

THE CRISIS IN THE CONTROL OF PRICES

By: Alvin H. Hansen

In the calendar year 1943 we face the crucial test in the program we have undertaken to stabilize the cost of living and to prevent chaotic price developments in our economy. Already 1942 proved a severe test. The President's price stabilization program in April, supplemented by the October action to close serious gaps, succeeded in stemming the inflationary tide which was rapidly developing at the beginning of the year. We must now firmly hold the cost of living where it is.

We are reaching a crucial test this year for various reasons. On the one side, the large stocks of consumers' goods built up in 1941 and early 1942 are now rapidly being drawn down under the pressure of sustained heavy purchases by consumers. On the other side, the income is still expanding partly by the continued rapid increase in employment in the military forces and industry combined. Young people, old people, women, and self-employed persons are being added to the labor force. Working hours are being increased with time and a half for overtime. There is thus going on a triple expansion of income through increased employment, increased hours, and overtime pay. In some cases costs will impinge upon prices, necessitating a judicious use of subsidies in order to hold the price ceilings. These developments force us to face up to a serious problem.

I do not think one can state too emphatically the plain fact that we have reached a fresh crisis in the program of price control. We are in great danger from the pressures arising from all sides. The urgently necessary rationing and the direct

controls are not pleasant, but they are necessary bulwarks against the inflationary spiral. The test of democracy is self-discipline in a great crisis. We can and must meet the test.

If we are to hold the fort in 1943, we shall have to strengthen our defenses at every point and resist policies that unnecessarily increase the flow of money income. We shall have to withdraw purchasing power through rigorous taxation and through compulsory and voluntary saving. We shall have to extend rationing controls rapidly. We must rigorously hold the price ceilings.

We must not let the cost of living rise. Once that dike is broken the flood gates all around will open. Then the spiral. The rise in the cost of living leads to wage increases, increased cost to the government for war contracts, increased outpouring of government funds, unrestrained increase in the flow of income, and thence again to an increase in the cost of living.

No economy in the world is more vulnerable to the destructive effects of price inflation than our own. Our population, by far more than mass populations elsewhere, has accumulated vast savings in insurance funds, in government bonds, and in savings deposits. The wiping out of mass savings, in an economy such as ours would strike at the foundations of our social stability. We know from past experience the destructive effect of price inflation and subsequent disastrous deflation upon employment and income. Violent price instability and the chaotic conditions following therefrom, would doom all reasonable prospects of a stable and prosperous post-war world. The test of our capacity to reach a full-employment economy in the post-war is now upon

us. If we cannot prevent inflation during the war, there is

little hope of reaching the stabilized, full-employment economy which we are eagerly hoping and planning for in the post-war period.

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