

## THE PRESIDENT'S PROGRAM TO DEAL WITH THE PROBLEMS OF INFLATION

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Mr. TAFT, from the Joint Committee on the Economic Report, submitted the following

### INTERIM REPORT

[Pursuant to Public Law 304, 79th Cong.]

#### RESOLUTIONS DEALING WITH CERTAIN OF THE PRESIDENT'S RECOMMENDATIONS ADOPTED DECEMBER 15, 1947

This is only an interim report covering some of the less controversial points in the President's program to deal with the problem of inflation. The committee is still studying the other points, together with the basic causes of inflation, and possible solutions therefor. The fact that this report does not cover all the points in the President's program implies no judgment either way on the points not covered.

Recommendation No. 1: The committee endorses in principle the restoration of consumer credit controls.

The President has recommended restoration of consumer credit controls (message of November 17, 1947; recommendation No. 1, first part).

The committee agrees that one means of reducing inflationary pressures at this time is through restraints on excessive expansion of consumer credit. Specifically, it approves for immediate enactment an extension of consumer installment credit controls similar to the system in effect under regulation W.

Voluntary efforts to curb the liberalization of credit practices, with consequent expansion of installment credit, have not been adequate, as is demonstrated by the prompt loosening of installment credit terms with the ending of regulation W on November 1, 1947.

The committee emphasizes that its endorsement of credit controls is directed only to the restraint of excessive granting of consumer installment credit at a time of inflationary pressures. It does not wish to see all installment credit prohibited, to the disruption of normal business activity.

Nor does it now endorse proposals to continue consumer credit controls indefinitely as a means of protecting businessmen from other businessmen's competitive use of credit as a sales promotion device. Regulation of the plane of competition involves entirely different issues from restriction of credit inflation, and these have not been studied by the committee.

Recommendation No. 2: The committee recommends that appropriate committees of Congress proceed immediately to study measures to regulate improper or excessive speculative trading on the commodity exchanges, with due recognition of the responsibility of maintaining an adequate hedging market.

The President recommended legislation to authorize the regulation of speculative trading on the commodity exchanges (recommendation No. 2).

The committee and two of its subcommittees have heard considerable testimony on speculative trading in commodity futures. Experienced and responsible witnesses, including representatives of the administration, the grain trade, and the milling industry, agree on the importance of maintaining efficiently functioning hedging markets, and on the fact that commodity speculators as a body perform a useful economic service in this connection.

The committee recognizes the possibility that prices of specific commodities might be unduly raised or depressed, for a time, by improper or excessive speculative trading on the commodity exchanges, with potentially disadvantageous consequences. It therefore recommends that appropriate committees of Congress study this possibility and propose measures for guarding against it, with due recognition of the responsibility for maintaining adequate hedging markets.

Recommendation No. 3: The committee approves the extension of export controls.

The President has recommended extension and strengthening of export controls (recommendation No. 3).

Continuation of export controls is necessary because of the unbalanced state of world trade, the high degree of inflation which prevails in certain foreign countries, and the great shortage of both the means of subsistence and the means of production which prevails in other countries. Whereas under normal conditions most goods are satisfactorily distributed over the world by the ordinary process of trade, in the present demoralized state of international commerce, export controls serve two important purposes:

First, they protect this country against the danger that it will be drained of goods which are of critical importance at home, and thus further increase domestic prices. Without control the desperate needs of devastated countries might lead them to concentrate an overwhelming part of their buying power in a particular narrow field. This risk is likely to arise from time to time with foodstuffs, with raw materials, or with capital goods. The second reason for controlling exports is that if there is a higher degree of inflation abroad than prevails here it may be profitable for businessmen to export goods for which the need is greater here or in some other country than in the country which is prepared to pay the higher price. Such trade, depending on differences in general price levels, arises chiefly in the trade with countries which were not subjected to the ravages of war, particularly Latin America.

Under normal conditions the markets for foreign exchange can be relied upon to keep the purchasing power of money in one country nearly enough in line with that in other countries so that significant volumes of goods are not shipped around the world in response to monetary, rather than industrial differences. But in the present situation the foreign exchanges have not reached equilibrium and the markets for foreign exchanges are not free, so it is possible to make abnormal profits by exporting goods from countries with a lower rate to those with a higher degree of inflation. Under these conditions, trade must be supervised so that goods will move for reasons of foreign policy or economic reasons, rather than strictly monetary reasons.

The case is accentuated when, as at present, a number of basic materials and finished products are being sold domestically at prices which do not keep the demand down in line with the available supply. This price policy increases the profit to be made by exporting such commodities to countries where there is a higher degree of general inflation and there is no legal or social ban on selling them for whatever the seller can get.

Recommendation No. 4: The committee recommends the extension of the authority to allocate transportation facilities and equipment.

The President recommended legislation to extend authority to allocate transportation facilities and equipment (recommendation No. 4).

The Second Decontrol Act of 1947 authorizes the continuation of controls over the use of transportation equipment and facilities by rail carriers until February 29, 1948. Under this authority ODT has issued, and now has outstanding, orders which fix loading requirements for carload and less-than-carload freight; others which restrict movement of export freight to port areas, and other orders of less importance. In addition, ODT has at various times issued special orders with reference to the allocation of freight cars and is continually attempting to obtain the fullest utilization of transportation equipment. It has also requested ICC to issue service orders covering the movement of freight cars, particularly grain cars. In view of our large export program, control over movement of freight cars to ports is essential to avoid port congestion. Administration witnesses appearing before this committee have emphasized the need of control over allocation of coal cars, with a view to preventing coal shortages and facilitating essential production, especially of steel.

Although the shortage of freight cars is apparently now being alleviated to some extent, it will nevertheless continue for some time making a continuation of the powers necessary to deal with this shortage highly desirable. It is the committee's understanding that the program of freight-car allocation and movement has been largely operated without the use of formal orders by the Government agencies concerned, through the cooperation of the Association of American Railroads and of individual railroads. It is our presumption that this practice will continue even though the authority to issue such orders is extended for a further period.

On December 2, 1947, the President transmitted a message to the Congress (H. Doc. No. 468, 80th Cong., 1st sess.) requesting that the present authority of the United States Maritime Commission to operate, sell, and charter Government-owned vessels be continued.

Under present law this authority expires on February 29, 1948. The Maritime Commission is now operating 1,200 dry-cargo vessels under charter and in addition, through general agents, is operating passenger vessels and tankers. Until they are sold to private owners it is necessary to keep these vessels in operation in order to maintain vital transportation services. Therefore the committee believes that the request of the President for extension of the authority of the Maritime Commission should be granted. Our recommendation is intended to cover this point.

Recommendation No. 5: The committee approves the Department of Agriculture's program of encouraging the conservation of grain in this country, including the marketing of livestock at weights and grades that represent the most efficient utilization of grain.

The President has recommended legislation to enable the Department of Agriculture to expand its program of encouraging conservation practices in this country (recommendation No. 6, first part).

The President's Food Committee, under the chairmanship of Mr. Luckman, initiated a program of enlisting the cooperation of livestock producers as part of its effort to conserve grain in the United States. Economy in the use of grain by livestock producers would doubtless be the greatest contribution possible to any program of grain conservation, as 75 to 80 percent of all the grain utilized in this country, exclusive of seed, is used for animal and poultry feeding. The Department of Agriculture made itself responsible for carrying out the informational and educational part of the program directed to livestock producers. In his appearance before the joint committee on November 17, Secretary Anderson requested specific legislative authorization for this voluntary educational program, and also mentioned the need of additional funds to finance it.

The Department of Agriculture, of course, as part of its regular extension programs, gives farmers information on the most efficient utilization of grain as feed. Now that the conservation of grain is of such extreme importance the committee agrees that the Department should expand and intensify these efforts. Among the practices which appear to be especially deserving of emphasis in the Department's program are the elimination of rodents and other pests which consume grain, the culling of unprofitable livestock and poultry from herds and flocks, and improved methods of obtaining gains in the weight of meat animals and maintaining the production of milk when other feeds are substituted for grain.

Another aspect of this program is to encourage farmers, on a voluntary basis, to market hogs at lighter weights and to put less finish on beef cattle, which practices also have the effect of reducing grain consumption and utilizing grain more efficiently, as recommended under point five of the President's program. The committee believes that the Department should continue, as it has done for the past few months, to emphasize this aspect of the grain-conservation program.

Recommendation No. 6: The committee endorses the purpose of the program designed to increase the production of food in foreign countries for the purpose of reducing the drain on resources in the United States, and recommends that the Secretary of Agriculture submit a detailed program for the approval of Congress.

The President recommended measures designed to increase the production of food in foreign countries (recommendation No. 6, second part).

It should be recognized at the outset that a program of encouraging food production in foreign countries for the purpose of reducing the drain from the United States will have no effect in alleviating the present crisis because no results will be forthcoming in 1948. Nevertheless, in view of the prospect that the world food shortage may continue for some years, the committee feels that this program should be given detailed study by Congress and the executive departments.

To the extent that additional exportable food supplies become available from other countries, not only will the drain on our resources be relieved, but so will the pressure on prices, because more food will be made available for domestic consumers. Moreover, the world shortage of dollars might be alleviated somewhat in this way, since arrangements could presumably be made for foreign countries to buy food produced outside the United States for currencies other than dollars.

The committee, however, feels that the Department of Agriculture and other interested executive departments should submit to Congress a detailed statement of their intended programs, commodity by commodity. It is important that due consideration be given, not only to money costs, but to the amount and kind of scarce and essential goods that this country will have to export in order to induce foreign producers to increase their output of foods.

The committee has not been advised as to the relationship of the proposed programs to those sponsored by the United Nations Food and Agriculture Organization or its associated World Food Council, of which this Government is a member. This point should be cleared up before final approval of the proposed program.

