Statement of Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, before the Banking and Currency Committee of the House of Representatives, February , 1946, on Extension of the Emergency Price Control Act of 1942.

I should like to begin by reading from my statement on the extension of price controls made before the Senate Banking and Currency Committee almost two years ago. At that time, I said:

> "Inflations seldom get out of hand during wartime, but the danger carries over after peace comes and a war-weary people, tired of wartime controls and restraints, are eager to throw them off. That is just the time when it may be fatal to relax prematurely the controls of war-engendered inflationary forces. That is why it is so important to extend the life of this legislation for a sufficient period after the war to enable the country to convert its enormous production capacity to turning out for peacetime consumption a supply of goods comparable to what it has shown itself capable of turning out for war purposes."

I also said then:

> "Inflationary pressures are still increasing, and will continue to increase until reconversion from

wartime production to peacetime production has been achieved and a balanced budget is in prospect. If the public is assured that the Congress is determined to continue this legislation which has been so effective, the great confidence which now exists in the purchasing power of the dollar will be maintained---without that confidence, not only would the successful prosecution of the war be jeopardized, but an orderly transition to a peacetime basis would be out of the question."

These statements of two years ago still hold, but in the meantime many of our inflation checks have been discarded while inflationary pressures have been augmented greatly.

The danger of inflation, in fact, was never so great during the war as it is today. Two years ago inflation pressures were sizeable but our defenses were strong. We had many checks and influences to ward off trouble, including direct controls over the allocation of materials, rationing, heavy excess profits taxes, strong wage controls, and by no means least, the compelling urge of patriotism which led the public to accept sacrifices and inevitable inequities without complaint. Today, most of these controls have been abandoned and the unifying force of participation in war is no longer operating.

Too many of our defenses against inflation already have been destroyed. Once gone, they are difficult to restore. These lost defenses include: the repeal of the excess profits tax; the abandonment of most allocation controls and rationing of practically all commodities; the failure to forestall the development of a "boom" psychology in real estate and security markets; and the early reduction in average hours of work before we had achieved the mass production of civilian peacetime output.

In the meantime, inflation pressures have continued to expand. Liquid assets in the hands of the public now exceed 225 billion and will rise further in the coming year as the remaining budget deficit will be financed by drawing on the Treasury's general balance. Currency and demand deposits held by businesses and individuals alone are nearly 80 billion, or almost 3 times the prewar level. Also, these groups hold 50 billion dollars of demand deposits and nearly 100 billion dollars of Government securities. The potential demand for consumers goods, plant and equipment, therefore, is not limited by current income or by available credit. It may be greatly augmented at any time by drawing on these balances. This situation, of course, is the result of war financing--the result of a policy which placed excessive reliance on borrowing and inadequate reliance on taxation. Thus, during the fiscal years from 1940 to 1946 the Treasury will have raised over 400 billion dollars, and more than 40 per cent of this will have come from borrowing. Of the total increase in the debt, the commercial banking system will have absorbed over 40 per cent.

In time, the vast expansion of liquid assets brought about by this policy may be a healthy factor in helping to sustain a high level of economic activity. But now--and until peacetime production has been resumed at a full scale and the brunt of delayed demand has been met--the vast store of liquid assets presents a serious threat to economic stability. It enormously increases the importance of maintaining a vigorous stabilization policy, including price controls and a determined effort to balance the budget. If these things are not done, if we permit the millions of individuals and businesses who hold currency, deposits, and securities to lose faith in the purchasing power of the dollar, we shall invite disaster.

I am not calling attention to these things because I like controls or want to see them continued indefinitely. On the contrary, all controls should be dropped as soon as it can be done safely. They must be retained, however, until the transition to a stable peacetime economy has been assured and supplies in most lines have become adequate to meet the demand. As yet, there are very few lines in which supplies are adequate to satisfy demand or are likely to be adequate soon. Offhand, I can hardly think of a single commodity in which the supply is adequate. Acute scarcities persist for most products.

Because we have scrapped nearly all of our other controls, it is double important that we maintain and strengthen our control of prices. If we had retained the excess profits tax, we could afford to operate price controls more leniently since the danger of inflationary spirals would be substantially less because incentives for raising prices would be checked by high taxes. Similarly, if we had retained more direction over the allocation of materials, price controls could have been operated more loosely since the danger of a serious distortion of supplies or diversion of goods into black markets could have been met by direct means. If we had continued longer hours of work, the critical issue of sharp advances in wage rates to maintain take-home pay could have been postponed until the peak of inflation pressure was passed and the job of price control would have been made simpler.

It has been argued that adequate supplies will be forthcoming only if price controls are dropped promptly. This is a dangerous fallacy. I fully subscribe to the premise that a flood of production is the only sure way to prevent inflation, but I see no assurance whatsoever that greater production will result from generally higher prices and costs. Of course, there are products here and there the supply of which would increase if their particular prices were raised. These cases can be handled best on an administrative basis and I am confident that under the new arrangement Mr. Bowles and Mr. Porter will make whatever adjustments are needed. I should like to urge that the Office of Price Administration be assured adequate facilities to handle justified demands promptly and without delay. The general need, however, is not for a loosening of price controls. Generaly higher prices will intensify the scramble for scarce materials, the accumulation of inventories, the holding of goods off the market in expectation of further price advances, the disorganization of production, and the failure to supply those goods which consumers need most. In the scramble for scarce materials and supplies, it is the small business in particular which is likely to lose out. As prices rise, industrial discontent and strife will be intensified and production may again be stalled as workers seek higher wages to meet their rising costs of living.

It is not true, in general, that production is being held back by price controls. Recoversion is proceeding faster than anyone expected. Instead of the high unemployment widely anticipated, the number unemployed remains below $2\frac{1}{2}$ million. In spite of the large lay-offs in munitions industries, total non-agricultural employment by January had regained its pre-VJ Day level and is still increasing. The Federal Reserve index of industrial production was above its 1941 level until the steel strike and will soon surpass this level once the strike is settled. Income payments have declined only moderately and by summer may exceed the level reached at the peak of the war. Where production is being restricted, the usual cause is lack of manpower or materials and, more recently, industrial disputes which now appear in the process of settlement. Only in exceptional situations are low price ceilings to blame. Although there is much complaint about low prices, profits are large and it is not unlikely that profits after tax for 1946 will be the highest on record.

All this points to the necessity for maintaining our defenses against inflation. The most effective thing that can be done is for Congress to extend without amendment the present price control law for at least one year. The sooner this is done, the sooner businessmen will know how to plan ahead and the sooner goods will come out of hiding. It would be unthinkable to let price controls lapse or to cripple them with amendments. Doubtless the Act is not perfect and it might be improved by some amendments. However, once you open the door to meet the criticisms of one group, you cannot without difficulty close it to other groups. Every exception adds to the inflation spiral and creates pressure for other exceptions. Every price increase fosters expectations of other price increases.

Our primary need and our only sure means of escape from inflation is production. We must go to work, stop haggling over pennies, and have faith in our economic system. No single measure before Congress in my opinion carries with it the hopes and prayers of the American people as does the extension of price control legislation. Unless this law is extended promptly and for at least a year, I am fearful of the consequences in lost production, industrial strife, and inflation. Prompt passage of this measure will do more toward directing the country into a period of peacetime prosperity and full employment than anything else Congress or the Administration can do.