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The War At Home

The Fight Against Inflation

By Henry Morgenthau, Jr., Secretary of the Treasury

We have been talking about inflation for a long time as if it were a threat remote from our daily lives. It is a distant threat no longer. We are facing it now and we must deal with it at once.

If we are selfish or shortsighted in facing this issue, ~~the~~ the consequences may haunt us and our children for years. But if we look at the problem with clear vision and firm resolve, we can beat this thing. If we keep always in mind the interests of our country as a whole, if we provide promptly the appropriate means and use them vigorously whenever necessary, we can prevent inflation from fastening its grip upon us.

The task calls for alertness and mental toughness on the part of everyone in the executive departments of the Government, everyone in the halls of Congress, and every citizen of the United States.

The word "inflation" is cold and lifeless, but the thing it describes is treacherous and cruel. Memories are so short that I suppose many of us have forgotten what happened the last time a price inflation struck us twenty-five years ago. The effects of that inflation, however, lasted for many years and brought untold heartbreak and misery in their train.

Let us look at the record to see what happened a generation ago. In 1916 the cost of living began to rise sharply but there were few who saw its significance. It was only when prices had risen by 70 percent that President Wilson recommended any steps to prevent inflation.

In fact, the country was so blind to its dangers that as late as June 1917, Congress actually hastened the rise in prices by reducing the reserve requirements for member banks of the Federal Reserve System.

The consequences were so serious for every American that there must be many housewives today who can remember them. By 1920, a 10-pound bag of sugar cost \$2.67, a dozen eggs cost 92 cents, a 10-pound bag of flour cost 88 cents, a pound of butter cost 76 cents, and a pound of pork chops cost 50 cents. By that year prices had skyrocketed to twice the level of five years earlier. The money the housewife paid for one loaf of bread in 1914 bought only a half a loaf in 1920. The money she paid for a pound of bacon in 1914 bought only half a pound in 1920. The money she paid for a yard of cotton cloth was enough to buy only a third of a yard in 1920. The consumer found that food, fuel, shelter, and clothing which cost a dollar in April 1916, had risen to almost two dollars by 1920. The family with no increase in income found its purchasing power cut in half.

We have now, as we had then in 1916, a moderate rise in the cost of living, a great rise in wholesale prices, and a still greater rise in prices of basic commodities, like wheat, hogs, cotton, and lumber. It is the rise in the prices of basic commodities that constitutes our red light, our warning signal, today, for such a rise is always the advance guard of an increase in the cost of living.

If we fail to use the controls at our disposal now, if we fail to do the specific things which are in our power to check inflation now, if we allow prices to go on rising as they did from 1916 to 1920, we may

find that food, fuel, shelter, and clothing which now cost a dollar will once more cost almost twice as much before the process has ended.

The rise in prices is by no means confined to foodstuffs and clothing. Let us examine, for instance, the actual figures on the cost of constructing a standard six-room frame house in one of our typical cities. This home that could have been built two years ago for \$6,000 now costs \$ to build. Here we have an increase in prices of about percent, and if it goes along the 1916 pattern, we are only at the beginning of the story.

Not only is the cost of building homes rising, but higher rentals are also on the way for millions who do not own their homes. In scores of areas where industrial expansion has first taken hold, rents have risen ten, twenty, thirty percent, and even higher.

Are we going to be able to stop this dangerous trend?

The answer to this question is in our keeping as Americans, whether we are officials of the Government or private citizens. We must decide now, this year, we in Washington and you in the country at large, whether we shall have the common sense and determination to avoid what we went through 25 years ago.

Let it not be said of us, as David Lloyd George said of his people in 1915, that we were "too late in moving here, too late in arriving there, too late in coming to this decision, too late in starting with enterprises, too late in preparing."

There is no excuse for us to be too late in meeting this threat of inflation that faces us. We now know, or ought to know, what is going on; that is perhaps the greatest difference between conditions today and in 1916. This time our eyes are open to the dangers that lie ahead of us.

We now know that the time to do something about inflation is before it occurs, not after it has gathered momentum. We should profit by our greater knowledge and take prompt and effective action now.

Why have prices risen so much? The reasons are plain for everyone to see. Our economy today resembles an overloaded steam boiler. The fire under the boiler is being fed by billions of additional purchasing power in the hands of the public. The fire is growing hotter and is generating more steam than the boiler can safely hold. If we are to prevent the boiler from bursting, we must damp down the fires by diverting spending away from those articles or commodities in which there is a shortage, actual or potential. We must damp down the fires also by increasing the flow of supplies of goods available to the consumer.

We can, as I have said before, defeat this threat of inflation, just as we can defeat and destroy the forces of evil that have been let loose upon this earth. But we need to understand the issues and we need to see clearly the consequences of inaction or delay. I should like, therefore, to point out, first, what we have done, and then, what we need to do, in order to stop prices from rising further.

In the first place, Congress has passed high tax bills designed to raise billions of dollars in additional revenue, thus withdrawing a great amount of purchasing power that competes with the war effort.

Secondly, the Treasury in its borrowing program is trying to obtain as large a portion of its funds as possible from current consumers' income.

Through a new form of note--the tax anticipation note--it is seeking to increase the effectiveness of the income tax as a check on cur-

rent purchasing power, and I am happy to report to you that more than
 billion dollars' worth of these notes were sold in

The Treasury's program of selling War Savings Bonds and Stamps
 to people of moderate and low incomes has been very successful. The
 people have responded to a tune of billions of dollars.

The President has recently issued an order authorizing the Board
 of Governors of the Federal Reserve System to control consumers' install-
 ment credit.

The Congress has enacted a price-control bill which will limit
 some price rises and help the Office of Price Administration to combat
 inflation.

All these are useful steps to a necessary end, but they are not
 enough.

We shall have to tax ourselves much more heavily next year than
 this year, great and far-reaching as the present tax bill is.

We shall have to invest much more widely and systematically in
 War Savings Bonds and Stamps. In particular, the rising pay rolls of the
 past year have been a clear call to the wage earners of America to set
 aside a portion of their earnings each week for their own good and their
 country's good.

We may have to extend general controls over bank credit and cre-
 ate controls over selected capital expenditures.

I hope that we may extend the social security program so as to
 increase the flow of funds to the Treasury from current income during the
 emergency and increase the outflow of funds when needed in the post-war
 period. In addition, I have already suggested the creation of what I have
 called a "separation wage"--that is, an entirely new form of contribution
 out of which a worker may draw a regular wage for a stated period in case

he loses his job. These measures would be good and desirable in themselves, but they are especially necessary at this time, for they should help us to decrease certain forms of purchasing now and increase them in the future when they may be needed.

We must, as I have said many times, reduce non-essential Federal expenditures. We must also appeal for economy in State and local government expenditure and a curtailment of their borrowing for non-war purposes. The President pointed the way a month ago when he vetoed a bill calling for 320 million dollars' worth of highway construction. By this action he demonstrated that there is a clear distinction nowadays between the spending that is necessary to the winning of the war and the spending that can be postponed until a later day.

All the measures I have so far suggested for combatting inflation would attack the problem by reducing the demand for goods now and by helping to build up a backlog of purchasing power for the post-war world.

But we should also attack the problem from the opposite direction. We must make every effort to increase the supply of goods available to the consumer wherever this can be done without encroaching upon the Victory program. Above all, we must make full use of those supplies that are available, not only in war production, but in the provision of civilian goods which do not compete with war output.

This is a time when we must flatten the peaks and fill up the valleys in our economic picture. If we reduce undesirable purchasing now and keep prices down now, we shall be helping to provide for the day when these vast war-time expenditures will end and when our war workers will take up the work of peace again.

The most effective way to prevent a damaging rise in prices is, quite simply, to release surpluses from storage.

I wonder if the housewife knows, when she pays _____ percent more than she did a year ago for a bag of flour, that our supply of wheat is the largest on record, and that about 500 million bushels of several years' crops are available in our neighbor democracy of Canada. It is true that last year a rigid quota was applied to the importation of wheat from Canada, with the ultimate objective of keeping up the price of wheat in this country. But it is also true that the quota on sugar from Cuba was enlarged so substantially as to absorb most of the reserve stocks in that country. It seems to me desirable and necessary that we now follow the example set in the case of Cuban sugar and permit the entry of Canadian wheat in larger volume.

Here in this country we have large reserve stocks of farm products of many kinds which should be released for consumption as fast as necessary to prevent unreasonable price rises.

The Government now holds or controls seven million bales of cotton in reserve, and cotton prices have risen from nine cents a pound on August 1, 1939, to over eighteen cents a pound in June. In spite of this rise of 100 percent, Congress passed a bill to freeze Government stocks of cotton and wheat for the duration of the war, and thus to prevent the Government from disposing of any of the surplus wheat and cotton it had acquired. The President promptly vetoed the bill because this measure would have aggravated the danger of inflation and might have frustrated our efforts to fight it.

We ought not to withhold cotton surpluses, or any surpluses, from the market in times like these. The housewife ought not to be made to pay a tribute to profiteers and speculators when she buys a cotton sheet for her home or a shirt for her husband or a suit for her child.

Millions of people still go without the milk, butter, and eggs which, according to the testimony of food experts and the dictates of plain common sense, are necessary to good health and good morale. Yet the reserve stocks of butter, cheese, beef, and pork now held in this country are far higher than they were a year ago and far higher than the average of the past five years.

This has been historically a land of milk and honey. There is still plenty of milk and honey, but too much of it is in the warehouses. Let's make it flow. If we were to let it flow to the public we would not only help in keeping prices stable but we would be doing something even more important; we would be helping to make our people healthier and happier.

It is sheer folly from the farmer's point of view to push prices up by creating scarcities in times like these. The farmers suffered cruelly for twelve long years after the collapse of the inflation of 1920 and 1921; they should not be made to suffer again.

It is short-sighted for a landlord to charge all that the traffic will bear in centers where housing space is at a premium.

It is poor business, in the long run, for any businessman to seek exorbitant profits in this period.

It is bad banking, in the long run, for any banker to exploit the present demand for funds by seeking to charge unreasonable interest rates.

There are always selfish groups in any country which think they can profit from inflation. They are wrong.

Inflation does more than merely rob the wage earner of a portion of his earnings. It does more than saddle the farmer with a load of debt

which he cannot repay. It is more destructive of morale than any other single force. Inflation divides the country. It sets up producers against consumers, workers against employers, the people who owe money against the people to whom the money is owed.

No group in a community profits from inflation in the long run except the Three Horsemen--the Speculator, the Profiteer, and the Hoarder.

These are truths that should be self-evident. They should be especially so now, in view of the fact that rising prices will only add to the cost of our Victory program and make the arming of our country steadily more difficult. They should be self-evident now in the light of the experience that we suffered only twenty-five years ago.

We Americans have more than 150 years of self-government behind us. We are a mature nation, and we should be able to face up to our responsibilities as mature men and women. My plea to you is that we should learn from bitter experience. My hope and my belief is that no group among us--whether farmers, working men, or business men--shall be tempted by the illusion of selfish gain into allowing prices to rise unchecked.

The cost of inflation is too ruinous to producer and consumer alike for anyone in authority to tolerate it now. I can give you only this pledge--that this Administration ^{is doing} ~~will do~~ everything humanly possible to prevent inflation. But in this fight the Administration must have the firm support and the clear understanding of 130 million Americans behind it. If we have that support and that understanding, I know that we shall not fail.