

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

For release upon delivery

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STATEMENT OF MARRINER S. ECCLES, CHAIRMAN OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, BEFORE THE BANKING AND CURRENCY COMMITTEE OF THE SENATE, MAY 8, 1946, ON EXTENSION OF THE EMERGENCY PRICE CONTROL ACT OF 1942.

The country is approaching the crucial stages in the war on inflation. It is futile to talk about winning if price controls are abandoned or hopelessly crippled now. At best, however, they are a last line of defense. Without reinforcements they cannot, alone, succeed. At best they can do no more than block off inflationary forces until the armies of production are fully mobilized and in action. Production -- at the highest possible sustainable levels -- will decide whether we win or lose this struggle. If we lose, no one can tell what may happen. Plans for economic stability, for peace and progress at home or abroad would become blueprints of a lost cause.

Today the armies of production in many fields have quit. Others threaten to quit. The danger is real and time is running out. We have already lost too much time because of paralysis of vital industry -- coal, steel, lumber, automobiles, among others. In this critical period, violent strife between labor and management that prostrates key industries or our transportation and communication systems threatens the public safety. No group, no leaders, ever have the right to inflict such injury upon the general public. Dictators assume such a right. It has no place in a democracy.

Necessary as I believe it is to extend the Price Control Act unhampered and with adequate financial support, the public should not be misled into thinking that this is enough to hold the line. Neither this nor other devices for dealing with inflationary effects can succeed unless we reach full production without further delay. There is no other way to win this battle against inflationary forces. Failure to produce is the chief source of the danger.

If our enormous money supply, actual and potential, could be rapidly reduced so as to be in reasonable balance with goods and services, damage to the country resulting from strikes and shutdowns would be less. Some progress has been made in reducing the money supply by using Treasury balances to pay off public debt held largely by the banks -- and that is all to the good. Balancing the budget and having the largest possible surplus with which to reduce public debt will be necessary. But this is inevitably a slow process.

Likewise, the idea advanced in some financial circles that increased interest rates would be an effective remedy reflects, in my opinion, a failure to evaluate correctly both the causes of and the appropriate weapons against the unprecedented inflationary pressures today. Higher interest rates would make for serious complications in the Government bond market and would greatly increase the cost of carrying the public debt. No reduction in buying power and no increase in production would result -- and these are the basic causes of the problem.

The solution depends upon how quickly we deal with what is overwhelmingly the chief cause -- production, because we cannot deal quickly enough with the excessive money supply. We could have done better in dealing with it if we had not prematurely reduced taxes and repealed the excess profits tax. We should not reduce taxes further while the danger exists.

It should be borne in mind that necessary as it is to hold the line by price control legislation, such controls are greatly weakened unless reinforced by allocations of scarce materials and rationing. Having discarded these reinforcements, the strain on price ceilings is intensified and the way made easier for black markets and the resultant breakdown of enforcement.

We must, if this nation is to be saved from an inflationary spiral that can only end in deflationary collapse, hold on to the controls that are left; we should, by all means, stop further growth of the money supply and, if possible, reduce it, but above all the answer to the problem is more work and more production. If democracy is to survive we must be willing to face the fact that minority pressure groups, whether of labor or capital, have no right to act in flagrant disregard of the public interest. The people of the country look to their government to protect them from such abuses of freedom by finding effective means for continuing production and employment while controversies between labor and management are being settled.