

OFFICE OF PRICE ADMINISTRATION

WASHINGTON 25, D. C.

OFFICE OF THE ADMINISTRATOR

December 7, 1945

The Honorable  
Marriner Eccles  
Federal Reserve Board  
Washington, D. C.

Dear Marriner:

I am attaching a copy of a speech which I made on Thursday at the National Association of Manufacturers on the subject of OPA and inflation.

I hope you will have a chance to read it and if you have any comments or criticisms, I would like to get them.

Since the N.A.M. came out officially for the end of all price and rent controls on February 15, it seemed that the only possible course to follow was to hit them pretty hard in the hope that I could shock some of their saner members into a sense of the danger which they are encouraging.

My best regards.

Sincerely,



Chester Bowles  
Administrator

Enclosure

SPEECH BY OPA ADMINISTRATOR CHESTER BOWLES  
BEFORE THE NATIONAL ASSOCIATION OF MANUFACTURERS

Waldorf-Astoria Hotel, New York

For Release 11:00 A.M. December 6, 1945

I am very glad of an opportunity to appear before the annual meeting of the National Association of Manufacturers. I have always found here a friendly atmosphere and a willingness to discuss any public policy in a constructive atmosphere of give and take.

The whole country is deeply concerned in the program of inflation control about which you have asked me to speak today. Businessmen are concerned. Farmers are concerned. The workers in our factories are concerned. And so are the great mass of our people which cannot readily be fitted into any group.

There are many audiences before which I appear where the support of our program is heartfelt and vigorous. Last night I spoke before several hundred businessmen at a dinner given by the Business Council. Next week I will appear at the annual dinner of the Ohio Grange, an organization representing thousands of farmers which has also pledged its all out support to the OPA's price control program.

Here in this meeting of the NAM I am face to face with a group whose leaders have gone on record during the last 18 months in vigorous opposition to what we have done and to what we are now doing.

Only the leaders of the National Retail Dry Goods Association and the leaders of the Association of Real Estate Boards have equalled the vigor with which the National Manufacturers Association heads are opposing the stabilization control program through which inflation thus far has been kept in check.

I must point out that this opposition to effective price control is a departure from the original NAM stand when wartime price controls were first proposed.

In 1941 when price and rent control legislation was under discussion, the stand of the NAM was clear cut. Mr. Noel Sargent, who was then your secretary, testified before a Congressional Committee that firm controls on prices were an absolute essential to meet the inflationary circumstances created by war. In many respects his recommendations went beyond the actual program which your Government has put into effect.

I am told that Mr. Sargent's testimony was a major factor in securing the passage of the original Price Control Act.

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But more recently your position has changed. To some degree in 1943, and increasingly in 1944 and 1945, you have swung into sharp opposition to effective price control.

Obviously, today we are in disagreement. Obviously, we cannot both be right. One of us must be wrong.

Let me emphasize my own feeling of deep humility with which I approach the problems which confront us. I have been wrong on occasion in the past and like most human beings I shall probably be wrong on occasion in the future. I do not want to appear dogmatic or, above all, I do not want to create the impression that I think I have all the answers.

In that spirit I should like to analyze the stand of your Association on this question of price and rent control. At the outset I believe it is a proper question to ask what would have happened if the Nation had followed the advice of the NAM leaders in 1944 and 1945.

Before Congress eighteen months ago and again last spring NAM officials advocated amendments to the Act which in my opinion would have made effective price control absolutely impossible.

But for the sake of clarifying the point, let's accept the view of those who claimed that these changes would have increased prices only 10 per cent each year. Even though we accept this viewpoint, the result would have been a \$30 billion dollar increase in the cost of fighting the war -- a sum only 2 billion less than the cost of the entire World War I. At the same time Mr. and Mrs. Long - suffering American consumer - would have found \$36 billion dollars added to their cost of living. In other words, even relying on the most optimistic estimates put forward by the proponents of the NAM sponsored amendments, the Nation has already saved 66 billion dollars by not taking your leaders' advice.

But those figures are, in my opinion, only a portion of what your official proposal would have actually cost our Nation.

Those of us who have been entrusted with the task of wartime price control have long recognized the fact that controlled inflation is an idle dream. One man's price may be the cost of a thousand other firms.

There is no organization big enough or smart enough or efficient enough to handle the vast deluge of price adjustments which would result from any such concept. There could be only one result and that is higher and still higher prices each feeding on itself with the beginning of an inflationary spiral which would soon be out of control.

As I analyze the NAM's position on price control, it seems clear that the opposition of your leaders stems from a conviction that these controls tend to hold down production. Certainly there was no indication of this during the war years. This is perfectly clear from the record.

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Both industrial and farm production during the years of effective price control have risen to record levels. They have gone far beyond even our most ardent hopes. American management and American labor in their all out war effort have hurried the day of victory and have amazed our enemies as well as our allies.

Today it is generally recognized that inflationary pressures are at record levels. Liquid assets are at an all time high. Savings have increased from pre-war levels by 145 billions of dollars. Currency in circulation is almost five times as great as before the war.

The stock market has been booming merrily upward. As in 1929 taxi drivers, barbers, and elevator boys are providing inside information on just what selections are apt to rise the fastest. The dope sheets coming from Wall Street anticipate higher and still higher prices. The real estate market is starting to skyrocket.

What, under such circumstances, would happen to prices if the Nation now accepted the advice which Mr. Robert R. Wason, Chairman of the NAM Reconversion Council and Mr. John Airey, Chairman of the NAM War Controls Termination Committee offered to Congress on November 7. This NAM recommendation called for the elimination of all price controls by the fifteenth day of February. What, for instance, would happen to food prices?

Those of you who are in the candy business know that cocoanut, which OPA decontrolled some thirty days ago, has quadrupled in price. Many grades of furs, from which price controls were removed during the Fall months, have more than doubled. Your wife will tell you that some grades of oranges, lemons, and grapefruit moved up 50 to 100% in the first few days following the action of OPA in removing the price restrictions.

If this occurred on food products which seemed to be in adequate supply, what would happen to meat, vegetables, milk, cereals, and all the other dozens of food products which are in more scarce supply?

If the Nation accepted the advice of your leaders to drop price control 60 days from now, what would happen to clothing prices? Right now the apparel situation is tighter than it has been since the beginning of the war.

Our veterans in search of their first outfit of "civvies" are forced to walk from store to store and even then often fail to secure the clothing to fit their needs. All authorities agree that this shortage is likely to continue for a great many months to come.

If we accepted your official recommendation of the early removal of all price control, what would the public be asked to pay for automobiles, refrigerators, washing machines and vacuum cleaners. Some say that competition would take care of all that. I can only say that this expectation is not in line with the facts.

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The original requests of OPA by reconverting manufacturers were for price increases ranging from 25 per cent to 55 per cent. On October 26 and 27 orders were taken for 300,000 Ford cars, one-third of the entire 1941 production - with no questions asked on prices or trade-ins.

If the Nation accepted the official NAM recommendation, what would happen to the price of building materials? During the period of the first world war, the cost of lumber, soil pipe, brick, and other essential building materials tripled. Today the housing shortage is infinitely greater. Under the best of circumstances I am told that only 500,000 homes can be built in 1946.

This will be meagre relief to the 3,401,000 families, a major portion of them young married veterans, who will be forced to live with relatives, or otherwise double up during the coming year. If we removed price controls, is there any limit to the heights to which building materials would move in 1946? Certainly not judging from what occurred 25 years ago.

If we accepted the official advice of the NAM what would happen to rents? We could not remove price controls without removing rent controls. We know that in the period of the last war 90 per cent of the entire increase in rents occurred not during the war itself but after the armistice. In view of the critical housing shortage, could we expect any greater restraint on the part of our landlords today?

Finally if we accepted the advice of your leaders what would happen to wages? Today most of you gentlemen feel that the demands of the labor groups are excessive. If controls were ripped off as you propose, if rents were allowed to shoot upward, if food and apparel prices were allowed to boom, labor would very properly intensify its demands for higher and still higher pay checks.

History has proven that in a race between prices and wages, prices invariably go up faster. Under such circumstances, however, our workers would have but one defense, and that would be to get what they could as fast as they could get it in the hope of keeping their incomes within speaking distance of the rising cost of living.

Organized labor could at least make an effort to keep its earnings in line with increasing living costs. But how about the millions of workers, farmers, and people living on fixed incomes who have no strong unions to protect them? What would happen to them as prices and rents shot upwards?

Finally, how about the businessmen if the Nation accepted the official advice of the NAM? Prices that skyrocket invariably collapse. How would our businessmen, particularly our small businessmen, fare as inventories were thrown on the market for any price they would buy and as the inevitable drop in purchasing power dried up their sales?

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We had 106,000 bankruptcies following the collapse after the inflationary rise in 1919 and 1920. If we ripped off our inflation controls today, could we expect anything less in 1947?

Your leaders say they fear inflation as much as I do. They agree with me that production, production, and still more production is the only final cure for the inflationary danger.

But it is their claim that price control interferes with production, and that if price controls were removed the whole situation would take care of itself. The record has proven them emphatically wrong in the past. The record indicates that their claim is equally wrong today.

Last week the President's report stated reconversion has been achieved at record speed. Manufacturers of automobiles, washing machines, electric refrigerators, and other reconversion products, reporting to the Civilian Production Administration estimated their volume of sales by June 1946 at from 75 per cent to 307 per cent above 1939 levels -- all under OPA price controls.

Retail sales today, again under the very price controls which your leaders claim make all out production impossible, are breaking every record.

Admittedly, price control has never been painless. Admittedly, it can never be painless. Obviously, there have been some delays, some fumbling, some outright mistakes. Everyday we are moving to correct these mistakes and to eliminate hardship to the fullest extent of our ability.

Business is restless. Business has had its fill of wartime regimentation and red tape. Very properly, business is anxious to get back to a free economy with Government interference reduced to a minimum.

Believe me, there is no one in America as anxious to get rid of price controls as I. I cordially dislike the job I have. I would like nothing better than to drop it tomorrow.

Price control should and must be removed as rapidly as supply conditions permit. Barring continued labor management difficulties, the production estimates for 1946 indicate that in industry after industry during the next 12 months, we will find supply and demand coming into balance. As that occurs, I assure you that your Government will move promptly to eliminate the last vestige of price restrictions in those industries. But to remove them before competitive conditions are again established is to invite inflationary chaos.

Gentlemen, the recommendation of your leaders for the removal of price control in 60 days is reckless in the extreme. Just how high prices would go I do not know. But at the best, it is a risky, reckless, gambling policy which in all likelihood would produce a national disaster.

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The everyday people of America are looking forward eagerly to good jobs, steady jobs at higher wages - to a high sustained level of farm income - to good profits for our businessmen -- to the development of a land of peace and abundance where every man may raise his family in an atmosphere of economic security and with steadily increasing standard of living.

Today the entire country, with very few exceptions, believes that our capitalistic free enterprise system continues to be our best hope of achieving this future. But we must face the fact that this deep seated confidence and belief in our free enterprise system is largely confined to America. In practically every European country, capitalism has ceased to be even a source of controversy. In country after country we find the left wingers advocating communism while the right wingers advocate various forms of a socialistic state.

I have great faith in our ability to make our free enterprise system work here in America. But would this system, in spite of its great achievements, and its deep seated roots in the traditions and thinking of our country, survive the bitter disillusionment which would surely develop if the inflationary forces are allowed to take hold? Frankly, gentlemen, I am very skeptical.

Let's make no mistake about it. The everyday people in this country are wholeheartedly behind this program of inflation control. Our farmers are behind it. Our workers are behind it. The consuming public is behind it. And tens of thousands of businessmen, large and small, many of them members of the NAM, are also behind it.

The urge to strip off price controls now (or, let us say on February 15th), and to let the devil take the hindmost, comes with relatively few exceptions from business and business association leaders. As I have pointed out the leaders of the NAM have been among the most outspoken.

The dizzy inflation which could so readily develop in the absence of OPA controls on prices and rents would, I repeat, not be accepted lying down by the great masses of our people. It is for this reason that I firmly believe that the stand which your leaders have taken represents a most dangerous threat to the future health and success of our entire free enterprise system.

Gentlemen, I might have come to you today and made a pleasant easy speech about the inflationary dangers and our efforts to combat them. But such a speech would have failed dismally to meet the basic issue.

These are critical times and I believe we are all entitled to frank statements and blunt opinions. Your leaders are on record in favor of a course of action which I believe to be utterly foolhardy and dangerous. I would have failed to meet my public responsibilities if I did not state to you my own sharp disagreement with them.

Let me emphasize that I accept the great sincerity and patriotism with which Mr. Mosher, and other leaders of your organization, have stated their views. I hope you will accept with equal readiness the sincerity with which I have tried to state the facts as I see them.

Let me take this occasion to ask your organization to re-examine its position. You supported price control in 1941. If you will but look at the facts of the present inflationary situation, it seems to me you must support price control now.

In spite of whatever disagreement there may be between some of us, let us never forget that we are all working wholeheartedly and humbly for the same goal -- a country of peace, abundance, and prosperity -- for all of our people of all races, of all groups -- whoever they may be, wherever they may live.

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December 11, 1945.

Dear Chester:

Thank you for sending me your note of December 7 with a copy of that forthright and courageous speech before the National Association of Manufacturers.

I hope you succeeded in shocking them into some sense of the catastrophe their policy would invite. It has repeatedly seemed incredible to me that supposedly responsible men can be so shortsighted and blind to their own self-interest.

More power to you, and always with best regards,

Sincerely yours,

The Honorable Chester Bowles,  
Administrator,  
Office of Price Administration,  
Washington 25, D. C.

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

To Chairman Eccles  
From Richard A. Musgrave Q.12.114

Date June 15, 1945

Subject: Testimony on Price Control Bill

These notes might be useful for your testimony:

In the Senate Hearings several amendments to the Bill were introduced, including an amendment by Senator Thomas, an amendment by Senator Taft, Senator Barkley, and Senator Wherry. The Taft and Thomas amendments were defeated; the Barkley and Wherry amendments were adopted. The Barkley amendment provides OPA control should assure profits for each group of three major types of meat producers. The Wherry amendment provides that every agricultural price should cover all costs and expenses plus a reasonable profit. Acceptance of the Wherry amendment came somewhat as a surprise and would undoubtedly result in a substantial increase in farm prices.

In the House Hearings a number of people have come out for continuing the Bill without amendments, including representatives of the C.I.O., the A.F. of L., Eric Johnston, Mr. O'Neal, and some other farm groups which oppose the Wherry amendment. Your testimony today will be preceded by Mr. Davis.

In the preceding testimony the major issue has been whether under present OPA practices producers have sufficient incentive to shift to peacetime production. The critics--Senator Taft in particular--argue about as follows:

"The one way to stop inflation is to produce more. If we are to produce more, we must make sure that all the producers in all the industries of all the products have adequate profits. Hence, some relaxation of OPA controls and, in fact, some inflation say, 5 or 10 per cent, will be desirable."

The various amendments which have been proposed more or less reflect this philosophy. As to the first point that more production is the way to stop inflation, it is of course correct but it does not follow that to do so price controls should be relaxed, because if the over-all situation is still inflationary, reliance on the "free price mechanism" does not assure that you get increases in civilian production just where you need them and where you can afford them. Rather, there is more likely to be an over-all increase in demand, prices and inflation which does not offer the desired inducement. On the contrary, what is needed is to hold the line on prices, to assure adequate profits, and to encourage increases in civilian production where we can afford them and need them most. The OPA itself would of course not argue that there should be no profit incentive. The point is that the present Price Control Act is sufficiently flexible to make sure that such profits can be obtained. Amendments which weaken the general structure of price control even though they argue that they wish to assure nothing but "reasonable profits" will therefore be much more harmful than useful. The Act should be retained without amendment.