# THE PROBLEM OF STABILIZATION IN A WAR ECONOMY

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THE PROBLEM OF STABILIZATION IN A WAR ECONOMY

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DR. KRESS: General Holman, gentlemen: The topic of our lecture here this morning is "The Problem of stabilization in a War Economy." I hope that you can see this chart. It divides our talk into four parts:

1. The Peacetime Coordination of the Economy.
2. Problems and Conditions of Instability in Wartime.
3. Experience in World War II in Economic Stabilization.
4. Problems of Economic Stability in a Future Emergency.

At the time I began the preparation of this talk, "Problems of Economic Stability in a Future Emergency" seemed remote and far away. Today, these problems have a great deal more meaning than they had at that time.

If you will look at the chart, page 15 for just a moment, you will see that the lines seem to run completely together in spots and in any case chase each other merrily up and down the same areas throughout the length and breadth of the chart. These lines represent "industrial production," "wholesale prices," "consumers' prices," "prices received by farmers," and "union hourly wages of all workers in the building trades." The left-hand portion shows the relationship of these indexes to each other for every year from 1920 to 1949. The right-hand portion, beginning with 31 December 1949, shows the relation of these indexes to each other, month by month, until as near 31 August 1950 as I could get them by telephone from the several agencies charged with their keeping. The sub-index numbers for the last two months represent "estimates" and are subject to correction. These corrections are seldom greater than five-tenths of one percent.

The chart shows that in times of real economic difficulty, either of war or of depression, great changes appear in prices and that price and wage changes occur together. It is therefore idle to blame "excess speculation" and the actions of "hoarders" as being responsible for these changes. The price changes are inherent in the underlying economic situation; the speculation and the hoarding merely increase the tempo and the direction of the movement. They also move together in times of depression, when there is no question of hoarding. It is our task to analyze these underlying economic forces that work to bring about changes in price levels, changes that cause such economic mischief. We might add here, parenthetically, that no existing price level, whether it be high, low, or medium, is more or less desirable in itself than any other price level, once all the readjustments necessary to sustain that particular price level have been brought about. Once wage rates and salary limits have been changed, either upward or downward, to adjust purchasing power to the existing price level, it is better to hold that price line than to initiate or permit economic or industrial activities which will result in a new price level and again require another set of adjustments.

If you will go back and read the literature of all the people who talked in favor of price controls during World War II and who are now beginning to do so again, you will find that the ones who are really hurt over a considerable period of time by upward price changes are annuitants of one kind or another, living on fixed incomes, and those whose salaries are fixed by law. Such incomes cannot be easily changed. We should point out, too, that these very groups who suffer most when the price level goes upward are the greatest gainers when it goes down.

New emergencies usually bring new debts and before the morning is over I hope to demonstrate, at least in part, that emergencies are likely to cause higher prices. If the price level goes up and remains up for a period of years, the previous debt, acquired at lower-price levels, seems to lose some of its burdensomeness. Therefore, it is very easy for a politician--and I do not use that word in any unkind sense, because a politician, particularly in America, has to be a combination of everything that is skillful in the knowledge of how to do things as well as how to handle human nature--to be persuaded that a gently firming price level is a healthy economic signal.

## The Peacetime Coordination of the Economy

Let us consider "The Peacetime Coordination of the Economy," in a little greater detail. We talk about the "free market" in peacetime but even in peacetime the free market has many limitations upon it. We are a long way from the old days of laissez faire--if we ever had such a situation. It has long been customary for governments to intefere with the free market in the name of the public welfare. Unions interfere with the free market in the name of the welfare of the workers. Manufacturers themselves find ways to "administer prices," in spite of antitrust legislation. The market is never really free. But my point is only that it is relatively free in peacetime compared to the limitations and rigidities under which it operates in wartime.

Continuing with the peacetime analysis, we are wont to say that rents, profits, wages, and salaries are the rewards paid every day to the factors of production, land, labor, capital, and entrepreneurial skill, in return for the use of their energy and services.

The rewards that go to capital, then, as its share of the daily production process can scarcely be used up by the owners of that capital. If you were to give the owners of the capital in the shoe industry their share of the shoes produced that day, they would have to be centipedes to make any personal use of them. They use them, of course, by selling them. They sell them to the workers that have been hired to build a new factory. It takes from six months to two years, or perhaps longer, for a new capital venture to come into production. In the meantime the people who manufacture the equipment to build the factory, furnish the raw material, and perform the work of construction have to be paid each day. So a great part of a capitalist's daily share of production goes to the workers who are busily engaged in building new plants which produce nothing for the market today but which will produce something tomorrow.

What about personal savings? You and I may decide to save something today for use tomorrow. We may decide to skimp today so that we can have something more to spend tomorrow. But if we do not spend our wages today, some part of today's product cannot be bought. If we put the money in our pocket, and simply hoard it, difficulties will occur very rapidly. Inventories will pile up, unemployment will appear, and you will soon have economic distress. On the other hand, if we put the money in a savings bank, the banker will lend it to start a new venture of some sort or other, and the workers of that new plant will use up your share of today's product that you chose to save.

What is the meaning of our little exercise in economic theory? It means that investments take place in lines that offer the best profit situation. As long as man's wants are not satisfied, there will continue to be an expansion of the industrial system. If this expansion takes place in a rather steady fashion, not too rapidly or in jumps and by spurts, greater sources of raw materials can steadily be developed to satisfy this new demand. Prices will remain orderly and may slowly increase, while bankers and producers will find themselves in a very contented frame of mind.

If, however, this industrial expansion comes rapidly, so that we have "boom" times, then demand is likely to outrun supply, and new supplies of raw materials cannot be made available quickly enough. Prices will rise rapidly as producers compete for existing supplies.

Again, if land, labor, and capital are already fully employed in the industrial process, as they were just prior to Korea, any new demand on top of that already full employment can only bring about competition of a very serious nature for the available raw materials. Someone has to remain disappointed in that race to secure supplies and that someone is going to be he who can pay the least. In boom times, then, a sudden increase in demand will cause skyrockty prices.

A very different kind of situation exists when an emergency, such as war, comes during a time of depression, or at a time of recovery from a previous depression. The raw materials situation is very different; the sources have not been fully used. Prices of raw materials have been low. In fact, raw materials producers will have been competing with one another for the market. Wages will be low. Money conditions will be easy. If military orders come, they will be welcomed by the Nation's industrial plants, in all of their phases. But even when war comes, in times of depression, there are some increases in prices, as I shall try to demonstrate here in a moment.

## Problems and Conditions of Instability in Wartime

Passing to "Problems and Conditions of Instability in Wartime," if you will notice our chart, I am talking now about the period of World War II. What I am about to say is based largely on a study which was made by the Brookings Institution covering the period from August 1939 to August 1941 (See "Effects of the Defense Program on Prices, Wages and Profits," by M. Jacobstein and H. G. Moulton, 30 September 1941.) But I want to make some of my remarks a little broader than the period of this pamphlet and base them on the period from August 1939 to Pearl Harbor. During that period there was slack in the industrial system. We were recovering from world depression but were nowhere near a full recovery. We still had eight million people unemployed but because of the agriculture program that had been in effect for some years in order to give the farmer stability, we had on hand a two-year supply of grains, lard, eggs, and butter.

In spite of that fact, as you can see from the chart, prices from 1939 to 1941 went steadily upward and yet, as I say, the industrial machine was not fully employed. There were eight million workers who, at least on paper, said they wanted jobs, and most of them later did take jobs. Right now we have 1.75 million people who say they would like to work. There is always a considerable number in transition from one job to another.

Now what happened to prices between August 1939 and August 1941? Several months before Pearl Harbor hogs had risen in price by 90 percent; cotton, 80; wheat, 62; beef, 40; and wool tops, 47 percent. The over-all rise in agricultural prices for those two years averaged 45 percent. Why Australian wool and oriental rice exports were cut off by the war, so we can understand why their prices would go up. War risk always increases costs and makes ocean transportation more expensive. Therefore all goods that have to be transported across the ocean waters are higher priced, due to higher costs. We can understand that, but United States exports decreased 50 percent in 1941 and prices should have slumped. Why did prices not slump? They did not slump because of the United States Department of Agriculture's support price and commodity loan programs which had been in effect for some time. That device had built up an inventory which was useful as a base for the Lend-Lease program. Those products came out of hiding and into use without breaking the market for agricultural products. There was, in addition, a considerable increase in demand for wool and cotton textiles.

During the period from August 1939 to August 1941, the rise in price of minerals raw materials, as a group, averaged 33 percent which was the second largest group in price increases. Again why the increase? Because of the increase in orders from abroad and from our own military department during the defense period, there was an increase in competitive demand for these raw materials. In addition, imports of many of these raw materials were reduced or cut off entirely and, as I said, war risk costs were up on all goods that had to cross the sea.

Now we find that wage rates rose also during this two-year period. For example, for manufacturing industries alone, wages rose 16 percent. Take-home pay went up as much as 30 percent, due to longer hours of regular employment, overtime payments, and, in some industries, because of swing-shift work. Why did these wage rates go up when there were eight million people out of work? For one reason, there was a growing competition for the use of skilled workers. The eight million people who were out of work, upon examination, seldom proved to have the skills that were needed to increase industrial production. Wage rates went up because skilled workers had to be enticed to out-of-the-way places to build cantonments and new plants; for example, the airplane plants in California and Washington and the greater shipyards on the west coast. All those places had to have an increased number of workers. The easiest way to get them there was to offer higher wages. When these new employers offered the better workers higher wages, the old employers had to meet these higher wages or lose their best help. There was still another reason: The increased activity of the labor unions contributed increased wage costs to industry.

However, much of the higher costs that I have referred to were absorbed, partly at least, along the line and did not reach the final consumer. Costs of raw materials to manufacturers, as I said, rose 33 percent, but the wholesale prices of these same manufactured goods only rose 21 percent and consumer prices during the period rose 17 percent. A great deal of that absorption was possible because plants had been running only part-time. As they increased the tempo of productivity they were able to achieve mass production efficiencies, which allowed the absorption of a great deal of new costs. (Such a situation does not prevail in 1950. The present increase in demand can only be met by forcing our already fully employed factories to greater production. This increased production may be accomplished only through greater use of existing machinery, through less depreciation upkeep, through less time out for rebuilding furnaces, by offering premium prices, and under swing-shift conditions. Not one of these methods of increasing production lends itself to efficiency. All of them will result in higher costs if used.

Conditions of increased military demand at this time can only force prices upward and upward very quickly indeed.)

The Expérience of World War II in Economic Stabilization

Now passing to "The Experience of World War II in Economic Stabilization," after Pearl Harbor we certainly entered a period of full mobilization. Dr. Kenneth Galbraith, one of the men who helped to set up OPA, has written several articles on our experience with price controls in World War II. These articles are listed in your bibliography and I certainly hope you will not overlook them. In a few words he says practically all that needs to be said about that experience.

Gálbraith refers to the wartime system as a "disequilibrium" system, as opposed to an "equilibrium" system in peacetime, when price is the motivating and equilibrating force. In wartime, we do not permit price, at least I hope we will not permit price, to remain the equilibrating force, but substitute allocations, priorities, and rationing as controls. Price then tends to become secondary. After considering all these matters, Galbraith finds that the performance of the American War control system, partly improvised and partly planned, was good. However, he is just as unhappy with the handling of the decontrol period as he was satisfied with the war period. He feels that we liquidated the controls over the production resources too soon.

I well remember my own experience at that time. I had a close friend who was in charge of allocating alcohols. Shortly after VJ-day he said, "I junked Regulation M today." I said, "Well, you can't do that." He said, "But I did." I began to point out all the reasons why he should not have done so and what would happen because he did. He said he was perfectly well aware of all that but the boss in order to get back to his teaching job said, "Junk it and let's go." Perhaps on another occasion we will operate in a bit more systematic fashion during the decontrol period.

In wartime, after the free market is gone, the forces which control economic behavior are three, (1) a more or less comprehensive system of direct control over the employment of economic resources, (2) a nearly universal control of prices, and (3) an aggregate money supply in excess of goods and services available for purchase. Now this comprehensive system of controls was formed and forged with the aid and assistance of the re-established Council of National Defense; the Lend-Lease system; the War Production Board and its predecessor agencies; the War Powers Acts; the War Manpower Commission; the OPA; the Renegotiation Act of 1943; the "Hold the line" order of 1943; Regulation W of the Federal Reserve System; the Contract Settlement Act of 1944; and many other agencies and pieces of legislation.

The Procurement Branch here has in process of printing a monograph entitled "Economic Stabilization," in which the history of these movements is rehearsed in a rather brief and simplified fashion. I refer you to that monograph for further information as to how these direct controls worked.

What was the result of the operation of these three forces in World War II? The direct industrial controls resulted in the greatest expansion of industrial production that the world has yet seen. What success attended our attempts at price controls? They succeeded in keeping prices within 28.4 percent of what they had been at the time of Pearl Harbor. The increase in purchasing power resulted in a doubling of time deposits, creditable to you and I in our banks, and an increase in the purchase of government bonds by five times.

Our next chart illustrates the changes in prices between World War I and World War II as compared for a similar number of months. (Chart was not reproduced.) Between July 1914 and November 1918 the cost of living rose 61.8 percent. By November 1919 it had reached an increase of 84.4 percent over the level at the beginning of the war. By June 1920 it reached its peak, an increase of 108.4 percent, or an index number of 208.4.

In World War II, from 1939 to 1943, a similar number of months as between July 1914 and November 1918, prices were up only 26.9 percent. We were doing somewhat better. The President issued his famous "Hold the line" order, in 1943 and from then to VJ-day prices increased only an additional 1.5 percent. Thus, by VJ-day we had a total increase in prices of 28.4 percent. By 1946 prices were 33.3 percent above the prewar level and by 1948 they were up 71.2 percent.

What about time deposits? I said they had doubled between 1939 and 1948. That money has not been withdrawn from the banks; it still lies there. That was one of the things that worried economists after VJ-day--if the people were to take this money out of the bank and try to spend it at once, what would happen to prices? Well, somehow people did not attempt to do that. I suppose one reason was that employment continued high and living conditions were good. People could get along on their current wages.

What about the war bonds? The amount of government bonds in the hands of the public increased from 38 billion dollars in 1939 to 209 billion in 1945. In 1948 the public was still holding 193 billion dollars worth of government bonds.

## Problems of Economic Stability in a Future Emergency

Now to discuss "Problems of Economic Stability in a Future Emergency," let me protect myself at once by saying that what I am about to say assumes conditions of full mobilization and what will be required upon full mobilization. I am not talking about the Korean situation. There will be required an integrated and complete set of stabilization controls which will include prices, rents, profits, wages, production, manufacturing and rationing.

The Civilian Reserve Instruction Branch has a chart which envisions the American family as Mr. and Mrs. Economic Stabilization, with their progeny. We have the smallest in the carriage, that is, finance controls; the oldest child, the biggest one, is rationing; allocation is just behind; priorities is somewhat smaller in its demands on the family; whereas the triplets, profits, wages, and prices, are not to be separated.

When do you introduce controls? I have some two-dollar words here on that topic. One sentence says, "They will be introduced as early in the war emergency as may be indicated by the psychological climate existing," which simply means by the state of public opinion. How fast will the people go along with you in a given situation? I imagine no one would question that. In this recent Korean experience the public sentiment seems to be ahead of the Administration as to what should be done and in the extent of what they are willing to stand for in the way of controls. So controls, then, will be determined by the psychologically existing climate and by the existing pattern and degree of utilization of the Nation's economic resources.

In bad industrial times, new orders will be welcomed; in good times, they may not be welcomed and they may even be resisted. In good times, war orders will result in some increase in prices. In time of full employment, they will result in a very big increase in prices.

If a war or an emergency comes during good industrial times, when there is something even closely approaching full employment, I would say that you would wish to introduce at once practically universal ceilings over prices, rents, wages, and so on. Military contract prices should be exempted from these controls. If the emergency comes when there is not full employment, general controls may be introduced piecemeal. But even then, I want to go on record as saying, the introduction of full controls need not be delayed. They may be imposed at once as a completely planned economy without bad after results.

What should we do on another occasion? I am again speaking about full mobilization and not about the present situation, unless, of course, this is the precursor of full mobilization. Your guess on that is as good as anybody else's and maybe better. In full mobilization a strong fiscal policy should be relied upon more fully as an anti-inflationary force--such policy to include a system of heavy, progressive income taxation; increased forced loans; and deferred wage payment. The redemption of securities should be limited, with the repayment of loans kept flexible. There should be a powerful effort to maximize the sale of government bonds to nonbanking investors, that is to individuals and institutions, because if they go into banks they will have an inflationary tendency though not necessarily resulting in an inflationary experience. We should have regulation of consumer credit, mortgage control, stock-market credit and commodity-market controls. We must have rationing and do what we can to prevent panic buying and speculative purchasing.

There ar many ways by which we can support economic stabilization; some are quite big--priorities, allocations, and limitations. Some of the smaller ways are simplification, standardization, conservation meth-ods, and, something that you will hear criticized in one place or another--the concentration of orders in the hands of efficient firms. You will remember that in the last war something like three-fourths of the war products were handled by one-fourth of the existing firms.

Demobilization, at another time, should be planned well in advance and the plan should be of a positive nature. We should remember, as we did not remember in World War II, that the need for controls grows out of scarcity and this scarcity may last long after the shooting stops. Some previously determined equilibrium stage should be required before any control is lifted. In introducing controls and in taking them away, we should have a careful system of informing the public of what the problem is, of what you are trying to do about it, and of persuading them to let you do it.

Thank you.

QUESTION: Dr. Kress, are you in favor of all-out controls at the moment in view of our present state of mobilization for this present situation?

DR. KRESS: I am of two minds about that. If this is "it," then I am in favor of all-out controls. If this is not "it," then there are reasons for and reasons for not imposing controls. I think that on the whole my inclinations are to say that controls will do more good than harm at this time. But then I remind myself that, if you never take the first step in a system of controls, you never have to refuse to take the last. It is the same way with this bill to regiment the Communists. My first inclination on that also is to say that it is a very good idea; on second thought, such legislation leads to witch-hunting and all sorts of things. You shouldn't put in that kind of control until you know it is absolutely necessary. That probably applies to price control, too. Hindsight is so much more reliable than foresight--Monday morning quarter-backing. My own inclination is to believe that the people are ready enough to see that the best interests will be served all around with controls. But, putting controls on in peacetime does have this danger--if this is peacetime--and results in regimentation of the economy.

QUESTION: I would like to follow up that earlier question. Surely if you are not looking at a crystal ball, you don't know whether or not this is "it." Nobody would contradict you so far as the economic repercussions and so forth are concerned, or the baby, but the thing that wheels the baby up the hill is the size of the budget you are allowed for the program. So why can't you make a decision based on the size of that appropriation, with some idea of what you hope to get?

DR. KRESS: I don't believe I could, Colonel.

Mr. Muncy gave me these figures, just a little while ago, which he took out of the current issue of "Business Week," showing price increases since the present Korean struggle started--percentages as follows tallow up 120 percent; rubber, 95; wool, 50; burlap, 48; cottonseed oil, 45; lead, 40; cocoa, 32; paint cloth 38; lard, 36; rosin, 33; shellac, 30; hides, 28; and tin, 25 percent. These increases have not had time to be reflected in retail prices but they will be--can't help it.

Your question is: If you impose controls now, do you take away incentive from businessmen to carry out their work? Well, I just do not believe that the incentive of the businessman is quite as delicate a thing as that. I think it would take a much bigger shock than that to cause them to retract their sights. Businessmen, entrepreneurs, go by their feelings more than by their minds. I have been convinced of that for years. I think it takes more than that to cause them to retract Then, again, I think you can demonstrate from the printed record, to the everlasting credit of labor associations, that the biggest ones walked forward on the first day of the Korean outbreak and said, "We are ready to freeze wages if you are ready to freeze prices."

QUESTION: Back on this wage and price freeze or controls, I believe when the President spoke a short time ago on the economic controls he was putting into effect now, he also, in effect, called on various industries and business places to keep a record of the prices they were charging prior to Korea, which would indicate that wage and price controls would go on a roll-back basis. However, at the same time, with the wage agreements, especially of the automobile industry, the cost-of-living raise in wages continuing, what would be the object of rolling back prices without wages rolling back, and what would be the reason for rolling back wages if they continue to get price increases?

DR. KRESS: In my opinion, it is a psychological device to warn business not to be careless about price changes. They will not be rolled back to those dates.

QUESTION: I would like to know whether all the economists are of the same school of thought that controls are the only possible solution. Controls are a tremendous administrative problem which is very expensive in manpower and creates a lot of dissatisfaction. Is there any other possible solution that you as an economist can get the politicians to agree to?

DR. KRESS: No. There is one very small group of economists and writers who claim World War II could have been handled entirely by fiscal control and by inventory control. All the rest of the economists are quite agreed that full controls are necessary. A full family of controls is necessary in an emergency, because you don't have any free-market situation. You have a system of allocations and rationing in which something other than money determines who shall get what. There is no considerable school of thought that holds that full controls are not necessary.

QUESTION: On your chart on industrial production and price levels, I note, and you mentioned it in your talk, that your years that were taken as the 100-percent level differ in the various groups. You did not state why that was done. Is it because by using the different years that is the best relationship between those, or is it because that gives the best picture on the chart?

DR. KRESS: No, those indexes are all from official sources, from the Federal Reserve Board itself, the United States Department of Agriculture, and the Bureau of Labor Statistics. They have kept these indexes over the years. They have some historic significance. The consumer-price index was originally based on 1913 prices. When Mr. Roosevelt came into office, he said, "This is 1933 and conditions of today haven't much to do with 1913," so he changed the base date to 1926. When the war broke out it was decided that the five-year period 1935 to 1939 contained two good years, two bad years, and one year in which business was neither good nor bad, so this was the ideal five-year period to take as a base. The index of wholesale prices was based on 1926 and for some reason or other has never been changed. I talked to several people as to why they do not change this base period and they give various reasons, saying that the mathematical difficulty alone is a very real one. They would have to make some artificial corrections. About all it boils down to is the fact that nobody ever ordered it done. Perhaps it would be much better for the sake of comparisons if they were all on the same level.

The stated reason for the 1909 to 1914 base for the agricultural index, which was also introduced by Mr. Roosevelt, was that the prices the farmer received during the five-year period, in relation to what farmers paid for city products, were in better proportion than in any other five-year period since that time. Therefore, 1909 to 1914 became the base.

It is not easy to explain how that agricultural parity system operates. I hope you won't ask me for a detailed explanation of it. It is adjusted from time to time and it is not a wisecrack to say that the higher prices get, the higher they will get, so far as the parity system is concerned.

If you talk to economists in the Department of Agriculture, and if they are not speaking to you officially but only in a personal way, they will say they have very many difficulties in arriving at parity today. In 1909 and 1914 farmers used horses. They bought horseshoes. They don't now; they buy rubber tires. So you have to find what X is to Y. X equal Y. X Horseshoes equal Y tires. It is a very carefully worked out index. It may not be at the proper level at the moment but it is a device that is basically good.

QUESTION: Doctor, I would like to go back to the price stabilization roll-back problem again. You mentioned a few minutes ago the fact that prices, the cost of various items, have risen quite a bit in the last few months. It seems to me that if you try to roll prices back, you are going to run into high-priced inventories in the hands of producers that will cause you a considerable amount of difficulty. It also seems to me that we have two problems. One is the closed system where you are dealing in products, raw materials, that come from this country. The other is the problem of materials which are imported, such as, for instance, tin and rubber, where you have some difficulty in controlling this raw-material price because of competition in that market from other countries? Would you care to comment on that, please?

DR. KRESS: I agree with what you said. High-priced inventories are another reason why prices will not be rolled back. It is true, we can control prices in this country but can't control prices in other countries. We had a device built up for that during World War II called the Commodity Credit Corporation, I believe. Its job was to buy materials abroad at whatever price it had to pay and to sell them in this country at prices which would allow the users to keep within the fixed prices for their product. One man said to me that it was the only corporation he knew that was organized to operate in the "red."

QUESTION: Referring once again to the chart, there is a line which refers to hourly wages. I was wondering why that was selected rather than the average of general wages of all employment?

DR. KRESS: As I remember it, sir, it was because it is the only one I could find that went all the way back to 1920. I wanted to relate them all the way down.

QUESTION: Would it not be possible also, as an academic figure, to determine parity for nonagricultural workers, and, if so, where would you estimate it to be at the present time?

DR. KRESS: Well, it would be somewhere between the line you referred to and the other one, because those are union hourly wages of some of our better paid workers.

QUESTION: I was just telling my colleague that I think during wartime the highest wages were in the shipbuilding industry; shipyard workers were getting more money than construction workers receive now.

DR KRESS: Not now.

COLONEL BARNES: The hourly wages for the building trades are always the highest of the different indexes used. You will find that in the "Economic Indicator" that was issued to you this week.

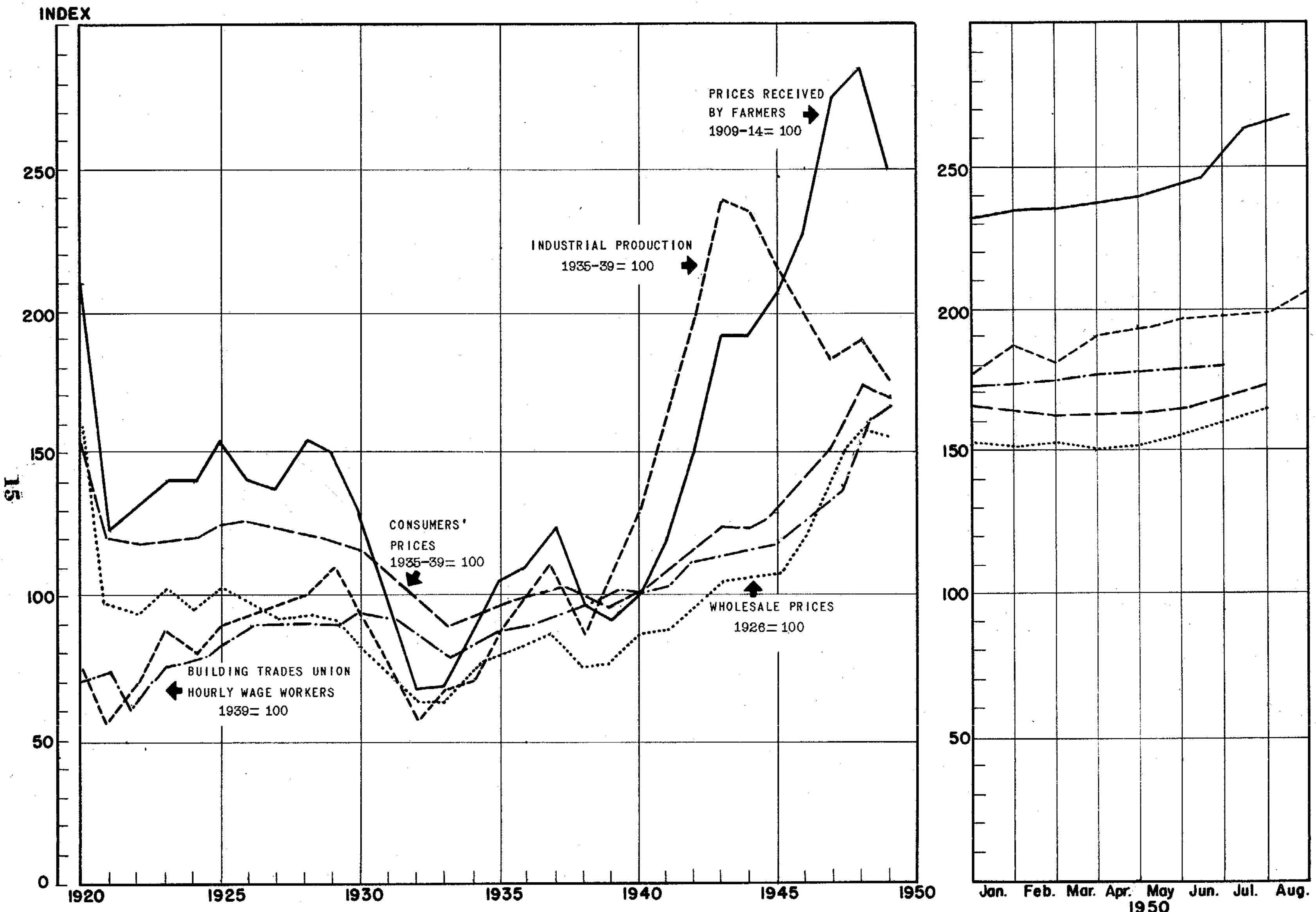
QUESTION: At the start of your lecture you mentioned the fact that you are not particularly interested in the price levels in this problem of stabilization, that you don't care whether they are high, medium, or low. Our purpose, if our job was to achieve stabilization during war mobilization, would be to keep these lines where they cross there just about 1939, in that sort of relation to each other, continuing along as they were at the start of the emergency. Nevertheless, the left side of the chart has to do with the rise in living costs, which has its origin or its cause in the rise in prices. Of all the controls that we used during any mobilization time, the only one which would have any effect on maintaining the price level would be that which is effected through increasing of taxation. I wonder if this statement is correct. In other words, by increasing the taxes, isn't it true that this is the only one with the permanent result? The other results are only temporary during the period in which they are in effect? In other words, in this period where Roosevelt said "Hold the line" we went along for awhile pretty well; but after the war everything jumped as high as it could. In other words, without those controls, we would probably have arrived at the same final net rise in prices.

DR. KRESS: Well, that, of course, will always have to remain one of the great unanswered questions in history. There perhaps you can argue this way: The economy of World War II was six times as big as in World War I, so without controls, instead of getting a price increase of 108 percent, it might have been 500 percent. There is no answer to that and as to what would have happened. What I meant to say was, once you have achieved a particular price level and have made all the adjustments necessary to stay at that price level, it is better to keep that price level.

COLONEL BARNES: Dr Kress has a desk in Captain Miller's office. He is generally here at least one day a week. Thank you for coming over, Dr. Kress. We all appreciate it.

( 2 November 1950--650)S

# INDUSTRIAL PRODUCTION AND PRICE LEVELS




SOURCE: Federal Reserve Bulletins
U.S. Dept. of Agriculture - Agricultural Statistics
Bureau of Labor Statistics - Handbook of Labor Statistics