

COMMITTEE FOR ECONOMIC DEVELOPMENT

MEMORANDUM



Date 12/12/45

~~To~~ Marriner Eccles

From: **HOWARD B. MYERS**

Enclosed for your information is the prepared statement of Ralph E. Flanders, Chairman of the CED Research Committee, on price control presented to the Colmer Committee of the House on December 12, 1945.

TESTIMONY BEFORE THE SPECIAL COMMITTEE ON
POST WAR ECONOMIC POLICY AND PLANNING,
U. S. HOUSE OF REPRESENTATIVES

December 12, 1945

Continuation of Price Control

For the record, I am Ralph E. Flanders, President of the Federal Reserve Bank of Boston, President (on leave) of Jones & Lamson Machine Company of Springfield, Vermont, and Chairman of the Research Committee of the Committee for Economic Development. In the latter capacity my associates and I have been engaged for some months past in a study of the problem of the removal of war-time controls, and we published a report on that subject last April.

We were fortunate enough to foresee some of the problems which we are now facing. As background, I wish to read a few paragraphs from that report:

"As the C. E. D. has stated, the objectives are high consumption, high production and high employment.

"It is assumed, also, that our objective is to attain these within the framework of a vigorous and expanding economy in which the great volume of jobs will be provided by free private enterprise.

"The Committee believes that these objectives will best be served by the ending of all wartime controls as soon as the emergency needs for them have ended.

"At the same time, it must be very clear that no control should be removed at a time when its removal would jeopardize - - - - the successful transition to a healthy peacetime economy."

"Adoption of any war-born control as a normal peacetime measure is a question to be considered separately and legislated in the light of peacetime conditions; no such control should be allowed to persist just because it is there, or because it worked well during the war."

"For some controls the emergency may largely end with victory in Europe (V-E Day); for others with victory over Japan (V-J Day); for others, especially anti-inflation measures, it may extend for a considerable period thereafter. In some fields gradual steps will be necessary; for example, control of materials should end selectively as each material is released from war use or becomes sufficiently available for civilian use; - - - - - . The objective should be to time and coordinate action in such a way that our economy can land on its feet, prepared to go places."

"The Committee endorses the progressive and selective relaxation and ending of controls. It rejects two other possible alternatives: (a) that all controls be removed suddenly with the ending of hostilities; (b) that all controls be rigidly maintained for a given period after the war. Sudden removal might open the door to wild price inflation, then steep deflation and heavy unemployment. Arbitrary continuation of all controls would retard the attainment of a high level of production and employment."

"The objective is a level of prices high enough to induce the required expansion of production and employment, and low enough to maintain the necessary consumption under normal conditions of demand and supply.

"The more nearly that objective can be reached the better. The attaining of this objective under price control will depend not simply upon price administration, but also upon materials, facilities and production during the control period."

". . . . on some controls--production controls for example--action must not wait beyond [the period of need for war production] if high civilian production and employment are to be reached at the earliest possible moment. Other controls, notably those affecting prices, may have even an increased importance for a period after production controls are ended. They will be our

chief protection against inflationary pressures in the transition period while production is being expanded, inventory pipelines filled, and excess demand induced by wartime savings is being worked off. Since it will be wise to remove some controls promptly after war production needs are satisfied, there is sure to be a demand for the unwise early removal of others which can perhaps serve their greatest usefulness after actual fighting has stopped."

"At the end of the transition period as determined by Congress, legislative authority for the last of the wartime controls should be ended. Action beyond that period is a question of the place of controls in a peacetime economy and is beyond the purview of this report."

The experience of the eight months since that report was written has on the whole confirmed us in the views we then held. The intervening time has only emphasized the difficulties in the situation.

One fact of great significance which could not have been predicted with accuracy last spring and which has only recently become clear is that we are already in the early stages of inflation. Unemployment is low, while civilian employment is already at the highest peacetime level in our history. Inability to satisfy the demand for goods and services remains almost universal. Prices are pressing hard against ceilings. Only the continuation of price control since V-J Day has prevented a sharp rise in prices in many lines.

Speaking as an individual, it seems to me that our three main objectives for the transition should be:

1. To expand to high level production and employment rapidly,
2. To prevent a major rise in the general level of prices,
3. To eliminate price control.

It is not particularly difficult to achieve any one of these objectives singly, or even to achieve any two in combination. But achievement of the

three objectives in combination does present a serious difficulty, due to the fact that a demand for goods sufficiently large to raise output and employment rapidly will very probably also operate to raise prices substantially, unless prices are controlled.

The basic dilemma is that the continuance of price control for a time, while difficult, is necessary if we are to prevent the present excessive demand for goods from working itself off in a sharp rise in prices.

The necessity follows only in part the pattern of the period following the first World War. At that time scarce materials played a larger part in touching off inflation than is probable at the present time. Our present danger is more strongly centered on a progressive pyramiding of wages, costs, prices and cost of living, which will depress real wages, eat away the value of the great savings of the American people, and in the end precipitate us into a depression in which the real as well as the illusory gains of the previous years will be liquidated.

Though a business man myself, I do not have too much confidence that my fellows or myself can trust ourselves not to take the easy way out. We will find ourselves raising prices in proportion as we raise wages, and thus as employers and employees find ourselves conspiring together against ourselves as consumers. Business men who feel confident of their ability to hold the balances even under these conditions and ask for an early liquidation of O. P. A., are taking on a heavy responsibility indeed. Personally, I would fear to take this responsibility, and believe that continuation of some controls for a limited period is necessary.

The difficulties of extending price control are obvious. The primary one is the complications inherent in so administering prices that production will be stimulated where necessary, particularly in needed marginal capacity,

without introducing inflationary pressures. This will require a wisdom somewhat above the ordinary human level, and we may as well resign ourselves to the prospect that this wisdom will fall short of perfection at some times and in some cases.

The other major difficulty is a psychological one. We are weary of controls. We long for "normalcy". So strong is this feeling that the black market hovers in the background in many areas of attempted control.

These difficulties can be minimized, and the task of necessary price control brought out of the realm of the impossible into that of the difficult but possible.

One recourse would seem to be an acceleration of the process of freeing large groups of goods and services from further administration. Eliminate as soon as possible all articles which are not important elements in the cost of living, or important materials for industry. Furs and jewelry are a case in point. They are not necessary to life and liberty, however important to the pursuit of happiness. There is also the host of knickknacks and sundries--the dime store stuff. Cut down to the bone of our economic body and protect that only. By so doing, we will simplify the problem of administration and eradicate a thousand petty annoyances which plague the public.

In addition to reducing the area of price control as rapidly as practicable, we should also move promptly to speed up its operation and adjust it, for the remaining period of its life, to the different conditions of the transition. This involves improvements in administration -- a streamlining of price control. It also, in my opinion, involves some liberalization of existing standards. Even the temporary continuation of price control requires the development of standards which do not impede production, which do not violate common notions of equity, and which make possible the day-by-day

administration of these standards in a prompt and efficient manner.

The principal suggestion I would be inclined to make would be that where supply is short and could be expanded by moderate price increases this step should be taken. Let us err a little bit on this side.

The reason for the suggestion is obvious. Price control is an unnatural practice. "Sitting on the lid" does nothing to relieve the pressures being generated below. The real way to relieve inflationary pressure is to bring production into a practical working balance with demand. This is fundamental. But we must sit on the lid while this is going on or we will be blown sky high.

It is my personal hope and belief that price control over many--perhaps most--goods and services can be suspended before the expiration of the present price control act. Price control in any area should be extended beyond that date only after careful study of the facts then available and on clear demonstration of the necessity of such extension. On the basis of the facts now available, however, --particularly in view of the strong inflationary tendencies now apparent--it is not clear that all items can safely be removed from price control by next June 30. The areas in which some limited further extension of control may be necessary include a few raw materials, such as tin and sugar, some durable goods such as automobiles and washing machines, and especially rents and some building materials.

I do not think we need to decide now on any such extension. We can wait and see. But I do not think we should blind ourselves to the possibility that some extensions, sharply limited as to the items to be covered and as to the period of the extension, may be necessary, particularly if the strong inflationary pressures now generating in the economy continue.

Ralph E. Flanders
December 12, 1945