

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

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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 House of Representatives, June 15, 1945, on extension of the Emergency Price Control Act of 1942.

It would make just as much sense to scrap or cripple the Price Control Act at this stage of the fight against inflation on the home front as it would to lay down our arms now that final victory is in sight on the battle front. The safety and security of this Nation depend upon winning on both fronts. To lose the battle here at home would be a betrayal of all of our armed forces and countless millions of loyal Americans who have faithfully supported the price control measures, vexatious and irritating as this necessary wartime regimentation of our economy inevitably is.

Chester Bowles, his staff and army in the field, composed mainly of volunteers, are the often criticized, unsung heroes of this war. The problems they have faced have been as formidable as any that have ever confronted us. They have made mistakes, as who has not in these years of crisis? Seeing only the imperfections, we sometimes lose sight of the magnificent achievement. Subjecting 140 million people to price and rent controls and rationing, all of which are interferences with our daily lives and cherished freedom of action, is one of the most difficult tasks imaginable in a democracy. I am in close contact with officials who have responsibility for the economic stabilization program, and I know that without exception they will welcome the day when the danger on the home front has passed and these protective controls can be laid aside, together with the destructive instruments of war. No one would have believed in 1942 that we could have created in these war years the inflationary high explosives that have accumulated and yet protect the home front as well as has been done.

As time passes and the line is held successfully, if not perfectly, we tend to lose perspective and to forget that the national debt has already risen from less than 50 billions in 1940 -- a figure that many thought perilous then -- to approximately 250 billions at present, and is still mounting. This huge debt has its reflection in a corresponding accumulation of spendable dollars in the hands of the public while the supply of civilian goods and services has continued to shrink.

As the war continues and these inflationary pressures grow greater daily, it is all the more imperative that this legislation pass, because bound up in it is the high confidence that the American people have had and continue to have that the home front will be protected, that the purchasing power of the billions of dollars invested in Government bonds by soldier, sailor and civilian

alike, will be maintained. This depends in large part upon continuance of the Price Control Act which is the mainstay of our line of defense at home.

Certainly there is no higher obligation to all our armed services than to protect their stake in this country, their savings, their war insurance, their dismissal pay, their benefits under the G.I. Bill of Rights, and the veterans' compensation for the sick and wounded and their dependents. Their families and all who have put their faith in the obligations of the Government, who look to future benefits from their savings, insurance, social security, Civil Service retirement, and innumerable other pension systems and funds devoted to educational, religious and philanthropic causes -- they deserve, now have, and must continue to have the protection afforded by this legislation.

Inflationary dangers grow greater, not less, as the war continues, and as long as we continue to deal with effects rather than with basic causes, Price and wage controls, rationing and other measures necessary to hold the line deal, of course, with effects, not with causes. To get at the causes we should have imposed far higher taxes or greatly economized in war and other expenditures, thus leaving more goods and services available for civilian use with less excess money in the hands of the public. As this has not been done, we must continue to maintain the controls essential to hold back the enormous and increasing inflationary pressures,

As Mr. Bowles has said, what is needed in the end to prevent inflation is an avalanche of civilian goods and services. To the extent that we can have reductions in war expenditures, the pressures can be lessened by increasing the supply of goods and services for the civilian economy. In my opinion, heavy cut-backs are possible without interference with the successful prosecution of the war against Japan.

After final victory has been won and reconversion has been accomplished, civilian demand can be completely met by fully employing our manpower and material resources in peacetime production, and creation of further inflationary forces should be ended by reduction of public expenditures and by maintaining such taxes as are necessary to bring about a balanced budget.

I want to emphasize as forcefully as possible the importance of passing this legislation without the Wherry or other crippling amendments. It would be better never to pass the legislation than to deceive the public by passing it in a form that would prove unworkable and thus ineffective.

As lawmakers you know that all law rests on the consent of the governed. This legislation cannot be effective unless it has public acceptance, unless the need for it in the public interest is generally understood. The Congress, by overwhelmingly supporting this legislation, can do much by its action alone to foster public acceptance of and confidence in the need for this protective measure. What a national tragedy it would be to win the victories overseas and lose the battle against inflation at home.