CONGRESSIONAL RECORD
2-5-51

Fighting Inflation

EXTENSION OF REMARKS
OF

HON. IRVING M. IVES

OF NEW YORK

IN THE SENATE OF THE UNITED STATES

Monday, February 5 (legislative day of Monday, January 29), 1951

Mr. IVES. Mr. President, I ask unanimous consent to have printed in the Appendix of the RECORD a statement entitled "Fighting Inflation," published by the Life Insurance Association of America. The statement is dated January 1951.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

FIGHTING INFLATION

Since the autumn of 1939 we have been experiencing a price inflation which has brought about a decline of 43 percent in the purchasing power of the dollar, with the largest part of this decline taking place since the end of World War II. This steady depreciation in the purchasing power of our money has inflicted hardship and privation on many whose incomes are fixed or relatively constant, and it has seriously reduced the real value of accumulated savings. The inflation which we have already experienced is bad enough, but with the outbreak of war in Korea we are suffering an acceleration in the upward movement of prices.

The basic cause of this development is that the demand for goods and services by the American people and Government, supported by a record-breaking volume of money outstanding, is running far ahead of the available supply at existing price levels. With the very high employment of labor and other resources which exists in our economy today, there is little opportunity for a rapid increase in national output to meet the expanding requirements of our military program. To an important degree, therefore, it is necessary to divert current output from civilian markets to the military program. Under these circumstances, in order to prevent serious inflation we civilians must compensate for the increasing demand of the Government by restricting our demand to the supply of goods and services which can be made available at present price levels.

The 83,000,000 life-insurance policyholders have a vital stake in urging upon the Government that a stiff program be employed to fight inflation. This arises from the fact that an erosion of the purchasing power of the dollar cuts into the value of savings which policyholders have accumulated through life insurance. As a matter of fact, of course, inflation exerts an exceedingly adverse effect upon most savers, but it must not be assumed that inflation will affect only accumulated savings. The history of past inflations demonstrates clearly that when prices rise at a rapid rate they generally outstrip increases in wages and salaries and other forms of current income.

Moreover, experience also teaches us the lesson that every inflationary boom has ultimately led to a collapse. An economic collapse would be disastrous in that it would play into the hands of the Communist world and would involve in itself a serious threat to our freedom. It is noteworthy that Nikolai Lenin, the prophet of modern communism, held that debauching the currency is the best way to destroy a country.

Alarmed at the rise in prices which got under way with the outbreak of war in Korea, Congress acted promptly in passing the Defense Production Act and in enacting an increase in personal income taxes. In addition, the Federal Reserve Board and the various Government housing agencies have acted quickly to tighten consumer and real estate credit. The measures taken so far are commendable, but they must be broadened and strengthened if we are to win the battle against inflation.

We believe that inflation can be stopped and held in check if steps along the lines outlined below are taken in time by the Federal Government. For the present, at least, inflationary pressures can be halted through the use of indirect controls without the need to resort to direct controls such as general price and wage ceilings and rationing. Indirect controls, if stern enough, have the great advantage of getting at the heart of the inflationary process which lies in the excessive effective demand for goods and services. They also have the advantage of not interfering with the freedom of choice of individuals. On the other hand, direct controls deal merely with the symptoms of inflation without getting at the basic causes, and for this reason should be employed only as a last resort. Even then, to be effective they must be accompanied by powerful indirect controls.

THE MEASURES WHICH SHOULD BE TAKEN BY GOVERNMENT

The basic reason for the inflation we have been experiencing is that our money supply has expanded faster than the supply of goods and services, so that the key to an effective fight against rising prices is a well-rounded program by Government directed toward reducing the active money supply in the hands of the public.

The volume of bank deposits and currency held by the public has risen from $63,300,000,000 at the end of 1939 to $173,000,000,000 at the end of October 1950 with a sharp increase of $5,000,000,000 occurring from the end of March through October of this year. Furthermore, in recent months money has been turning over at a much faster rate. The measures adopted by Government, therefore, should restrict not only the current income of the public but also the accumulated money supply. These measures should include the following:

Increased Federal taxation: The military-preparedness program in its present dimensions and all other Government expenditures should be carried on a pay-as-you-go basis. The taxes chosen to raise additional revenue should be geared to cut directly into the mass purchasing power which has given rise to inflationary forces.

A broad extension of excise taxes, or the imposition of a general spending tax, should be given careful consideration. This form of taxation is a direct deterrent to spending and an encouragement to saving both because of the tax itself and because of the psychology of it. The tax should not be applicable to necessities such as food and clothing at the minimum level.

A further rise in personal income taxes, when required, should be levied across the board on a straight percentage increase. A sharply graduated income tax will fall short in yielding revenue and will weaken the incentive which is needed for harder and more efficient work to increase production. It should not be forgotten that over a period of time expanding production is probably the most effective way to combat inflation.

When it becomes necessary to place a heavier tax burden upon corporations, this should be done by increasing the present corporate income tax. An excess-profits tax should not be employed because it is distinctly inflationary in that it leads to unnecessary corporate expenditures and discourages efficiency and increased productivity.

Reduced Government expenditures: As all individuals and business concerns will be called upon to cut their expenditures drastically, clearly it follows that all nonmilitary expenditures by the Federal, State, and local governments likewise should be cut to the bone. This requires, particularly at the Federal level, a searching reexamination of the peacetime functions of Government and the elimination or pruning of many activities. With the additional demands of our military program the burden of Government expenditures will be crushing without continuing to carry many items which were put into the Federal budget in the postwar period. Furthermore, although our military program must be sufficiently large to play our proper role in the preservation of freedom throughout the world, at the same time rigorous care should be exerted to insure that military expenditures are made efficiently and with a minimum of waste.

Tightened monetary and credit controls: A pay-as-you-go tax program is the cornerstone in the fight against inflation, but it is not enough to do the job. Its restrictive effects could be defeated by an expansion of credit and a resultant increase in the money supply, as well as by the spending of liquid assets which are now held in very large volume by the American people.

The action which has already been taken by the Government to curb real-estate and consumer credit is highly commendable because much of the current inflationary boom lies in the housing and durable-consumer-goods fields. While we do not like to see housing, automobiles, or any other such goods denied to anyone, it is to the best interest of all of us that the Government restrictions have been put into effect. It is imperative that the real-estate and consumer credit controls be watched carefully in order to insure that they have the desired restrictive effect, but it is not enough to rely solely on selective credit controls.

The Federal Reserve Board should have freedom to employ its general credit-control powers in order to exert its maximum influence in the fight against inflation. Steps which have already been taken by the Federal Reserve Board to raise the rediscount rate, and its efforts through open-market operations to tighten commercial bank credit and thus to bring about a rise in short-term interest rates, have been in the right direction. The same is true of the Treasury's recent decision to raise the rate on 5-year notes. The guiding principle here should be that the Federal Reserve must be permitted to restrict bank credit even though as a result interest rates must rise. Neither the Government nor the American people can afford a policy of easy money and low interest rates in a period of strong inflation.

Anti-inflationary public-debt management: Through public-debt management the Treasury can and has influenced the money supply. Much of the Federal debt issued during the war and postwar period is lodged in the commercial banks or the Federal Reserve banks with the resultant effect of a greatly expanded money supply. During the next several years the Treasury will be faced with heavy refunding of maturing debt, and its policy in managing this debt should be directed toward getting a substantial part of the debt out of the banking system into the hands of savers.

The constructive effect of this policy would be to reduce the money supply in the hands of the general public. Any new issues of Government debt should be placed outside the banking system. In order to accomplish these goals it will be necessary for the Treasury to make its securities more attractive to all types of investors, which means essentially a higher rate on Government securities.

Strong wage-price policy: The Government, through concerted efforts by its various branches and by means of appeal to public opinion, should strive to prevent further developments of the wage-price spiral. This means not only the avoidance of wage and salary increases designed to keep up with the cost of living—it also means the avoidance by business of unwarranted price increases. The various measures of indirect control urged in this statement will fail unless at the same time the Government, with the cooperation of labor and management, succeeds in holding down the wage-price spiral. By the same token, if the controls urged herein are used fully, much of the cause for the wage-price spiral will be removed.

COOPERATION BY INDIVIDUALS AND BUSINESS

The measures outlined above can go far toward halting further price inflation, but in the last analysis their success will depend upon a thorough understanding by individuals and business of the forces which give rise to inflation along with the measures needed to combat it. With this understanding the American public and business can be counted upon to cooperate with a determined program by Government along the lines set forth here to fight inflation.

The main elements of action by individuals and business concerns in the fight against inflation are clear. Both groups should keep their spending for nonessentials at an absolute minimum and should bend every effort to increase their current savings. Existing savings of individuals in the form of war bonds, bank deposits, and in other liquid forms should continue to be held out of the spending stream. Business concerns, as well as individuals, must refrain from hoarding goods. Scrupulous care should be exerted by both groups to conform with rules and regulations promulgated by the Government to control such things as real estate and consumer credit.

Finally, labor and management should cooperate in stopping a further rise in the wage-price spiral. Real sacrifice by all of us is needed to wage a successful fight against inflation. The objective is so compelling that we must make that sacrifice, and it will be made only if effective controls compel it to be made.

SUMMARY

Since the autumn of 1939 we have experienced a decline of 43 percent in the purchasing power of the dollar, and with the outbreak of the Korean War we are now suffering an acceleration in the upward movement of prices. The basic cause of this development is that the demand for goods and services by the American people and Government, supported by a record-breaking money supply, is running far ahead of the available supply of goods and services at present price levels. Eighty-three million life insurance policyholders, in the interest of protecting the value of their insurance, have a vital stake in urging upon the Government that a stiff program be employed to fight inflation. The main elements of this program, which must be directed toward reducing the money supply in the hands of the public, are as follows:

1. Federal taxation should be geared to carry the military preparedness program, at least in its present dimensions, and all other Government expenditures on a pay-as-you-go basis. Taxes should be directed toward limiting civilian spending to the available supply of goods and services at existing price levels.

2. All nonmilitary expenditures by the Federal, State, and local governments should be cut to the bone and every effort should be made to insure that military expenditures are made efficiently and with a minimum of waste.

3. Selective credit controls such as those to control real estate and consumer credit should be employed as fully as necessary to restrict credit in certain boom areas, and the Federal Reserve authorities must have freedom to use their general credit control powers to curtail the money supply even though as a result interest rates must rise. Neither the Government nor the American people can afford a policy of easy money and low interest rates in a period of strong inflation.

4. In refunding the public debt, Treasury policy should be directed toward getting a substantial part of the debt out of the banking system into the hands of savers, thus reducing the money supply held by the general public. New issues should be made attractive enough to be placed outside the banking system.

5. The Government and business should pursue vigorously a policy of discouraging further rounds in the wage-price spiral.

These steps can be employed effectively by Government to halt inflation, but only if individuals and business concerns cooperate fully by cutting their spending to the bone and by increasing their savings, as well as by conforming in letter and spirit to the regulations issued by Government. It will require real economic sacrifice to combat the forces of Communist aggression successfully without incurring further inflation, but the American public, given sound leadership by Government, can be counted upon to make that sacrifice.

Inflation

EXTENSION OF REMARKS

OF

HON. JOHN W. BRICKER

OF OHIO

IN THE SENATE OF THE UNITED STATES

Monday, March 5 (legislative day of Monday, January 29), 1951

Mr. BRICKER. Mr. President, I ask unanimous consent that there be printed in the Appendix of the RECORD an editorial entitled "Stop Stoking Inflation," from the Christian Science Monitor of Monday, February 12, 1951.

Herbert Hoover: A Prophet With Vision

EXTENSION OF REMARKS

OF

HON. KARL E. MUNDT

OF SOUTH DAKOTA

IN THE SENATE OF THE UNITED STATES

Monday, March 5 (legislative day of Monday, January 29), 1951

Mr. MUNDT. Mr. President, I call attention to a challenging editorial on American foreign policy and a most revealing summary of some of the remarkable prophecies and predictions made through the years by that great American statesman, Herbert Hoover. In the extremely difficult task of forecasting ahead of time the results of public policies, Herbert Hoover clearly stands without parallel or equal among his contemporaries of the past two decades.

The Huron Daily Plainsman is one of the great daily newspapers of South Dakota. Its editorials are the careful product of two well-informed and able men—Robert D. Lusk, publisher of the paper, and Bruce Campbell, the editor. From extensive reading, from studious research, from frequent travels, and from numerous contacts with American leaders, these two South Dakotans join in producing a most informative and illuminating editorial page which is read by large numbers of citizens in the upper Midwest area of this country. The editorial merits the careful reading of all Americans as we face up to the difficult decisions which are ahead. I ask unanimous consent to have the editorial printed in the RECORD.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

A PROPHET WITHOUT PROPER CREDIT

One of the most arrogant things which the ardent supporters, in Congress and outside of it, of the troops-to-Europe plan have done in the course of arguing for it is to try and write off Herbert Hoover as a man with no sense of history and no grasp of the foreign situation. They even have employed the meaningless but scornful word "isolationist."

They have done this thing after Hoover gave his famous speech of December 20, 1950, to the Nation, in which he suggested that the United States preserve the Western Hemisphere by building air and sea power to hold one frontier in Britain and one in Japan and by keeping economically sound, and by demanding proof that western Europe even is willing to fight Russia before sending any troops to Europe.

What are the facts?

The facts are that Hoover's observations on foreign policy the past 10 years have proved remarkably accurate and that his speech of December 20, 1950, was part of pattern of foreign policy speeches he has given the past few years.

JUNE 29, 1941

Perhaps the reason so many administration spokesmen have attacked Hoover is that time has proved him so uncomfortably correct in a notable speech of June 29, 1941, a week after Hitler attacked Russia.

Such a contradiction in policies is not good finance, sound economics, nor intelligent management. If the American people come to understand clearly what is being done to them by this process, it will not even be good politics.

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Selective Controls

EXTENSION OF REMARKS

OF

HON. BURNET R. MAYBANK

OF SOUTH CAROLINA

IN THE SENATE OF THE UNITED STATES

Monday, February 19 (legislative day of Monday, January 29), 1951

Mr. MAYBANK. Mr. President, I ask unanimous consent to have printed in the Appendix of the RECORD an editorial entitled "Selective Controls," published in the Washington Post of February 19, 1951.

There being no objection, the editorial was order to be printed in the RECORD, as follows:

SELECTIVE CONTROLS

The action of the Federal Reserve Board in tightening credit curbs on most new commercial construction was preceded by two regulations imposing similar curbs on residential building credit. Consumer credit has also been restricted by means of selective controls specifying minimum down payments and maximum maturities for installment sales of specified goods. These selective real-estate and consumer-credit controls relieve the upward pressure on prices of labor and materials. At the same time they release scarce materials for defense production. They are, therefore, not only a very effective means of restricting loan expansion; they reenforce the efforts of other agencies to control prices and regulate production by cutting down the output of nonessential goods and stimulating expansion of defense industries.

Selective controls are, in fact, a much more effective means of restricting loan expansion than nonselective control—that is to say, control which curbs loan expansion by raising the cost of credit, or increasing interest charges on borrowed money. There is a good deal of truth in Secretary Snyder's contention that limited increases in interest rates have little deterrent effect on private borrowing, especially when business is booming. At any rate, the powerlessness of the Federal Reserve System to prevent an expansion of loans through nonselective overall credit control, so long as it is committed to support of the bond market, does not preclude effective use of selective controls reducing the volume of loans by limiting the amounts that may be advanced to private borrowers for specified purposes. These types of control can always be tightened or relaxed in response to changing conditions. They can also be extended to good advantage to cover other forms of lending. The blanket kind of control, on the contrary, makes it impossible to discriminate between credit advances that are in the public interest and those that are undesirable. Thus the Reserve Board's new regulation does not apply to certain classes of construction, such as schools, hospitals, churches, and public utilities.

If the Reserve Board were given broad authority to apply selective controls at its discretion, it could cooperate with the Treasury in stabilizing the bond market without increasing the upward pressure on prices that would be intensified by continued excessive expansion of bank loans.