February 16, 1938

This administration has from the beginning pursued a policy designed to promote full employment of our human and material resources. That continues to be our policy. The productive power of our workers and our resources, if fully utilized, can provide and maintain a national income far above any levels we have yet reached.

An important factor that determines whether we shall succeed or be blocked in our endeavor to attain full employment and a high level of income is the behavior of prices. In this connection careful attention must be given to: (1) the relations existing among the prices of various groups of commodities; (2) the relations between commodity price levels and the levels of debt burdens and costs; (3) the direction and rate of movement of the general price level. To further its broad objective the Administration has, therefore, in its agricultural, industrial, and monetary programs necessarily been concerned both with the relation of the prices of groups of specific commodities to each other and with the movement of the general price level.

In conformity with this policy, the measures employed at any given time must fit the needs of that time. A year ago there was ground for concern that a too rapid rise in the prices of some commodities was encouraging a speculative boom.

During the past six months, on the other hand, the general price level and industrial activity have been declining. Government policy must be directed to reversing this deflationary trend.

This does not mean that all prices should advance, nor that the rise should be rapid. Prices of different groups of products must be brought into balanced relations to one other. Some prices and some costs are still too high to promote that balanced relationship between prices that is necessary for sustained recovery. Continued high prices of many of the commodities not subject to highly competitive market forces intensifies the downward pressure on all other prices. Those industries that have maintained prices and curtailed output should seek the restoration of profits through increased volume rather than through restricted output.

When prices are controlled through monopolistic practices, it is the obvious duty of government to apply those remedies that the law provides.

The prices of some items are still at the highest levels reached in 1937; some are even higher than in 1929. When high prices sharply curtail sales there is real danger. This is shown by our recent experience with housing. A year ago there was a serious shortage. We had unused productive resources ample to overcome the shortage. Yet all the major elements in housing costs advanced so sharply by the Spring of 1937 as to kill a promising expansion of activity in an industry whose restoration is vital to continued recovery.

For industries, such as agriculture, that operate at a high level of capacity even in a depression, the restoration of profits must come primarily through higher prices. Higher prices in such industries and increased output in other industries will, by increasing profits, encourage new investment in replacement and expansion of equipment. This is necessary to full recovery.

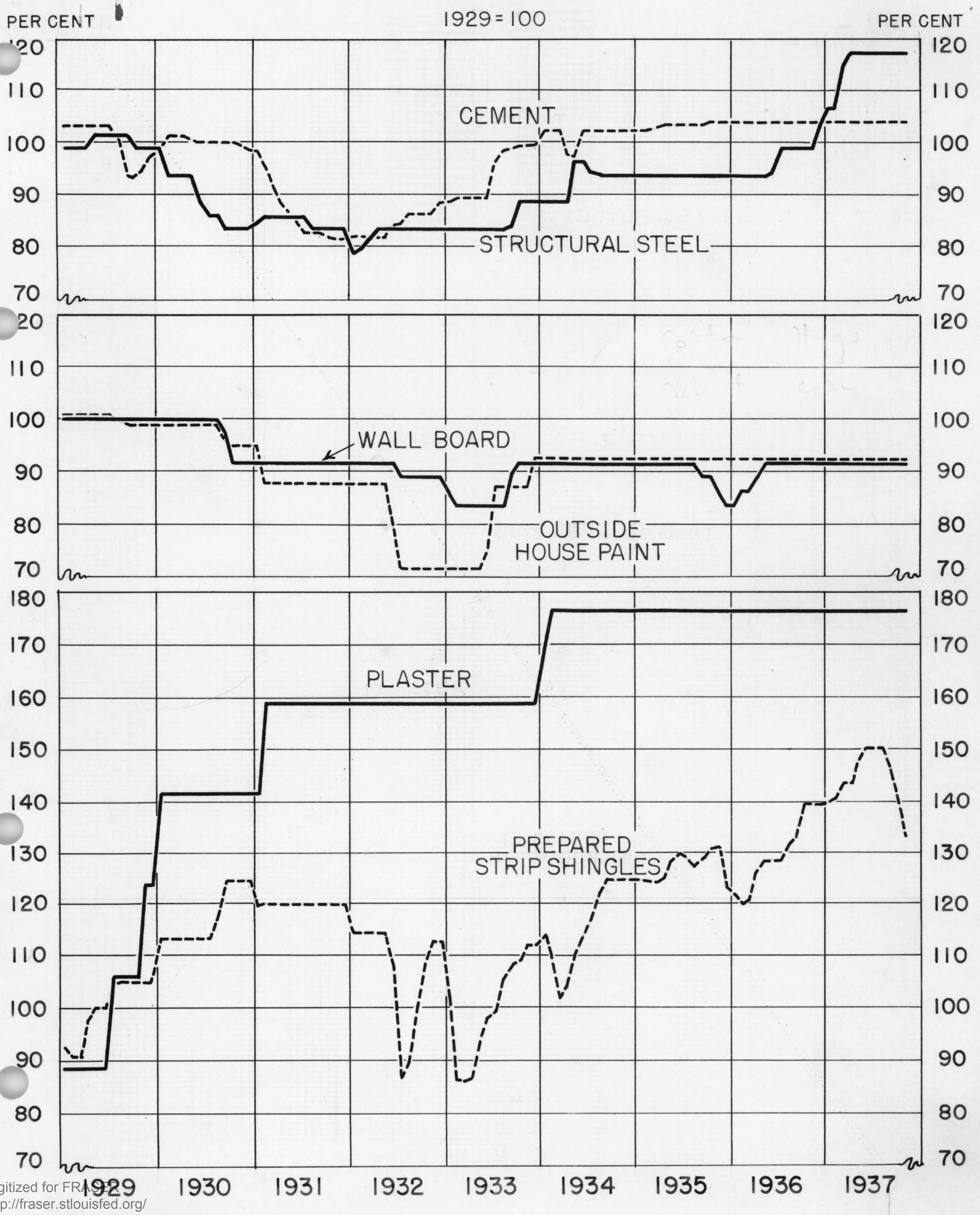
I repeat that present conditions require a moderate rise in the general price level, and that this rise need not and should not extend to all prices. The rise should take place in and must be mainly confined to classes of commodities whose prices are too low. These include most of the raw materials and finished products produced and sold under highly competitive conditions. The rise must not be so sharp or continue so long as to lead to a repetition of the unhealthy speculative conditions of a year ago. That sharp rise in prices encouraged speculative inventory buying which, combined with the reduction in housing, laid much of the ground for the present recession. We must do everything we can to prevent this from happening again.

Our program seeks a balanced system of prices such as will promote a balanced expansion in production. Our goal is a constantly increasing national income through increasing production and employment. This is the way to increase the real income of consumers.

This is not a policy of restriction; it is a policy of abundance.

Our agricultural, industrial, housing, and monetary programs have been and will be directed toward this end.

WHOLESALE PRICES OF SELECTED BUILDING MATERIALS



SOURCE: BUREAU OF LABOR STATISTICS

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Drafted Dec. 20, 1937

E. A. Henry.

Checked by R. R.