

Broadcast over  
Radio Station W-J-R, Detroit, Michigan  
July 31, 1948

### OUR PRESENT ECONOMIC SITUATION

Introduction: Governor Szymczak, as a member of the Board of Governors of the Federal Reserve System over the past 15 years and with experience abroad in 1944 for the Foreign Economic Administration and again in 1946 and 1947 with the American Military Government for Germany, has been in an unusually good position to watch economic developments, both in this country and abroad. We are delighted to have him discuss "Our Present Economic Situation".

Question: Governor, I think the economic problem uppermost in the minds of many of us is the high cost of living. Can you tell us what prices are so high? And why the chances are that they might come down after a while?

Answer: That is a long story. Even so, I think we might first take a look at how high the cost of living is now. According to the Bureau of Labor Statistics index (which is to be used to adjust wage rates under the new General Motors-United Automobile Workers contract), consumer prices in May were 70 per cent higher than in 1939 and 9 per cent higher than a year ago.

Question: Wasn't there a sharp drop in grain prices early this year?

Answer: Yes, but it did not help the cost of living much. Food prices dipped temporarily, but they are now somewhat above their January peak and clothing prices have risen further. So have rents, but in comparison with 1939 levels rents are up less than 20 per cent while food and clothing are double what they were before the war.

Question: Governor Szymczak, what about meat prices?

Answer: They have risen considerably in the past few months and are now about 20 per cent higher than a year ago and more than two and a half times the pre-war level.

Question: You said that since a year ago the total cost of living has risen 9 per cent. Have any items come down?

Answer: Reductions in retail prices have been few and far between. Radios and vacuum cleaners are cheaper than they were a year ago. Some textiles and miscellaneous products have also been reduced.

Question: That covers the main facts on the present cost of living; plenty of housewives can supply the details from their own experience. Now, can you tell us what caused these high prices?

Answer: Chiefly the war. During that period a great deal of the world's productive resources was diverted to war purposes. In this country, at the peak of the war over two-fifths of all production was for war uses. Abroad, factories were destroyed and trade was disrupted to an extent not readily appreciated by those of us living at a distance from the scenes of actual warfare.

Question: So that for a period of five or six years production for civilians was low and supplies of consumer goods were reduced?

Answer: Yes, and at the same time incomes the world over were expanded tremendously because people were being paid for producing munitions and waging war. The increased incomes were partly taken away by Government taxes but people still had much more money to buy goods than there were goods to be bought. Price rises were limited by controls. In this country the amount that people saved out of their incomes increased very greatly during the war period.

Question: And as a result of this people had more money in the bank after the war?

Answer: More money in the bank, more cash in their pockets, and more Government bonds. The total amount of these so-called "liquid assets" held by individuals and corporations at the end of the war was more than three times as great as before the war.

Question: And where did all these liquid assets come from?

Answer: Less than half of the Government's expenditures during the war was financed by taxes and the remaining amount was borrowed. Some of this amount was borrowed from savings and the rest was borrowed from the banks. The Government paid the money out for war equipment, and the money was deposited in banks or held as currency. The expansion in these funds and increased holdings of redeemable Government bonds resulted in a record supply of purchasing power.

Question: The main point, as I get it, is that people accumulated money during the war, when many goods were not on the market. Then after the war they were able to pay high prices if necessary for what they wanted urgently in the way of food, automobiles, and houses. Is that right?

Answer: Yes, people could back up their wishes with more dollars than ever before--dollars accumulated during the war and also dollars received out of current incomes which generally continued high after the war in spite of the curtailment of the war program. There were plenty of jobs immediately after the war and even more now. In June employment reached a new record and wage rates have advanced further.

Question: How much have wages risen?

Answer: At manufacturing plants average hourly earnings are more than double prewar levels. This spring wage rates have risen less than before as marked resistance developed in leading industries. Recent increases in automobile and electrical equipment industries have been within the general range of 5 to 15 cents an hour, which has been characteristic this year where any increases at all have been negotiated.

Question: Now that you are discussing wages, Governor, I want to ask you whether they are high because prices are high or are prices

high because wages are high?

Answer: I am glad you asked that because there seems to be so much misunderstanding about it. Basically prices, wages, and profits are all high because of heavy demands for goods. It needs to be remembered that wages are not the only business cost; that, particularly in times like these, many prices are not very closely related to costs; and that consequently care should be taken in attributing price increases to wage increases.

Question: But wage increases add to costs and they add to incomes so they must have some influence on price increases.

Answer: They most certainly do. Actually these things are all inter-related, which is one reason why we talk about the "inflationary spiral". Such a spiral once under way is difficult to stop. In a period of heavy demand and rising prices, increases in prices and wages reinforce each other. Only those who receive fixed incomes can claim that they do not contribute to the spiral.

Question: Governor, there is another question I would like to ask you in this connection--has the banking system contributed to the rise in prices by expanding loans?

Answer: Earlier I mentioned that during the war the banks loaned a great deal of money to the Government, which the Government spent for war purposes, and this resulted in an increase in the purchasing power people held. In the last two years the Government has raised more in taxes than it has spent and with the surplus has paid back some of these loans, which has tended to reduce the supply of money. But bank loans to private business and to consumers have expanded sharply since the war, tending to increase spending.

Question: Have bank loans continued to rise this year?

Answer: Loans for commercial and industrial purposes have not risen since the beginning of the year, partly because of seasonal influences and partly because of substitution of other means of financing. Also, banks have shown some restraint in making loans. Loans on real estate have continued to rise rapidly, despite some restrictive policies; and so also have consumer loans.

Question: Do you regard increases in loans as a cause or a result of rising prices?

Answer: Extension of credit since the war has in some degree made possible more production, but borrowed funds have also been used to compete for a limited supply of goods, thereby adding to the pressure on prices. Higher prices in turn have required larger loans to finance a given physical volume of business.

Question: How about loans to foreign countries? Haven't they been sizeable and helped push up prices?

Answer: Yes, Federal loans and grants to foreign countries have been



large and they have contributed to increases in prices of domestic commodities, but it is a cost that we have willingly assumed in order to assist in relief and recovery abroad. Even without United States assistance, however, foreign demands would have been very large relative to prewar because of wartime shortages of goods and accumulations of gold and dollar balances.

Question: You have been discussing so far the influence on prices of various demands for goods. Now, would you tell us something about supplies? How large has production been?

Answer: Total physical production of goods and services has been about two-thirds higher this year than in the 1935-39 period; output of manufactured goods has been double the prewar average. Of course, that period was quite a while ago and since then the population has increased by 11 per cent. Also, there were many unemployed in the 1935-39 period. Even so, the present production level is very high--practically at peacetime capacity with present equipment.

Question: You are emphasizing then that in spite of a very large volume of output since the end of the war the pressure for price increases has been very great.

Answer: Yes, and this pressure was particularly evident in the latter part of 1946 when practically all price controls except those over rents were removed. This action was taken partly with the hope that production could thereby be increased. Since then, in the past year and a half, production has increased, but by only a moderate amount because of capacity limitations, and prices have advanced further.

Question: Has the high level of production since the war eased the shortages of goods prevailing then?

Answer: Yes, quite a little. Merchants and manufacturers have been able to substantially increase their stocks of goods. More--though not enough--housing accommodations have become available. Consumers have satisfied some of their more urgent deferred demands for goods not available in wartime. In some lines, as in the shoe industry, supplies have exceeded demand and output has been curtailed.

Question: Have there been any periods when supplies of goods generally seemed to be catching up with or exceeding demand?

Answer: Such appeared to be the case for a time in the second quarter of 1947 when hesitation was noticeable in a number of markets, even reducing production in a number of lines for a short time; but a new wave of buying and price rises occurred in the summer and autumn, stimulated partly by short feed grain crops and new plans for aid to Europe, and production later reached new peak levels.

Question: How about the situation since then?

Answer: Early this year there again was some hesitation in buying, as grain prices declined sharply on prospects of excellent crops in this country and abroad, but demand has since increased again owing in part to the actual and anticipated effects of a reduction in taxes, increased foreign aid, and the expanded armament program. Generally, production has been close to capacity levels and supplies of some important products, such as steel, have continued to fall short of demands. Upward pressures on prices and wages have been strong.

Question: Can it be expected that prices, wages and profits, and the volume of bank credit will go on expanding indefinitely?

Answer: That is a very basic question. The answer which economists read from the pages of history is that booms come to an end, with serious consequences for production, employment, financial assets, and economic well being generally. The bigger the boom the more likely it is that the bust will be disastrous. That is why efforts should be made to check a boom and prevent the distortions in prices, production, profits, and the like which lead to severe reaction.