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Congress of the United States

JOINT COMMITTEE ON THE ECONOMIC REPORT
(CREATED PURSUANT TO SEC. 5(A) OF PUBLIC LAW 304, 79TH CONGRESS)

January 19, 1951

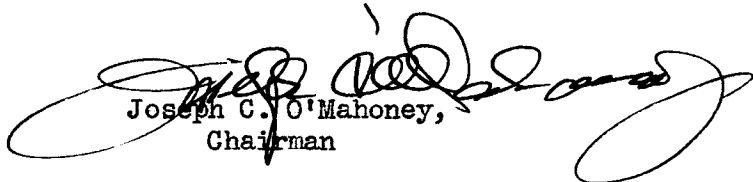
Mr. Marriner Eccles,
Board of Governors of the
Federal Reserve System,
Washington 25, D.C.

Dear Mr. Eccles:

This will confirm our invitation for you to appear in open session before the Joint Committee on the Economic Report to discuss the President's Economic Program on January 25 at 10:00 a.m., in Room 362 Old House Office Building.

As you know, we are particularly going into the problem of controlling inflation.

Sincerely yours,


Joseph C. O'Mahoney,
Chairman

CONGRESS OF THE UNITED STATES

JOINT COMMITTEE ON THE ECONOMIC REPORT

PRESIDENT'S ECONOMIC REPORT CONTAINS
APPALLING EVIDENCE OF INFLATION, SAYS
CHAIRMAN JOSEPH C. O'MAHONEY

Senator Joseph C. O'Mahoney today issued the following comments on the President's Economic Report:

The President's Economic Report, with the accompanying Economic Review of the Council of Economic Advisers, contains appalling evidence of the progress of inflation. It points to the necessity of raising new taxes so as "to finance the cost of national defense on a 'pay-as-you-go basis.'" It discusses credit controls; it asserts that direct controls over prices and wages must be used, as well as tax and credit measures, to prevent inflation. It discusses the importance of production, and points to the difficulties involved in the conversion of industry to defense as compared with the conditions which existed ten years ago. But it contains no record of any positive steps taken as yet to hold the line against inflation.

It is not too much to say that unless the cost of living and the cost of manufactured products are brought under immediate control, the problem of meeting the Soviet threat will become increasingly more difficult to solve. If it be true, as the Economic Report correctly states, that in 1940 "there were idle plants and men and materials" to be immediately channelled into the defense effort, and if it be true, as the Report also correctly states, that "our economy has recently been running at full blast," that men, materials and plants will have to be withdrawn from peace-time uses to the production of defense commodities; then it clearly follows that failure to hold prices now will only greatly magnify the difficulty the nation faces.

In the Economic Review it is pointed out that "in the four weeks following the Chinese intervention, the index (for the prices of industrial products) rose more than in the preceding eight weeks, and more than in the four weeks following the Korean attack." The facts are even worse. The consumer price index which after Korea had risen from 170.2 to 172.5 by the middle of July, had reached 175.6 on November 15 last, and is now estimated to be about 177.4 for December 15.

The significance of this continuous increase in the cost of living lies in the fact that the Defense Production Act, with its power to fix ceilings on prices and wages, was enacted on September 8, 1950. The record shows that the cost of living from September 15, 1950 (the

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approximate date of the control law) to December 15 had risen just as much as it had risen from June to September. This cannot safely be permitted to continue.

The cost of food has risen more rapidly than any other item in the cost of living. From a pre-Korean index of 204.6 it had risen to 209 in August 1950. It was 209.5 on November 15, before the Chinese intervention in Korea. It is now 216.3. In other words, since the Communist Chinese intervention, the cost of food in the United States has reached an all-time peak for the second time in six months. This steady increase of the cost of food, dragging along with it the cost of house furnishing, of apparel, and all other items, is making it steadily more difficult to control wages.

Failure to act positively in the field of prices and wages is only adding unnecessary complications to the great task we have to perform. If inflation continues to gain cumulative force, it will not only multiply the cost of the defense program, it will not only undermine production, destroy confidence, and impair the value of the dollar-- it will generate new friction and new economic strife and will become here at home the destructive instrument that made it possible for the Communists to take over Russia, the instrument that prepared the way for Communism in the Balkans and in China.

It is not sufficient merely to talk about the problem of inflation. It is necessary to act. It must be remembered that the increases in the cost of living already noted have been matched by increases in wholesale prices as well. During the last half of 1950 prices of textiles have increased 25.2 per cent, chemicals 21.0 per cent, and all wholesale prices 12.3 per cent. These increases all took place at a time when Government cash expenditures were being held down. During the last half of 1950 the Federal Government not only had a balanced cash budget, but a substantial surplus as well. Inflation was caused by panic buying, by business hoarding, by public fear of what lay ahead. Business and consumer buying were so obvious that Barron's Weekly, one of the country's best known financial weeklies, published in New York, in a first-page editorial on January 8, 1951, used these words:

"During the past six months, business and the public have been on a wild buying and hoarding spree. Fed on easy bank credit until quite recently, inventories now are bulging the sides of their warehouses. Out of its 1950 income, swollen to the highest level in history, the U.S. saved less than it did during some depression years. ..."

While inflation has been taking its toll, corporate profits have risen to astronomical levels, exceeding even the prediction which I made last September when I was urging the enactment of an excess profits tax. I stated then that because of rising prices, corporate profits for the calendar year 1950 would be about 40 billion dollars. The Economic Review which accompanies the President's Report puts the corporate profit

figure for 1950 at 40.2 billion dollars. This amount exceeds the total national income in 1933; it is the highest level of corporate income ever reached. Corporate dividends are likewise the highest in history, and undistributed profits for 1950 are more than twice as great as profits before taxes, prior to World War II.

I cite these figures merely to emphasize the fact that inflation is affecting the entire economy. High profits, high wages, and high prices at the rising levels now being recorded are an illusion. They all increase the cost of the weapons the government must purchase to equip the Air Force, the Army, and the Navy with which we propose to defend our liberties. The higher they go, the higher must be the appropriations for defense and, in turn, the higher must be the taxes upon which to establish the pay-as-you-go policy for which the President's Report calls. If inflation is unchecked, taxation in the end will be unable to raise the sums that every observer agrees are necessary.

The Report recommends new tax increases. It calls for higher rates on corporations and on individuals. It calls for excise taxes and for closing all loopholes, but it must be perfectly apparent that uncontrolled inflation, producing a constantly rising cost of living, will make it difficult if not impossible for people in the lower income brackets to pay higher taxes, and will result in demands for wage increases.

The President's Report properly points out the prodigious growth of the American economy, that farm production is up 25 per cent, steel capacity up 20 per cent, oil refining capacity up 40 per cent, electrical power capacity up 70 per cent. Fortunately this is all true. We have a great capacity to produce and as everybody knows, increased production is a principal weapon against inflation. But delay incurring prices and wages can only result in crippling our power to expand production. Viewed from every angle, immediate action against inflation is essential. Failure to act could be disastrous.

The problem is pressing and the Joint Committee on the Economic Report will move promptly to review the Report. An intensive examination of the whole problem of inflation is indicated. Hearings will be held beginning on January 23d when we shall invite the members of the Council of Economic Advisers to discuss the situation. They will be followed by Mr. Frederick J. Lawton, Director of the Bureau of the Budget, as well as Mr. Charles E. Wilson, Director of the Office of Defense Mobilization, Dr. Alan Valentine, Administrator of the Economic Stabilization Agency, and Mr. Michael V. DiSalle, Director of the Office of Price Stabilization. A roundtable discussion of the Report and all current facts will follow with the object of enabling the Committee to comply with its statutory duty and report to the Congress at the earliest possible date.

CONGRESS OF THE UNITED STATES
JOINT COMMITTEE ON THE ECONOMIC REPORT

Hearings on President's Economic Report
Begin January 22

Senator Joseph C. O'Mahoney, Chairman of the Joint Committee on the Economic Report, announced today the list of witnesses who will appear in the Committee's hearings on the President's Economic Report which begin January 22.

Details of the proposed hearings are contained in a memorandum to the Committee, a copy of which is attached to this release.

CONGRESS OF THE UNITED STATES
Joint Committee on the Economic Report

January 19, 1951

MEMORANDUM

TO: Members of the Joint Committee on the Economic Report
FROM: Joseph C. O'Mahoney, Chairman

As all members of the Joint Economic Committee are aware, the Employment Act of 1946 directs the Committee "as a guide to the several committees of the Congress dealing with legislation, not later than March 1 of each year ... to file a report with the Senate and the House of Representatives containing its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report ..."

In order to obtain more detailed background information on the President's Economic Report, the Committee on Monday, January 22, at 10:00 a.m., in the District Committee Room, P-38, Senate Wing of the Capitol, will meet with the Council of Economic Advisers in executive session. In the afternoon at 2 o'clock, likewise in executive session, Budget Director Frederick J. Lawton will discuss with the Committee various aspects of the President's fiscal program.

To gather additional facts and analyses of facts and interpretations of materials contained in the President's Economic Report, the Joint Economic Committee will hold public hearings and panel discussions.

The schedule of hearings open to the public will be as follows:

Wednesday, January 24 -- Room 318 Senate Office Building

10:00 a.m. Eric A. Johnston , Administrator of the Economic Stabilization Agency
Mr. Michael V. DiSalle, Director of the Office of Price Stabilization
Mr. Cyrus S. Ching, Chairman, Wage Stabilization Board

Thursday, January 25 -- Room 362 Old House Office Building

10:00 a.m. Mr. Marriner Eccles, member of the Board of Governors of the Federal Reserve System will present his views on the problem of inflation.

Friday, January 26 -- Room 362 Old House Office Building

3:30 p.m. Mr. Charles E. Wilson, Director of the Office of Defense Mobilization

Monday, January 29 -- Room 224 Senate Office Building

10:00 a.m. Panel discussion of the nature and magnitude of the problem of inflation. In how far has the post-Korea rise in prices been due to governmental procurement? Business buying? Consumer expenditures? What prices have risen most? Why? What has been the impact on production, national defense, and real incomes? What dangers lie ahead? These and similar questions will be discussed by the following:

V. Lewis Bassie, University of Illinois
Persia Campbell, Queens College, Flushing, N.Y.
Roy Foulke, Dun and Bradstreet
Martin Gainsbrugh, National Industrial Conference Board
Stanley Ruttenberg, CIO
Donald Woodward, Mutual Life Insurance Company of New York

Wednesday, January 31 -- Room 318 Senate Office Building

10:00 a.m. Panel discussion on fiscal policy: Where and by how much can governmental expenditures be cut? What additional taxes and what type can be levied on the economy without impairing production or incentives? Should social security taxes be stepped up now? These and similar questions will be discussed by the following:

Robert Ball, National Planning Association
Richard Goode, University of Chicago
Albert S. Hart, Columbia University
Richard Musgrave, University of Michigan
Louis Shere, University of Indiana
Arthur Smithies, Harvard University

Thursday, February 1 -- Room 318 Senate Office Building

10:00 a.m. Panel discussion on monetary, credit and debt management problems: What is the role of selected credit controls? General credit controls? Debt management requirements? Interest rates? Can segments of public debt be sterilized so that Government debt will not be used as reserves for private expansion? Such are the questions upon which the Joint Committee will solicit the views of the following:

Howard Bowen, University of Illinois
 Albert S. Hart, Columbia University
 Wesley Lindow, Irving Trust Company, New York
 Lawrence Seltzer, Wayne University
 Walter Spahr, New York University

Friday, February 2 -- 318 Senate Office Building

10:00 a.m. Panel discussion of direct controls: What are the possibilities and dangers of an over-all freeze of prices and wages? What is the effect of direct controls such as allocations, rationing, and selective price measures on the mobilization effort, on the structure of American business, on concentration, competition, and foreign trade? The participants will include:

J. Kenneth Galbraith, Harvard University
 Richard E. Heflebower, Northwestern University
 Edward Mason, Harvard University,
 Harold Rowe, Brookings Institution
 Donald Wallace, Princeton University

The Committee is also seeking statements from our large labor, agriculture, business, and consumer organizations, so that we may have the benefit of as wide as possible a range of views on the President's Economic Report and the many difficult problems it raises.: