

OFFICE OF WAR MOBILIZATION AND RECONVERSION  
WASHINGTON, D. C.



April 9, 1946

Mr. Marriner S. Eccles, Chairman  
Board of Governors  
Federal Reserve System  
Washington, D. C.

Dear Mr. Eccles:

Attached is a copy of the Stabilization Report which was made to the President and released by the White House yesterday. You may find it useful in the next few weeks in connection with any statements or radio broadcasts on stabilization which you may have in mind.

Additional copies of this report are available from the O.E.S. - Mr. Douglas Bennet, Room 1202, Federal Reserve Building. It would be helpful if your Director of Information would give some thought to whether he can effectively use additional copies by putting them in the hands of key people or distributing them to field offices and other established channels of information.

Sincerely yours,

  
Anthony Hyde  
Deputy Director of Information  
and Reports

Enclosure

*Free*  
ANNUAL REPORT TO THE PRESIDENT OF THE UNITED STATES

AN ACCOUNTING OF TRUSTEESHIP UNDER THE  
"HOLD-THE-LINE" ORDER OF APRIL 8, 1943  
..... PROSPECTS FOR THE FUTURE

From

Chester Bowles, Director  
Office of Economic Stabilization

Paul Porter, Administrator  
Office of Price Administration

W. Willard Wirtz, Director  
National Wage Stabilization Board

John D. Small, Administrator  
Civilian Production Administration

Clinton P. Anderson  
Secretary of Agriculture

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April 8, 1946

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CAUTION: The following MUST BE HELD IN CONFIDENCE  
UNTIL RELEASE

NOTE: Release is for all regular editions  
of Monday morning papers, April 8, 1946.

Release by radio commentators not  
earlier than 7:00 P.M., E.S.T.  
Sunday, April 7, 1946

Charles G. Ross  
Secretary to the President

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The President today made public the attached  
report of the movement of prices, rents and wages  
in the three year period since issuance of the  
"Hold-the-Line" Order on April 8, 1943.

## THE PURPOSE OF THIS REPORT

Three years ago today, on April 8, 1943, President Roosevelt issued his Hold-the-Line Order. It was designed to check a steady increase in the cost of living which threatened to break down the stabilization program wisely provided by Congress earlier in the war to protect the country from the ravages of wartime inflation. The "Hold-the-Line" Order directed the stabilization agencies to take certain steps to insure that the intent of Congress would be carried out.

As heads of the agencies charged with administering the stabilization program we again take the anniversary of the "Hold-the-Line" Order as an opportunity to give you an accounting of our trusteeship. This report also contains our best estimate of the possibility of keeping the general level of rents and prices reasonably stable in the critical months ahead.

But our report also has a more basic purpose.

Today after sacrificing the lives of almost a quarter of a million of our finest young men for world peace and security, this nation stands at a cross-roads. We believe that one way leads to economic disaster; the other to a future of long-range prosperity. And there is no middle path.

The vast majority of American businessmen, farmers, factory workers and housewives are determined that we must choose the right road. Yet today there is grave danger that we will be stampeded into a severe snow-balling inflation. And if inflation comes the inevitable result will be depression, widespread misery, several years' delay in our transition to a sound, full-production economy, and serious impairment of our leadership in the endeavor to build lasting world peace and security.

Three years ago the American people faced a problem which was in many ways similar to the one we face today. It was the problem of achieving all-out production without at the same time creating runaway inflation.

We who are responsible for the administration of the stabilization program feel that a look backward over the ground that has been held in the fight against inflation should provide renewed confidence in this nation's ability to prevent a disastrous boom and collapse in the months ahead. And we believe that the record of the last three years should give us renewed determination to take whatever steps are necessary to see the fight through to a successful finish.

### WHAT HAS HAPPENED TO PRICES, RENTS AND WAGES IN THE LAST THREE YEARS?

Every housewife knows that during the last three years since the issuance of the "Hold-the-Line" Order, the prices of many individual items have increased.

For example, according to the Bureau of Labor Statistics, the general level of clothing prices has risen 17.2 percent from the time the "Hold-the-Line" Order became effective in February 1946. House furnishings have risen 18.6 percent in the same period.

Both fields presented difficult pricing problems which government and industry together failed to meet adequately in the early days of the war. Today those problems are being dealt with more effectively and results are beginning to show in more and better merchandise in the lower price ranges.

It should be remembered that while increases in clothing and house furnishings prices have had a serious effect on the cost of living in this war, those increases have been nowhere near so large as they were in the last war when clothing prices rose 200 percent and house furnishings went up 179 percent.

There have also been substantial increases in a number of minor items such as beauty and barber shop services and theater tickets on which the government has no authority to place price ceilings.

But clothing, house furnishings and the troublesome miscellaneous items on which there have been substantial price increases during the past three years -- together take only about one-third of the expenditures of the moderate income, urban family. On the other hand, rent, food, fuel, ice, electricity and certain other items -- on which there has been little or no increase since the "Hold-the-Line" Order -- together take about two-thirds of the moderate income family's expenditures.

This two-thirds of the cost of living has been held generally stable and has prevented increases in the other one-third from causing a sharp rise in the over-all cost of living.

According to the Bureau of Labor Statistics of the Department of Labor, the general level of rents has increased only three-tenths of one percent from May 1943 to February 1946 (the latest date for which figures are available).

Food prices, which alone take 40 percent of the moderate income, urban family's budget, are actually lower by almost two and one-half percent than they were three years ago, according to the Bureau of Labor Statistics. Because the moderate income family spends about three times as much for food as for clothing, even this small decline in the general level of food prices is sufficient to prevent the increase in clothing prices from raising the general level of consumer prices substantially.

Probably because many families have been eating more and better food and have therefore paid higher total food bills during the last few years, it is often hard to convince the average housewife that food prices have been held generally stable. For the housewife who prefers to check the Bureau of Labor Statistics in her own way, the best evidence that food prices have in general been held is a comparison of the actual prices of the most frequently purchased items as they appeared in food store advertisements for May 1943 and today.

Almost invariably it will be found that the average market basket of groceries can be bought today for the same amount -- or a little less -- than it cost three years ago.

Putting all of these factors together, the Bureau of Labor Statistics reports that the general level of all consumer prices has risen 31 percent since September 1939 when the war in Europe began. This is a creditable record when it is remembered that during the inflationary period of the last war living costs rose to a peak 108 percent above the pre-war period.

But even more important is the fact that nine-tenths of the 31 percent increase in this war occurred before the "Hold-the-Line" Order. In the three year period since then -- a period of unprecedented inflationary pressures -- consumer prices, according to the Bureau of Labor Statistics, have increased only 3.4 percent. In the same three-year period prices of industrial materials have risen only 4.8 percent, and wholesale prices have gone up only 3.5 percent.

Everybody knows that there has been some deterioration in quality. "Bargain sales" are a thing of the past. The lower priced goods in many fields have disappeared. Thus, in order to get a more nearly accurate estimate of the cost of living increase in the past three years, something must be added to the 3.4 percent which the statistics show.

But even with a reasonable addition for this purpose, the American people have established a stabilization record of which they can well be proud. It is a record which should settle once and for all the question of our technical ability to resist an inflationary blow-up in spite of staggering pressures.

Average weekly earnings of factory workers were 4.2 percent lower in February, 1946 than in May 1943; and average hourly earnings were 5.4% higher.

With the end of the war in August 1945 there were sharp cut-backs in take-home pay due to down-grading and elimination of overtime. Since V-J Day these cuts have been partially restored through new wage agreements in several thousand industries. This process is continuing under the new Wage-Price policy, which was announced on February 14th.

The following table compares the movement of the prices of important cost of living items and of wages during the last three years with their movement in the whole of the World War II period and with World War I:

Percent of Average Family Expenditures	WORLD WAR I. % Change from July 1914 to peak of inflat.	WORLD WAR II. % Change from Aug. 1939 to Feb. 1946	SINCE THE HOLD THE LINE ORDER. % Change from May 1943 to Feb. 1946
100% : ALL CONSUMER PRICES	108%	31%	3.4%
40% : FOOD	126	49	-2.4
: Round Steak	85	18	-11.1
: Pork Chops	125	24	-10.7
: Eggs	208	59	1.4
: Bread	92	12	0.1
: Milk	94	31	-0.4
: Cereals	139	18	2.
: Canned Goods	*	43	-0.2
: Fresh fruits and vegetables	*	108	-6.2
: Potatoes	291	119	-23.
16% : RENT	54	4	0.3
13% : CLOTHING	200	50	17.2
: Men's Suits	*	42	6.5
: Men's Shoes	*	37	4.7
: House Dresses	*	148	54.0
: Cotton Work Shirts	*	80	15.9
6% : ELECTRICITY, FUEL, ICE	91	14	3.2
3% : HOUSE FURNISHINGS	179	48	18.6
21% : MISCELLANEOUS	101	25	8.5
: ALL WHOLESALE PRICES	148	44	3.5
: Industrial Prices	165	27	4.8
: Building Materials	218	35	9.4
: Plate Glass	271	0	0
: Steel Plates	232	13	13.1
: Copper	65	15	0
: Anthracite Coal	82	44	15.9
: Bituminous Coal	675	30	7.8
: Textile Products	252	51	4.9
: Blue Denims	266	104	16.4
: Men's Cotton Hose	277	77	3.2
: AVERAGE WEEKLY EARNINGS OF FACTORY WORKERS	140	74	-4.2
: AVERAGE HOURLY EARNINGS OF FACTORY WORKERS	150	61	5.4

(\* No data available)

THE RECORD HAS BEEN ACHIEVED IN SPIITE OF STAGGERING INFLATIONARY PRESSURES

In the twenty-seven wartime months between the launching of the "Hold-the-Line" program and V-J Day upward pressures on prices, due to unprecedented demand for an inadequate supply of civilian goods, were stronger than ever before in history. When V-J Day came many people thought that sharp cut-backs in the amounts of goods needed to supply the armed forces and reductions in purchasing power due to temporary unemployment would reduce the pressure on prices.

But the process of retooling our plants got underway much more quickly than most people expected. Today employment is at a record peak in the peacetime history of our country. While take-home pay has been sharply reduced in many cases, total purchasing power from current income still far outweighs the supply of civilian goods which could be made available in retail stores in the few months since full reconversion began. We are faced with severe shortages of clothing, housing, consumer durable goods and many food items. And tremendous quantities of merchandise are needed merely to fill the pipelines of our distribution system.

Today inflationary pressures are many times greater than they were three to six months after World War I when inflation broke loose in the country

WHAT HAS HAPPENED TO PRODUCTION SINCE THE "HOLD-THE-LINE" ORDER?

Everybody agrees that all-out production is the only effective escape valve for inflationary pressures. But there are those who say that in the fight to maintain a stable economy we have sacrificed production by imposing "stifling" price controls. What has actually happened to production in the past three years?

The fact is that total production for both military and civilian purposes during the war exceeded anything this nation has ever known before. During the first World War industrial production rose only a quarter while industrial prices doubled by November 1918. During the war just past the increase in industrial production was four to five times as much as in the first war and industrial prices increased only about 25 percent. (Although much finished war equipment such as planes, tanks and warships were not subject to price controls the basic materials which went into them were effectively held under price ceilings.)

This record is even more remarkable when we consider that both industrial prices and the cost of living index rose only about three percent from the time "Hold-the-Line" Order went into actual operation in May 1943 to V-J Day. And that period of two years and three months was our period of greatest production.

And what has happened to production since V-J Day? Severe dislocations were to be expected in the process of converting our gigantic economic machinery from war to peace. Production of many finished consumer goods is still lagging. Yet industrial production as a whole stands today at the highest point in our peacetime history -- more than 60% above the average of the pre-war years from 1935 to 1939. Employment is at the highest peacetime levels on record.

Certainly it would seem that, given the proper tools, the American people have ample reason to be confident of their ability to stave off a disastrous inflation and collapse during the critical months ahead and still create a flood of production which will wipe out the possibility of a runaway inflation.

## THE DANGERS AHEAD.

But the next few months will be dangerous, and difficult.

Even with the present rapid increase in production rates continuing, supplies of goods available to consumers are still short of the purchasing power that people have from their current incomes. This gap will be closed in the coming months as production expands and as business inventories at all levels are built up to normal. There are still shortages of many materials and parts used in manufacturing finished products. Most of these shortages will be eliminated as production expands in the coming months.

But in the meantime until shortages of materials and parts are eliminated and until the stores are full of consumer goods the danger of an explosive inflation is grave. Both business and consumers have immense liquid savings. If they should become convinced that prices were going up sharply, they would try to protect themselves by turning their money savings into whatever goods they could find. This would mean that the actual working demand would greatly exceed supplies of everything. This is exactly the situation which gives rise to gyrating, cumulative inflation. Hence it is imperative to maintain price stability until the economy is working at capacity, shortages are eliminated and people see the stores full of goods.

Nobody knows exactly how much prices would rise if our stabilization controls were weakened or eliminated now. But we do know that inflationary pressures are many times stronger now than they were at this time after the last war. The economic history books tell the dismal story of what happened in similar but far less dangerous circumstances at just about this time after the last war.

Shortly after the Armistice in 1918 most of our leaders believed that the problem of inflation was behind us. What controls we had were discarded. Prices dropped slightly while the reconversion process got underway. Then the upward surge began in March 1919. A frantic effort to reorganize our defenses against inflation was too late and too weak. Businessmen began a perfectly natural scramble for inventories. Uncertainties about business costs and prices made long-range planning impossible and hampered production. As the cost of living moved up from 62 percent above pre-war levels to a peak of 108 percent above pre-war in the spring of 1920, millions of people living on fixed incomes suffered. Workers who got wage increases found them swallowed up almost overnight by new price increases. Men who had just returned from war service found it impossible to get their feet on the ground and to get started in business.

Finally, when enough families could no longer afford to pay the prices, the final inevitable collapse came in May 1920. Factory payrolls dropped 44 percent leaving nearly one-third of our factory workers unemployed. Businessmen lost eleven billion dollars in the reduced values of inventories. Corporation profits dropped from six and one half billion dollars to a net loss of fifty-five million. 106,000 businesses went bankrupt. Farm income dropped 66 percent, and in the next five years 453,000 farmers lost their properties through foreclosures.

## WHAT IS NEEDED TO INSURE FINAL VICTORY OVER INFLATION

We have the proof in our wartime record and in the record since V-J Day that we can prevent a repetition of that disaster. The question is, are we willing to deal with the present emergency in the same spirit and with the same tools with which we met a similar emergency during the war.

The responsibility for determining the policies under which we as a nation will face the stabilization task ahead rests entirely with Congress. On the basis of the record of the past four years the American people can be confident that Congress will fulfill this responsibility in spite of heavy pressures from special interest groups which are out to eliminate or cripple the price and rent control legislation.

As the heads of the agencies which are responsible for administering the stabilization program we are convinced that the following legislation is indispensable if the danger of inflation is to be dealt with successfully during the next crucial months.

1. We believe that the Emergency Price Control Act which expires on June 30th must be renewed without the crippling amendments which are now being proposed almost daily. The interests of the American people would be better served by eliminating price control entirely rather than encouraging the false sense of security which would result from a mere illusion of price control.  
  
And we believe that the Act must be passed in final form by May 15th at the latest. Already the delay in arriving at a final decision on the course we are to take in the months ahead is creating uncertainty. Uncertainty can only impede production and increase inflationary pressures by encouraging hoarding and speculation. Above everything else, the country needs to know where it stands. Before businessmen can plan ahead in complete confidence they must know that prices and costs will remain generally stable.
2. We believe that effective price control and the subsidy program are indivisible. Without a continuation of the present food subsidies we must expect sharp increases in food prices which would almost certainly result in another round of wage increases, higher manufacturing costs and still higher consumer prices.
3. We believe that the Second War Powers Act must be extended beyond June 30th to enable the government to prevent hoarding through inventory controls and to guide scarce materials into channels where they are most needed. During the war the machinery of allocation and priority was a powerful adjunct to price control. We cannot expect to maintain our economic stability and still get badly needed production -- especially in the clothing and building materials field -- without the support of allocations and priorities in the months ahead.
4. We believe that uncontrolled inflation in the real estate field is a serious threat not only to rent controls, but to the entire stabilization program. We feel that it must be met through quick adoption of the Patman Housing Bill.

We also urge that the nation act to check sharp increases in commercial rents. This step was first recommended eighteen months ago. Since that time established businesses and veterans trying to get started in new ventures have in many areas been hard-pressed by constantly rising rental costs.

5. The stabilization agencies must have for the fiscal year 1946-47 adequate appropriations with which to enforce their regulations and handle their workloads expeditiously.

Given the necessary legislative tools, all of the stabilization agencies have a heavy responsibility to administer them wisely and with a minimum of mistakes and delays. Above all, they must avoid any action that might obstruct all-out production. We must continue to have a sensitive stabilization program which takes advantage of every opportunity to increase production. We must cut the red tape wherever possible. And we must make quick decisions on prices wherever they are necessary.

Wage adjustments under the new wage-price policy must be acted upon quickly and accurately within the industry patterns established by labor and management in free collective bargaining between V-J Day and February 14th when the new policy was announced. Clearly, our ability to adhere to these patterns will depend on our ability to hold prices and rents in line.

We must also be prepared to resist vigorously the inroads of any individual group which is willing to risk the welfare of the entire country for its own selfish gain.

Finally, success in our effort calls for a large measure of selflessness, patience and give and take on the part of every group in the country -- businessmen, farmers and workers alike.

If we are prepared to face the next few critical months in the same spirit in which we faced the war emergency, and if the necessary legislation is passed, we believe that the last major stumbling block will be behind us. We believe that the flow of goods which is now growing daily to record levels will come from our factories in even greater quantities.

It is our earnest hope that if all goes well during the next year the danger of a severe inflation will have passed by the middle of 1947. In the meantime controls should be gradually removed wherever and whenever it is safe to do so. By June 30, 1947 only rent controls and some last remnants of price control in a few isolated fields will remain. When that time comes we will have the deep satisfaction of knowing that we have come out of the war period with a firm foundation on which to build the full production, full employment economy which we all agree our country can and must achieve.

Today America has almost within her grasp a future of economic security and prosperity which is far beyond anything we have ever dreamed of in the past. It is unthinkable that with that goal in plain view and with the knowledge that we have met and dealt with an equally difficult task in the past, we will fail to take whatever steps are necessary to win through successfully.