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THE ECONOMIC SITUATION AT MIDYEAR 1947

At the midyear inflationary pressures are still dominant, notwithstanding some evidences of impending readjustment. Since many of the forces responsible for inflation are of a temporary nature, ultimate readjustment is inevitable and the longer it is delayed, the more severe it will be. The immediate task of Government policy is so far as possible to combat continuing inflation and thus reduce the severity of a subsequent downtrend.

A combination of factors is exerting an upward pressure on prices:

1. Employment, consumer incomes, and both consumer and business expenditures have continued at record peacetime levels.

2. Backlog demand for durable goods and housing continues to be strong and is reinforced by the large holdings of liquid assets accumulated during the war.

3. Credit is easy and readily available; consumer credit has been expanding rapidly, as has mortgage debt on houses.

4. Large foreign purchases of American goods coincident with the unprecedented domestic demand and the prospect for continuing heavy exports needed to help restore the economy of the world have been a strong inflationary factor.

5. Anticipation of reduced corn and cotton crops has led to sharp increases in prices of these important commodities.

6. Relaxation of rent controls has inevitably resulted in advancing rental costs.

7. Business profits and farm incomes are also at record levels.

8. Excessive wage demands by some groups have served to raise costs and to intensify maladjustments and unbalanced relationships among income groups.

Some of the foregoing factors are clearly of a temporary nature. Consumer expenditures are absorbing increasing proportions of individual incomes, particularly as prices rise. Some of the most urgent deferred demands have already been satisfied. Others may be postponed until prices are lower. Many lower income groups are being priced out of the market especially for housing. The extent and duration of heavy foreign purchases is dependent not only on dollars now available but on what will be made available in the future. And this, in turn, depends basically on our resources and determination to carry through constructive foreign policy.

The critical question at this juncture is what can be done to restrain further inflationary developments. In the absence of the wartime fabric of controls the country must rely on its own sense of self-restraint rather than upon governmental action. The chief instrument of restraint still left to the Government is in fiscal policy. In the face of the huge war-created public debt and money supply, wise policy calls for strict economy in governmental expenditures and postponement of all nonessential public works. It calls particularly for a budgetary surplus that will permit paying off some of the debt in this period of high incomes. Reduction of public debt is a strongly anti-inflationary influence.

It is, therefore, of prime importance to postpone tax reductions until after present price distortions and maladjustments in the economy have been eliminated. At that time consumer expenditures will have declined and reduction of taxes through lowering exemptions will provide a desirable stimulus to the greatest number of taxpayers, particularly those in the lower income groups. Tax reduction now in the form proposed by the majority in Congress is still at the wrong time and in the wrong place. Tax reduction at the right time, when the cost of living has declined, and at the right place, where it will help to augment buying power generally, would serve to stabilize the economy at a lower and sustainable price level and thus would aid in continued production and employment.

Similarly, this is not the time to provide for cashing the veterans' terminal leave bonds. The spending of the proceeds of these bonds now would only accentuate price distortions. The beneficiaries would be better off if they received the money to which they are justly entitled at a time when prices are lower and jobs may be less plentiful.

The Government cannot compel, it can only exhort, business, labor, and consumers in their own interest to impose self-restraint. It is especially important to avoid those wage increases which result in price increases and infect the entire economy with rising costs that in the end do not benefit workers and producers. Wage negotiations, even though they avert strikes, that offset increased wages by increased prices can lead to a ruinous spiral and ultimate collapse with demoralizing effects not only upon the domestic economy but upon the entire foreign policy of the nation.

Every encouragement needs to be given to all programs for saving and paying debts under existing conditions. The good sense of the great mass of the American people should assert itself in refusal to go into debt or to use savings to buy over-priced consumer durable goods and housing. It is regrettable that Congress has not seen fit to continue restraints upon consumer instalment credit, but both sellers and lending agencies should refrain from further liberalization of credit terms. Restraints are still provided by law upon the excessive use of credit in the stock markets, and it is desirable for the Government to maintain these restraints under existing conditions, which call likewise for avoidance of speculation in commodities as well as securities and real estate. Lenders can exercise a salutary influence, especially in the mortgage field, by insisting upon conservative appraisals of values of farm and urban real estate and by requiring reasonably rapid amortization. Business and banks can exercise caution in their lending operations, including loans for financing inventory and new equipment.

In the long run the country can cope successfully with the dangers inherent in the current situation by voluntary restraint. It is the only substitute for the wartime harness of rigid controls which are not feasible in peacetime except as a last resort.