MEANS OF COMBATING INFLATION

Statement of
Marriner S. Eccles, Member
Board of Governors of the Federal Reserve System

JULY 29 AND 30, 1948

(From the Hearings before the Committee on Banking and Currency, United States Senate, on S. J. RES. 157)

STATEMENT OF MARRINER S. ECCLES, GOVERNOR, FEDERAL RESERVE BOARD, WASHINGTON, D. C.*

Mr. ECCLES. M. S. Eccles, Governor, Federal Reserve Board, Washington, D. C.

The CHAIRMAN. I want the record to be clear on that point, Mr. Eccles. You know, without more ado, the reason you are down here. We are burdened and sincerely so, with the situation that exists in the country. So when this committee was in session to consider these matters, I sought to have the Chairman of the Federal Reserve Board, Mr. McCabe, to come down. He did not want to come. He felt he was not ready to go on, that he needed until next Tuesday for more preparation.

Mr. Snyder did not want to speak until after Mr. McCabe spoke. Needing a witness at once to come down and give us an understanding of these things, I turned to you, and you demurred about coming down, stating as was true of course, that you were no longer Chairman of the Federal Reserve Board, and if you came, you would come down in your individual capacity as Marriner S. Eccles—I believe that is the name—and you have come down here to tell us what you know as an individual citizen, which is fine.

Subsequent to that time, Mr. McCabe decided he would come down and he talked with you about it. You knew he was coming. When I talked with you I told you the two outstanding questions I had in mind. So I am going to propound those questions to you now and I assume you have given them some thought and are ready to speak in your own way. I think they are both $64 questions, that is, $65 questions.

Here they come: Where should the American people place responsibility for the Federal Reserve Board not getting the credit controls it asked for?

Two, who is responsible for the inflationary development in this country which has taken place since the war?

Go ahead, Mr. Eccles.

Mr. ECCLES. Senator Tobey advised me yesterday afternoon for the first time that he desired me to prepare for this committee today. I did demur. I told him I felt it inappropriate for me to appear until after the Chairman of the Board or the Secretary of the Treasury appeared, for the reason that these hearings were being held as a result of the President's special message to the Congress, and I did not feel that I could or should be the spokesman for the Federal Reserve Board or for the administration with reference to the inflationary issues that were before the country and the Congress.

At 5 o'clock Senator Tobey called me up and said that he had been unable to get either Chairman McCabe or Mr. Snyder, Secretary Snyder, for this morning; that he had called his committee together and did not have a witness, and asked if I would help him out. I told him under the circumstances I would be willing to come up here, that I had no statement prepared, that I could speak only as a member of the Board of Governors, of course, as every Board member can speak, not only as a private citizen but as a public official, as a member of a board which is supposed to be and is an independent body and an agent of the Congress.

I have a good deal of sympathy for the position that Chairman McCabe took. I think that had I been Chairman, I would have felt exactly as he did, that I could not well come before this committee

*July 29, 1948.

upon such short notice without having an opportunity of checking the matter with the Board, because, after all, the Chairman is supposed to speak for the Board.

The questions that the Senator indicated to me yesterday that he desired me to discuss, because it was necessary for me to have some idea as to what I was coming before the committee for, as you can well observe, are questions that are controversial and possibly involved, and I shall try as best I can, with such opportunity for review and preparation as I have had, to answer the Senator's questions. I shall try to be as objective as I can.

For the sake of the record, Senator, will you read the first question again?

The CHAIRMAN. Where shall the American people place the responsibility for the Federal Reserve Board's not getting the credit controls it asked for?

Second. Who is responsible for the inflationary development which has taken place in this country since the war?

Mr. ECCLES. The responsibility for not getting the credit controls which the Federal Reserve Board has asked for must be shared by more, of course, than any one person or any one group. To review the position that the Federal Reserve Board has taken, the Board very clearly, I think, in its report to Congress, of 1945—and I would like to come back to that—called attention of the Congress to the danger of further monetary growth, added to the great growth of monetary creation as a result of financing the war and of its danger of further inflationary development.

The Board considered its powers inadequate and, therefore, unable to meet the problem and the Board stated the reason.

In 1946 it again called the attention of the Congress to its report of 1945 and emphasized that the situation had become accentuated, that the inflationary dangers were even more apparent then than they had been before.

Senator CAPEHART. May I ask this question: Do you feel that today they are greater even than they were in 1946 and in 1945?

Mr. ECCLES. I think you have had a great deal more inflation since then.

Senator CAPEHART. But is the danger greater today than it was in 1946 and 1945, of more inflation?

Mr. ECCLES. I don't know how far the bubble can go before it breaks. Of course, we must say that if it is extremely small, it has more room for expansion than if it has already expanded to proportions that it can no longer avoid breaking. As to how large the bubble can go before it breaks, I don't know. It has reached a large proportion.

Senator CAPEHART. Do you see any sign at the moment that would indicate it had reached its peak?

Mr. ECCLES. Instead of getting into this questioning, I would like, Senator, to follow through my line of thinking on this whole subject, and then maybe in that process I will answer some of these questions.

The Board in particular presented a program last November. The President called a special session of Congress, as you well recall, to deal with this same problem of inflation and, in addition, of course, the critical necessity for European aid. Those were the two questions. I would like to review that situation.

The Board was asked in the preparation of that program to suggest, if it felt there was any need, a program to deal with the monetary aspect of inflation. This was a considerable time before the Congress met, several weeks, I think.

The CHAIRMAN. Who asked you?

Mr. ECCLES. Clark Clifford called me up. I advised the Board, and we proceeded, in line with our previous reports to the Congress, to prepare a statement covering the entire inflationary situation.

We worked very closely with the Treasury and with the White House. Although we considered ourselves an independent agency and not speaking for the administration, yet we felt it was our duty to suggest and to assist in developing a legislative program that in our opinion was necessary and desirable in the field in which we have statutory responsibilities.

This program was discussed and cleared with the Council of Economic Advisers of the President, and we were, I am sure, in agreement with those people.

Up to this time we had no opposition to the program from the Treasury. We were asked to prepare a short statement for the message covering the program. A statement was prepared. The statement was negotiated with Mr. Clifford, who was preparing the message, I think, and was, we thought, going to be incorporated in the message. To our great surprise, when the message came forth, the statement had been deleted. The question arose as to who had deleted it and as to whether or not the Federal Reserve Board was going to be supported.

A conference was held with Mr. Snyder and I think Mr. Steelman and others. However, we had found out from Mr. Clifford that the deletion of the statement was due to the Treasury. We suggested when we met that they carry the No. 1 item in the President's program, which was to restrain the creation of inflationary bank credit, and that if they didn't want to support the Board's position, they should propose a program. They had no program to propose and insisted that that was the Board's responsibility.

I consented to come before Mr. Taft's committee with the Board's program with the understanding that the Treasury would interpose no suggestion in objection. It wasn't a question of support, but there was a question that it was our responsibility and, inasmuch as they had no program, that it would be up to the Congress to determine the issue.

Senator CAPEHART. You say they had no program; meaning the administration?

Mr. ECCLES. They had no program, the Treasury had no program, with reference to controlling the creation of inflationary bank credit covered by the President's message, and it was expected that we would come and say what the Board felt it should say. We, of course, didn't expect what we got.

Senator CAPEHART. They have no program today.

Mr. ECCLES. I would like to show the position of the Board of Governors in connection with the November bank-credit program. I quote from the Board's statement approved by Mr. Clifford:

> Under prevailing conditions of employment and production, with the continued shortage of labor and materials, an increase in the aggregate outstanding volume of credit extended to individuals or to business would increase demand for goods and services without increasing total production.

This was supposed to be in the message:

For this reason, I recommend two measures at this time which would help to restrain extension of credit beyond what is necessary to maintain the highest possible production.

At least, these were some of the views that the Board had with reference to what should be in the message and what we thought was going to be and we only prepared it upon request. We did not know that it had been deleted until we saw the message.

Senator CAIN. May I ask one small question: Do you know whether or not your Board was requested to give an opinion prior to the President's last message to us?

Mr. ECCLES. I wasn't here. I was out West. I would prefer you find out from Chairman McCabe. I have been away for a month and I got back just day before yesterday. So I am not acclimated.

Senator CAIN. You have had no reference made to such a request in your presence since your return?

Mr. ECCLES. No; I have had no request, but possibly the Board or Mr. McCabe has. I don't want to answer the question, and I don't want even to imply that there may not have been a request.

Then the question of consumer credit, which was also an item in the program, comes in. One is the restoration, and so forth. The balance of the suggested statement and the heart of it:

As a more basic means of restricting excessive growth of bank credit, I recommend that Congress give to the Open Market Committee of the Federal Reserve System a temporary authority under which all banks engaged in receiving and paying out demand deposits may be required to hold in addition to present required reserves, some specific proportion of their deposits in the form of cash and balances with the Federal Reserve banks or other banks or in Treasury bills, certificates, or notes. At present the banking system has access, without effective limitation, to reserves upon which a multiple expansion of bank credit can be built. The proposed measure would serve to retard expansion of bank credit beyond the requirements of full and sustained production.

I just wanted to let you know the view of the Board at that time in response to the question.

The message of the President instead, contains these words:

One way to reduce monetary pressure is by restraining the excessive use of credit. At a time when the economy is already producing at capacity, a further expansion of credit simply gives people more dollars to use in bidding up the price of goods.

That is a good statement as far as it goes. I agree with it. No. 1 in the President's program was—

To restore consumer credit controls.

I appreciate the fact that this committee considered that matter and acted favorably. However, what is by far the more important and basic question, is the question of the quantity of money. No. 2 was—

To restrain the creation of inflationary bank credit.

That is all there was in the President's message about credit control.

In behalf of the Board, and the Board was unanimous, on the 25th day of November, I appeared before the Taft committee as the first witness in connection with this inflation question because this was No. 1 on the President's program at that time, I presented a comprehensive statement which has had wide circulation and was published in the Federal Reserve Bulletin, later I had an opportunity to appear in connection with this statement before the House committee and further elaborate; again appear before the House committee and again appeared before the Taft committee—five times for discussion.

However, in the interim, Mr. Snyder appeared, and here are some of the newspaper headlines: "Snyder disagrees with Eccles on reserves." "Snyder, Eccles, split on bank-credit controls." "Treasury head against giving blanket power to raise reserve requirements." And so on.

You all may be familiar with that situation.

With due respect to Mr. Snyder, I don't want to imply that we would have gotten the power had he been favorable to it or had he said nothing, because we had very formidable opposition from the banking fraternity, since nobody likes to be controlled. Everybody likes the benefit of inflation where it benefits them, but nobody likes to pay the price. So it was only natural that the bankers would not be favorable, and the Federal Advisory Council of the Board appeared before this committee, Mr. Brown, Mr. Fleming, and appeared before the Taft committee; and rather castigated the Board and myself for the proposal, but they did not offer any alternative program for dealing with the situation except largely the voluntary plan of control.

We have had, or course, voluntary plans of control ever since the war, and you all know the results of the voluntary operations.

In addition to that, my good friend Allen Sproul, the president of the New York Federal Reserve Bank, likewise appeared and testified against the program, but offered no alternative course except to let the short-term interest rate go up, which we were not opposed to, which we all agreed to, and still favor, so long as it does not put undue pressure on the long-term Government bond market.

I want to make it clear here that at that time and in this statement the Board made it perfectly clear that they did not feel or propose that the program that they presented was all that was necessary. It was appropriately pointed out that the credit and monetary field was supplementary to a proper fiscal program, that a sound budget should be maintained, that a bugetary surplus should be continued, and so forth.

At that same time the Board pointed out that we were already in the advanced stage of the inflationary disease:

> It is no longer a question of preventing, but of moderating it so far as possible.

We also said at that time that correction is long overdue and that the longer it is postponed, the more serious and severe will be the inevitable reaction.

This is a very comprehensive statement on the whole inflationary picture, and if you are interested in the Board's view, I suggest you might read that statement. It is entitled "Inflation, Its Causes and Controls." It is a statement you can get from the Board. I won't read the statement. It is pretty voluminous.

Senator McCarthy. Do you have any extra copies with you?

Mr. Eccles. I don't have an extra one with me, but I will be very glad to send you one, Senator.

The Chairman. You might send each of the Senators one.

Mr. Eccles. Yes, sir. That is very pertinent at this time, when we feel that we have been pretty well defeated because we got absolutely nothing.

Senator Capehart. May I ask this question? Was any specific legislation introduced?

Mr. Eccles. The Board sent a draft of a bill to the chairmen—to Chairman Wolcott and Chairman Tobey—with complete explanation of the whole subject, for their introduction and consideration by the committees if they chose to do so.

Senator CAPEHART. Was a bill actually introduced?

Mr. ECCLES. There were no hearings on the specific bill, and I do not recall whether the bills were introduced. The Board did everything in its power. By the way, the bills were prepared and copies submitted to, I think, the White House, even before the session was called.

In answer to your question, I am trying to place the responsibility for the Board's being in the position in which it now finds itself.

I received considerable encouragement when the President's Economic Report of 1947 was sent to the Congress because it appeared that although the Treasury was opposed to the Board's having increased authority and power, and the bankers were, there were friends in the White House who still felt that this was a proper subject for consideration in the President's Economic Report.

He says on page 48, in the report that went up last January right after the special session:

> The regulation of credit in the process of inflation: One of the most potentially dangerous sources of excessive demand is the expansion of credit. This applies to consumer credit, commercial credit, real-estate credit, and credit on securities.

Then he recommends the consumer-credit controls be restored.

> Also dangerous is the mounting volume of mortgage debt, urban and rural. The longer-run interest of the people requires consideration of the present financial policies of both private and governmental agencies.

In the light of that, I cannot understand at this time the advocacy of the Taft-Ellender-Wagner bill as part of an anti-inflationary program. He continued:

> More dangerous than the expansion of consumer credit is the overrapid expansion of commercial loans by the banks. During the first half of 1947 commercial credit expanded only moderately, but during the second half it rose at an annual rate of almost $10,000,000,000, a much more than seasonal increase.

This was in line with the report of the Board to the special session pointing these things out.

> The increase coincided with the upsurging of inflationary developments. The increase of bank credit was both a result and a further source of inflationary pressure. The control of bank credit is not a simple task.

Nobody knows that better than we do. The control of any inflation through any means is not a simple task, or deflation either. Nor is it free from dangers.

> Unwisely exercised, it could overplay its role and precipitate an undue liquidation of credit and a lowering of economic activity.

That is certainly correct, and the longer the expansion goes, the more people who will get in debt for extremely high priced houses, with little or no down payment, for consumer goods, and otherwise. The further the situation goes, of course, the higher up on the ladder you would get and possibly the farther you would have to fall. I have only been hoping that we could fall while we were able to pick up the pieces.

> Furthermore, the problem is complicated by the relation of credit to the administration of the public debt.

I want to say considerable; not at this time, but I want to say later a good deal on that problem, because here I have a bone to pick with the Republicans on the question of the Board having adequate authority already to deal with this question. I want to be objective on this entire question, and there is an issue that I would think should be clear about the Board having adequate power. I am going to discuss that issue at a later time, I hope either today or when I get a chance, before this committee.

Limitations of the amount of commercial lending would probably be accompanied by higher interest rates except as special devices may be introduced which can partially insulate the public debt * * *

That was our proposal—

* * * Two unfortunate developments might take place. A decline in the value of public bonds held by the Government, and an increase in the cost of servicing the debt as refunding takes place. But these difficulties can be surmounted through the wise exercise of restraints upon excessive bank credit. In view of their central relation to the control of inflation, current proposals for credit control, especially those which have been presented by the Board of Governors of the Federal Reserve System for the increase of bank reserve requirements should be given close study by the Congress, and legislation should be enacted of a sufficiently comprehensive character to make available all the powers that may be needed.

Under "Management," on page 85, there is more said upon the subject. I am going to read one line of that:

If it does not—

that is, voluntary control by the banks—

succeed, more direct action by the Federal Reserve banks will be required, but such actions as may be taken would not involve withdrawing support from the Government bond market.

The CHAIRMAN. As to that voluntary plan, that is fine in its motivation, but the fact remains that you instantly create a competitive situation in the average bank which lives for profit. Is that a fair statement?

Mr. ECCLES. It is. I came before the Taft committee in response to the President's economic report. In response to that report I was called up by Senator Taft before the joint committee of Congress whose job it is to consider the economic report. I appeared on April 13 and presented a statement which was the unanimous view of the Board before that committee of Congress in response to that report.

In the interim this is what happened: I received a letter from the President on January 27 in which I was advised that I had been replaced as Chairman, which was perfectly all right. That is his privilege. But I wish to call your attention to the last paragraph in the letter. After asking me to stay, and assuring me that there was no lack of confidence in me—

or dissatisfaction in any respect with your public service or disagreement on monetary or debt-management policies, or with official action taken by the Board under your chairmanship. All who are familiar with your record * * *—

and so forth.

Therefore, I urge you to remain a member of the Board and to accept the vice chairmanship—

which didn't develop, and I preferred not to accept it—

so that the benefit of your long experience and judgment will continue to be available and so that you may carry forward legislative proposals now pending in the Congress dealing with the important problems of bank credit as outlined in the President's Economic Report to the Congress * * *.

I read that report—

* * * as well as with other matters in the interest of a sound banking system and a sound economy.

That was fine. That rather pleased me because I was primarily interested in the problem of inflation and not necessarily the Administration or any particular job.

The statement of April 13 I referred to was in complete accordance with and in line with the President's Economic Report of the Board for further power. The short statement expressing the Board's views read by Chairman McCabe this morning is certainly in line with this report, and although I didn't see his other statement which is an expression of his views, I did hear a substantial part of it this morning and it seemed to me to be very largely a confirmation or a ratification of the position which the Board has been taking continuously and particularly the position which the Board last took, which was not a deviation from what it took before, in its statement of April 13.

I want to read this part of the Board's April 13 statement because it is so pertinent and because it fits so completely into this picture and the need for authority:

> Need for additional powers—

I don't want to read more than is necessary, because it takes too long. Speaking of prospects:

> The prospects are that in the future gold inflow and Federal Reserve purchases—

these are where the reserves come from that create the credit—

> and the purchase of securities in maintaining an orderly market for long-term Treasury bonds will further increase bank reserves.

We buy those and that creates money and that is the way we financed the war. Now we are financing private banking credit expansion through the sale of Government securities to us.

> The banks thus would be in position to extend loans and make investments for private purposes, and this would mean still more inflationary expansion of the money supply. To restrain such potential expansion, the Federal Reserve would have to take action to absorb any excessive volume of reserves. Two types of measures should be adopted. First, interest rates on short-term securities and discount rates * * *—

and by the way, discount rates have got to follow. You can't merely raise them. You have to follow the short-term rate on governments. Otherwise, it doesn't mean anything because the bankers will get the money by selling the governments instead of borrowing. So that the discount rate is largely academic.

> Interest rates on short-term securities and discount rates should be permitted to rise to the extent possible without raising rates on long-term bonds and, second, to the extent that this action is not adequately restricted, the Federal Reserve should have the power to increase reserve requirements substantially to cover at least any growth in the total supply of reserves.

The CHAIRMAN. You have come to that point now, a short- and long-term ratio of 2½ percent.

Mr. ECCLES. The 2½ is still there. The short term has not come up.

> The first of these measures which could be adopted by the Reserve and the Treasury without any legislation would be designed to induce banks to purchase short-term Government securities from the Federal Reserve and to discourage the expansion of credit to private borrowers.

That would sterilize either the gold inflow or the excess reserves that are created by our being forced to buy Government securities in the market, particularly from insurance companies and nonbank investors.

> The policies during the past year have moved in that direction about as fast as feasible without unduly upsetting markets. There are limits, however, to such a course. Short-term rates cannot be raised much more without upsetting the

2½ percent rate for long-term Treasury bonds. Moreover, it is doubtful how much any rate that is feasible will deter banks from making loans at higher rates to private borrowers or purchasing higher-rate Government or other securities.

I expressed before the committee the possibility that the short rate might go up as far as 1½ percent if the Treasury permitted it, without putting too much pressure on the long-term rate. That rate has not been permitted to go up by the Treasury, although while I was still Chairman, before Mr. McCabe was confirmed, the executive committee of the Open Market Committee with the Treasury and pointed out the situation and recommended strongly that the short-term rate be permitted to go to one and a quarter. If it had been, we could have raised our discount rate possibly to one and one-half, which certainly would have had some slight influence. It would have been a trend in the right direction.

Later, after Chairman McCabe had been confirmed, he and Mr. Sproul, who is Vice Chairman of the Open Market Committee, followed through on the same program and recommended the action, but it was not followed. It was announced by the Treasury that both the June and the July refunding would be done at the same rate as heretofore, one and an eighth. I just wanted to bring you up to date on that.

On the question of the need for additional power:

Accordingly, the board believes that the System should be given authority to increase the reserve requirements of all commercial banks. For the present, this authority should make it possible for the System to require all commercial banks to maintain primary reserves with the Reserve System amounting to 10 percent of the aggregate demand deposits, and 4 percent of time deposits in addition to the present reserve requirements. This would give the Reserve System power to increase reserves in the aggregate by a maximum of about $12,000,000,000.

The CHAIRMAN. Are you speaking only of member banks?

Mr. ECCLES. No, sir. I am speaking of all banks, and in that $12,000,000,000 is included the reserve requirements that would still be imposed upon the central Reserve city banks, New York and Chicago.

The CHAIRMAN. Mr. McCabe, this morning when that matter came up, as I remember his testimony, said there might be constitutional difficulties.

Mr. ECCLES. I do not see how there could be a constitutional difficulty. I am not a constitutional lawyer, of course. Maybe I should not say that. But our lawyers say there isn't any question about it, and I would like to say it has been determined by the courts that banks are in interstate commerce, that they are subject to the Wage and Hour Act, and they are likewise subject to the Labor Relations Board Act.

The CHAIRMAN. Regulation W applies to all banks.

Mr. ECCLES. Regulation W applies to all banks.

The CHAIRMAN. And the security holders of national banks.

Mr. ECCLES. So does regulation U, covering margin requirements. So that would not be a factor at all.

The CHAIRMAN. Yes.

Senator CAIN. Mr. Chairman, I think one of our members raised that question, not Mr. McCabe.

Mr. ECCLES. Senator Robertson raised it, and as he went out I told him I disagreed with him.

Authority of this amount would enable the System to absorb the reserves that are likely to arise from gold acquisition and from the necessary System purchases of Government securities sold by nonbank investors over the next few years. In case banks should persistently follow the practice of selling Government securities to the Reserve banks in order to expand private credit, notwithstanding higher short-term rates and notwithstanding the increased primary reserve requirements, then the System should be granted the supplementary authority to impose especially the optional reserve requirements along the line proposed by the Board before the special session of Congress in November. This type of authority may be described as an optional reserve requirement because it can be held at the option of the individual bank in cash assets or in short-term securities. The maximum requirements under this plan could properly be limited to 25 percent of aggregate demand and 10 percent of time. To be effective and equitable, it should apply to all commercial banks.

I would like to say so far as I am concerned, and I know it also is the view of some of the members of the Board, that unless this applies to the nonmember banks as well as the member banks, I think we would prefer to have no further authority because it would tend to destroy the Federal Reserve System. It would not only stop us from getting an increase in member banks but it would be a great inducement to many of the members to withdraw because it would be the profitable thing for them to get out so they would not have that amount of their deposits tied up. The nonmember banks have the largest earnings, taking them in the aggregate today, and they are the biggest expanders of credit in the aggregate in proportion to their size, on real estate, consumer credit and all.

This would have no effect upon the dual banking system at all It has nothing to do with the dual banking system. We already have nearly 3,000 State banks which are members, as well as national banks. We are not asking that they be members. This does not force them into membership. All we ask here is that those who are not members would still have to carry with the Reserve System and have locked up the same amount of their deposits or their reserves as the members have by reason of this particular action. Aside from this proposed 10 percent, what we call country banks, which are member banks, already have 14 percent locked up, the Reserve city banks have 20 percent, and the central Reserve city banks, 24 percent.

This is another 10 added to it. To let out the nonmember banks would be a very great and vital mistake and as I say it has no relationship whatever to the dual banking system. I am for the dual banking system. Certainly I am not an enemy of the small bank by any manner of means. If you are going to make a law or regulation work on a national scale in a matter of this importance, it has to be pretty free from a lot of loopholes.

Senator CAPEHART. Mr. Eccles, I have to go in a couple of minutes, and will be back later. Are you in a position now to answer the question that I asked before: Are we in more danger of further inflation than we were in 1945 or 1946?

Mr. ECCLES. I don't know.

Senator CAPEHART. Would you care to give an opinion?

Mr. ECCLES. No; I wouldn't want to give an opinion. You are saying, are we in danger of further inflation.

Senator CAPEHART. Is the danger greater today than it was in 1945 or 1946? Will prices go much higher?

Mr. ECCLES. I don't think the danger today of prices going higher is more dangerous than it was after the controls were taken off in 1945. I think there is more danger than when the controls were on, but I would say there probably isn't as great danger at this point of its going higher as there was in 1946 because in 1946 we had had very little inflation by that time in the price level. We have had twice as much inflation, practically, since the controls were taken off in 1946 as we had all during the entire war period from 1940 up until the end of the war.

Senator CAPEHART. Do you think unless something is done about it, that prices will go higher than they are today?

Mr. ECCLES. I think there is a very good prospect that many of the prices will go higher than they are. I don't know the extent. I do say that inflation is well advanced, that the barn door has been left open so long I think maybe the horse is gone.

Senator FLANDERS. Are you saying that we are going to have a bust?

Mr. ECCLES. We certainly are going to have a bust, but as to just when it will be, I can't predict.

Senator FLANDERS. That will end the danger of inflation?

Mr. ECCLES. It will not only end that, but it will end some other things. I was going to say with reference to the question of a break, as to when it will come will depend certainly to a considerable extent upon whether or not we have a budgetary deficit in the future, and the extent to which the budgetary deficit develops.

The inflation can be carried much further and for an indefinite period of time if we should develop budgetary deficits and have to finance those deficits, as we may well have to do, through the banking system. Then I don't know how far it would go. Then you have a possibility of a lot more inflation, but so long as you keep a balanced budget, you can get a budgetary surplus, and there of course is less danger of a run-away.

Senator CAPEHART. Are there more contributing factors toward increased inflation today than there were in 1945 and 1946? Are there more factors that are pushing prices up than there were back in 1946 and 1945?

Mr. ECCLES. No; I don't think there are any more.

Senator CAPEHART. Are there as many?

Mr. ECCLES. I think you have the same factors that you had then pretty largely, except two that you didn't have then. Then you had a tax program that created a very substantial budgetary surplus for 1947 and 1946, whereas today you reduce taxes by approximately $5,000,000,000. You have an expanding military program that went up from $11,000,000,000 to $14,000,000,000. If our military people have their way, it will likely go up considerably in the future because of the fact that you have no apparent terminal point in the military expenditure nor do you have in the foreign-aid program. So you do have those factors to a greater extent.

Senator CAPEHART. Do you have more contributing factors today than you had in 1945 and 1946?

Mr. ECCLES. In 1945 of course you did not have a balanced budget.

Senator CAPEHART. Let us say 1946 and 1947.

Senator CAIN. We are spending more money every day.

Mr. ECCLES. You have more in some ways, and in others you have less, because you have caught up in your production. In your food situation today, especially in grains, there is a very much better situation. The situation with reference to many products is better, for example, cotton, textiles, and sugar. There has been a certain catching up on some items.

Senator CAPEHART. May I ask you this question: Is it not a fact that as far as the Government is concerned, as far as it is within their control, there are more factors today to push prices up today than there were in 1946 and 1947? We are spending more money in Europe, we are spending more money for military purposes, we are spending more money all the way across the board.

Mr. ECCLES. Of course the Congress is appropriating it or you wouldn't have it.

Senator CAPEHART. I used the term "Government," did I not? I was under the impression the Congress was a part of the Government.

Mr. ECCLES. All right, if you are speaking of the whole Government. That is right, they are spending more.

The CHAIRMAN. And it is a Republican Congress, too.

Senator CAIN. What we are trying to get at is what are the facts.

Mr. ECCLES. That is right. It is a fact that the budget—after getting down to about a $37,000,000,000 budget—is now going up again to about $42,000,000,000. So in that sense it is unfavorable, yet a $42,000,000,000 budget in one sense is no larger than a $37,000,000,000 budget was because you have had more than that much inflation. As long as you have inflation, in terms of dollars, your budget is going to continue to go up. You have a national product at the present time running as high as $230,000,000,000. That national product has been going up, and at the present rate it may reach $250,000,000,000. And you have had a third round of wages. Your whole price structure has gone up. You are getting more taxes in the aggregate, but the dollar is not worth as much, and the Government has to spend more. You can continue that process to where you may have a budget of $100,000,000,000, and it won't be any larger than the $37,000,000,000 budget was in terms of its purchasing power.

That is the problem and that is the basic inflationary danger.

The CHAIRMAN. You just told Senator Flanders, in answer to his pertinent query, that we are going to have a bust, and the only question is when it will happen.

Mr. ECCLES. And the degree of deflation; let's put it that way. I don't like "bust."

The CHAIRMAN. Suppose I had the power to command you and I said, "Marriner Eccles, you admit we are going to have a bust and we all admit if it we all go hell-bent for election and all that, therefore we are charging you now and giving you the power to set up the protective measures to stop having a bust," what would you say?

Mr. ECCLES. I would say it was too late.

The CHAIRMAN. You are quite certain of that answer, are you?

Mr. ECCLES. Exactly.

The CHAIRMAN. That is your answer?

Mr. ECCLES. That is my answer. You have to stop a thing before it happens.

Senator CAPEHART. Let me ask you this question.

Mr. ECCLES. You can moderate it, though.

Senator CAPEHART. The President is asking that we do something here to reduce prices. That, of course, is deflation, is it not? In other words, if you reduce prices, you deflate them. That would be the beginning of a reduction in prices, a reduction in wages, and a reduction in the national income, would it not?

Mr. ECCLES. I suppose it would. That is the only way. You can't get rid of inflation in any way except to stop it, and in the process of stopping it you are going to get some deflation.

Senator CAPEHART. Do we want to stop it where it is, or do we want to deflate it X amount and then stop it?

Mr. ECCLES. I would like to stop it where it is. I would like to have stopped it before it got where it is, because you would have had a lot less people in debt for a lot of goods that will be hurt when you stop it. But the longer the thing goes, the more people will get in debt, more people will use up their savings. You will have developed more disequilibrium in the economy, and you will have more difficulty making an adjustment. So it is just a question of facing the unpleasant alternatives. We all want an easy way out. It is too late to find one.

Senator CAPEHART. I introduced a bill last December to freeze it and stop it but couldn't get it initiated.

Senator CAIN. There are hard ways not only to stop it but to cure it.

Mr. ECCLES. That is true. Nature, with its economic factors and laws, will take care of that. There is no question about that.

Senator CAIN. I am going back when I have an opportunity to chat with you about your statement of November 25. You have some very positive ideas there which were designed to effect a cure for inflation and not just control it.

Mr. ECCLES. That is right. They were important.

The CHAIRMAN. I remember Mr. Taft telling me that day on the floor of the Senate that Eccles made the best presentation he ever heard him make.

Senator CAIN. The only reason I brought it up was that in answering your question a minute ago, Mr. Eccles says it is too late. We have to reconcile those two divergent points of view.

The CHAIRMAN. You see, gentlemen, this isn't a tenpin game. This is a 100 percent imponderable. We are up against it. We might as well bring these things out and talk them over. There is nothing gained by kidding ourselves.

Senator CAIN. The tenpins are before this committee. The big job lies outside this committee and that is what Mr. Eccles was telling Mr. Taft's committee a few months ago.

The CHAIRMAN. You agree we have both an opportunity and duty and privilege of elucidating these things for the public good.

Senator CAIN. And not mislead the public into believing in this committee lies the major solution for this problem.

Mr. ECCLES. I would like to quote from Mr. Taft, who wrote me a letter on November 28, 1947, when I had just appeared before the committee. He said:

> I wish to say how much impressed I was with the careful presentation you made before our committee. Certainly I will give every possible consideration to your forthright statement.

You mentioned that. That just happened to be in my file.

If I may, I should like to finish these recommendations, which are the last recommendations that the Board made in April. We got diverted but I think it was pertinent.

To the extent that it may become necessary to rely upon the banks for any Government financing operations, the optional reserve requirements would be an especially valuable instrument, and in the case of large-scale deficit financing, it would be a "must."

You couldn't finance deficits without it.

In such financing, it would be advisable to make available to banks only short-term securities. Application of the optional reserve requirement would have the effect of immobilizing these securities so they could not be used to obtain reserves to pyramid new bank assets upon them on the 6-to-1 ratio. In other words, securities issued in new Treasury financing through banks would be tied to the deposits which were created by their purchase.

Lock the deposit with the security when it is created.

A ready market for short-term Governments would be assured, and the Treasury would be helping in successfully carrying out both its refunding operations and its deficit financing. At the same time the Federal Reserve would be enabled to exercise some restraint upon the money market for private credit.

That covers that.

The dominance of the public debt and the present credit situation has rendered the System's traditional powers generally unusable for purposes of restraining further inflationary credit expansion. The Reserve Board is not now seeking additional power beyond what they formerly possessed. It is merely pointing out that the System has little or no authority to deal with the credit situation as it currently exists and seems likely to develop. If the Congress wants the Reserve System to perform the functions for which it was established in the beginning, the System must have a substitute or at least a partial substitute for the powers that have become unusable. The Board feels that it would be remiss if it failed to bring this matter to the attention of the Congress. There is no simple way of holding in check either expansion in excess of essential public and private needs. The problem should be met in a combination of ways, by general credit controls and in particular areas by selective controls, such, for example, as the reimposition of consumer installment credit and the continuation of margin requirements.

I think it is pertinent for me to answer this assertion that the Reserve Board has powers that they are not using, but before doing that, I want to emphasize that the excerpts from the Board's statements from which I have just read are certainly in conformity with the economic report of the President. Now, what happened to me and the Board as a result?

To my great amazement, at the President's first press conference after I had appeared on April 13, the Wall Street Journal said:

Eccles' bank-credit proposals don't have the support of the President.

Another Wall Street Journal headline read:

Eccles' bank-credit proposals don't have support of President. Truman disowns the program; Snyder declares he doesn't know what it is about.

The CHAIRMAN. That is all right. You cannot condemn a man for telling the truth.

Mr. ECCLES. Here is another press quotation:

Eccles spoke for himself alone, Truman explained.

I want to read the first paragraph of the Board's statement of April 13:

When I testified before this committee last November 25, I emphasized that I was speaking only for the Board of Governors of the Federal Reserve System. In presenting a further statement today covering the monetary and credit situation as it has been developed in the intervening 4 months, I am again speaking only on behalf of the Board.

I want to say that that was a unanimous Board, and I want to say further that the statement which Mr. McCabe discussed this morning, as I told you, is in basic substance pretty much on all-fours with what has been the Board's position continuously and what now appears to be the position of the administration as expressed in the message which you received a few days ago, and I quote:

I recommend that the Federal Reserve Board be given greater authority to regulate inflationary bank credit. That is the third time.

The CHAIRMAN. Is that a death-bed repentance?

Mr. ECCLES. You asked the question as to why we hadn't been given these powers, and I just wanted to give you a part of the record. I would like to say it seems to me that there are a lot of people responsible, but certainly you have the record here of the bankers before your committee, the Advisory Council and Mr. Sproul. At this period of my demise as chairman, I want to speak in defense of the Federal Reserve Board, because in conditions of inflation and bust, there is always an effort made to find the goat. I do not want the Federal Reserve Board to be the goat. At least I do not want the Federal Reserve to be the goat because of what took place during all this period of inflationary development while I was the chairman. I want to protect and defend the record.

I appreciate this opportunity of doing it.

On the question of the Reserve System having adequate authority, it was intended when the Federal Reserve Act was passed in 1913 that the Federal Reserve System be able to control the expansion of the supply of money. They were expected to be able to create what was called a flexible currency and to meet the needs of commerce, agriculture, and business, not more than their needs. When you take it as a whole, when there is more money than there are goods, you are meeting more than their needs. We were given that authority. For the purpose of doing it we provided reserves to the banks, through their borrowing from the Reserve banks, and we could curb it by shutting off their borrowing and by raising the discount rate so that the borrowers' rate would be rather prohibitive.

That was done to a disastrous extent in 1920. Bad as it seemed to appear in 1920 and 1921, the situation righted itself rather rapidly and it may well have been that the short dose that it took in 1920 may have been better than would have been the case if inflation had continued for years. I don't know. But I remind you of the situation that developed.

We have all the powers that we need now if we were to withdraw from the support of the Government security market. The residual market is now the Federal Reserve System. We could not have financed the war without the Federal Reserve. This large expansion of money, I would say the biggest end of it, was created as a result of war financing. If taxes had been higher, we would have had to finance less, but we didn't do such a bad job. We are now confronted with this situation, and it is a question of alternatives. They are unpleasant. The public debt is about $250,000,000,000. That $250,000,000,000 is about 60 percent of the country's entire debt, both public and private. A very large part of the national debt is short-term, and I will give you the figures on it. Within 1 year there falls due 48.8 billion dollars, bills, certificates, notes, and bonds.

Within from 1 to 5 years, there will be an additional 48 billion dollars, and in from 5 to 10 years, 100 billion dollars. Within 1 year practically 50 billion dollars. That is in addition to the nonmarketable securities of 53 billion dollars in savings bonds, and 4 billion dollars in savings notes which are demand obligations.

The cost of carrying this debt even at present rates is heavy, and certainly if you let the Government bond market go by dropping the support level of the long-term Government bonds, nobody can say to what extent they would decline and what the additional cost would be. If you judge it by what a 26 billion dollar debt did after the last war, the Government paid 5 percent for 6 months paper on a totally tax-exempt basis. That is what happened. Long-term 4¼ percent Government bonds, fully tax-exempt, went down to 82. The present long-term rate that the Government pays is 2½ percent. With this much debt falling due, certainly you would have to refund it at whatever the market was. The statement has been made, "You don't need to abandon the market. Just go half way. Just let it work down a little and stabilize." But how can you price a refunding issue of securities when the public has no knowledge or confidence or feeling as to what the market is going to be? How could you price a security in a refunding operation of that sort? How do you determine how to price it? What happens to all these savings bonds if the public can get rates very substantially higher? It is certainly a possibility that they may all be cashed in. On this point Mr. Sproul and I agree, and on this point Mr. Snyder and I agree.

The Chairman. We ought to make a monument to that effect.

Mr. Eccles. And on this point I think many of the bankers agree, although there are some who don't agree. The Republicans should be perfectly forthright about it, they should tell us openly, and they should tell the public exactly what they mean when they say that now we have adequate powers which we are not using. They should say, "It seems to us, that the Reserve System should let Government bonds seek a lower level or seek their own level; let the Government pay a higher interest rate, let the public who own the bonds take their loss on the bonds. The Reserve System can in this way deny credit."

That is exactly what is implied, and if that is not what they mean, then I don't know what they mean. I say they should tell the public openly and frankly that they do not believe in pegging the 2½ percent rate.

I agree that you can let the short rate go up. I am for it. But I think it is relatively minor in the picture.

At the present time, so long as the Federal Reserve System supports the public credit and provides the residual market for Government bonds and supports the 2½ percent rate, the System has no authority, either through the discount rate or through reserve requirements to meet the problem. We find ourselves now without control of the money system. And I say that under the circumstances that now exist the Federal Reserve System is the greatest potential agent of inflation that man could possibly contrive. I hope the press, if they say that, will make it perfectly clear, that unless we get further powers to curb bank credit expansion, or unless we permit the Government bond market to seek its own level and thereby deny the banks further credit, we are unable to deal with this problem.

The CHAIRMAN. That is the administration bill on Federal Reserve matters. Will that do the trick?

Mr. ECCLES. I haven't seen the bill.

The CHAIRMAN. Look it over.

Mr. ECCLES. I understand, though, that what the bill proposes is to give the Board power over consumer credit. I would be personally opposed to the Board having that authority alone because it would make it appear that the Board had been given power to control inflation which it couldn't possibly control simply by consumer credit regulation.

Senator CAIN. Some of us voted against your previous proposal for consumer credit for that very reason, that it would only indicate to the public that they were getting something which they were not getting.

Mr. ECCLES. Consumer credit regulation is probably desirable. It is less desirable that it was a year ago because we have had a lot of expansion in consumer credit.

Senator CAIN. It still sounds good.

Mr. ECCLES. That is right, and I think it is still desirable and necessary as a part of any comprehensive program. So far as the increase in reserve requirements is concerned, this increase is what was proposed in April, and we think it is desirable and necessary. However, there is this——

The CHAIRMAN. Except the secondary reserve is not in it.

Mr. ECCLES. That is all right. We simply said that so far as the secondary reserve is concerned, we can get along with this if we don't get budgetary deficits; in other words, if the Treasury does not have to expand its debt.

The CHAIRMAN. This bill would increase by 4 points and 10 points the reserves that the Reserve member banks are required to maintain.

Mr. ECCLES. That point I don't agree with. I would be unalterably opposed to, any bill that excludes nonmember banks and I have already given the reasons why.

Senator CAIN. That is the administration bill.

The CHAIRMAN. Yes, it is.

Senator CAIN. In your direct testimony, Mr. Eccles, you said you would rather not have that at all.

Mr. ECCLES. I don't say that.

The CHAIRMAN. He said unless the nonmember banks come in.

Mr. ECCLES. I would like No. 1 of the bill, regulation of installment credit. I would certainly favor the other if it were amended to include the nonmember banks. In that regard it would fit into the statement that the Board made last April before the Taft committee.

Senator CAIN. May I pursue that just one step further: Did you say, Mr. Eccles, that if nonmember banks were not included you obviously would rather not have the authority?

Mr. ECCLES. That is right.

Senator CAIN. But are nonmember banks included in the administration's proposal?

Mr. ECCLES. They are not included, and I would say unless they are included, and I have stated the reasons for it here I think rather clearly——

Senator CAIN. Therefore, your system would be the greatest inflationary source in the country.

Mr. ECCLES. No; that isn't it.
Senator CAIN. If the nonmember banks are not here.
Mr. ECCLES. All I am saying is that if the nonmember banks are not included, I would be opposed to the bill because it is a discrimination against the Federal Reserve System; it weakens the Federal Reserve System. There is no need of my repeating because the record of why I think the nonmember banks ought to be in has already been made. I think there may be some people in the System who would sooner have this than nothing. I personally would prefer not to have this power unless it is sufficient to cover all banks, because I think even with that power there is even then the question of adequacy.
Senator CAIN. Your basic reason, Mr. Eccles, is that you think it would tend obviously to destroy the effectiveness of the Federal Reserve System because it would give an easy way out.
Mr. ECCLES. It would make it very difficult for us to get members in the System. We might well lose members from the System. It is inequitable, it is unfair, especially to the State member banks that we now have not to include all commercial banks.
The CHAIRMAN. Marriner, at the time you were here last April, we had the hearings, Mr. Sproul came and you had the Advisory Board that did not agree with you. Then we had the 12 individual banks; Ned Brown and Mr. Sproul.
Mr. ECCLES. That was the Advisory Board.
The CHAIRMAN. They spoke for the banks as well as individually. They were against it. What I am coming at is that we had the central Federal Reserve Board taking a position here and we had the Advisory Council representing the individual banks against it.
You recall also that I introduced a bank holding bill in Congress last year. You and I talked it over, among others. Suddenly the ABA came out with a letter against the bank holding bill. Are you acquainted with that fact?
Mr. ECCLES. I am pretty familiar with that.
The CHAIRMAN. I remember distinctly just before adjournment I met some of the officials of the ABA over in front of the Senate restaurant, and I was rather outraged to put it kindly. I felt pretty strongly about their coming in against the holding-company bill, which was very dear to my heart and in the interest of the public. What do you suppose the answer they gave was? "The reason we take this position," they said, "is that we don't like to have the central bank too powerful. We think it would give more power to the central bank."
That is the reason they gave me in the front of the Senate Restaurant. What do you say to that?
Mr. ECCLES. I think that is a good banker reason.
The CHAIRMAN. If you have that in the financial system of the country today, if you have on the one hand the Federal Reserve Board and over here the advisory committee of the ABA pulling and hauling, what have you got? Depending on the strength and size of these banks, is the influence going to permeate this country? This is an important point I am making here. Do you see it?
Mr. ECCLES. Yes, I see it.
The CHAIRMAN. It is very important, is it not?
Mr. ECCLES. It is very important, and, of course, it does not only apply to banking, but you can find it in every other field.

The CHAIRMAN. Exactly.

Mr. ECCLES. That is probably one of the difficulties that democracy is confronted with and that is one of the reasons that we seem to have these booms and busts, for the very reasons that you point out, that our free-enterprise system seems to indicate that everybody should be left completely alone and be pretty free, and anything that is done by a central authority, of course, is looked upon as being too much of a police-state activity.

The CHAIRMAN. We forget that the whole is greater than any part; do we not?

Mr. ECCLES. I sometimes think that we don't understand or we don't know what our self-interest is. We need a little bit more, I would say, a lot more of enlightened self interest. Altruism does not solve our problem. We need a competitive system, but we need an intelligent understanding of what our enlightened self-interest is, which is very difficult to get across.

The CHAIRMAN. Plus a sense of interdependence, is that correct?

Mr. ECCLES. We have an interdependence.

The CHAIRMAN. Have we a consciousness of it, though?

Mr. ECCLES. Because we don't understand what our enlightened self-interest may be.

Let me bring out one or two points here that I didn't bring out because I was covering this historically.

Senator MCCARTHY. I wonder if I could ask two or three questions first. I have to leave soon.

Mr. ECCLES. All right.

Senator MCCARTHY. Mr. McCabe, as I recall, told us that he was of the opinion that we could not include the nonmember banks in this bill, assuming that we did decide to pass it, for the reason that the technicalities of perfecting it, the constitutional question, the lengthy hearings would make it impossible to do it in the special session. Have you any thought on that?

Mr. ECCLES. If you don't include them now, you will never include them.

Senator MCCARTHY. Do you think it is too involved a problem to be disposed of hurriedly?

Mr. ECCLES. I don't think so. I think there is nothing new about the problem. If you will go back to 1939 or 1940, I would like to bring that record up tomorrow, because at that time the Board and the Advisory Council and the Open Market Committee were unanimous in recommending to the Congress just such a proposal to include all the nonmember banks. That was the time when there was such a large excess reserve and no place to put the money. We were in a depression and interest rates had dropped to zero. With that kind of interest rate, with earnings in a very difficult position, the Advisory Council and all the Reserve bank presidents were willing to increase reserve requirements for member and nonmember banks alike to sterilize the excess reserves that the large gold imports had created. We have all given a great deal of study to it. There is nothing complicated about it. It is a perfectly simple matter. It isn't anything new.

Senator MCCARTHY. I missed part of your testimony. I am sorry I did, but I had to be away.

Do I gather that your feeling is that your program last year was effectively sabotaged by the Secretary of the Treasury?

Mr. ECCLES. I wouldn't want to put it that way. He was opposed to the program, and he prevailed with the administration. I don't think that he was any more responsible for defeating the program than the Advisory Council. I think maybe the Advisory Council may have had a part in persuading him. But certainly Mr. Sproul, of the New York bank, was opposed to doing anything about the whole matter of reserves.

Senator McCARTHY. In any event, am I correct that it is your feeling that had Mr. Snyder not prevailed in his line of thinking, together with the Advisory Board, that had he not prevailed as against your line of thinking, as of today we would not have the inflation which we now have?

Mr. ECCLES. No; I wouldn't say that. I do think that we would be in a much better position. I would put it this way: I think that had those powers existed, you would have found, even without their use, the attitude of the bankers would have been entirely different from what it was under the voluntary plan, and you would have found a much greater restraint upon credit. Instead of credit expansion, you would certainly have held the credit line and you might have had considerable contraction.

Senator McCARTHY. Let me ask you this last thing: A year ago you offered us a program. As of today we have higher prices, a greater degree of inflation than we had a year ago.

Mr. ECCLES. That is right.

Senator McCARTHY. Is it your thought that had your line of thinking prevailed rather than Mr. Snyder's, then as of today prices would not be as high, and there would be less inflation? That is the measure of whether or not your program would have been successful.

Mr. ECCLES. It is difficult to say. I think yes. I think if the five-point program that I proposed had been adopted, I think we would have had less inflation. The five-point program included a provision against tax reduction. That was No. 3. It pointed out that the credit program was only supplementary. I would like to make this impression with this committee: We certainly are not saying and never have said that monetary credit control alone will do the job. We have said it was supplemental.

I made a statement before the Taft committee and I signed a letter as Chairman pro tem on the 25th day of April to this committee on the housing picture. I pointed out at that time that that was one of the most inflationary factors in the entire situation and that any credit control given to the Federal Reserve banks could be sabotaged very well by a housing bill which under inflationary conditions provided a large secondary market.

The CHAIRMAN. You are talking about title VI?

Mr. ECCLES. I am talking about the whole thing.

The CHAIRMAN. Are you talking about the slum-clearance part of the bill?

Mr. ECCLES. I am talking about that, too, now.

The CHAIRMAN. Are you talking about public housing?

Mr. ECCLES. I am talking about public housing.

The CHAIRMAN. Are you talking about title VI?

Mr. ECCLES. Yes, sir; all three of them.

The CHAIRMAN. I understood you to say some time ago, and I think I heard you say it, that the menace of the housing situation was title VI from the inflation standpoint.

Mr. Eccles. And so are the others at this time, because you don't get more housing with more credit. You get more housing with labor and materials.

Senator McCarthy. May I interrupt there, Mr. Eccles: What many of us feel we should do is to try and get more lower-cost homes, in other words, more living space with the number of board feet we have. The purpose of the liberal provisions of the two bills is to make it easier for a man who wants to build a cheaper house, rather than the man who builds a more expensive home.

In other words, it is an attempt to channelize the building materials into those homes which will give you more living space.

Would you disagree with the general theory of that, forgetting for the time being whether or not we have adopted the right method of doing it?

Mr. Eccles. I certainly would say, if you recognize the available supply of labor and material, and you have building permits and you have the allocation of materials so that you put it where you want it, as you did during the war, then, of course, you wouldn't have had the condition that did exist in housing and you could direct it there. It is like all the controls.

Senator McCarthy. Let me stop you right there. You speak of allocations, and I think we should make a record of this at this time. Housing if one of the reasons why we were called back here. As of today and during the last session, we were seeking to pass housing legislation which would produce a million and a half units per year. It is generally agreed that unless we can produce roughly a million and a half units per year, there will continue to be a tremendous housing shortage. We passed a bill last year which gives the President, through the Commerce Department, the right to allocate scarce materials. Some of the materials that go into a home are very scarce, principally those made from metals—nails, plumbing equipment, soil pipe. The Commerce Department has been carrying on an alleged attempt to make voluntary allocations. The steel industry has stated, perhaps with their tongues in their cheek, I don't know, that they will go along with any program worked out by the Commerce Department. The Commerce Department, however, has been working out an allocation which will take from the housing program housing materials all except enough of the scarce materials to build a million homes.

If they are successful in doing that, then I believe we all heartily agree with you that extended credits will not build additional homes. However, if the two different departments of the Federal Government will get together and if your allocation is on the basis of a million and a half units per year, then no one will suffer and a great many people will be helped very greatly by liberalizing loans for housing.

Mr. Eccles. I think that what you really get to is the question of price control of the labor and materials that go into the housing. As I said before the Taft committee, good low-cost housing cannot be built with high-cost materials and high-cost labor. Neither the Government nor private industry can produce that miracle.

Senator McCarthy. If one department of the Government says we will allocate away from the home-building program everything over and above enough to produce a million homes, if this committee and the Joint Housing Committee and the Taft Postwar Economic Planning Committee, and every committee that has studied this program has set a bottom figure of a million and half units per year. Do you follow me?

Mr. ECCLES. Yes.

Senator McCARTHY. In other words, every committee that has studied it has set a bottom figure of a million and a half units per year as the minimum housing needs. If one department of the Government says we will make it impossible to build more than a million homes a year, then of necessity you are going to have nails selling in the black market, you will have plumbing equipment selling for too much, you will have all of the scarce materials that go into a home selling at very highly inflated prices. Am I right?

Mr. ECCLES. I don't think so. It seems to me that with what you have today you are not making it impossible as far as the Government is concerned.

Senator McCARTHY. Are you aware of the fact—and if you are not I do not want to ask you something that you have not considered—that the Commerce Department has been carrying on attempts to allocate scarce materials and that they are asking for an allocation to the home building program that will produce no more than 1,000,000 homes per year, despite the President's request that we pass the Taft-Ellender-Wagner bill which will provide a million and a half of these homes?

In other words, we have one department of the Government saying we want a bill to produce a million and a half homes which are needed, and we have another department of the Government saying we will keep the scarce materials down so you can produce no more than a million units.

Are you aware of the fact that we have that contradiction?

Mr. ECCLES. I understood there was a department trying to do some allocating, but I wasn't aware of the fact that you had one advocating one amount and another a different amount.

I don't believe that even if the Commerce Department decided to to allocate the materials for a million homes, it would succeed by that alone. In fact, I think the allocation alone would be very unsuccessful. I think the job of allocation under the present bill is not effective, because you do not have building permits, which will enable you to stop the use of materials except in the type of homes you want to have built, such as was carried on during the war, and immediately after. You do not have price control and wage control.

It seems to me you don't meet this housing problem by more credit or by any legislation unless you cover the whole field, and I don't believe you can put that back.

It is like Humpty Dumpty on the wall. You know the story. He took a great fall, and all the King's horses and all the King's men can't put Humpty Dumpty together again.

It seems to me that at this stage, short of a war, it is going to be extremely difficult, if not impossible, to put on all of these various types of controls that we once had, and which were prematurely taken off, as was pointed out by the Board before this committee, practically all of them in 1945, by Executive order immediately after the war.

Senator McCARTHY. One further question before I leave:

I might say that I have gotten much from your testimony, Mr. Eccles, and I certainly personally appreciate very much the apparent nonpartisan approach you take to these problems.

I gather you are very much concerned about the present high prices, and the inflationary trend. You feel that a contraction of credit may help the situation. Let me ask you this:

What do you think about the Agriculture Department's present program, its goal, announced in the last few days, for production last year, their goal of reducing the number of cattle in the country by half a million in 1949?

They were successful in reducing it by 3,000,000, which was the goal in 1948. That goal was achieved. Their program to reduce the number of hogs by 3,000,000. That makes a total of 8,000,000 reduction since the first part of 1947.

The goal to reduce the wheat acreage by 3.5 million. At the same time that all of these particular items are in great demand and prices are entirely out of reason.

For example, hamburger is selling at 90 and 95 cents a pound. Do you think any type of credit controls that we give you can be effective unless the Agriculture Department makes a complete about face, and instead of trying to curtail the amount of food being produced, they attempt to increase the food being produced?

Mr. ECCLES. I don't think any program of restrictions on production at this time makes sense and certainly not in the field of food. If you want to reduce the cost of living, food is the biggest item in the picture, and there is no single group in the economy who have gotten as much out of the war inflation as the agricultural group. I don't object to any group getting their share, but it seems to me that there are certain groups who have gotten far more than their share, and the group at the top of the list is the agricultural group.

Certainly business needs no sympathy because the business group, based upon their profit—and I know, for I am a businessman; I have been extensively engaged in business—are in the same group.

Senator McCARTHY. Are you not going on a false premise when you assume that a reduction in the number of cattle on the American farms, the reduction in the number of hogs on the American farms, will increase the income of the farmer?

I gather that is your premise. I think that is entirely false. I gather that even Mr. Taylor will agree with me on that—that it is a completely false premise that you can increase the income of the farmer by making him kill off the hogs or raise less cattle.

Mr. ECCLES. I don't agree with that. I say that when you produce a surplus, a surplus beyond the market demand——

Senator McCARTHY. Wait a minute, now. There is no danger of a food surplus in 1948.

Mr. ECCLES. All right. So far as the agricultural people are concerned, I assume the fact that they want to cut the production is certainly for the purpose of maintaining prices. They would certainly have not the slightest idea of restricting what was going to be produced for any other reason than to maintain the parity price.

Senator McCARTHY. I might say——

Mr. ECCLES. I can't see what other purpose there would be.

Senator McCARTHY. I might say I worked on a farm for a number of years myself, and I know as many farmers as anyone, I think. And I have yet to find a single farmer who feels you can increase his income by making men on the farm raise insufficient food to feed the

American people. You are talking about a surplus. Certainly, no one has said there is a surplus of meat, of beef, or hogs in 1947 or 1948.

I do not believe you or I are concerned with a surplus of beef or pork or wheat in 1949.

Mr. Eccles. Then why have a floor under agricultural prices? Why not withdraw the support prices entirely and forget the question of parity altogether?

It seems to me if the farmer is not concerned about a surplus, then he would not be so concerned about a floor.

Senator McCarthy. The floor under agricultural prices is to induce the farmer to produce more. You see, we are putting a floor under the prices of certain articles to get him to produce more, at the same time we establish goals to get him to produce less.

While we are getting him to produce less beef and less pork, then your Department—and I am not criticizing you; I think I may agree with what you say in regard to curtailing credit, but while one department says, "We will produce less beef, pork, and wheat," then the other department, yourself, comes in and says, "In order to keep prices down, we will curtail credit."

In other words, on the one hand you curtail production to force prices up, and on the other hand you curtail credit to keep them down. Isn't that completely a crazy-quilt pattern?

Mr. Eccles. It is cockeyed.

Senator McCarthy. Thank you.

Mr. Eccles. I would like to say this: I have indicated—at least, tried to indicate—here that the easy way out is not simply to pass the buck to the Federal Reserve by giving them credit control. That isn't the way out.

As long as you are going to have these easy housing credit and secondary markets, for it, as long as you are going to put floor prices under farm products and buy potatoes, and Senator Tobey indicated this morning the same thing, and as long as you are going to have, under this inflationary situation, a budget that has no surplus, then I say that you have little or no chance of controlling inflation, and the Federal Reserve Board does not want and does not expect to be the goat.

The powers requested here are still only supplemental. I want to emphasize that again.

The Chairman. You made a statement there a while ago that I don't like to have go out over the country on your "bust-we-must" theory. You said it is too late. I don't believe you are correct in that, Mr. Eccles.

Who am I to criticize you? But there must be some way. If you are correct, and I think you are, we have a bust on the horizon, and then there must be some way to offset that and build some fences and supports to stop this thing.

What are the ways to do it? You have none—you say you haven't, and I don't think you are correct there.

Mr. Eccles. I don't see, personally, any way at this time of avoiding some unpleasant adjustments. You have in the economy, as I started to explain to Senator McCarthy, of Wisconsin, a terrific disequilibrium, and that largely developed after the war when all of these various parts of the harness of controls were taken off in 1945 and 1946, not during the Congress of most of you people.

Where you have a large and increasing part of the population that are sustaining themselves not only by spending all of their current income, but by using up their savings and by going into consumer and other debt, and you have other groups, and a smaller group, the farmers, especially the well-to-do farmers, not the tenants so much, and the business groups, making abnormal profits and income, you find that whereas the general inflationary situation may have upped the cost of living 75 or 80 percent, there are certain groups whose income has not approached those levels, and there are others who have gone far beyond that increase.

So you have this terrific disequilibrium. That will create a bust inevitably. You can't keep the great masses of your people sustaining themselves by using not only all their current income, but by piling up consumer credit and by going into debt as fast as they are for housing at these prices. You can't expect the economy just automatically to adjust itself when the people quit going into debt, or when the creditors say the point of saturation has been reached and they have to start collecting.

That time may well come. If it were possible, and it isn't possible in a free economy—if you had a regimented economy; if you had an economy where you could go back and say at the end of the war or before the war that this group has profited greatly as a result of war, and we are going to put a capital levy on them and adjust the thing, and we are going to apply that against the public debt; if we could reduce this volume of deposits; if you had a way of lifting up the income of the low-income, expecially the white-collar, group; if you had a way of saying to the person who is a pensioner, to the people who have bought insurance, to the savers—and there are millions of them—that we are now going to take it away from those who have made it and are going to give it to you who have been in a sense defrauded as a result of inflation, you could get an equilibrium. But you can't do that in our system.

The great evil is that when we knew what was happening we ever permitted it to happen. Why on earth, the minute the war was over, when the dangers of inflation were very much greater than during the war—and I want to read to you this, which I said in 1944 before a committee:

> Inflation seldom gets out of hand during wartime, but the danger carries over after peace comes, and a war-weary people, tired of 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 the war-engendered inflationary forces.

I said that before Mr. Wolcott's committee on April 19, 1944. That was the statement of the Board at that time.

Senator McCarthy. See if I am correct in this:

In this country today we have a situation in which you have the cost of living at a certain level. You have the wage scale of the 18 or 20 million industrial workers.

Mr. Eccles. 14,000,000.

Senator McCarthy. I am including all of the industrial workers, organized and unorganized.

Mr. Eccles. They have more than their share in relation to the other group.

Senator McCarthy. Yes. Then you have some 40,000,000 workers, the nonindustrial workers, with a wage scale at a different level.

Your thought is that unless we can bring them all pretty much to the same level, we are bound to have a depression; is that right?

Mr. Eccles. Unless you can bring them closer. I don't think you are ever going to have an equality. The difficulty, the thing that always brings about a depression, is when the mass of people begin to lack enough purchasing power to sustain your production, and new investment will falter when production can't be maintained, when the production capacity is more than the people can buy.

You can sustain that with war, you can sustain it in the form of lending, you can sustain it with credit to the masses, as long as somebody is willing to give you credit.

Senator McCarthy. We can recognize what the situation is. We can recognize the danger of it. You say we cannot do anything about it.

Let me ask you this question: Don't you think it is a rather simple thing to increase the minimum wage, to increase the pensions so that you will bring this group of some 40 million up somewhat to the same level that your 16 or 18 million are on now?

Mr. Eccles. I think that is a point.

Senator McCarthy. Wouldn't that do much to prevent this depression that you and I and all of us fear?

Mr. Eccles. No, I don't think that, because I think there aren't an awful lot of people who are getting the minimum wage. I think the minimum wage of 40 cents is purely academic.

Senator McCarthy. We are speaking now of increasing it so the minimum wage will actually raise the earning power of the 40,000,000.

Mr. Eccles. I don't think it will raise the earning power of many people, because I think the minimum wage would only apply to the interstate business. It doesn't apply to the States.

I would say that in those businesses the number of people who get less than 75 cents an hour is statistically pretty unimportant in the picture, actually.

I am not saying that an increase in the minimum wage isn't justified, but it seemed to me that about half of the President's program was inflationary and the other half deflationary. It had factors that would increase purchasing power and spending, as well as curbs in the program. Our difficulty today, of course, is that we have more money to spend than goods to buy; that is the essence of it.

The Chairman. On the minimum wage, Marriner, regardless of the fact that many are getting over 75 cents, as you say, which is true, it is a disgrace to the country to have in the United States of America a minimum wage standard set at 40 cents.

It is a disgrace to the country.

Mr. Eccles. I agree with you 100 percent.

The Chairman. The point I am knowingly making is not that I disagree on that. The point I am making is that merely to increase the minimum wage, and think that solves the inflation or economic problem, is, of course, a myth.

Senator McCarthy. It would help.

Mr. Eccles. No; it wouldn't help to solve the inflation problem. It wouldn't help at all to solve it. It might help to solve a deflation problem, if you had some deflation.

Senator McCarthy. This is my last question:

I apparently misunderstood you. I gather that you said that one of the reasons for this dangerous situation today is that there is a certain group of people who are getting far beyond their share of the income. A certain other group are getting far less than their share.

It will take some type of violent recession to bring those people on an even keel, so they can all bid.

Mr. ECCLES. Unfortunately, a recession doesn't bring about an equilibrium. It forces the Government to intervene on an increasing scale, and that is why the inflation is so dangerous, because when it brings deflation, you have to intervene—just as in 1932. You all recall that. That was a mild situation to what we could have. You all recall that that practically collapsed the banks and what happened to the homes and all the rest in that sort of situation.

The Government had to intervene on a very important scale, and people didn't like it. The Government could well have to intervene on a scale far in excess of any intervention that happened at that time if this thing should go far enough and the public demanded an intervention

That is the danger of permitting inflation to develop.

Senator MCCARTHY. Am I right in this, Mr. Eccles?

The reason an inflation is dangerous, the reason it always heads into abuse, because the economy of the country gets out of balance. If all wages and the cost of living went up in the same balance, then you wouldn't necessarily head into abuse; isn't that right?

Mr. ECCLES. That is partly true. It isn't quite that simple. It is a little complex. It has seemed to me that the means of payment currently received by the entire population, the entire income from the national product, must be currently spent, and by "spent" I mean on capital goods and investments or spent on consumer goods.

That is the only way to keep employment and production. We have too much of that total national product being spent faster than the goods are produced; that is inflation.

In other words, if enough of it isn't being saved—I will put it that way—on the other side, when you get too much of the national income available for investment in productive goods and there isn't a demand for it, then you get what you call an oversavings.

In other words, it is a question always of the use of the total national product between investment and savings on the one hand, and consumption on the other.

Where is the balance point between those two? The balance force is in the tax system, it is in fiscal policy and monetary policy. That is where it is, and I have always said that if you are going to control the excessive boom and the excessive bust, then it must be through fiscal and monetary policy.

That can be supplemented in a deflation by Government subsidy of low-cost housing, heavy road construction, by Government expenditures, including social security universally applied. That can be a very important stabilizing factor, because in a deflation social security spends more than it collects. It is putting money out.

Then in a deflationary period the Government's budget will naturally be unbalanced, and that tends to stop the deflation. Conversely if in an inflation the budget is overly balanced, it would help to stop an inflation.

Those are the supplemental things that are applied. The difficulty always seems to be that on the inflationary side we seem to want to do many of the things that should be reserved for the deflationary side.

We should have higher interest rates, we should have tight money. We have difficulty now in doing that because of the public debt problem.

If it weren't for that, we would make interest rates higher, but the public debt, as I have tried to indicate to you, creates a special problem.

Certainly we should have as tight money as we can get, and at the same time support the public debt, and on a deflationary situation we should reverse the process, the monetary and credit process.

Senator CAIN. I have just one question at the moment that I think fits in here: After a lot of thought that I individually have given Marriner Eccles' statement that he gave before the Taft committee, I would conceive that we could not any more control inflation than we could fly by a literal translation of the President's declaration to the Congress the other day in all his steps.

One of the reasons being, as Mr. Eccles has pointed out, that it asks for a curb on inflation while at the same time stimulating that very same inflation.

When Marriner Eccles said he thought maybe it was too far gone to control, I conceived, Mr. Eccles, that partly your reason is that you think the American people are not sufficiently aware of their responsibility, and the Government is not going to tackle this fiscal problem which merits first priority, and we are going to end up after this Congress, whatever we do, about where we start out.

To what extent do you approve or disapprove of that point of view of mine?

Mr. ECCLES. I think you put too much emphasis on the statement that I don't think I made, that it was too far gone to control. What I meant to imply was that it was too far extended to avoid a deflation. You can call it a bust or whatever you want. But I did not say that it could not go substantially further, and therefore the deflation and the bust be that much greater.

It certainly is desirable that further inflation be controlled.

The CHAIRMAN. I hope the press will get what he is saying, because the bald statement he made a while ago troubled me, and he is qualifying it now. I hope you get the distinction because the effect on the country as a whole might be very disastrous if they took hook, line, and sinker, the original statement that bust we must, and you can't stop it.

Mr. ECCLES. My point is that you can't avoid a deflation. I will put it this way: After you have had as much inflation as we have had, and as much credit expansion as has gone on, much of it undesirable, you can't avoid some deflation, it seems to me.

That is what I meant. You can't avoid it.

I do say that it is desirable to curb further inflation, because even though it already has been permitted to go too far, that is no reason that it should be permitted to go further, because the further it goes, the more damage it does to the public, the more injustice it heaps upon a great many people, and the more difficult the adjustment will be, and the greater the deflationary process may well be.

I would like that substituted for that other remark.

The CHAIRMAN. I wish the press would kindly take note of that. Your sense of news value is very keen, and should be of course. But here is a statement that changes and colors the influence of the original statement. I would like to have you treat this and give prominence to this, too, as well as to the original remark.

Senator CAIN. Mr. Eccles, I think we are setting about to try to control and curb, but not in very many instances are we trying to cure any of the basic causes of inflation, some of which you have put your finger on this afternoon.

I refer you to a statement in your own statement, again before that Taft committee, in which you say this:

> Allocations, construction permits, price and wage ceilings, commodity margin requirements, installment credit regulations, export and rent controls and similar devices are all in the category of curbs, rather than cures.

Mr. ECCLES. That is right.

Senator CAIN. Yet, we have had no encouragement to get into fiscal policies in this country. Unless they are changed in major degree, I see that we can curb within reason, but we are not going basically to turn the tide of the excess numbers of dollars that are presently in circulation.

Do you share that reasonable fear with me? You have already pointed it up in part where you have mentioned that in the same program we are encouraged to give the President certain powers and to exercise certain rights ourselves, while at the same time we are encouraged to stimulate looser credit in this country.

How do you think we reconcile those two divergent views?

Mr. ECCLES. I don't think you can reconcile them. I think it looks to me, as I view this whole picture, and I have read both the statement of the President and the reply of the Republicans to that statement, and I must say that in a good many particulars both statements seem to me to be failing to face up to the economic facts of life.

It seems to me that both could be accused of being guilty of passing the political buck, so to speak, and that the public possibly under the circumstances are the goats.

Senator CAIN. You are taking advantage of a grand opportunity to put your considered thinking on the record so that we shall have an opportunity, politics to the side, to study it.

Mr. ECCLES. That is right.

Senator CAIN. I think it is a very valuable contribution.

Mr. ECCLES. What I am trying to do is to state, as I said in the beginning, I was going to try to state objectively as I saw it the economic situation, based on a long period of experience here in Washington.

I have honestly tried to do that, I have always tried to do it, because I think, after all, it is important in the final analysis that we try to solve these problems. The only way you can solve the problems is to face up to what the facts are without fear or favor.

Senator CAIN. Have I understood you to say that in themselves the control of bank credit and consumer credit would almost be meaningless in the face of this tremendous burden of inflation that we have in this country? If we don't do in a positive fashion many other things outside of those two particular fields we are not going to accomplish very much?

Mr. ECCLES. I wouldn't want to write them down that much. I do think they are important. I do think anything that will stop or curb the further expansion of bank credit even by itself is a very important factor.

I think it would be unfortunate if the Reserve System had the sole responsibility through monetary control to curb inflation. I don't want to write down its importance, because it is very important.

The CHAIRMAN. Gentlemen, here is the situation: It is now 5:15. We have been in session all day. I think probably it is a fair statement that of all the legislative hearings I have attended in 13 years in Congress in both branches, I have never known one that was a more concentrated solution of economic truths and fallacies, and so forth, that you have shoved down our throats.

It will take some time to assimilate this and digest it. The country is going to hear all this, and it will make a lot of people think. We are here for a little while to try to bring some order out of chaos in the country as a whole. This committee is just beginning its work. I don't know how long we are going to sit.

Tomorrow we are going to hear Mr. Snyder. We are going to hear Mr. Paul Porter We are going to hear others. There will be opponents to what you have suggested come before us.

I hope, before we get through we will be able to present some legislation that will be helpful. Whether we can get it by, I don't know. I am very profoundly grateful to the gentlemen who have appeared here today for their coming and for their very frank testimony, and I want to thank you, Marriner, for your kindness.

I want the privilege of having you come back tomorrow and, if you will, deal with a few salient points. I will let you know sometime in the morning, very early, by 9 o'clock.

Mr. Snyder will come before us tomorrow, too. It is a little hard to be definite about the program at this time, but I will give you the news just as soon as I can have the exact time.

Mr. ECCLES. I think I might get through here. The committee, I imagine, would be through with me without too long further discussion. After what has been said, there may be some questions tomorrow.

The CHAIRMAN. Yes.

Mr. ECCLES. I should prepare to be available at 10 o'clock?

The CHAIRMAN. If you would, kindly.

Mr. ECCLES. Unless I hear from you, shall I be here at 10?

The CHAIRMAN. Unless you hear to the contrary; yes.

I thank you all for attending, and the press for their courtesy, and good night to you.

(Whereupon, the committee recessed at 5:15 p. m., until 10 a. m., of the following day.)

AFTERNOON SESSION*

(Whereupon, at 2:30 p. m., the committee reconvened, pursuant to the taking of the noon recess.)

The CHAIRMAN. Mr. Eccles, I might ask you a few questions I think you can answer. I would like to have you answer, because I think it is a timely subject. You attacked housing as inflationary, and I got your point of view. Let me ask you three questions bearing on housing.

Since the slum clearance provision of S. 866, the Taft-Ellender-Wagner bill, would enable plans to be made now but would defer actual demolition of slum housing and reconstruction of cleared areas for some 2 years where the housing shortage is acute, why is this provision inflationary at the present time?

STATEMENT OF MARRINER S. ECCLES, MEMBER BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM, WASHINGTON, D. C.—Resumed

Mr. ECCLES. Of course, it would not be inflationary unless the money is expended. I would prefer to see legislation dealing with that subject passed at the time when the expenditures or the plan can be carried out. If you pass legislation now dealing with a subject of that sort, it may prove to be more than is needed; and if you fix it within a 2-year period, the timing may not be right. I see no good reason under these conditions to anticipate something of that sort that can't be done.

The CHAIRMAN. In other words, you would not plan ahead?

Mr. ECCLES. Yes; I would plan, but I wouldn't introduce the legislation. I mean I wouldn't pass the legislation. I think it is very well to have the thing discussed and considered and have it on ice and have it available.

The CHAIRMAN. Did you not favor with me the so-called full employment bill a few years ago, which is set up now in law, which provides for maximum employment in times of depression by public works for States and Federal Government if and when the States cannot take care of it, as an anchor to windward and insurance in times of depression.

Mr. ECCLES. I think at the time a letter was sent to the committee—at least, I know that I wrote a letter; I am not sure whether it was a Board letter or not—making certain qualifications, favoring, of course, the objective of as full employment as one can get without its being inflationary.

The difficulty about the problem of full employment is that there is a very thin line between full employment and overemployment. Wherever you get a situation where there is a short supply of labor as there may be in materials, you can get certain inflationary pressures.

I think the unemployment insurance program is desirable to take care of what we call residual unemployment, and I think that bill was modified as it was originally introduced.

The CHAIRMAN. It was modified to this extent: The conferees split on the words "full employment." We broke up, and I had a happy thought and said, "I have a happy compromise." I said

*July 30, 1948.

"maximum employment" instead of "full employment," and they grabbed it like a fish a fly.

Mr. ECCLES. Maximum.

The CHAIRMAN. Is the greatest possible.

Mr. ECCLES. That is right; the greatest possible.

The CHAIRMAN. What is "full"? It cannot be fuller than full.

Mr. ECCLES. I don't think you could get full employment all the time. You can put the words in there, but you wouldn't get it.

The CHAIRMAN. How are you going to get maximum?

Mr. ECCLES. It is the maximum you are able to get without inflation, I would say. In other words, you might put a further qualification—maximum employment so long as you don't create any shortages that create an inflationary situation.

The CHAIRMAN. You are creating hedges now.

Mr. ECCLES. That is really where the limitation should be.

The CHAIRMAN. Coming back to housing, if programs for slum clearance and public housing are particularly important in times of depression, should we not have legislation on the books which would enable us to make the necessary plans now? That is in line with my question before using the illustration of the full employment bill. You have answered that.

The last question: So long as the housing shortage continues to be critical, should we not make every effort to provide more and better housing at reduced costs? Is not such increased production the only real way in which the present shortage can be overcome and inflated prices reduced? Does not the Taft-Ellender-Wagner bill provide the type of production aids we must have to give more adequate housing at lower costs?

Mr. ECCLES. That is a long question I certainly agree that we should have a very much better housing condition for our people. Of course, it is a disgrace in a rich country of this kind to have extreme poverty and slums, on the one hand, and, if you have been to Miami and Palm Beach, the mansions, the luxury, on the other hand.

I don't believe that those extremes can long endure. I think you must bring up the standards of living. Of course, adequate housing is one of the most important factors of the lower-income groups. I think, however, it is a question of time. It is a question of patience. It is a question of capacity. It isn't possible, after a period of 4 or 5 years of war, when we were diverting one-half of our productive effort and capacity to the prosecution of the war and were able to build very few houses, and when the population was growing rapidly, to catch up with that backlog of demand supported by a very large accumulation of money and credit without getting the inflation that we have gotten in the housing field.

I don't think that we really perform a useful long-term service to the public by getting them in debt for housing at a highly inflated cost. As I said, it is a question of patience and time.

I would like to read the following extract regarding housing in a statement that I made before Mr. Taft's committee, or the Committee on Banking and Currency:

Finally, from the long-range standpoint, it is vitally important to prevent inflation in the housing field from getting any worse than it is. The greater the inflation, the more severe will be the aftermath of defaults, foreclosures, liquidation, and bankruptcy. Over the years the construction industry, which is a major outlet for investment and supports a wide variety of related manufacturing, transportation, and distributing activity, has been characterized by violent upswings and downswings. If greater stability could be introduced into this field—

Housing is a great element in the construction industry—

it would go far toward achieving the national objective of stabilizing production and employment at maximum levels.

There is your full employment.

The CHAIRMAN. There is your maximum, too.

Mr. ECCLES (reading):

The more the backlog of demand for housing is filled at exorbitant prices now, the smaller will be the cushion under the entire industry when prices come down, and therefore the more intense the deflation in that industry will be. Manifestly, this is not in the best interest of the general economy, and what is not good for the country as a whole is not good for any group, veterans or otherwise. As has been well said, there is no such thing as an easy credit under inflationary conditions. True, it is easy to get into debt, but the easier it is to get in—

Under inflationary conditions—

the harder it is to get out—

Under deflationary conditions.

This applies to all of us, including war veterans.

The CHAIRMAN. When you were here yesterday, I asked you two questions, and you answered one, the major question. The last one I asked you I do not think you had finished. Before we have any questions, I would like you to finish up on that.

The question was, Who was responsible for the inflationary developments which have taken place in the country since the war?

Senator MCCARTHY. Before he changes the subject, I wonder if I could ask Mr. Eccles a few brief questions on this matter of housing as relates to the over-all inflation picture, if you do not mind.

Is that agreeable, Mr. Chairman?

The CHAIRMAN. Yes, sir.

Senator MCCARTHY. Mr. Eccles, many of us feel, and I know a sizable number of individuals over in the various housing agencies feel, that unless something is done—unless some legislation is passed at this session, when the commitments that have previously been made under title VI and under title II have been exhausted, which should be along in late October or early November—at that time there will be a tremendous slump in building—that the building of homes will drop off.

If that occurs, do you not think that may well be the start of a depression, keeping in mind what you have testified previously and what you have testified to here today, and that is that the building industry is so interwoven and so interlocked with the balance of the economy and there are so many related industries in which prosperity depends upon a prosperous building industry, if we do have that fall-off in home building along in October or November, it well may be the beginning of a depression?

Mr. ECCLES. I can answer that possibly by asking a question. Until there is a falling off in the demand for housing due to the restriction of credit that may tend, as you say—and I agree—to reduce the demand, but until that happens, how are you going to get down the price of houses? And is it fair, is it right, to get your young people, particularly your veterans, in debt at the present inflated prices so that they will be in the position that the farmers were in after the last war, if you will recall? In the first slump they will have incurred an obligation for housing at inflated prices when the dollar is worth possibly 50 cents, and they have to pay it off——

Senator McCARTHY. I get your thought fully. I wonder if you have in mind just what we think of when we refer to housing legislation. It is legislation designed to bring down the price of housing. For example, one part of the housing bill that has been proposed is the setting up of a housing home financing agency to work toward the standardization of code, a standardization of measurements. We all realize that the building industry is about 50 years behind the times.

Mr. ECCLES. I am for that.

Senator McCARTHY. There is no standardization whatsoever. If we can do that——

Mr. ECCLES. Let's get that first.

Senator McCARTHY. If we can standardize the codes throughout the country, and it will take some time of course, we cannot do it by merely passing a Federal law, but we can set up an agency to service the cities and help them to do that if, No. 2, we can get the standardization of measurements, it is generally agreed by even the more pessimistic that those two things alone, even if prices remain as high as they are now, those two things alone will result in reducing the cost of a home by about 30 percent.

When we talk about housing legislation, I want you to keep in mind the purpose of this is to not increase the cost of a home, but to cut down the cost of it.

Mr. ECCLES. Title VI, though, would help to maintain the price of a home.

Senator McCARTHY. Title VI would make it possible for a man without much funds to obtain one.

Mr. ECCLES. It is an unsound form of mortgage credit.

Senator McCARTHY. It would make it possible for a man without much money to buy a home, that is true, and from that standpoint it would increase the demand for homes; but at the same time title VI would result in the building of more homes.

Of course, the more homes you have, the lower they ultimately drop. Are you not at all disturbed that if we cut off this credit for home building, to begin with, the Federal Reserve System sends out a bulletin saying "cut down your loans on homes, tighten up." That means a man who wants to buy a home cannot get the money.

If, in addition to that, we do nothing whatsoever to provide Federal guaranties on these mortgages, that will mean the present commitments run out, which should be sometime along in October or November, the building of homes will just drop down, and if that happens, let me ask you this again—I am not trying to cross-examine you—if that does happen, if the production of homes drops off in the fall of the year, do you not think that might well precipitate a depression?

Mr. ECCLES. It might well help to do it, and certainly we are likely to have one sooner or later. As I say, I think that a deflation from the inflated prices is overdue, so if we can get it in October or November, some adjustment, so much the better.

I regret personally that we have had the inflation we have had since the end of the war, which has been very serious.

Senator McCarthy. You understand there are many of us who do not subscribe to your theory at all that a depression is inevitable. We do not believe that this country is so lacking in intelligence and ingenuity that we cannot prevent a depression. There are many of us who do not agree with you in that.

Mr. Eccles. I hope you are right and I am wrong.

Senator McCarthy. Many of us do not feel that we can sit back and relax, feeling that the act is inevitable now.

I am exploring, asking these questions, forgetting for the time being that the question of depression is inevitable and let us go ahead and see what, if anything, we can do to prevent it if possible.

Mr. Eccles. I am for that. I am for doing everything possible to prevent it.

Senator McCarthy. Do you not think, then, and I will not pursue this indefinitely, that it will be for the benefit of the entire economic picture if we make it possible for men without too much by way of cash resources, but who have good credit, to get money so they can buy the cheaper-type home?

The housing legislation we now have in mind is designed to make it easier for the man without too much funds to build or buy a cheaper home.

Mr. Eccles. That would be fine if you had an excess of building materials and building labor and you were unable to utilize your building labor and your building resources on the basis of the title II mortgage provision, upon the basis of what we may consider larger down payments. I would say that the time to use the smaller down payment and induce the public to utilize the construction resources that we have would be at such a time as to cushion a depression. That is the way to prevent a deflation of any serious proportion, to have reserves of that sort available. That would be the time when public housing would be justified and public works would be justified, and easier consumer credit would be justified, and lower taxes would be justified.

In other words, we are pursuing in our whole economic policy a course that tends not only to sustain inflation, but to make for further inflation.

Senator McCarthy. There is one other question: Assume that we were to agree with you in all of that, do you not think it would be well then at least to pass a law at this special session setting up an agency, the framework of a housing agency, to work toward the standardization of codes and building standards in the building industry; in other words, trying to bring the building industry up to date?

Mr. Eccles. Yes, sir. I would be 100 percent for doing all the preparatory work. In other words, the time to get ready for trouble is when you don't have the trouble. If you want public housing——

Senator McCarthy. I am not speaking of public housing.

Mr. Eccles. Then private rental housing, any type of housing. Certainly the building industry as it is organized today with the racketeering that goes on in the cities, with the building codes that are in effect, is among the most archaic industries that we have. Anything and everything that can be done to correct that situation should be done. The Federal Government should be prepared with a program that would stimulate better housing at lower prices for more people when the economic situation is such that you need such activity in order to employ your people and to utilize your surplus materials.

Senator McCarthy. In other words, you pretty much agree with me on this, Mr. Eccles. No. 1, the archaic building code is completely outmoded, the old specification code. The fact that your building industry is 40 or 50 years behind the times, no standardization of measurements whatsoever. That is in effect causing everyone to pay a dollar for 50 cents' worth of building today.

Regardless of what else we do, we could contribute a great deal to the entire economy of the country by at least starting to do two things: No. 1, get some standardization of codes, bringing them up to date so that they do no more and no less than protect the public health and safety; No. 2, get some semblance of standardization of measurement in the building industry.

Senator Capehart. Is that not purely a matter of State and city jurisdiction?

Senator McCarthy. If you are asking me the question, the answer is definitely and emphatically "no." That is the job which only the Federal Government can do. You will never get a standardization of measurements unless the Federal Government does something about it. You will never get a standardization of codes. Wilson Wyatt urged that you pass a Federal building code. Obviously you cannot do that under the Constitution. But we can set up an agency in the Federal Government that can be of service in the cities in helping them to draft and modernize their building codes.

Senator Capehart. You are not talking about legislation.

Senator McCarthy. I will give you the picture in a moment. Let us take a typical city in your State, City X. You have elected a young fellow who has been successful perhaps as an insurance salesman or tavern keeper. He takes over the city of 30,000 or 35,000 population. Their building codes are 30 or 35 years old. They are completely outmoded. If a company comes in from the outside and wants to build a prefabricated house or to do some precutting or have the kitchen units preassembled, he runs into the building code in your city.

This young fellow has been elected mayor and most likely would like to have an up-to-date building code. To begin with, before he can do anything, he of course does not know anything about a code, you have to go before the city council and get them to appropriate $10,000 or $20,000 and hire a firm of lawyers; the firm of lawyers know nothing about the code.

After 3 or 4 years they throw up their hands and give it up. If you have a Federal agency that can work with the labor unions, the building associations, such as your Pacific Coast Builders, they have a good standard code. Your building contractors have been working on a building code for 10 years. If you have a Federal agency that can work on this without the selfish personal interest that some of the groups that have been working on it have, but utilize those groups, then they can say to the young mayor of this city of yours, "Here, we have a model code. We present that to you." It would ke very simple for him then to get passage of that code.

I know from our experience in our hearings from one end of the country to the other that you have an unlimited number of mayors of such cities who would like very much to modernize their codes and thereby cut down the cost of building, but they just do not know how to get started and by the time they get around to learning how to get started you have a different mayor in the city.

That is on the standardization of codes. On the question of standardization of measurements, that is definitely a Federal problem. The industry as a whole agrees quite clearly if you can get a standardization of measurements in the building industry, then you can have widespread precutting. I do not mean prefabrication, but precutting of the lumber so you can go down to the mill and order your joists and your rafters, your studding, all precut and do away with a tremendous amount of waste of lumber. The lumber that we now have would produce many more homes. You would do away with an unlimited amount of on-the-site labor costs. Industry, both the labor unions and the builders, agree, if we can get a standardization of measurements we will cut down the cost of building up to 20 or 30 percent. If you couple that with a standardization of codes, that will amount to at least 30 percent.

If I may further enlighten you, take for example the brick industry, if you had standardization, it would mean immediately the retooling of many of your brick companies. About 22 percent of them are already doing that, anticipating a standardization along the lines of modular coordination. It is generally agreed that if you have standardization of measurement, built for example in multiples of four, that would cut down your masonry costs in brick buildings by at least 50 percent.

Does that answer your question?

Senator CAIN. I have two propositions that worry me a little, Mr. Eccles, quite a lot in fact.

We have a concrete proposal before our committee to which you addressed yourself in part yesterday, which is to increase the reserves of nonmember banks. There are some of us, and we do not know whether we are right or wrong, who think that would jeopardize the future health of the Federal Reserve System, if we increase the member banks' reserves without increasing the reserves of nonmember banks. Mr. Snyder appeared before us this morning and, as I recall his testimony, he first did not have any thought or conviction that the increases ought to be for nonmember banks, and member banks as well. He referred to the fact that the proposal was drawn by the Federal Reserve System.

Mr. ECCLES. That is not correct.

Senator CAIN. That is what he said this morning, I think.

Mr. ECCLES. No. That wasn't drawn in the Federal Reserve. It was drawn by the White House. I checked that. I found out it was drawn by them; somebody I don't know. It was under their direction. The Federal Reserve were merely asked, I understand, if they would come over and discuss the whole program. I wasn't here, but Mr. McCabe sent Mr. Thomas, our Director of Research, over and he reported last week that the bill was drawn to exclude the nonmember banks.

Senator CAIN. This perhaps is important, sir. I wonder, Mr. Chairman, if you would permit Mr. McKenna to get hold of the transcript of this morning, because there is no intention to be unfair to the testimony of Mr. Snyder, but I think he said specifically, "I support this legislation without knowing much about it because it was drawn and presented by the Federal Reserve Board."

Mr. ECCLES. The Federal Reserve Board and Mr. Thomas checked it, went over it, and the lawyer approved it as to its legal form, but that is very different from the question of policy as to whether or not it was all right. When the matter was put up to the Board, the Board insisted that the nonmember banks must be included, that the nonmember——

Senator CAIN. I beg your pardon. Will you stop right there. Mr. Chairman, I think we have an item here that is very important on this policy of possibly increasing the reserves for member banks under the legislation mentioned by the President. Mr. Eccles has just testified that his board had a meeting in which they conclusively recommended that in order for the legislation to serve its intended purpose, it must cover nonmember banks as well as member banks, and this morning Mr. Snyder said "Yes; it would be helpful, and we would like to have the Congress do it."

Mr. ECCLES. Mr. McCabe yesterday morning——

The CHAIRMAN. A half-hearted response.

Senator CAIN. That is right.

Mr. ECCLES. Mr. McCabe yesterday when he presented the statement that the Board agreed to, after he was called——

The CHAIRMAN. We have not the transcript, but both the counsel, who are pretty keen fellows, affirm that Mr. Snyder intimated this morning it was approved by the Federal Reserve Board.

Senator CAIN. He said he didn't know very much about it but it came out of the Federal Reserve and so on.

Mr. ECCLES. The present form has not been approved by the Federal Reserve Board.

Senator CAIN. You mean the recommendation that the increases be restricted to member banks?

Mr. ECCLES. That is right. The Federal Reserve Board does not agree that the increases should be restricted to Federal Reserve banks, but both Mr. McCabe and I testified yesterday that nonmember banks should be included. I was a little stronger than Mr. McCabe. And if you will look at the Board's statement and the report that I read into the record yesterday covering the hearing on the President's Economic Report before the Taft committee on the 13th day of April, we presented this identical plan on the 13th day of April before the Taft committee with the exception that we included nonmember banks.

I made the point before the Taft committee, I read it into the record yesterday when I quoted from that statement the necessity of including nonmember banks. I quote here from the statement of Mr. McCabe yesterday morning.

Senator CAIN. Please do, because in a policy sense I think we are talking about the fundamental, if there is one, of increasing these bank reserves.

Senator CAPEHART. It does not require any imagination, does it, to know that you certainly must include all banks if you are going to make the plan effective.

Mr. ECCLES. The plan that has been presented here does not include all banks.

Senator CAPEHART. I know it does not, but I mean it certainly should.

The CHAIRMAN. The committee can change that plan and will.

Senator CAPEHART. We can change it and as far as I am personally concerned, I will vote to have it changed.

Senator CAIN. Senator Capehart, this morning the Secretary of the Treasury was lukewarm and unenthusiastic on the theory.

The CHAIRMAN. Lukewarm and unenthusiastic, period.

Senator CAIN. That is right. On that particular problem. He says we support it because that is our custom but we do not know very much about it.

Senator CAPEHART. May I say the administration is lukewarm on the whole problem and are not willing to face the issue. They are not anxious for the kind and type of legislation that will get the job done that they continually talk about.

Senator CAIN. Marriner, I have been coming to this question and I have been very serious about this. It was my feeling from listening to you yesterday that it might be your considered opinion that if this Congress adopted this proposal to increase the reserves of member banks and left the 7,500 or 7,000 other banks outside that restriction, there would potentially be more future damage in the passage of that legislation than if we did not pass it.

Mr. ECCLES. To the Federal Reserve System.

Senator CAIN. That is what we are talking about, and we want to clear that matter up if we can. You are of that opinion?

Mr. ECCLES. I went so far as to state that I would prefer no legislation whatever increasing reserve requirements, giving the Reserve System authority to increase reserve requirements, unless it did cover nonmember banks.

Senator CAIN. And yet this morning, Mr. Eccles, and without prejudice to him, the Secretary of the Treasury said, No. 1, the item is under the control or the recommendation is under the control of the Federal Reserve System; and No. 2, it would be much better to have the proposal enacted into law than not to do it.

The CHAIRMAN. Yes; here is the statement of Mr. McCabe. Perhaps you are familiar with it:

> The proposal with respect to bank reserves is similar to that of the Board in April except that the increased requirements would be applicable only to member banks, whereas the Board had recommended that it be applicable to all commercial banks.

Senator CAIN. Yes, sir; the message comes up on the basis of an emergency from the President. We want you to pass this proposition only covering half the banking system of this country. Having come out of a bank once upon a time, talking about logic I think, is there any merit in the proposal at all?

Senator CAPEHART. That is the typical way the administration has of handling all matters.

Senator McCARTHY. Mr. Chairman, I wonder if it would be amiss for this committee to recommend that this be referred back to the administration that called this special session and ask the President if he could not sit down with the Federal Reserve Chairman and members and sit down and talk with the Secretary of the Treasury, and then present something to us that they can agree on, instead of having one division of the Government come down and say we want one thing, and another member of the President's family say we want another thing.

I think we at least should know what the President's official family wants and what the President's program is. Mr. Snyder came down here and said, "We approve this measure because the Federal Reserve

Board drafted it." Now we find that the Federal Reserve Board did not draft it, that not only did they not draft it, but they do not want this in its present form.

Mr. ECCLES. Let me put it this way.

Senator McCARTHY. Pardon me, just a moment. I am addressing the chairman. I think it would not be amiss for this committee to take action to refer this matter back to the President over the week end and ask him if they could not come down with some measure which the entire official family can agree upon.

The CHAIRMAN. Speaking only as my personal opinion, my judgment would be that that would not be the way to do it, but the way to do it as a matter of conviction with us and the others is that when we draw up a piece of legislation, which I hope and expect we are going to draw up, something which will be helpful, the committee will say "thus sayeth the Lord."

Senator McCARTHY. My only thought, Mr. Chairman, is that the President called this special session and this is the No. 1 piece of legislation. Apparently if we pass the type of legislation that Mr. Eccles recommends, and I think it is far better than what the administration sent down, we do not know whether he will veto it or not. I believe we should refer this testimony back to him so that the President knows that his Secretary of the Treasury and the Federal Reserve System disagree wholeheartedly on what type of legislation should be presented and find out from him just who is spokesman here before us. We may not agree with the President, but I would like to know just what his position is. As of now, we do not know whether Mr. Snyder is his spokesman or Mr. McCabe, or Mr. Eccles.

Mr. ECCLES. I am sure you know I am not.

Senator CAPEHART. We are certain of that.

Senator McCARTHY. If we pass the program sent to us by the Federal Reserve Board, we do not know whether it will be signed. I think we should know what the President wants.

Senator CAPEHART. I think we know what he wants, but I think we will decide what is best.

Mr. ECCLES. I think I can help clarify that. I think there may be some misunderstanding. In the first place, this proposal was not made by the Federal Reserve Board in the form that the White House sent it up here. That is No. 1. The Chairman of the Board, so I am informed, was invited to come over to a conference to consider the program because the Federal Reserve Board was included in the program. He did not go, but sent Mr. Thomas, the head of the Research Division, and Mr. Thomas reported that the program included consumer credit and also the others. I think that at a later date, Mr. Vest, the general counsel of the Federal Reserve, was called in by the people at the White House who were drafting the bill and approved the form in which the bill was drafted. There is a great difference.

Senator McCARTHY. Who is Mr. Vest?

Mr. ECCLES. He is the General Counsel of the Federal Reserve.

Senator CAIN. That is a legal matter.

Mr. ECCLES. That is right. The question of policy as to whether or not nonmember banks should be included is not a matter that either Mr. Vest or Mr. Thomas would be in a position to determine. Only the Board can determine that. The Board had had no opportunity to meet. Four members of the Board were out of town. Two of them were away on their vacations, another away on business. The Board had not had an opportunity to meet prior to the time when the message came here. This very short statement that Mr. McCabe presented as a statement of the Board, was two paragraphs only, as presented here yesterday morning, and the rest of the statement was his own statement, and he explained why.

That is the latest view and expression of the Board.

I quote here. I want to read this very point, because it is so important:

The proposal with respect to bank reserves is similar to that advanced by the Board in April, except that the Board in April proposed that increased requirements would be applicable only to member banks, whereas the Board had recommended that they be made applicable to all commercial banks. This is a significant difference. We feel deeply that it is not fair to member banks in their competitive relations to nonmember banks to require that they be singled out to carry the additional reserves that may be necessary to combat this inflationary situation.

That is the statement. In the statement I presented before the Taft committee in April I elaborated to a great extent upon that matter, and I did yesterday morning, but it all goes to that point.

I am not sure that when the administration presented the proposal, they knew how strong the feeling might be against not including nonmember banks.

Senator CAIN. We are still trying to help curb inflation, are we not, and you cannot do it by excluding half your system.

Mr. ECCLES. The report that came to me on the hearing was to the effect that Mr. Snyder did not propose to include nonmember banks. Certainly you must conclude that in the field of finance he would be the spokesman for the administration. He and the Chairman of the Board are the only two that could possibly speak for the administration in this field. The Board would not speak for the administration. The Board isn't a part of the administration. It is an agent of Congress.

Senator MCCARTHY. Let me interrupt you there if I may. Mr. McCabe was down here before us and we have a lot of respect for his good judgment, the same as we have for yours. He tells us that he felt that we could not include the nonmember banks in this bill for the reason that the special session would not be long enough to allow for the very lengthy hearings which he felt would be necessary to present an intelligent and workable bill, including nonmember banks.

Whether he is right or wrong, that is the Chairman of the Federal Reserve Board's opinion. He feels we cannot include the nonmember banks. You yourself are a former member of the Board——

Mr. ECCLES. You said a former member?

Senator MCCARTHY. Former Chairman.

Senator CAIN. You can go so far without going out.

Mr. ECCLES. The other is only a designation, you see.

Senator MCCARTHY. We have you, the former Chairman of the Board, come down and tell us that unless we do include the nonmember banks, you think the bill should not be passed. The present Chairman says we cannot include the nonmember banks. We have the former Chairman of the Board tell us that unless you do include the nonmember banks, let us not pass it.

Then we have the Secretary of the Treasury who comes up here and says in effect, "I am in favor of this bill not because of what is in it, but I am in favor of it because the Federal Reserve Board drafted the bill."

Is that not right, Mr. Cain?

Senator CAIN. In part; but he went on to say if any measure any way could be found to include the nonmember banks, he in support of Mr. McCabe's position taken yesterday, would likewise be in support of it. He saw good reason to do it but he thought it much more important to pass half a measure than not to pass any at all.

Senator MCCARTHY. In view of the fact that the President and this Congress have enough confidence in Mr. McCabe to confirm his appointment, knowing he was going to be Chairman of the Board, we can assume he knows considerable about banking, most likely more than we do. He says this special session cannot include the nonmember banks. Mr. Eccles says unless you include them, do not pass the bill. I think in view of that contradictory, perhaps intelligent contradiction, I do not know, I believe this committee should refer this bill back to the President and ask him to see if he cannot get the different members of his official family together and present to us a bill that they support, so at least someone can come down here and after the President has called this special session say this is the bill he wants.

Mr. ECCLES. The Board is the agent of your committee. It is not in the administration.

Senator MCCARTHY. We may not agree. We may not pass the bill. But I think we should know.

Mr. ECCLES. I think you know. I think you have all the evidence in the world you need.

Senator MCCARTHY. We know what we want, but I would like to know what they want, legislatively.

Mr. ECCLES. I think you have that. I think they want this bill, including the nonmember banks. That is certainly the position of Mr. McCabe. That is the position of the Board.

Senator MCCARTHY. That is not the position of Mr. McCabe. Mr. McCabe told us yesterday——

Mr. ECCLES. He thought maybe you couldn't get it, but that doesn't mean he doesn't want it.

Senator MCCARTHY. He said he was convinced that the special session wouldn't have time adequately to consider.

Mr. ECCLES. He didn't think you would.

Senator MCCARTHY. That, in other words, he is convinced of that.

Mr. ECCLES. I don't recall he said he was convinced; in his judgment he didn't think that you would have time to consider it. But Mr. McCabe is a member of the Board, like the rest of us, and what he said, which is in this statement that I just read, is the view of the Board.

Senator CAIN (presiding). But you did not read it all, Mr. Eccles. If you will read the last sentence of the second paragraph, it will only the more confuse this issue, but we may find a solution in due time. Let us have this sentence which is an answer to you, Senator McCarthy. The last sentence:

As an emergency measure, however—

after saying he wanted it for all member banks and it was not in there—

as an emergency measure, however, the bill would be adequate to meet the immediate need for additional authority to deal with the reserves.

I do not see how anything can be adequate if it stands a chance of jeopardizing the future health of the Federal Reserve System. To me that is a contradiction that must be resolved in terms of the future of this country.

Mr. ECCLES. The responsibility, of course——

Senator MCCARTHY. Before you go into that, let me ask you this: Do you feel if we do submit this amendment including the nonmember banks, then it would be necessary to hold open hearings and allow all those opposing the inclusion to be heard, all those raising a constitutional question to be heard, and to go into this matter in detail. Do you think that will be necessary or do you think just upon the recommendation of yourself we could include nonmember banks?

Mr. ECCLES. It depends entirely on the extent to which you think the emergency exists. Congress has passed important legislation in a much shorter time than 2 weeks. It it is the view of the Congress that something should be done at this special session, I think that could very well be. You have certain precedents for it. As I explained to the committee yesterday, the nonmember banks are covered by consumer-credit controls as well as the member banks.

Senator CAIN. May I explore that with you a second. Why should it be more difficult for the Congress to include both member banks with reference to a reserve requirement when we have done the same thing in years gone by, Senator McCarthy, for consumer credit. They are both part and parcel of the same credit structure.

Mr. ECCLES. The Board regulates the nonmember bank today under regulation U? That is the margin requirements against listed securities.

Senator CAIN. If, in other words, this is an emergency with which this country is confronted, do we want a full measure as an attack upon the problem, or do we want just to jockey along with it because there will be some opposition, in the words of Mr. McCabe or Mr. Snyder.

Mr. ECCLES. Of course there will be a great deal of opposition. It is perfectly natural. You will not only have opposition, but plenty of it. If you wait to get the approval of the banks, you won't get the approval of the member banks, either. You will get the most vigorous opposition possible from the member banks as well as the nonmember, but you will get more opposition from the member banks if you exclude the nonmembers. That is, at least the smaller banks. The large city banks that are the city correspondents of the nonmember banks will take the position of the nonmembers. They are not going to oppose the position of the nonmember banks. The city banks would no doubt like to see the reserves of the nonmember banks carried as balances in the reserve cities. You have to look at that aspect of the problem. Here is the situation:

The banks are not going to be any more anxious to have restriction on the control of credit than the people who sold consumer credit want to have restriction on consumer credit, or than labor would want you to put a control on wages. There isn't any question that the opposition to this will be, like all other restrictions, extremely vigorous.

Senator CAIN. Mr. Eccles, there are seven members of the Board of your Federal Reserve Board. You have taken a position as a member, which is simply to say that in your considered approach to this problem, you do not approve of this legislation unless it covers both sides of our dual banking system. As I read Mr. McCabe's official statement of yesterday, he says:

I want it to cover the dual system, but if we can't get that, as an emergency measure, we will take what we can get.

Is it fair to ask, if you have any opinion as to what the other five members think on this rather fundamental issue, Marriner?

Mr. ECCLES. Unless they have changed their view since I appeared for the Board in April before the Taft committee, they feel as I do, because when we appeared before the Taft committee in connection with this control and when I appeared in connection with the special reserve requirement last November, there was never any thought that increased credit controls should exclude the nonmember banks by any member of the Board or by any membe of the staff.

Not only was the Board very vigorously in favor of including all banks, but the staff were equally favorable to it. That was in connection with the preparation of the statement that was to meet this same condition, to meet this call for credit control that the President made in his special message last November. When the Joint Committee on the Economic Report met in April to consider the President's economic report and the Board was asked to present its views as to what should be done in the credit field, we again presented their views and we offered as a substitute for the optional special reserve proposal, this identical plan, with the exception that we included all banks. That was the view of six of the seven members and I see no reason now——

Senator McCARTHY. Will you pardon me for a minute? Mr. Chairman, it is now nearly 3:30. I understand we are not going to have hearings tomorrow. I think we all want to consider this matter over the week end. I think in view of Mr. Snyder's testimony that the reason he favored this bill was because he understood it was drafted by the Federal Reserve Board. We learn from Mr. Eccles and Mr. McCabe that the Board has never met, that they knew nothing about the call of the special session until after it was called. We learned from Mr. Barkley on the floor of the Senate this morning that he only knew of the call of the special session 1 hour before the President announced he was going to call it.

I have a lot of respect for Mr. Snyder, a lot more than Mr. Eccles has.

Mr. ECCLES. You may be assuming something.

Senator McCARTHY. He is running a tremendous business over there. I think before we pass a bill that affects his handling of that $260,000,000,000 concern that he is running, the national debt, I believe he should be consulted further, and I think someone should now, this afternoon, notify him that his basis for approving this bill was wrong, that the Federal Reserve Board did not help to draft it; that their counsel merely approved it from the technical standpoint.

Mr. ECCLES. I wouldn't say that. The counsel actually may have drafted the bill.

Senator McCARTHY. Let me finish and then you can correct me if I am wrong. This does not represent the policy of the Federal Reserve Board. Notify him that in Mr. Eccles' opinion the other members of the Board feel the same as he does, that the nonmember banks should be included. Notify him that Mr. McCabe said he thought the time was not long enough to include the nonmember banks because we could not have extensive enough hearings.

In view of that, ask him to come down and let us know what his official view as Secretary of the Treasury is and if possible let us know what the view of the President is.

As acting chairman, I suggest that we contact Mr. Snyder now and ask him to come down here.

Mr. ECCLES. I would like to correct your assumptions, your statement, in this particular: I don't know the extent to which the Federal Reserve counsel drew the bill. Even if the Federal Reserve counsel drafted the bill in its present form, it was merely the legal job of putting a bill into legislative form, and he would not be in a position to determine the policy as to whether or not the nonmember banks would be included, and neither would Mr. Thomas who went over there.

As to what the present views of the Board with reference to this subject may be, I would not be able to state. All I am stating here is what the views of the Board were when the Board's proposal was submitted at the last session of Congress at the time the optional reserve plan was proposed and in April what the Board's views were when we submitted a report to the Taft committee.

Senator McCARTHY. May I interrupt again. In any event this committee can assume that this bill does not represent the thinking or the policy of the Board as a whole. The Board has never met, I understand, since the call for the special session to discuss this legislation. So at this time we don't know whether the Board approves or disapproves of this bill in its present form. We do know this: We know you yourself, the former chairman of that Board, tell us if we pass it in this particular form, it can ultimately wreck the Federal Reserve System.

Mr. ECCLES. I didn't say it could wreck the System.

Senator McCARTHY. What did you say; what was the wording?

Mr. ECCLES. I said I would prefer to have no bill than a bill that excludes the nonmember banks.

Senator McCARTHY. Will it weaken it? What language did you use?

Mr. ECCLES. In my opinion it would greatly weaken the Federal Reserve System.

Senator McCARTHY. I understood you to use the word "wreck." But you said it would greatly weaken the Federal Reserve System.

Mr. ECCLES. I gave my reasons for it.

Senator McCARTHY. I think in fairness to the Congress and in fairness to the people of this country we should ask the Congress to call together the Federal Reserve Board and have them in meeting decide what their policy is; have them discuss that with the Secretary of the Treasury. I think it is an insult to the intelligence of the Congress; I think it is an insult to the American people to present legislation as all-important as this, and then discover that the Federal

Reserve Board has never met, has never passed on it. We find a very competent member, a former Chairman of that Board, tell us that if we pass this bill it will greatly weaken the Federal Reserve System. We find the Secretary of the Treasury comes down and says, "I am for this bill because the Federal Reserve Board drafted it."

With that type of picture I think we should call back the Secretary of the Treasury and I do think we should refer this back to the President and ask him to call together that Board so he can tell this Congress what it is the Federal Reserve needs, and what the Federal Reserve Board wants; what the Treasury wants.

Senator CAIN. Will you permit me to answer in this way for the reason that I am acting for Senator Tobey due to his absence, from which he may return in a few minutes. It would be improper in that official sense for me to do as you suggest.

Senator MCCARTHY. I understand. We would have to have a quorum present.

Senator CAIN. It is certainly proper that that portion of today's testimony which deals with this subject should be taken out by itself and presented to Senator Robey later on this afternoon or this evening, as the case might be.

Personally, I think you are on sound ground in going further in this matter, but all of us in an effort to be objectively fair to the Secretary of the Treasury, as we are to Mr. Eccles and Mr. McCabe, will want to study carefully what he actually said this morning because it is awfully easy to get mixed up in words.

Senator MCCARTHY. Do you not think this—and I wonder if Mr. Eccles will not agree with me—do you think that before we take any action on this particular measure there should be a meeting of the Federal Reserve Board tomorrow or Sunday or sometime and have them go over this bill, have them go over the testimony, so that Monday morning or as soon as possible——

Mr. ECCLES. It isn't possible. Some of them are out of town. They will be here Monday, but you couldn't possibly get a meeting before Monday.

Senator MCCARTHY. Even Monday. Do you not think, Mr. Eccles, that before we take any action you should have a meeting of that Board so that we will know what the policy of the Federal Reserve Board is on the matter?

Mr. ECCLES. You mean as to whether or not the Board now, at least the majority of them, feel that the nonmember banks should have been included?

Senator CAIN. We do not know whether they would or would not.

Mr. ECCLES. It can be determined certainly, I think by Monday, whether or not they would prefer the bill as it is rather than have no bill.

Senator MCCARTHY. I would like to know also whether they join with you in your thinking, with which incidentally I agree, that this bill in its present form would weaken the Federal Reserve System. I would like to get their thought on that. If it does, we certainly would hesitate a long time before we would pass it.

I would like to know whether they agree with Mr. McCabe on the other hand that it is impossible at a special session to hold sufficient hearings to pass a good, workable bill including the nonmember banks.

Senator CAIN. Mr. Eccles, inflation, I think we all agree, is greater than it was last April in its scope, when you expressed the point of view of the Board before the Taft committee.

Mr. ECCLES. That is right.

Senator CAIN. What was the date of the letter, portions of which you read to us yesterday, as having come to you from the President at the time?

Mr. ECCLES. January 25.

Senator CAIN. Prior to January 25, in order to keep the record straight, had you, speaking in your official capacity for the Board, recommended that members and nonmember banks be included in any increased reserve provisions?

Mr. ECCLES. In November, I think the 25th, before the Taft committee.

Senator CAIN. Do I remember correctly from your reading of that letter yesterday that the executive branch of this Government said that they were making a change in the chairmanship without prejudice to you or to your policies and that they had subscribed to those credit policies?

Mr. ECCLES. That is correct.

Senator CAIN. You notice, therefore, what strikes me is a great inconsistency. Inflation is getting worse and our proposed methods of dealing with inflation becoming less vigorous and strong. How, in the words of just an ordinary man, do we reconcile what appears to be an impossible approach to a grievous problem? Senator McCarthy, this is only a further exploration of the big problem. Do you have any feeling about that, Mr. Eccles?

Mr. ECCLES. I certainly am unable to read the mind of the President or other leaders in the administration as to what their thinking may be. All I am able to do is to read the record, and I tried yesterday to present as best I could the written record as it has been made. You will have to draw your own conclusions from the written record that was presented.

I would like to call the committee's attention to what I saw just before coming up here over the Dow-Jones ticker. I shall read it:

> Truman told his news conference yesterday that consumer credit is building up fast. He said that is why he asked for credit controls that he didn't seek in his anti-inflation message last November.

I don't know whether this is correct. With all due respect to Dow-Jones, of course I don't know whether this is a correct quotation, but certainly it would seem to me that if it is a correct quotation, the President is under the impression that in his anti-inflation message last November, he did not then ask for credit controls, and that the only reason that he is now asking for credit controls is because consumer credit is piling up. It would appear that he may think he is only asking for controls because consumer credit is building up and that the consumer credit control is the important credit control.

You will recall that yesterday I quoted to you a statement that was made by the President last November on this question of credit control, and the statement that we suggested that he make in his message when we were asked to submit something that we thought was acceptable, and you also recall the statement that was made in his message this year.

In those instances the question of credit was one of the most important and was one of the most anti-inflationary parts of his program. So the reason for asking for credit controls now could not very well be due to the fact that the situation is now different than it was in November when he didn't ask for anticredit controls.

I just wanted to correct this statement because in both instances, last November and at the present time, credit controls on both consumer credit and on bank credit were asked for, and in both instances the Federal Reserve Board supported the necessity for those controls. I just wanted to straighten the record out in that particular.

Senator Tobey asked me a question yesterday, and I started to answer it and we got off on this subject. Unless there is something else and if he wants me to answer it, I would like to do so.

Senator CAIN. The record and Senator McCarthy and I would be very much in your debt if you would raise the question, Mr. Eccles, and then give us the answer that you have in mind.

Senator MCCARTHY. Do you recall the question?

Senator CAIN. On page 95, question 2: If this is the one to which you referred:

Who is responsible for the inflationary development in this country which has taken place since the war?

Mr. ECCLES. I think I probably answered some of that yesterday. At least we covered certain aspects of that problem.

What I want to do on this thing is to make the record for the Federal Reserve. That is what I am primarily interested in.

Senator CAIN. We would like to have that for that reason and we would like to have it not only for the benefit of this committee, but for others who have access to the record.

Mr. ECCLES. Before covering the Federal Reserve Board, I want to make a statement or two, and then I want to sum up this particular picture as I see it, briefly.

Senator CAIN. Go ahead, sir.

Mr. ECCLES. I recall distinctly the concern of the Board as well as my own concern in the latter part of the war about the inflationary dangers, and of course we did everything in our power to impress and influence everyone about the danger without very much success. We followed these inflationary developments very closely. It was our business to do so. Here is part of the record. I want to show you how very quickly all inflation controls were removed and when they were removed and how prematurely they were removed.

The sudden end of the war on August 14, 1945, brought drastic reductions in military procurement. The question of maintaining controls immediately became a major public issue. The policy of the administration on this matter was enumerated on August 18, 1945, in Executive Order 9599, by the President when he instructed the Federal agencies to move as rapidly as possible without endangering the stability of the economy toward the removal of price, wage, production, and other controls; and toward the restoration of collective bargaining and the free market.

That was 4 days after the termination of the war.

The day following the surrender of Japan, all controls over manpower were dropped, and OPA removed rationing restrictions on gasoline, fuel oil, all processed foods, and heating stoves. By the end of 1945, only sugar continued under rationing control. Several hundred items were removed from price control within the first 100 days after VJ-day. On August 25, 1945, the war Production Board discontinued the controlled-materials plan which had become the cornerstone of the War Production controls. The controlled-materials plan was a relatively simple device for dominating the industrial economy by giving WPB complete control over the strategic commodities such as steel, copper, aluminum, etc.

In other words, they allocated them at that time. The very thing we are talking about doing again.

A great many control and priority orders were revoked by the end of August, including controls over most metals except tin, lead, and antimony. Industrial construction restrictions were first eased and on October 15, 1945, the construction order L–41—

This is a building permit order—

was revoked by WPB, and with it went all the limits on new construction.

Before the end of August 1945, the Office of Defense Transportation lifted almost all its controls over all transportation. On August 25, 1945, all lend-lease was suspended. Early in September a large portion of controls over exports—

Another item that is now coming into the picture—

was lifted, and coastal and intracoastal shipping was removed.

I could go on in elaboration of that, but the point I want to make is that as early as 1945 and early in 1946 all of these controls were removed. Later on, we know what happened to wage controls. We know what happened to price control. The price-control bill in 1946 was passed and was an extremely weak and ineffective bill. I recall I was asked for an opinion and I recommended that it be vetoed. I said it would be ineffective, that it would only encourage black-market operations, that price control alone was useless, that the other controls were needed as supports. Time after time in meetings and conferences, I, among others, advised against the premature removal of controls.

Senator McCarthy. Do you think it would be a good idea at this time to reinstate a system of allocations of scarce materials such as steel?

Mr. Eccles. I haven't studied the thing enough, Senator, to know. Inflation was held in check during the war because there was a harness of controls. They all fitted together well. One was an integral part with another. As a result, we got through the war notwithstanding the terrific pressures of purchasing power and the shortest possible supply of goods. Inflation was held in check by that harness. When that harness was removed, it was just like a horse trying to pull a load with the tongue down and the halter off. The thing just leaped along.

It is a very difficult thing, it seems to me, to have a system intended for instance, to control prices when you don't have rationing and you don't have allocations and you don't have wage controls and you don't have excess-profits taxes. They fall apart, and the thing did fall apart. In 1946 all price controls were removed.

Senator McCarthy. Would you do this for me? Just restrict yourself to the question of allocations, if you will, and let us know what you think about that. For example, what I have in mind is this: In the building industry, steel companies are not producing enough nails. They are running short. There are shortages in certain other raw materials, certain other productions. For example, pig iron is being diverted, I think, to where it should not be diverted. There is not nearly enough going to the producers of soil pipe and that sort of thing. Do you think a system of allocation without price control would be of benefit in diverting the raw materials into the right channels, or do you think it would be worth while?

Mr. ECCLES. I doubt that it would work. I think the administration job would be almost an impossible one. I would certainly hate to be charged with a job of that sort.

Senator MCCARTHY. We have also been urged by some to reinstate the system of premium payments. You are aware of that program which was discontinued some time ago. Do you think that would be advisable?

Mr. ECCLES. I don't think so. I think you are trying to deal with effects instead of causes and I think you have reached the point in this situation where you have to deal more directly with causes. The causes are the excessive amount of purchasing power now in existence and credit that only adds further purchasing power. Anything that adds to the existing purchasing power now in existence or further purchasing power by a further expansion of credit is inflationary and cannot help but be.

So, the two most important fronts upon which you can deal with this thing without direct regimentation of course are in the field of taxation and in the field of credit control. That was emphasized by the Board last November and again in April.

Senator CAIN. Let us assume that you are right on keeping those taxes up. Then we have budgetary surpluses. It is fine if those surpluses are used to reduce and retire debt, as I understand it, but if those moneys are only used for other expenditures, you are no better off.

Mr. ECCLES. You couldn't have a surplus unless Congress appropriated. But after all you have a Congress here that can raise the money and then hold down the appropriations so there would be a surplus.

Senator CAIN. There is the difficulty of it. Both Democrats and Republicans were all in this thing. When we have the money, we listen to requests for spending huge sums and we go ahead and appropriate the money, and we are moving in the opposite direction.

Mr. ECCLES. You are only saying then that in our system we can't really control booms and depressions. That is in effect what you are saying because if you won't deal with the causes then you are saying that because of the political pressures our Government will not deal with the conditions that create the booms and hence the depressions that are the aftermath.

Senator CAIN. I personally have not been here long enough to have a positive conviction on that.

Mr. ECCLES. It looks like it may be the case.

Senator CAIN. It is helpful to the record. Because as we do not reduce taxes, we follow the logic of having surpluses to retire debt. If our surplus disappears kecause we spend it in other directions, however worthy those other projects are, we get no better and continue to get worse, do we not, as a Nation?

Mr. ECCLES. The thing that is important in inflation isn't so much the question of whether you reduce taxes or not if you can cut spending enough to have a surplus. The important thing is having a budgetary surplus. If you can cut taxes and still have a substantial budgetary surplus, that is anti-inflationary. If you can't cut taxes and have a substantial budgetary surplus, because you won't cut expenses enough to do it, then you should maintain taxes because you practically have to have a budgetary surplus in an inflationary period just as you will have a budgetary deficit whether you like it or not, in a deflationary period.

Senator CAIN. How, Mr. Eccles, can you do two things at one and the same time? It is too bad we have to refer to the administration, because we are trying to understand this thing, but they have laid 19 separate proposals before the Congress and hope that we take action on all or some of them, most of which they themselves call for the spending of additional large sums of money.

Mr. ECCLES. I am not defending the administration proposal, although, as I said yesterday, there are certain aspects of it that would be very helpful. But at the same time certain other features of the proposals are inflationary and would tend to nullify the deflationary effects of other proposals.

The program, taken as a whole, certainly does not make economic sense.

Speaking of taxes, one of the proposals is to reinstate the excess-profits tax. In that connection, the excess-profits tax was in my opinion one of the most effective anti-inflationary measures on the statute books, the repeal of which I vigorously opposed. When the Honorable Fred Vinson was Secretary of the Treasury, on October 20, 1945, I wrote him a letter and enclosed a long memorandum. I said:

> Referring to our brief conversation when you expressed surprise at my opposition to the repeal of the excess-profits tax at this time, I am venturing to enclose a memorandum outlining my reasons for my position. I apologize for inflicting any reading matter upon you knowing how busy you are, but I would like to have you know why I think it is a great mistake to take the tax off at this time.

This is a long memorandum, and I won't read it all but I would like to quote from it.

> The main reasons for high wartime taxes, including excess profits tax, are, one, to hold down the deficit.

It was at that time, or, as at present to increase the surplus if you have inflationary pressures.

> * * * and the need for borrowing particularly from the banking system because that adds to money. Second, to reduce the inflationary pressures at a time of greatly excessive demand for goods and services relative to the supply. And third, to curb the profiteering out of war. Taxation is the last real bulwark against inflationary forces because of the weakening or the removal of other controls.
>
> Such as the War Labor Board exercised over wages and hence prices, or such as the War Production Board exercised in the construction field. The most prudent course at this juncture would be to defer tax reductions until such time as supply is more nearly in balance with demand, and we have begun to approach a balanced budget. At this stage we would be wise to err on the side of too much rather than too little revenue. Taxes can't always be reduced.
>
> Since the basic problem today is one of shortage of goods in relation to demand and purchasing power, prudent fiscal policy requires that high taxes be maintained in order to reduce the deficit or create a surplus as far as possible. Not only is the backlog of demand unprecedented but the supply of money in the hands of the prospective customers is at an all-time high and will be further increased as employment in peacetime occupations occur. The situation would be entirely different if we were confronted with a progressive deflation and inventories were in excess of effective demand. Then the problem would be to create more demand for goods, to give employment, and fiscal policy would call for first reducing taxes on the lower incomes.

I have more, but I just wanted to make that point.

Senator McCARTHY. Before you leave the subject of taxation, Mr. Eccles, I gather you feel that it was a mistake to reduce taxes last year but let me ask you this: Yesterday you said that you thought that it would be of some benefit if the pensioners were to receive more, if those in the static low-income groups were to receive more money. Do you think it is a good idea to take some seven million of those lower income individuals off the tax roll? Do you think that was a pretty good idea? You have in mind that last year we took some 7,000,000 of the people in the lower income group off the tax roll, which, of course, increased their purchasing power.

Mr. ECCLES. Well, those are certainly the first taxes I would reduce.

Senator McCARTHY. So you do think that was a good idea?

Mr. ECCLES. I would certainly think it was first, but I do think that while you have an inflationary situation such as we are confronted with and the cost of living, particularly the cost of many items, going where they are, we are possibly just as much justified in maintaining taxes as we would be in war. Inflation is not quite as immediately urgent as war is, but it may in the long run prove to be almost as serious.

Therefore, because the urgency isn't there, it does seem to me that if we are justified in war in imposing restraints and restrictions and taxes, we are equally justified in periods of inflationary development in imposing restriction by taxes or in any other way within our democratic framework.

Senator McCARTHY. Yesterday you said that one of the reasons why inflation was dangerous was because those in the lower income group are not able to buy the products they otherwise could, and that if you could increase the income of those in the lower income groups that would be of some benefit.

My question now is this: That being the situation, do you not think it is an excellent idea, if you can give a tax reduction such as was given, wiping 7,000,000 off the tax rolls in the lower income group, that is the same as giving them a wage increase?

Mr. ECCLES. That is right.

Senator McCARTHY. This accomplished what yesterday you recommended we should do in another manner.

Mr. ECCLES. Of course, if you are going to bring the thing into equilibrium by trying to raise everybody and freeze the inflation where it is, we should do just that. The pensioners and the savers, and so forth, should likewise be subsidized because of what has happened to them. As a practical matter, there is no way in which you can equalize and bring everybody up so that you have this equilibrium, that I can see. I think I said that yesterday. It is an impossible job to do. We can justify on the basis of equity doing a lot of things, which at the same time make for inflation. It is a question of unpleasant alternatives.

Senator McCARTHY. We have always looked forward to substantially what we have today, that is, high employment, full employment, nobody looking for a job; high wages, high consumption. According to the statistics everybody is eating more pounds of meat today than they ever had before, eating more food. We have looked forward to that. We have full employment, we have high wages, we have high income to farmers, but with that goes high prices.

As you point out, there is a danger of their getting too high. Of course, with a $250,000,000,000 debt, we must live on a higher plateau.

Mr. ECCLES. That is right.

Senator McCarthy. If we were to roll prices and wages back, say, to the 1939 level, we would have the greatest depression this world has ever seen.

Mr. Eccles. If you rolled them back far less than that—You are never going to roll them back anything like that without collapsing your economy. There is no desire to do that. With the public debt that we have as well as the private debt at these high prices, you are limited in your roll-back to what you can do without causing general bankruptcy.

Senator McCarthy. Then would it not be better to look forward to this as the best solution, if we can attain it, to try to hold prices where they are as much as possible, and at the same time increase the earnings of those in the so-called static low-income group, the ones you pointed out yesterday, the white-collar workers, et cetera? Could that not be done to some extent by passing a minimum wage law of 70 cents, 75 cents, or 80 cents an hour, rather than to roll those on top down; why not try to bring those on the bottom up?

Mr. Eccles. You have to increase production. If you have full employment and full utilization of your facilities and are getting all the production you can, you do not gain anything for the economy as a whole by the wage increase you mentioned, because to the extent that you increase purchasing power, you only put more pressure on prices unless you can increase production an amount equal to the increased purchasing power.

Everybody wants to have a condition of prosperity and as full employment as you reasonably can have, and there would be no complaints certainly if that could be done on the basis of a stable cost of living and reasonably stable price level. The difficulty is that we have not had that. We have had the thing going up continuously for 4 years.

Senator McCarthy. Will you do something for me? I may have a habit of interrupting you but I try to do it to keep you on the question that I have been asking and not get you on a different subject, even though everything you do say is enlightening. So if you will pardon me when I interrupt, will you stop and let me ask the question?

Mr. Eccles. I think in my answers I am trying to answer your questions. They are a little difficult to answer because the problems are quite involved.

Senator McCarthy. In line with your statement in regard to production, let me ask you this: I know you might be in a position to answer it, but you may be able to throw some light on it in case you are not. We know that as of today the steel industry is not producing enough steel to produce sufficient farm machinery and automobiles and cars and freight trains to help hold down inflation. We know from the hearings held by Senator Martin's committee and others that the industry has pretty much taken the position that it would be financially unsound for them to expand at this time and increase the rolling capacity of the various mills.

Unless the steel companies do make an about-face and decide that the country is growing and that when we have an additional 10,000,000 or 15,000,000 population over the last 10 years that of necessity means they must increase the capacity of their mills; unless they do that, can we hope effectively to combat inflation over the next few years?

Mr. ECCLES. I think so. I think you may find you have adequate steel capacity on the long-run basis. You have to remember that we certainly can't continue to export on balance the present large amount of goods. If we ever get paid back, we will be taking steel from abroad some time. At least that is the theory of foreign credits. In this idea of expanding an industry to meet what might be considered an abnormal demand due to the backlog that has been accumulated as a result of war, we are making a serious mistake, just as I indicated when I read part of that memorandum on housing. It is the same situation. You have to make haste slowly.

You would not have these great shortages if it were not that you are meeting what would normally be considered a current demand plus a backlog demand. When you get the backlog demand satisfied and you have only largely the current demand, which will be increasing with an increasing population and an increasing standard of living, we may well have adequate capacity in many fields, but today you have the current demand, which would be normal, plus the backlog demand. You have to catch up with that backlog demand slowly as you take care of the current demand. We don't seem to have the understanding or the patience to do that.

You can force that condition to a certain extent if you exercise control over the purchasing power through the credit mechanism and the tax mechanism.

Senator MCCARTHY. Is there any place where you think we could cut down on the exports of scarce materials without impairing the working of the Marshall plan?

In other words, do you think we are exporting too much in view of the high prices in this country? If so, where do you think we could cut down exports without seriously impairing our programs in Europe?

Mr. ECCLES. I am not sufficiently familiar with the plan. There was a time when I, as a member of the National Advisory Council, kept in touch with this foreign situation. That was one of my jobs. But since January I have not attended a meeting. I have been completely out of touch with any aspect of the foreign situation.

Senator CAIN. You were talking about the causes of inflation. I remember how successful our War Savings bond programs were. Today we are in an emergency. We have high prices and high wages and full employment, although several of those things are very desirable. Is it possible at all to think in terms of a national program of placing part of the responsibility for minimizing the obvious dangers of inflation on the American people by encouraging them for patriotic and every other reason, to work more, work longer, save more, and spend less?

In terms of advertising, is it possible? I am serious about this because the people of the United States are looking to the Congress and the administration through legislation to cure what can only be partly curbed by legislation.

Senator MCCARTHY. I said would you recommend Mr. Luckman for that job?

Senator CAIN. I do not know Mr. Luckman. I noticed in one of your presentations before one of the committees of Congress some months ago you said in better language than I have just used, substantially what I am asking about now. That was your No. 1 hedge against inflation. Will the American people do it and can they do it and can the Congress so explain these matters to them that they will be sympathetic toward it?

Mr. ECCLES. I rather doubt that on a voluntary basis you would get much of a result. We have tried it. I think during the war period you got a better response.

Senator CAIN. You think in the absence of the essence of patriotism for war purposes, it is asking almost too much?

Mr. ECCLES. Even then we found out we had to put an awful lot of controls on, and in spite of the controls that we put on and that we could count on war-inspired patriotism, we found a lot of black-market operators and a lot of tax evasion.

Senator CAIN. In answer to my question, realistically, then, you think all the vices that appeared during the war would only be accelerated in peacetime?

Mr. ECCLES. I think they are accelerated in peacetime, and I doubt very much if we are going to get much of a result through voluntary efforts or persuasion. I am sorry to have to come to that conclusion.

Senator CAIN. It is an important conclusion, because if the people in the mass would assume part of the national responsibility, it certainly would be less of a burden on the Congress.

For example, I live, let us say, within my income and comfortably, but I could spend less if I wanted to, and to the extent that I would I would create a sales resistance as an individual, in itself not important. Fifty million people pursuing the same policy would amount to something.

Mr. ECCLES. A lot of people today are pursuing a different course, and the Government is helping them to do it when it takes off credit controls and liberalizes housing credit. You are not only helping people spend current income and credit they can get without security, but you are making it easy for them to get more credit for consumer goods and for housing. So contrary to the idea of asking the people voluntarily not to spend so much, we are doing everything to enable them to spend even more. I just can't see how you are going to do much on a voluntary plan.

To sum up here, if I may, unless you have some other questions——

Senator CAIN. I wish you would summarize for the record.

Mr. ECCLES. I would like to make this final statement, then:

The Federal Reserve Board has been very conscious, even during the period of the war, of the great inflationary dangers that were being built up. They have called this to the attention of the administration on numerous occasions and in numerous ways, both in connection with the control program in effect during the war and immediately after, and the tax program, the debt management, and the credit program. They have called it to the attention of the Congress through their hearings and through the annual reports to the Congress, during and since the war.

They have called it to the attention of the Congress on numerous occasions in connection with hearings upon various bills and in connection with responses to questions by the Congress for the opinions of the Board. There is a voluminous record in the Board's files on this score. It has been called to the attention of the country through various public appearances, speeches, press releases, in meetings with various banker and other groups.

I have most vigorously, and I think consistently, over the years done everything within my power to remind the administration, the Congress, and the country of these dangers, to apparently no effect, with the result that I stepped on too many toes; and, because of these efforts that I particularly made as the Chairman of the Board—but the Board was always back of me in these efforts—I seemed to be a political liability to the Truman administration.

Senator CAIN. Permit me to interrupt you, for I should like at this time to read a question which Senator Tobey asked me to read, and it seems to me that you have of your own initiation answered it in part. He just asked if I would read this question to you:

> Why, Mr. Eccles, do you think that the President failed to reappoint you as Chairman of the Federal Reserve Board when you had put up such a vigorous fight against inflation?

Mr. ECCLES. I think possibly that has been answered in part. I don't know any more than anybody else. The administration has certainly appeared to want inflation control. Certainly I have not been out of harmony with anything that was done to cooperate and to assist in that effort, and I therefore must conclude that it was because I was possibly too assiduous and too aggressive, and it no doubt offended certain people or groups who may well have been benefited by the inflationary development. I therefore became a political liability in that regard. It seems that may well have been the case.

I did want to get into the record these facts with reference to the position that the Board has taken over the years to try to make it perfectly apparent that the responsibility for the Board's not getting controls to curb credit expansion is not due to any failure of the Board but is due certainly in part to our failure to get support from the administration, and that the purpose of increased taxes through an excess-profits tax at this time and the fact that other controls are being called for seems to me an admission of a premature removal of the controls when they existed and a premature removal at least of the excess-profits tax when it existed.

All of these matters were called, by either myself or the Board, to the attention of the administration.

I am not saying that the present administration, which certainly did remove these controls and the excess-profits tax, did not have a very willing support by the minority in Congress during 1945 and 1946 as well as the support of a great many of the public. However, the present administration did nothing to prevent the removal of all these inflationary controls, which certainly now appears to have been premature. It seems to me to be quite a futile effort at this time in a special session of Congress to put back a harness of involved controls, including an excess-profits tax, with any degree of success. The job is almost an impossible one without giving a great deal of consideration to the effect of such an involved program.

As I said yesterday, it is like trying to put humpty-dumpty together again. It would not have been a difficult job to have continued the controls, but to put in such an involved program of controls, with the putting together of an administration of those controls, is in itself a Herculean task in a peacetime period. It seems to me a most difficult thing to accomplish.

Senator CAIN. Permit me to ask this question: If we were all to assume in the Congress—everybody—that your present conclusion about its being almost an impossible job to do because of its complexion during a special and limited session, and that we all as a Congress, Democrats and Republicans, settle down to the issue involved with particular emphasis on cures rather than on curbs, beginning with the new session, what opinion do you have as to what is likely to happen to the commodity market and prices in general between now and the beginning of August and the beginning of the next year?

We are assuming that we can't do something, and we are assuming that we are going to do it 5 months from now. What happens in that 5 months' period?

Mr. ECCLES. I don't like to try to be a prophet, but there is every indication that a further substantial expansion of bank credit will take place, which means additions to the existing money supply. There is some evidence that for some little time there will be a serious shortage, based on today's purchasing power, of certain foods, such as meat and dairy products in particular. There is no indication that there will be no further increasing demand for higher rentals and for housing, if easy credit is continued or further credit is made available.

So far as some of the consumer durable goods, particularly automobiles, are concerned, the demand is extremely great. The prospect of meeting that demand is at present rather remote. In the field of farm implements we likewise have great demand and shortages. Of course, steel, lumber, copper, and oil, the basic raw materials, as we all know, are in short supply. Every day we read of increased prices which are both a cause and a result of further increased wages. A shortage of manpower is likely to develop between now and the end of the year because as the harvest proceeds the demand for labor increases. There is certainly every indication that the cost of labor is more likely to go up even in the unorganized fields than down because of the shortages.

Add to that an expanding military program and the effect of the European aid program, and of course you face quite a serious situation.

Senator CAIN. The appropriations that are already authorized but not spent.

Mr. ECCLES. But not spent. That is right. Of course, basically it is pretty difficult to talk about dealing with the inflationary problem in this country until you get a basis for world peace. That is really at the root of the thing. Until we get a solid basis for world peace. as long as we are confronted with a military and foreign-aid program of increasing expenditures, the situation is not a hopeful one.

Senator CAIN. We ought to recognize it as being what it is.

Mr. ECCLES. And sooner or later if that continues, we have got to confront budgetary deficits. That means, of course, the possibility of further inflation or more taxes.

That is the inflationary side.

Senator CAIN. Just one other side to try to dovetail these questions: If you were writing the ticket for this country and assuming that you had a special session which for obvious reasons could last for only 2 or 3 weeks, you would know that it was possible within reason to do certain things and almost impossible to do other things. What would you recommend as being the best hedge against inflation in this interim period between now and the opening of the new session, when hundreds of people would presumably have a chance to settle down and do a serious job?

Mr. Eccles. I think the credit situation.

Senator Cain. The two proposals in the form that we have before us?

Mr. Eccles. I think they are the simplest and the easiest, but I think from the standpoint of the Board we would feel quite unhappy if the impression were given to the country that that would be the solution of all of our economic problems.

Senator Cain. I think the press, and I think all of us, are conscious that whatever we do, we ought plainly to tell the people why we are not doing certain other things and that what we do is nothing but a temporary interim hedge, the best that can be acted on within a limited period of time.

We are not going to get the answer to our gigantic problem out of this or any other short session.

Mr. Eccles. Possibly it would be more important than any other single item of the program. They are less involved, and their administration could be quickly undertaken, because the organization to administer them is an old-line, well-established organization. It would not require the setting up of any new machinery. From that standpoint, they do have some advantage over other proposals.

Senator Cain. Let us assume, then, that positive action is taken by increasing bank reserves and by way of argument for nonmember as well as member banks, and consumer credit, and that no other positive action is taken, to what degree do you consider that action to be a constructive hedge against inflation?

Perhaps I do not put the question very well; but, in a material sense, would it be of assistance to our problem, in your opinion?

Mr. Eccles. I think it would. I think it would be of material value in the picture.

Senator Cain. All right, sir. That is one side of the picture. That is a hedge against inflation.

On the other side of the picture is the primary objective for which this Congress was called, the housing approach, included in which there is a liberalization making credit more freely available. We assume that we have put in bank reserves and consumer credit, and at the same time let us assume that we pass all the housing proposals which perhaps are necessary, but are highly inflationary, what is the net result of that combination?

Mr. Eccles. You would tend to nullify. It would be ineffective. It would be like trying to fill up the bathtub with the stopper out—you try to stop inflation through one means while you open the door for it through another avenue.

Senator Cain. That is precisely what we have before us.

Mr. Eccles. You have a perfectly contradictory program.

Senator Cain. You use the word "nullify." To what extent would liberalizing housing credit in this special session offset the benefit that would come from the hedge created by bank reserves and consumer credit controls?

Mr. Eccles. Of course, it would be impossible to say the extent that one would offset the other.

Senator Cain. Would it be material, in your opinion?

Mr. Eccles. Yes; I think it would be material.

Senator Cain. We are in a fix, then, are we not, from your point of view?

Mr. Eccles. If you pass both of them.

Senator CAIN. We have been requested to pass both of them, and the Congress is giving serious consideration to both of them.

Mr. ECCLES. I think they are contradictory as anti-inflationary controls; they are contradictory as anti-inflationary proposals.

Senator CAIN. One is and one is not.

Mr. ECCLES. One is inflationary and the other is deflationary.

Senator CAIN. One is answering a need for additional housing, which happens to be inflationary. The other is anti-inflationary.

Mr. ECCLES. We all recognize that need.

Senator CAIN. Mr. McKenna, who sits on my left, a counsel among others for this committee, has posed this question which is germaine. How long, Mr. Eccles, in your opinion, will it take for the results to show if the Federal Reserve System is granted the powers under discussion? Assuming again that the power you would get would be all-inclusive.

Mr. ECCLES. I can't answer that question.

In the first place, it would depend on when the Board would use the powers.

Senator CAIN. That is a question you might venture to answer.

Mr. ECCLES. I only happen to be one member of the Board. When the Board reviews the powers, of course it would have to be determined by a majority of the Board. I would like to say, however, that in the case of the consumer credit, those controls of course would be required. That would not be discretionary as to timing. They would be required to be put into immediate effect. I am sure the Board, because it has previously administered the consumer credit controls, could put them into effect in a short time and could administer them readily through your decentralized Reserve banks and branches.

Senator CAIN. We are all in agreement that that is the least effective of the proposals which have yet been made.

Mr. ECCLES. It certainly is. I would be rather unhappy to see one of those without the other.

Senator CAIN. Can we take as an assumption that the Federal Reserve Board would put into operation immediately—or at least let us take that as an assumption—the powers that we are discussing; then how long would it take for an appreciable result?

Mr. ECCLES. I am going to say this: The very fact that the Federal Reserve Board had that power would have a very wholesome influence upon the banking system, even without putting the increased reserve requirement into effect, for this reason: Every bank would want to keep themselves in a position where they would have either excess reserves or have securities readily available that they could dispose so as to meet the increased reserve requirements if it were put into effect. The effect upon the bank lender of this program would be this:

Banks get increased reserves and deposits from gold imports. They likewise get them from sale by the nonbank investors, particularly insurance companies, savings banks, and the like, of Government securities. When banks come into possession of those deposits which the Federal Reserve creates through its purchase of nonbank securities and through the Government's purchase of gold, they then have what you call idle money. We could sterilize with this increased power the inflationary effect of our purchase of securities from nonbank investors, which we cannot now do. That isn't deflationary.

All it tends to do is to neutralize what would be an inflationary influence on the banking system. That in itself is important because it tends to take off the banks the pressure to invest their surplus reserves.

The very fact that we get increased reserve requirements is going to cause the banks to hesitate at least to increase their loans as freely when they have to sell Government bonds to do so, because as they sell Government bonds in the market and they increase their loans, they become less liquid and they become less able to meet the increased reserve requirement. Therefore, the expectation of having to do that in itself would be a deterring factor.

It seems to me that is the effect that this would have——

Senator CAIN. Of the nonimposition of the regulation.

Mr. ECCLES. Yes; that would be the prospect. It is certainly desirable and rather important as a supplement to this, as I stated in the April statement, that the Treasury permit the short-term rate to go up as well. That should happen. That doesn't require legislation.

Senator CAIN. Would that automatically follow, or do you have reason to believe that it would automatically follow?

Mr. ECCLES. It isn't very consistent. I think that if we should increase reserve requirements on the banks, we reduce their earnings and unless we let the short-term rates go up, we put them under pressure to make loans rather than buy the Governments from the Federal Treasury, which, of course, is necessary if this proposal is effective. So, as a part of the operation of this mechanism, the short-term rate should go up and the discount rate should go up as well as the increase in reserve requirements.

Senator CAIN. Both of the other two items being under the control of the Treasury.

Mr. ECCLES. The discount rate is under the control of the Board, but the discount rate, to be effective, should follow an increase in the short-term rate.

Senator CAIN. You need no additional authority to change your discount rate.

Mr. ECCLES. No; we need persuasive powers from the Treasury.

Senator CAIN. Mr. Eccles, one brief question about your Advisory Board. Do you know whether or not it has recently considered the two proposals that are presently before the Congress?

Mr. ECCLES. You mean the Federal Advisory Council?

Senator CAIN. Yes; your Council.

Mr. ECCLES. I don't think so because they have not been here; they have had no chance to consider them, because they were proposed by the administration. I don't think the Council has had an opportunity to consider them, as far as I know.

Senator CAIN. May I make this suggestion to you? We well remember that the Council, rightly or wrongly, was very much in opposition to your reserve increase proposals of some months ago.

Mr. ECCLES. I think they will be in opposition to this.

Senator CAIN. I think this committee and the Congress is entitled to know what they, a statutory body, think. Importantly, and in addition, I know that the committee would like to know whether or not, assuming that the requirements were going to be raised for the member banks, whether they would think that was at all tenable if the nonmember banks were not involved. I should think that perhaps by a telegraphic poll or telephone conversation in the next week, the attitude of that Council could be determined.

Mr. ECCLES. It possibly could. I would say that that Council and the 12 Reserve bank presidents as well as the Federal Reserve Board unanimously—I think it was in 1939 or 1940—proposed a special message to the Congress as an anti-inflationary or sound monetary proposal. This was when the interest rate was virtually at zero on the short-term debt because I think there was six or seven billion of excess reserves and no demand for credit. They then proposed that the reserve requirements of all banks be increased. So it was apparent at that time that they felt that it not only could be done constitutionally, but they felt that as a matter of equity it should be done and applied to all banks.

Senator CAIN. If there is a reasonable way in which to establish their present thinking, I think we ought to have it.

Mr. ECCLES. You have to remember, to the extent that these members are connected with large metropolitan banks——

Senator CAIN. Oh, indeed, but they are a statutory body.

Mr. ECCLES. To the extent that they are connected with large metropolitan banks, and they have a large correspondent bank relationship, they are put on quite a spot.

Senator CAIN. We are all there.

Mr. ECCLES. If many of their correspondents are nonmember banks and object strenuously to having this imposed upon them.

Senator CAIN. We cannot very well satisfy the requirements of an emergency without asking the advice of those who are charged by law with giving it to us.

Mr. ECCLES. I am not saying you should not ask for the advice. I am only saying to you that you may put some of them on a spot.

Senator CAIN. I take it you have been on one for the better part of this afternoon. Certainly we are the better part of 365 days of the year.

Mr. ECCLES. For the better part of 14 years I have been on one.

Senator CAIN. You very interestingly said a while ago that your Advisory Council had not considered these two proposals recently because they had been advanced by the administration and not by the Federal Reserve System.

Mr. ECCLES. No. What I meant was that if the Federal Reserve had been going to advance them, we would have had the time to permit a discussion of the matter with the Council, but inasmuch as we had nothing to do with the determination of the timing of it, it was not possible. I am sure if the Council had been in session here——

Senator CAIN. You would normally have done it?

Mr. ECCLES. We would have advised with the Council, but the time element did not make it possible.

Senator CAIN. Earlier in the day we were curious about what Secretary Snyder had actually said this morning. I have one paragraph on the subject:

> Secretary SNYDER. This proposal that is in this bill was prepared by the staff of the Federal Reserve Board, so I presume that we are extending here an existing law that the members of the Federal Reserve System have accepted.

Mr. ECCLES. I think I explained that earlier this afternoon, and I do think the language was prepared or approved by them, but that didn't mean that the Board wanted to have excluded the nonmember banks.

Senator CAIN. That is right.

Mr. Eccles, if you will bear with us a second, if the Congress passes no legislation during this special session, would you favor the lowering of support prices on Government bonds? Would we accomplish anything?

Mr. ECCLES. No; I would not favor the lowering of the support price on the 2½ percent. Let me put it this way: I would like to change the phrasing of that, if you will.

Senator CAIN. Yes, sir.

Mr. ECCLES. You can ask if I would favor discontinuance of maintenance of the 2½ percent rate on long-term Government bonds, and I can say: No; I would not. I favor the continuation of the support of the 2½ percent rate on long-term bonds, permitting the short-term rate to rise to whatever extent it may rise in relationship to that paid on the long-term rate.

I don't believe in the pegging of both the short- and the long-term rate. I believe in one peg and letting the rate of the shorter securities adjust themselves in relation thereto.

Senator CAIN. One final question: Assuming that we can do something in this Congress but by no means do as much as we or the American people would like us to do, is there any reason to believe that whatever we do, assuming again we grant the Federal Reserve the power it needs for things to be helpful, that there is any immediate prospect of prices being lowered.

Have the American people, in other words, regardless of the action to be taken at this special session, a period before them of continuing present level and even higher prices before there is a decline in the price structure?

Mr. ECCLES. I would say that that would be my opinion, at least so far as the next 8 months is concerned, to the end of the year.

Senator CAIN. People are better qualified to face a situation, Marriner, if they know what that situation is.

Mr. ECCLES. I can't see anything in the period of the next 6 months that would change the present price trend. I can see in the next year many factors that might. Our production is increasing, and we are getting more people out of savings and more people in debt. The markets are going to dry up sooner or later. They are going to be priced out of them sooner or later. You have that developing. That can be offset and the inflation could be continued indefinitely with an expanding budgetary deficit due to a military and foreign aid program. That cannot but continue this thing and continue the bubble. That, of course, would be the most catastrophic thing ultimately that could happen to us.

Senator CAIN. I thank you very much.

Mr. ECCLES. I found that statement that I mentioned about the position of the Federal Advisory Council.

Senator CAIN. Will you just throw in a sentence or two to support their then position?

Mr. ECCLES (reading):

The inflationary dangers inherent in the war emergency—

this was in 1940—

were widely recognized in the early phases of the national defense program. In late December 1940—months after we had a substantial defense program—the Federal Reserve Board, the presidents of the Reserve banks, the Federal Advisory Council, unanimously joined in a special report to the Congress pointing out the inflationary dangers to the national economy as a whole in the defense effort, and advising that the authority of the Federal Reserve System was inadequate to deal with the existing and the potential excess reserve problem of the banks.

You have an excess reserve problem in the form of Government bonds today. Then it was cash, but today it is just as liquid because the excess reserve problem is in the form of Government bonds.

Senator CAIN. What was the date of that message?

Mr. ECCLES. Late December 1940.

Accordingly, this special report recommended that Congress increase the statutory reserve requirements for demand deposits in banks in central Reserve cities to 26 percent, for demand deposits in banks in Reserve cities to 20 percent, for demand deposits in country banks, 14 percent—

and so forth.

* * * and empower the open-market committee to make further increases of reserve requirements sufficient to absorb excess reserves subject to limitations that reserve requirements shall not be increased to more than double that specified in paragraph (a).

Instead of only increasing 10 percent, they wanted authority to double the reserve requirements.

Senator CAIN. Is there any reference to the nonmember banks?

Mr. ECCLES. Yes; just a minute:

Authority of the committee to change reserve requirements for central Reserve city banks or for Reserve banks or for country banks or for any combination of these three, the present reserve requirements applicable to all banks receiving demand deposits regardless of whether or not they are members of the Federal Reserve System.

That was unanimously agreed to. There is the report by the Federal Advisory Council and the 12 Reserve bank presidents. It seems to me that they have crossed part of the road right there.

Senator CAIN. I want to thank you on behalf of Senator Tobey and the entire committee.

Mr. ECCLES. All right, sir; thank you.

Senator CAIN. I think a lot of people ought to read thoroughly and thoughtfully what you have said, whether they agree or disagree with it.

(Thereupon, at 5:05 p. m., the committee adjourned, to reconvene Monday, August 2, 1948, at 10 a. m.)