control prices in some degree. Certain of the states of Australia and New Zealand have engaged in the baking of bread, the slaughtering of cattle, and the furnishing of meats to their respective communities. Great success is claimed for this method.

"Third, government control of the processes of distribution by way of eliminating the profits of the middlemen. Great Britain bought large quantities of meat and sugar, and now proposes to purchase flour and wheat for direct sale to the consumer. By royal decree Italian officials were empowered to acquire foods

of which there was a scarcity either by requisitioning the foods or the factories in which they were produced. The Dutch Government took possession of the whole stock of wheat and handled its distribution. Switzerland ground and sold rye flour. Germany and Australia authorized the regulation of food supplies, providing for government seizure, and sale at fair prices. France took similar action.

"Fourth, tariffs and embargoes. Denmark, Great Britain, Egypt, Italy, Russia, Spain, and Turkey have removed all customs duties on certain food-stuffs and have passed an embargo on other exports. Holland refuses to let butter and cheese go out of the country, and Norway and Sweden also adopted limited embargoes.

"Fifth, the Canadian method. On November 10, 1916, the Dominion Government entered an order in council that struck at the root of the artificial conditions that jump prices. It provides that no persons shall combine or conspire to limit the production or distribution, or to enhance the price, of any necessity of life, also that no person shall accumulate, or withhold from sale, any necessity of life beyond that required for the consumption of his own household or that the ordinary uses of his business require.

"If such business is a commission business, only so much can be stored as may reasonably be required, and the excess must be sold at prices that are fair and just. The minister of labor is empowered to procure from all cold-storage, packing, or similar plants full information with reference to quantities held therein, for whom held, and the prices paid therefor. Each municipality is clothed with power similarly to investigate any local combinations or conditions affecting prices, and it is up to the attorney-general to prosecute. Violation of the act is a felony," he said significantly.

"Well and good," I exclaimed. "We know now what the rest of the world is doing. Just how far are these various remedies applicable to the United States?"

"Well," Mr. Davies answered, "as I have tried to point out, some of the high

cost of living is due to natural causes that cannot be legislated away. But government *can* take action against the human greed and selfishness. As I see it, the principal evil is the waste in our distributive system and our failure to smash the exorbitant profits of the middleman. Of course there are honest middlemen, and there may also be combinations among producers or manufacturers that raise prices; but, generally speaking, producers and manufacturers are receiving only fair returns. It is the distributor who is getting the money."

"Does that idea of a food dictator appeal to you?" I asked.

"No, I can't say that it does. It may work for a while under the stimulus of a great national necessity, but as a continuing force it breaks down. During the French Revolution they tried to fix maximum prices by law; but even though the penalty was death, the scheme would n't work. Germany's food dictatorship works through the municipalities and small local bodies, and is backed up by a practical inventory of all the food-stuffs in the empire, and, furthermore, by limiting the purchase through an individual ticket system. Even with the most highly efficient bureaucracy in the world and military rule, Germany is having a mighty hard time making the system work.

"No,"—he shook his head again decidedly,—"that plan would never do in the United States. Our efforts must be along the line of preventing the erection of artificial barriers in the natural channels of trade."

"What about warehousing?"

"It has come to be as important as production itself," Mr. Davies agreed. "As an unregulated agency, warehousing is a menace. The business is vested with a public interest, and it has got to be brought under public control. For myself, I like the Canadian law. Take the case of that Chicago man who bought seventy-two million eggs at twenty-two cents a dozen, and then hoarded them in storage until he could extort a price of fifty or seventy-five cents a dozen. 'What

are you going to do about it?" he demanded, and his smiling insolence went unpunished. In Canada he would have been sent to prison. What federal and state authorities should do at once is to 'find out just what the warehouses of the country contain, so that people and law-makers may know the exact extent to which food is being cornered in storage.'

"If combinations that jump the prices of food, whether reasonable or unreasonable, were made a felony, and if vigorous federal prosecutions sent some of the gentlemen to the penitentiary, would n't that go a long way toward solving the problem?"

"Undoubtedly. The experience of Canada proves it."

Mr. Davies then went on to discuss the formation of coöperative societies by producers. He told how the cheese-makers of Wisconsin organized to sell directly to the consumer, and how the creamery men and fruit-growers in other States had formed their own selling agencies, thereby eliminating the wastes and the extortions of the middleman.

"And the parcel-post system ought to be brought into larger play," he said. "The service between cities and rural communities should be enlarged so that farmers and consumers can do business by mail. Rates must be reduced, of course, and the size of the food-stuffs basket-parcel raised above the present fifty-pounds limit. Also every city ought to have its municipal markets, not as a sudden adventure now and then, but as a fixed part of the city's business."

"Meyer London, the Socialist member of Congress," I said, "is on record with the suggestion that the Federal Government should issue bonds, purchase foods, control granaries, build warehouses, and establish markets. What do you think of that?"

"I don't reject it, by any means. If other methods fail, certainly we shall come to it. In the past we have quarreled over means until we forgot the end itself. Somehow I feel that we have come to a point in the United States where it is the

goal that is going to count. The world is moving too fast, and governments are doing too many things for people, for old prejudices to have much weight. A noted London bishop said recently, 'A year ago I abhorred Socialism, but we are all Socialists now.' The essential thing, however, is first to exhaust all individualistic efforts, and prove them to be failures, before we change the course of democracy.

"But is n't it rather a vicious conception of individualism that permits a person to prosper at the expense of society?" I urged. "Has n't our fear of Socialism driven us right into the hands of greed and rapacity? After all, is n't there a happy medium that will permit government to get down to earth with people instead of sitting up on a perch, idle and blindfolded?"

"Certainly." His assent was instant. "One of the first things we've got to do is to realize that America is at the rear of the procession when it comes to practical application of governmental forces to the business of living. In many ways the Government of the United States is further away from the people, less able to do things for people, than that of any other free country in the world.

"The trouble with us"—he smiled, swinging back in his chair—"is that in many matters we have made law an end instead of merely means to the end. A constitution, for instance, must be a living, growing organism; otherwise it becomes ossified and brittle, and is apt to break under the strain of the social forces that it tries to check."

"You spoke of New Zealand and Australia going into the business of bread-baking and cattle-slaughtering. There is n't anything very new in that, is there? Germany, for years before the war, got forty-eight per cent. of her revenue from government ownership of all sorts of enterprises. Why is n't it possible, Mr. Davies, for the United States to take some such step? As a matter of fact, is n't that the very thing that Secretary Daniels has been doing? When he began to manufacture smokeless powder for thirty-four

cents a pound, the trust quit charging from eighty cents to one dollar a pound. Same way with torpedoes, mines, etc., while the minute the bill for an armor-plate plant became a law, the trust cut its prices. Why is n't it feasible to adopt the same course with regard to food?"

"It is feasible, and many American cities have done it already. A parliamentary committee of the English board of trade, by the way, recently recommended the establishment by the Government of retail stores in order to introduce a competitive factor that would prevent the charging of extortionate prices.

"But did you ever stop to think," he continued, "that one fundamental remedy is to *increase* the food-supply? We may talk as we please about this or that law, but the fact remains that complete relief will not come, and cannot come, until we strike the land with some rod that will bring forth its full richness. *More* farming and *better* farming is the big thing.

"As it is to-day, only twenty-seven per cent. of the tillable land of the United States is under cultivation. Out of 1,501,000,000 acres that ought to be yielding harvests, just 311,000,000 acres are being tilled. Thousands of these acres, incredibly fertile, wait only for the magic touch of water. Private control of reclamation projects has proved slow, while the natural desire for large profits has made the original cost to the settler almost prohibitive.

"It seems to me," he declared, "that the Federal Government must assume this task in increasing degree, first carrying water to the land, then getting people to the land. Other countries are working out the problem. England, for instance, bought up the large estates in Ireland owned by absentee landlords, purchasing at actual value plus a ten per cent. bonus. Then the estates were divided into small parcels and sold to individual farmers on an amortization plan that provided for small annual payments over a seventy-year period. In addition, the Government loaned money for the purchase of stock and implements, all at three per

cent., and further furnished the various districts with scientific agriculturists.

"In 1910 there were thirty-seven tenant-operated farms in every hundred farms in the United States as compared with twenty-eight in 1890. And here are some more disagreeable facts," he went on. "Farms of a thousand acres or more, comprising nineteen per cent. of all farmland in the country, are held by less than one per cent. of owners. Of these thousand-acre farms, only 18.7 per cent. of the land is cultivated, as compared with seventy per cent. in farms from fifty to five hundred acres. More than four fifths of the area of the large holdings are being kept out of active use by speculators, while 2,500,000 farmers are struggling for existence on farms of less than fifty acres.

"But it is not enough to drive a plow and drop seeds. Farming must be made scientific. America, with the most fertile soil in the world, is behind the world in crop returns. Our average yield per acre is about half of that of European countries."

"Mr. Davies," I asked abruptly, "is n't it true that this whole high cost of living problem springs from one fundamental cause, and that for it there is just one fundamental cure? We have turned our natural resources, meant for all people, over to the exploitation of private profit, and we have put the necessities of life at the mercy of private greed. And is n't the cure such change or changes as will restore ownership to the people?"

He drummed with his fingers upon the desk for a space before replying, and then he answered very slowly and carefully:

"A few years ago that would have been a startling proposition, but things have been happening in the world. Manifestations of government control in Europe have revolutionized the American point of view. We have seen country after country take over its industries and natural resources, achieving almost instantly efficiencies and economies that were never dreamed of under private operation.

"It is a lesson that America must

learn, for it is a competition that America will have to meet. The only question to be determined is when and how and to what extent. Certainly we have reached a point, as you say, where the necessities of existence must be lifted above the power of extortion. It is idle to speak of vision, adventure, and individual initiative when the struggle just to live takes all time and all energy.

"What an absurdity it would be to turn the air itself over to private profit, permitting great corporations to fit every individual with a meter. Yet not the air itself is more vital to life than water, heat, light, food, and transportation."

"If you don't mind," I broke in, "I should like to hold the discussion right there for a few moments. Take transportation, for instance. Only recently the Interstate Commerce Commission reported on the physical valuation of two small roads. It found that one road, capitalized and bonded at about \$99,000,000, could be reproduced for about \$46,000,000, and another, capitalized at nearly \$41,000,000, could be reproduced for less than \$9,000,000. It is the story of almost every railroad in the United States. What of the reduction in fares and freight rates if every railroad were to figure profits on the real value of the property?"

"The public ownership of railroads is fast coming to be a general demand," Mr. Davies agreed.

"What about coal?" I insisted. "The Government still holds title to coal-fields rich enough to supply the whole world for hundreds of years, and yet we let private capital run up coal prices until winter is a time of horror for nine tenths of the people. If we do not wish to abolish private ownership of coal-mines, why can't the Government begin the development of its own coal-lands?"

"Go on and finish your argument," urged Mr. Davies when I paused for his answer.

"Well, then," I persisted, "What about our wonderful iron deposits on government land? And our water power? Does it not seem stupid to give these resources

away, and then, when they have been made into instruments of extortion, cry to Congress for laws that will afford relief? And there is oil and gasoline, almost as much entitled to rank with the necessities of life as corn or wheat. While the greater part of our oil-land has been given away or lost, in California alone the Government still owns a huge acreage rich in petroleum. A government receiver in charge of some reclaimed oil property in California started in to manufacture gasoline, and after every imaginable charge had been allowed for, he was able to market the product at six cents a gallon."

"Wait a minute," he said. "Let me talk for a bit as an average American who does n't like organized greed any better than he likes organized paternalism, and who seeks some happy medium that will give equal justice without sacrifice of sane individualism.

"Government monopoly—government ownership of industry—means state Socialism, and the state Socialism of to-day, to my mind, is the negation of democracy. As human nature is now constituted, I should be fearful that industry owned and operated by government could be possible only under a bureaucratic and monarchical form of government, or in a government where altruistic instincts have reached a much higher degree of perfection than has ever been achieved by even a small group in the past. In plain, I feel that Socialism, imposed upon a democratic state, would lead inevitably to monarchy or oligarchy, and to the destruction of the form of government which seeks to be a government of and by its people.

"Our problem is to preserve as large a degree of freedom for individual opportunity and individual growth as is compatible with the welfare of the national community. Coöperation may be the agency by which democracy may preserve itself and yet serve men. The competitive system is the fundamental base of democracy, but it is not inconsistent with co-operation.

"Nor should we be thrown off our base by the big efficiencies that are induced by governmental activities in Europe," he declared emphatically. "Monarchical governments, or governments under the pressure of war necessities, can do certain things effectively that a democratic government, without the stimulus of necessity, might go to wreck upon. It is well for lovers of liberty to remember that too high a price can be paid for efficiency.

"Regulated competition, fair competition, a sane degree of coöperative activity, which still permits the forces of potential competition to operate, and which will still effect the big economies, may all be worked out in a democracy. But the principle we must not lose sight of is that the first concern of this generation and the generations to come in the United States should be the preservation of a democratic industrial state. What we must guard against is development into a state pretending to be free, but in fact controlled by selfish groups, or else drifting through processes of beneficent Socialism that will destroy the rule of the people, imposing eventually the rule of the oligarch or monarch."

"Granting the truth of everything you have said," I replied, "is it not possible to lift the necessities of life above the rapacities of greed without the slightest menace to democracy? As a matter of fact, if life ceased to be a wolfish struggle just to *live*, would n't competition be more sane, and would n't individual initiative take on a new hope, a more vigorous drive?"

"Don't misunderstand me," he exclaimed. "I did not mean that we should close our minds to the fact that even in a democracy certain activities in industry are so connected with the welfare of the whole people that they must be regulated and even owned in the public interest. It has come to many public utilities, and will and should extend itself still further."

"It comes down to a question, then," I argued, "of agreeing on some honest, limited definition of the necessities of life. You yourself mentioned air, water, light, heat, food, and transportation. Suppose we stop there, or, rather, that we begin with that list?"

"All call for regulation," he admitted.

"And if regulation fails?"

"Then public ownership is of course the inevitable resort."

Greek Epigram for a Parisian Paper Doll

By WILLIAM ASPENWALL BRADLEY

DOROTHY made me: with her skilful pen
 She shaped my slender elegance, and then
 From her inventive brain she fashioned frocks,
 Taxing the wealth of her tin color-box:
 Hats, muffs, bags, fans, and all things else beside,
 Till I appeared a princess in my pride.
 Now sends me here that you once more may see,
 In the enchanted mirror,—memory,—
 Above the table, with her patterns spread,
 The little artist bend her golden head.