BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

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Statement of Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, before the Banking and Currency Committee of the Senate, March 24, 1944, on S. 1764, to amend the Emergency Price Control Act of 1942.

Mr. Chester Bowles has made a most able and effective case for extension of the life of the price control statutes. I assume that this legislation will be continued, and I would like to emphasize the importance of extending it without hampering amendments and for a sufficient time after the war to allow industry to get back to producing a supply of goods to meet the demand. Inflationary dangers can only be avoided if the powers of the administrator are in no way weakened.

Inflationary pressures are still increasing, and will continue to increase until conversion from wartime production to peacetime production has been achieved and a balanced budget is in prospect. If the public is assured that the Congress is determined to continue this legislation which has been so effective, the great confidence which now exists in the purchasing power of the dollar will be maintained.

It is the duty of all those charged with public responsibility for holding the line against the pressures for higher prices and higher wages to see to it that nothing is done to impair this public confidence in the future buying power of the dollars invested in Government securities, life insurance or other forms of saving. If that high confidence were impaired, there would be an increasing impulse to spend money instead of saving it. That would seriously affect the Government credit and the financing of the war. The stability of all credit, including Government credit, depends upon maintaining faith in the purchasing power of the dollar. If the public is assured by the extension of this legislation for a sufficient length of time, without crippling amendments, that the line will be held against inflationary forces, the problem of financing the war and refunding the public debt will continue to be met successfully. If the public is led to believe, however, that the price, wage and rationing controls are going to be weakened, or not continued as long as may be necessary, confidence cannot be maintained in the purchasing power of our money. Without that confidence, not only would the successful prosecution of the war be jeopardized, but an orderly transition to a peacetime basis would be out of the question.

Nearly all of our people have a direct interest and stake in what the dollar will buy in the future. There are countless millions who have invested in life insurance to be paid to them or their beneficiaries. There are the countless millions who own nearly 30 billions of savings deposited in the banks of the country. There are the countless millions who have invested many billions of dollars in war savings bonds and other Government securities. There are the countless millions who are depending upon future benefits from social security, civil service retirement, and innumerable other pension systems, public and private. There are the churches, educational institutions, hospitals, and numerous endowments and trust funds created for public benefit. Last, but not least, there are the ten million men and women in our armed services who, in addition to their investments in war savings bonds, are buying the life insurance made available to them by the Government. They cherish the hope that when this war is over, they can use the money they have saved and whatever is provided for them in discharge allowances to buy some of the material comforts of life that will be available when industry has had time to get back into peacetime production. If this hope should turn out to be only a mirage, those who are responsible for failure to protect the home front will face a dreadful retribution.

To extend this price control legislation merely for a year will not adequately meet the situation. Uncertainty would continue to exist as to what action may be taken when the year expires. There would be hesitancy about making long-term plans or commitments. It would reinforce the faith of everyone in the stability of the dollar if provision is made to extend this legislation until two years after the war, unless Congress shall, by joint resolution, discontinue it prior to that time. If it is not needed, it will not be used. If it is on the statute books, it will give confidence that inflation is not going to happen here, and such confidence cannot exist without it. Price ceilings are effective only when demand exceeds supply and the ceilings are necessary to prevent prices from rising. When supply exceeds demand, prices are likely to fall below the ceilings. Rationing, likewise, is used only when there is a short supply of essential goods. Nothing has been rationed where rationing could be avoided, and surely rationing will not be undertaken in the future unless it is necessary to assure an equitable distribution of a short supply.

I have been most favorably impressed, as I am sure the members of this Committee have been, by the testimony of Mr. Bowles. He and his predecessors tackled one of the most complex and difficult tasks that men ever faced. I am satisfied, as I think you must be, that there is no desire whatsoever to keep any of these price or rationing controls when they are no longer essential to protect all of us against the dangers of inflationary pressures.

There has been a good deal of discussion about the need for various amendments to this legislation. The record of achievement under the existing legislation should be sufficient proof that we had better let well enough alone. When you consider that the cost of living has gone up only 26 per cent in the fifty-three months from August of 1939 to January of this year, whereas, in the same period of the last war it went up 65 per cent, and when you consider that war expenditures in this war so far are some six times the rate of expenditure in the last war, and when you consider also that nearly half of our entire economy is devoted to war now, whereas during the last war less than one-fourth of our economic effort was devoted to war, the achievement has been phenomenal, beyond the hopes of the most optimistic.

I repeat, we had better let well enough alone. Doubtless the Act is not perfect and it could be improved by some amendments. However, once you open the door to meet the criticisms of one group, you cannot without difficulty close it to other groups. To amend the Act in an attempt to achieve equity in wartime would be to ignore the inevitable inequities which war imposes. Those of us on the home front cannot possibly make a fraction of the sacrifice required of those on the battle front.

These controls are a form of insurance against economic disaster. No one can say with any certainty exactly what economic conditions will confront us when the war ends or whether the predominant forces will be inflationary. We know, however, that the inflationary potential will be enormous. We know that there will be a vast backlog of accumulated wants and an unprecedented amount of purchasing power in the hands of the public, which has resulted largely from our heavy reliance upon borrowing in the financing of our war expenditures.

The inflationary potential which, it is estimated, will exist at the end of this fiscal year, on June 30, 1944, measured by demand deposits and currency, savings deposits in the banks and Government securities held by business concerns and individually, but excluding Government securities held by life insurance companies and banks, will amount to 194 billion dollars; 113 billions held by individuals and 81 billions by business. This compares with liquid holdings as of June 30, 1941, of 48 billions held by individuals and 31 billions held by business, a total of 79 billions. In other words, there will have been an increase in the three-year period of 115 billion dollars.

This tremendous volume of liquid holdings of individuals and business constitutes the inflationary potential, and this does not take account of the billions of additional dollars that would be added if consumer credit and other forms of credit, which have been largely liquidated during the war, were to expand. Our people have shown, and justifiably so, great confidence in the Government's credit by the way they have responded in investing in Government securities. They must be given every assurance that the safeguards restraining the premature use of their liquid holdings will be maintained.

Inflations seldom get out of hand during wartime, but the danger carries over after peace comes and a war-weary people, tired of wartime controls and restraints, are eager to throw them off. That is just the time when it may be fatal to relax prematurely the controls of war-engendered inflationary forces. That is why it is so important to extend the life of this legislation for a sufficient period after the war to enable the country to convert its enormous productive capacity to turning out for peacetime consumption a supply of goods comparable to what it has shown itself capable of turning out for war purposes.

This enormous store of funds which so far exceeds the supply of goods available now, when nearly one-half of our production is going for war, could result in a ruinous inflation if prematurely spent, but could be a source of infinite benefit to the nation if held in restraint until such time after the war as goods and services become available in sufficient abundance to match the stored up buying power. Then it can be a tremendous factor in helping to provide and sustain production and employment. The restraints in this legislation, if adequately extended without impairment, afford the best assurance that this unprecedented and growing accumulation of funds will be used for good instead of evil.

In closing I would like to remind the Committee of the interest that the Federal Reserve System has in this legislation. As members of this Committee are aware, the Federal Reserve, through open market operations, must stabilize the market for Government securities and provide the banks with the reserves necessary to enable them to absorb that part of the debt which is not financed by taxation or borrowing from the general public. The less we raise in taxes and public borrowing, the more the banks have to be relied upon to supply the funds to fight this war. And the more the banks buy, the greater the pressure of dollars on the economy. We know that the banks have bought many Government securities and that they will have to buy more. We must make it possible for them to do so, for nothing must be permitted to clog the flow of money needed to finance the war. But as the tide of money rises, it becomes increasingly important to maintain the restraints that hold it in check.

If we fail to sustain public faith in the dollar, the liquidation of securities which would result would inevitably force the Federal Reserve System to absorb the bonds thus liquidated. This, in turn, would amount to pumping that much more money into the economy, with increasingly perilous results. This must not happen, but it could happen if we allowed the faith of our people to be undermined by a failure to hold this line against inflation.