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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

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Statement of Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, before the Banking and Currency Committee of the House, September 29, 1941, with reference to the Price Control Bill.

Mr. Chairman and members of the Committee: In appearing here today at the Committee's request, I should like to make a brief statement of my personal views as to the part that price control has to play in any adequate Government program for dealing with price inflation. I have not had an opportunity to prepare a comprehensive statement covering the many aspects of this important subject but on various occasions I have undertaken to set forth my own views on the problems of combating inflation as well as deflation, and this Committee, both in these hearings and in the past, has already covered so much of the ground that it is not necessary to take your time in traversing it again. Such aspects of the subject as you may wish to have me discuss can be brought out in your questions.

It is desirable from my standpoint, however, to outline briefly the framework as I see it, into which the pending bill fits as a part of a broad, integrated Government program to deal with inflation. You are all aware that price inflation threatens to develop with accelerating rapidity because our vast defense expenditures are putting buying power into the hands of the public at a faster rate than goods can be turned out to satisfy both the increasing civilian demand as well as our expanding defense requirements. We know that this condition is bound to become increasingly acute as more and more of our productive capacity is devoted, as it must be, to supplying defense rather than civilian requirements. There is no need to remind this Committee of the consequences of an uncontrolled inflation. You are fully cognizant of its ruinous

effects upon the entire economy and particularly upon labor, the farmers and the great mass of our working population. Nor is it necessary to emphasize to you that the first line of attack upon the problem is to increase production to the greatest possible extent.

That is why it is so urgent, in the national interest, that we utilize all of our productive machinery, the smallest as well as the largest units, and all of our available man power in producing continuously first for defense, because our national safety depends upon it, and secondarily for civilian needs. For this reason industrial strife, and the attempt to settle disputes by the methods of lockouts and strikes, are intolerable in times of national peril.

Yet we know that successful as we may be in using our productive resources fully, acute shortages of civilian goods are inevitable in more and more lines. We have already encountered scarcities of many basic metals and other strategic materials, and we have not yet begun to feel the pinch. Beyond a point we cannot produce more and more goods both for defense and for civilian consumption. Our national security requires that our civilian population forego at this time many goods that, however desirable, are not essential. Fortunately our abundance of the necessities of life is so great that our people are not obliged, like our Allies and their enemies, to go on food and clothing rations. Nevertheless we have got to get along with fewer durable consumers' goods that use materials essential for defense. We have got to realize, far more than we do as yet, that we must be prepared to postpone buying of

civilian goods which cannot be produced in sufficient quantity at this time to meet the rising demand. When the emergency is over and production can again be turned to supplying civilian wants the deferred demand will be an important factor in offsetting a post-defense slump.

For the present, however, the most important aim of public policy on the economic front, next to procuring maximum production, is to dampen civilian demand for goods which cannot be produced in sufficient quantities. We cannot leave this to chance or to voluntary action on the part of the buying public. The inescapable result of letting the situation take care of itself would be a price inflation of staggering proportions and demoralizing effects upon our economic system. The situation can only be dealt with effectively by a coordinated and comprehensive series of Government measures of which the bill you are considering is an essential, integral part.

The means available to the Government for dealing with the problem fall into two broad categories--general over-all or broad functional controls on the one hand and selective controls on the other. Taxation, fiscal and monetary policy belong in the category of over-all, functional controls. Price-fixing, priorities, regulation of consumer credit, are necessary, supplemental controls that are selective in character.

It has been my view for a good many years that in formulating and carrying out Government economic policy to deal with either inflation or deflation we should rely first of all upon the broad, over-all functional controls. They operate on the economy as a whole, indirectly rather than directly; they are in keeping with democratic processes and

give private enterprise and initiative the fullest possible scope consistent with the general welfare; they serve to create a climate favorable or unfavorable, as conditions may require, for expansion or contraction. They are our main reliance now, and I believe properly so. But they are not enough. They need to be supplemented by such direct measures as are necessary to reach conditions arising from shortages. The pending bill is the most important measure of direct control, and should in my judgment be sufficiently broad and flexible to allow for wide administrative discretion in dealing with future contingencies.

The point that I desire to emphasize, however, is that the economic area to which we must apply direct controls depends in large part upon how promptly and effectively we use the functional measures to draw off buying power--and at the same time help pay for defense. If Congress fails to enact adequate tax legislation, particularly corporate and individual income taxes, as well as excise taxes on scarcity goods; if we leave the credit doors wide open, so that bank credit and consumer credit continue to expand, if our people indulge in buying sprees instead of conserving their funds--and there is no better way than by subscribing to defense bonds--then the only alternative is to widen continually the area to which direct controls must be applied if we are to avoid a ruinous inflation. Such controls as are proposed in the bill before you are vitally necessary to reach scarcity conditions, if prices of civilian goods and the costs of defense are to be held within reasonable bounds.

I am fully in accord with the objectives of taxation policy which the Secretary of the Treasury declared when he presented his tax

program to Congress; I believe that the Government program for dealing with inflation approaches the problem from the right end--though we have done too little too late so far. I do not believe that we should approach the problem from the other end by blanketing the economy with direct controls, first, and applying over-all, functional controls secondarily. I see no good reason for attempting the impossible task of repealing the law of supply and demand altogether, of undertaking to police not merely those prices which have to be policed because of scarcities but all prices, the bulk of which do not need to be policed. I would leave the problem of how far price control should go in the hands of one administrator, giving him ample jurisdiction and discretion.

Whether or not you include within the terms of this bill a declaration of policy or discretion to deal with labor and farm prices, the fact is that you cannot leave wages and salaries which are the main factor in prices to rise indiscriminately and be realistic about preventing inflation. You cannot, in my judgment, realistically put a high-level floor under farm prices and no ceiling.

The bill before you should be promptly enacted.