

ECONOMIC STABILIZATION METHODS

24 November 1953

925

CONTENTS

	<u>Page</u>
INTRODUCTION--Dr. A. J. Kress, Member of the Faculty, ICAF.....	1
SPEAKER--Mr. Roger L. Putnam, President of the Package Machinery Corporation, East Longmeadow, Massachusetts....	1
GENERAL DISCUSSION.....	10

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INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

Mr. Roger L. Putnam, President of the Package Machinery Corporation, East Longmeadow, Massachusetts, was born in Boston, 19 December 1893. He received an A.B., magna cum laude, from Harvard in 1915 and attended Massachusetts Institute of Technology in 1915-16. He was mayor of Springfield, Massachusetts from 1937 to 1943. He served in the United States Navy in both World Wars and in 1943 was director, research and development, Amphibious Force, U. S. Atlantic Fleet, and was attached to the staff of Admiral Kirk, London, the same year. Mr. Putnam was deputy director of the Office of Contract Settlement in Washington from 1944-46, and became Economic Stabilization Director in November 1951, serving until December 1952. This is his first lecture at the Industrial College.

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DR. KRESS: General Hovey, gentlemen: You have had several lectures in requirements and procurement. Today we have our first lecture on economic stabilization.

Our speaker this morning has served in two World Wars in the Navy and then went to the Office of Contract Settlement as a deputy in 1944-1946. He has had his own corporation for many years, but in spite of that fact, he found time to be mayor of Springfield, Massachusetts, from 1937 to 1943. He came to the Office of Economic Stabilization as administrator in November 1951 and remained there for 13 months. As you know, his functions were to act as a liaison officer with the production, procurement, and fiscal authorities, to fix ceilings on prices when necessary, and to educate the public in those lines.

It is a great pleasure to introduce to you our speaker of the morning who will talk about "Economic Stabilization Methods." The Honorable Roger L. Putnam.

MR. PUTNAM: Thank you very much, Dr. Kress. General Hovey, gentlemen: To discuss economic stabilization properly, I think one should be an economist and I want to say that I am not one. But a great deal of economics is, it seems to me, common sense. At least, after some economist has pointed out to me that it is common sense, then I can see that it is common sense.

To talk about controls, one must stop first and think what one is trying to control. When you talk about economic stabilization, you have to realize what the kinds of things are that unstabilize the economy. It is not all economic. The common things that unstabilize the economy that we can think of are the economic forces. More money looking for less goods builds up prices. That is sort of obvious. That is much more obvious even than the economists might make it.

But to understand that, we have to go back a little more and ask, What is money? Money is not just cash in the pocket. We don't buy houses with cash in the pocket. Often, we don't buy automobiles and other things with cash in the pocket. We go to the bank, and the bank in those instances just manufactures some more money. That is, it creates credit, and credit is one of the forms of money. What builds up prices is too much money looking for too few goods. That kind of economics is relatively simple.

But there is another force which I think is stronger in wartime and that is the psychological force--people rushing out to buy things before the hoarders get a chance to get them.

Now the economic forces work slowly. It takes a long while for an inflation to take hold in the economic sense. It may be a matter of a good many months before new sources of credit and money begin to actually drive prices up higher. They work slowly, and the best controls of them are the indirect controls. They really work on the economic forces. They also work very slowly. The controls of credit, taxation, and things of that sort have a slow impact on the economy, and the economic forces have a slow impact, too.

On the other hand the psychological ones, the second phase of the things I am talking about, work almost at once. They come from the fear of shortages, the fear of a rise in prices, and they must be stopped by something dramatic, something that also works very quickly, and that is where the direct controls come in. They have to be done in an immediate way.

I think we have an example of that in what happened after Korea when controls were not put in for a long time and things had gotten pretty well unstabilized and distorted before controls were put in. It was not economic forces that caused the dislocations after Korea because the Government's finances were in balance at that moment. In fact Federal expenditures were in the black. There was not a lot of new money being pumped into the situation, but there were many people who remembered how short things were in the First World War and rushed in to buy things.

I was in Europe that summer. I was on the ocean the day the Communists crossed the 38th parallel and we were in Europe all of that summer. Along about August I got a cable from my son saying he would very much like for me to authorize him to buy me a new car because he was afraid they would become very scarce. I cabled back and told him to keep his shirt on. He didn't buy me a new car but when I came back, I found he had bought me four new tires which I didn't need and haven't yet used up. But that is an example of how psychological forces can work and how very important they can be in this inflation business.

Now these direct controls were the ones that I had most to do with because my office ran the Office of Price, Rent, Wage, and Salary Stabilization, as well as trying to coordinate with a lot of other people who didn't always coordinate very well. The direct controls can only last for a relatively short time, I mean a matter of a year or two, before they begin to stretch at the seams.

Our economy is a very dynamic thing and direct controls tend to freeze it. This economy must not be kept in a straitjacket. That is why it is so vital and energetic an economy. That is why we have been

able to produce so much during wartime; we are energetic. We haven't been bound by old rules. But in the control of prices and wages you tend to freeze this vibrant thing and it doesn't stay frozen very well. So direct controls are only of partial use for two years or so at a time, I think, before they begin to stretch at the seams.

Long-time stabilization, I believe, has to be secured by indirect controls. The indirect ones are much less understood by anybody and everybody. Actually, if there is too much money looking for too few goods, the best control of that is somehow or other to take away the money. You can take it away by not giving people so much to spend. You can do it by way of wage control, that kind of thing. That is hard. You can take away by taxation, which is obvious. In wartime you can tax as much as is necessary anyway. You can get away with any kind of taxes in wartime because people know it is necessary. Higher taxation makes less purchasing power. You can do it by tight credit controls. More money is created by credit than by actual cash paid out to anybody. So you need tight credit. Another way is by high interest rates which encourage people to save money instead of spending it. All of those take purchasing power right out of the market place.

Then you also need material controls for a number of reasons. You need material controls first and foremost because the materials themselves are needed for the war effort. Obviously, you need steel for ships and ammunition and aluminum for planes, and you shouldn't be putting steel into new amusement parks or something of that sort during wartime. So materials controls are pretty obvious, and they have an economic reason as well as the obvious one of having materials where you need them for real war.

Homes construction is a tremendously inflationary thing because it is almost entirely financed by credit and there is a whole new set of money coming into the community to compete for new goods. In your material controls you can do a good deal to prevent the unnecessary building of homes because you only allocate materials for those things that are necessary. That in itself tends to keep credit down and to keep purchasing power low as well as directly helping the war effort anyway.

So material controls have a double-barreled effect in wartime obviously, first, by putting materials where they are needed, and, secondarily, you are keeping credit down and helping to keep inflation down in the same way, because the mortgage that you get on a new house is just as much new money as if the Federal Reserve or the Treasury issued it to pay debts with. It is spendable money, and the mortgage on the new house gets spent for wages and materials that go into making it, and gets into monetary circulation just as much as any other new money.

Indirect controls, though, are very little understood. I remember talking this way about the effects of credit to a group of home builders last year and I found that--perhaps there is none so blind as those who won't see--they couldn't understand why we needed material controls. They could understand having controls when materials were scarce, but to keep them from building more than a certain number of homes here because it would be unstabilizing just didn't make sense to them. That is hard.

You find that most people who are not economists can't understand why those things you don't pay cash for unstabilize the economy. That is why regulations X and W of the Federal Reserve Board which limited the amount of time installments could run and insisted on a certain percentage down with installment credit, were very important parts of our inflation control. But, they are very little understood and it is often difficult to get the power through Congress to put on those indirect controls.

There is another example of indirect controls that can be very important, and these are questions of helping the production of what you do want. Agricultural policies can be very important in making sure of an ample food supply, and an ample food supply is the best way of all to keep the price of foods down. It is much better than rationing and direct controls if you can do it. It is one of the indirect ones that works on the voluntary method. But we may often think of support to farmers and parity support as a nice handout to one group of people. I am not a farmer and don't come from an agricultural area, but actually agricultural policies have increased the production of agricultural products.

An ordinary man works less hours to get the wherewithal to buy bread, eggs, meat, and almost all other food than he did 15 years ago. The price of agricultural commodities is up, but the price of wages is up still more. In other words the supply of foodstuffs is greater in proportion to the purchasing power of the dollar now than it was 15 years ago, and I think some of the credit for that should go to these agricultural policies that we can very easily d--- if we are not careful.

I came down here two years ago knowing nothing about agriculture and thinking that all of these support prices were a very bad thing. I got to studying it more down here and found that abundant production was a good cure for unstabilization, and I think that is another kind of control we can think of that must be such as to stimulate the production of those things we need produced. In wartime we want to discourage production of the things we don't need and encourage production of the things we do need, and agricultural products are certainly among the things we need.

Getting back to the psychological factors, there you must be dramatic; you must act at once to stop the fear that is pumping air into the inflation balloon. You have to stop the pump somehow or other. You don't stop it by raising bank rates. That doesn't prevent your wife and mine from buying an extra five pounds of sugar or extra canned goods. The fact that interest rates went up half a point has no effect on it. We buy the things we buy because we are afraid. We are going to do it no matter what is done with interest rates or taxation. It is not only the housewife; it is businessmen as well. You have to assure them that there is going to be fair distribution of the supply and that prices won't go up. That is where direct controls come in and must be put in essentially in the first part of the trouble.

Going along with price controls must often go some form of rationing, and, believe me, rationing is the hardest thing in the world to administer, it seems to me. We want to keep away from rationing if we can but the power should be there so if the scarcity occurs, people will know there is no need to buy now and put it away in the cellar. It is there to serve just in the beginning of trouble to assure people that they will get essentially what they need without an increase in price and they won't have to buy it today.

That means the rapid enactment of controls. It means at least the knowledge that rationing will be there if things get scarce, and it means the enlistment of greater public cooperation. Direct controls won't work if the public doesn't want to make them work. There are not policemen enough to enforce this kind of control. Black markets will always exist, but they will exist openly as in France if the people of the country don't frown on them. If the people of the country frown on them and if the people of the country want to make the controls work, then they will work as they did in England. I think there is a very different psychology in those two countries. The English are extremely law abiding.

Black marketing was not a serious problem during the war because everybody wanted to make controls work. They wanted to get in and do their part to win the war. There was a feeling of sacrifice that is an essential part of direct controls. That is why it was so difficult after Korea because the public didn't have that feeling of willingness to sacrifice. I found everybody gave lip service to stabilization. Everybody thought stabilization was a wonderful thing for the other fellow. But in wartime, I think that is not true. I think there is a great deal of willingness to sacrifice. Businessmen are just like everyone else. If they see profits coming, they want to make money, but when real trouble comes, the American public wants to do its part. In that case, direct controls and rationing can work and, I think, did work quite successfully during the war. They were much less successful during the Korean War.

One of the troubles in the Korean War was that they were put on too late. We went into Korea in June and Congress began debate on the matter of controls, and in September passed control legislation. It was quite good legislation. There were a few holes, but it was pretty good legislation. But Congress said, "Don't use these direct controls unless you try voluntary controls first." So there was a time of trying voluntary controls. By that time, the war began to go well again and the Government thought maybe it would be over by Christmas and didn't put the controls in. They were not put in until the end of January, and by that time the people with the hoarding kind of psychology, the people who had marked up their prices were frozen with the high prices marked up and the patriotic people who had obeyed the request for voluntary controls and didn't mark up their prices were frozen with their prices down. That made a difficult situation. It really meant you couldn't put anybody down. You had to bring the others up to where the hoarders had gotten first.

If we had been able to put on direct controls at once, I think we could have taken them off in six months when the fear psychology had stopped and the hoarders found there was no shortage that was very serious. I think they could have been taken off much sooner than they could the way it was done. I think speed is of the utmost importance in combating psychological inflation, which is the worst kind.

The long-run, slow inflationary pressures are economic ones. You can stop them only by a similar slowdown of economic forces, but the sudden burst of marking up prices just because everybody wants to buy, you must stop quickly and promptly, and dramatically, and you must gain public support to do it. That is why you must be dramatic.

Whoever has had the kind of job I had at the beginning--I was all right, I came in after it was going on--would have to have a flare for showmanship. Mike DiSalle was that kind of man. Eric Johnston, my predecessor, also had that kind of dynamic personality. Mike DiSalle was particularly good at price control that way. It takes some showmanship to get the public to feeling "You will be taken care of. Don't rush out and buy food. There are plenty of meat animals on the range. Don't rush out and buy these things right now. Don't let the hoarders mark up their prices."

If you sell it to them so they believe it, you have half the problems of immediate inflation licked. If you turn on the screws on economic pressures, you keep the long-run economic forces from running away, too.

Along with price control and perhaps rationing comes another very essential control and one that is the most difficult of all probably--that is wage control. Wage control has to go along with price control, but there is some of the same psychology. In wartime labor unions and

labor leaders are just as anxious to be patriotic as anybody else. They are sometimes misrepresented in the papers. They have their own people to look out for. They know you can't mark up wages and they won't if they know that prices of things won't go up. There is not the pressure to have wages go up, but wage control has to be more flexible than price control because, after all, people are people, and the American people are the American people. They are not ones to go into a straitjacket.

All of us resent controls. That is one of the things that makes us great. We don't like to be put into a straitjacket. You do want people working in the industries where you need them and out of the industries where you don't need them. We don't want to do it if we possibly can help it by ordering them to do it. Workers do a great deal more if they aren't ordered to do it. If they are ordered to dig coal, they don't dig coal very well. But if the wages are such that they want to go there rather than to stay in a button factory, they will do pretty well at digging coal. We as Americans respond to incentives and don't respond very much to compulsion. Therefore, I think there must be enough flexibility in wage controls to attract and make it worth while for labor to go to the places we want them to go.

I think there should be the possibility of compulsion if necessary. I think if you know the fellow always has a gun in his pocket, you are much more apt to do the things voluntary because you know if you rebel long enough he can make you do it. So I think the possibility of allocating people is a good thing to have ready but a poor thing to have to use. That is why wage controls must have this element of flexibility in them.

It is hard to understand only when you are off in uniform fighting that you feel, Who are these boys who are taking it easy in airplane factories or somewhere else? Why do they get a chance to get their wages raised and I don't get my wages raised? Just remember this is also true: There are cases where it is just as difficult for them as it is for you in the armed forces; that maybe they have left their families somewhere and have gone to California to produce airplanes. They didn't want to go. They may be living in one room in a boarding house, sleeping in what they used to call hot beds where the landlord rented the bed to three people because they worked on three different shifts. Their families are in another city. They are eating here, there, and elsewhere. The Army gets the best food in the world; in the Navy you keep dry.

There are many advantages in the armed forces. I was in during both wars. You know pretty well that your family is being taken care of with the allotments and what not. The civilian worker doesn't have all the gravy. I will put in a word for him. It is not all perfect for him either. I speak for him if he acts reasonably and if he acts unreasonably, put yourself in his shoes. He sometimes acts unreasonably, too, but he is often reasonable when he doesn't get credit for it.

With wage control and equally important economically and psychologically is salary control, which is quite different from wage control. We separated salary from wages during the war. Salary control is a relatively unimportant matter economically because there is not enough money total that goes into the salaries to affect the broad economic picture. On the other hand people aren't going to stand for having their wages controlled when the boss can get all he wants. Actually, with the very steeply graduated income taxes, you don't need salary control economically because Uncle Sam will get it one way or another anyhow, but psychologically you need it to have the spirit of fair play, to have people feel that everybody is treated alike.

So you do need salary control, but salary control has to have a certain type of flexibility. You don't worry too much about what a baseball player may get or what a movie star may get if they are able to give a good entertainment. You get into things that do not affect economics but do affect people's thinking about how fair you are.

Another type of control that is probably easier to administer is rent control. That goes right along as part of price control in a sense but is administered, and should be administered, by different people because there is a different problem that goes with it. Rent control was particularly well set up with advisory committees in every locality, people who were representing the landlords, the tenants, and the public. I think that was one reason it worked so well. I think that we could have done more in the way of such committees in other forms of direct controls to get public acceptance, and if we should ever have to go into rationing again, I am sure that local committees are the only way to do it. People just don't submit to rationing by somebody up above who comes down with a "verboden" sign--at least the American people don't. If they don't like a thing, it doesn't work very well. We didn't like prohibition; I don't think it worked very well.

That leads me to the last part of this talk: How do you get these things done and how do you make them work? The first thing is to get authority to do it. Strangely enough, in the Korean War at least, the most difficult authorities to get were authorities of indirect control. The Federal Reserve likes to control credit. Congress got mad because of that. Indirect controls are hard to understand. If you don't understand, you as a legislator are less apt to put them into effect. You hear squawks from a home builder who can't build a home and you don't hear the squawks of somebody whose prices might go up because you don't see that happening, and it is a slow process.

However, I think indirect controls are much easier to handle and get into effect. They have an impact on relatively few people. You have to work through bankers with credit control, that is not directly with the people. But on the whole it doesn't hit people in their pocketbooks in the same way as wage and price controls hit them and I think they are easier to make work.

On the other hand direct controls, once the emergency is there, have always seemed fairly easy to get enacted. The trouble is, it does take time. Our legislative process is slow. I think it is good that it is, but I think it doesn't work out so well in wartime.

I wish we had a standby law on the books. Senator Capehart, Chairman of the Senate Banking Committee, agrees, I know, that we should have one, but the House of Representatives was adamant against any controls at this time. I think as long as the Russian boys, Malenkov and others, are walking around with a box of matches and we are living in a room full of shavings, that we ought to have a fire extinguisher on the wall. There is no question that the shavings are all around the world and people are very careless and we haven't all the fire extinguishers we need. I would feel much happier if we had a control law on the books and a skeleton of an organization, a very small skeleton of an organization, keeping in touch with economic conditions and old regulations that worked before and keep in shape so if something happened, literally controls could be put on almost at once.

I would like to have seen a tight freeze of the economy the day after we went into Korea. A tight freeze on an economy that is already relatively stable you can hold for two or three months without trouble. The difficulty when it is unstable and moving fast is that some fellows are up and some are down. But before Korea the economy was stable and you could freeze it for a few months, and in that time you could study the situation and begin to give flexibility where needed and prevent the sudden upsurge of prices that occurred right after Korea.

It was not just the housewife running out to buy sugar and canned tomatoes; it was the businessmen just as much because raw material went up just as much, in fact a good deal more than food prices. It was the businessman who wanted to be sure he had enough materials for his factory who was a much worse person than the housewife buying sugar.

I think the trouble with my son buying those tires was that he was in business--not the tire business; he is in the same business I am in--and he saw the possibility of scarce commodities and he said to himself, "Tires are another; I'd better get tires for dad, too, while I am about it." So it is the businessman that needs to be frozen just as much as the housewife does.

All these controls need a lot of explaining to the public. They need cooperation. They need showmanship. But I think once people are prepared to sacrifice, they will be the ones that will make controls work. It is when they are not prepared to sacrifice that we have the problem.

The essence of controls is speed of application and flexibility in the mental approach. The barest of all skeleton organizations would be worth its cost many times over if someone does drop a match in the shavings. It is my belief that the better prepared we are, the less likely we are to need preparation and economic preparation is part of the total preparation.

QUESTION: Sir, on this particular case and your incentive for labor and legal application of controls, I wonder if you had considered it on the basis of what kind of an incentive we could have for an infantryman other than a National Selective Service Act?

MR. PUTNAM: You are getting a little away from economic inflation. Nobody that I know of wants to be an infantryman, but then they may not want to build airplanes either.

I think we have a National Selective Service Act that works pretty well. I question if you could get a similar one by allocating to your industries; you might. But I think that during World War II and also during the Korean War the kind of production machine we had has worked pretty well. It is certainly better than anybody else's production machine in the world. I think it would not do to have the kind of compulsion that they had in Germany during the war and somewhat in England. They did not produce as fast during the war as our own did.

I am not dealing with what is fair. With the American people who have different characteristics than people anywhere else, I think the present one is better than Selective Service applying to everybody. It is not as fair, but I think given a choice of what has worked, it has worked pretty well.

QUESTION: Mr. Putnam, it is my understanding that Canadian controls were considerably more effective than ours. Can you comment on any differences in the systems that were used?

MR. PUTNAM: I think your premise is wrong. It was said constantly during the earlier part of the Korean War--I don't know much about Canada in World War II--the Canadians put some controls in very fast, but they were not as tight as ours. The result was that the Canadians had the advantage of speed and their controls did not get out of hand as ours did in the first year. In the second year, they climbed much faster than we did. Their cost of living went up faster in the second year of controls. So in the end they were as much out of hand as we were, in fact I think a little more so.

I am not convinced that the Canadian controls did work as well as ours did. When we were trying to get Congress to act, we were able to argue that their control was better because it worked quicker, for that much it was better, but it was not as tight and it got out of hand in the end.

QUESTION: I agree with everything that you said in regard to an acute emergency. I think it is fine but I think at the moment we are caught in a dilemma because now we are on a high plateau of production and a high plateau of saving, and, although many of us are investing in bonds and we now have the indirect controls, gradually and imperceptibly there is a building up behind these indirect controls a tremendous buying power. I feel that eventually something will have to be done about that. I don't think we will get by with the indirect controls later on. We will have to put on direct controls and we don't have an acute emergency. What I am trying to say is that we have a clinical situation with us now where we have a 10 or 15 percent gross national product.

MR. PUTNAM: I don't think we are in any condition now where we ought to have direct controls. I think what you say would be very heartening to a great many people who think some sort--we don't call it depression any more--of recession, adjustment, some high-sounding word is just around the corner. They would be very heartened by what you say about this reserve purchasing power. I think the economic forces in times like this tend to balance themselves pretty well. The law of supply and demand is a pretty good law. It acts often by fear rather than by actual fact, but over a long period of time it takes care of itself. But in these times we are in a pretty stable economy and, while there is reserve purchasing power built up, there is no shortage of goods. People can buy now if they think the price is right for them. I don't think we are heading for any direct controls such as I was talking about. I don't think we should have them unless a national emergency strikes.

QUESTION: You spoke about the desirability of curtailing the amount of spending money that the people had during the war as an aid to curbing inflation. Has consideration ever been given to giving them a portion of their salary, let us say arbitrarily some 30 percent, in Government bonds which would be nonnegotiable and would have some date of expiration 10 years hence, something they could not convert quickly into credit, but would be intriguing for them.

MR. PUTNAM: I think it was seriously discussed during World War II--not during the Korean War. It is another form of compulsory saving. Again, I hate compulsion when it is not necessary. I think that any form of compulsory saving might be a good one. It could be done another way--just make income taxes that much higher but rebate some of them in bonds. It might be legally easier to do it that way and accomplish the same result. If you can get higher interest rates, that may be even better than this way. That is a thought. I am not enough of an economist to know. In general, the American people don't take to compulsion. If they can be persuaded to do it some other way, it generally works better.

QUESTION: It seems like during the last war controls worked pretty well. As soon as the war was over, they took the controls off. You simply delayed the action of inflation to happen later.

MR. PUTNAM: There is certainly some truth to that. I think we took controls off too soon. If they had been kept on another year or thereabouts, we wouldn't have had nearly as serious inflation flights as in the years 1945 to 1950. I think we would have had some anyway. But we were building up inflationary forces such as you spoke of earlier. They were acquiring purchasing power; they were acquiring a lot of needs. They hadn't bought an automobile because they couldn't get one for five years. They were acquiring a good deal of money savings that they wanted to spend. No controls could have stopped them forever, but controls could have been relaxed gradually, which would have helped everybody.

In the Korean War, controls were taken off almost a year ago now but it was all right to take them off even before election--they were all taken off before January or February--because the emergency had ceased to exist. Prices may have begun creeping up but not so much as after World War II. But no controls will completely stop such things.

QUESTION: You have mentioned controls of rent, materials, wages and salaries, but you haven't mentioned anything about control of profits. Do you think that control of the items I have mentioned is adequate to handle the situation?

MR. PUTNAM: I am sorry I didn't mention profits control. I think that goes along with the others. That has always been so pretty thoroughly taken care of that I was probably taking it for granted. Profits control can be handled in three ways: by redetermination of prices if they are dealing with the armed forces; by renegotiation if dealing with the armed forces; and the excess-profits tax if there is anything left over after that.

I am not sure that control of profits is the best thing in the long run. I have always felt that the excess-profits tax tended to make a great amount of waste, but I think you must control them in some way or another, and I think we have developed pretty good techniques. I am sorry I didn't mention it. I didn't mean to slide by that. I think it is just as important to all the other controls, particularly wage control, to have people feel that profits are being controlled somehow or other. Renegotiation is the simplest one and excess-profits taxes take what is left.

QUESTION: Mr. Putnam, historically, after the Civil War we had a decline in some 8 to 10 years in prices--wholesale and retail--to that point at which they were as low and even lower than at the beginning of the war. After the Spanish-American War, and after World War I, in each of these cases we have always had a decline back to parity or lower within 8 to 18 years; in most cases it has gone considerably lower. We have had a great many people tell us time and time again that such will never happen in relation to World War II prices. I

would like to know what are some of the economic stabilization factors that make these people so sure we will never return to pre-World War II price levels?

MR. PUTNAM: I have no memory for figures. I question yours. There is no question that there was a depression in the 1870's; there was a depression in the 1890's. There was a depression in the first decade of the century; a quicky depression in 1921; and a very real one in the 1930's. There is no question about any of those parts of the facts, but I think you were looking at a chart showing the rise in the dollar. I don't think the prices in the 1870's went back below what they were at the end of the Civil War. Certainly at the end of that depression they were much higher than they were prior to the war. I think it is superimposed on a slanting line. There were waves in it to be sure, but I don't think prices went down below that point. Nor do I think they will go down now, because first and foremost, the psychology of this country will never stand for a real depression. What we will do about it may be very foolish. I don't know what we will do, but if we start for a real depression like that of the 1930's, we will have a complete overthrow in the kind of government we are used to. But more than that, we have a lot of safeguards to prevent that kind of thing. We have removed a great deal of fear psychology, which is just as important as economics in many of the things we are talking about.

There is not nearly as much fear of a loss of job among the great mass of people as it was because we have unemployment insurance. We have Social Security and Old Age insurance. So some of the fear is gone. People aren't going to want to lose their jobs but there won't be the dissatisfaction if they do. I think we understand the economic forces of what goes on and how the Government acts in doing public works; also in the way of lowering interest rates. They are starting to do that right now. There is more understanding of economics; more understanding of the part the Government can play in these economic matters. We have removed a good many fear complexes. Nobody is going to make a run on a bank, because deposits are insured. There are a great many safeguards, but more awareness also in Government of a sense of responsibility and some knowledge of the tools to combat depression.

I don't think any of us know too much, but we know something about it, and I think we are going to destroy, by the mere knowledge that we have of those tools and the fact that the people know about them, the real fear that causes depressions--I will keep my car for another year; I fear a little that I won't be as rich next year. I won't buy new shirts; I won't buy a new coat. That is what makes depressions--you and I and everybody else being afraid to buy.

QUESTION: In the field of direct controls, Mr. Putnam, I believe it is generally conceded that price control is ineffective unless wage control goes along with it. Yet it is my understanding that we have

never simultaneously frozen prices and wages. Would you care to comment on why we haven't and whether or not that would make controls more effective?

MR. PUTNAM: I think we did that during the war. We didn't put the controls on soon enough perhaps but there was a pretty tight policy of price and wage controls during the war. The only alteration in the wage structure was toward the end with the Little Steel Formula where they allowed people to catch up with the increased cost of living. In the Korean War there was not a tight wage control because it was tied to the cost of living.

However, labor felt it was just as tight as price control. If the price moved up, wages moved up just as much because it was tied to the cost of living. If you talk to people in price control, they feel prices were controlled and wages were not. If you talk to people in wage control, they feel wages were controlled more tightly than prices were. They point to exemptions in the law. They point to the fact that the cost of living is still going up. My feeling is that everybody thought that controls were tight on them and loose on the other fellow.

I think it was felt that it is a little harder to control wages tightly than to control prices tightly because you are dealing with people. I don't think it is impossible either way if there is a willingness and a spirit of sacrifice in a community, which there would be in an emergency, but there was not after Korea. I don't mean there was not an emergency. I mean people weren't willing to admit there was an emergency.

QUESTION: The excise tax was a pretty useful tool for controlling our spending on luxury items and also as a means of giving the Government some revenue--although I can't understand why an electric light bulb is considered a luxury item. But has consideration been given to using this method of excise taxes for controlling buying power during wartime?

MR. PUTNAM: Very much, I think. I never was much on the tax end of the thing because the Ways and Means Committee of the House is a law unto itself and the economic stabilizer had very little influence on it. But I think economically any taxation is good that syphons off purchasing power. That is the first and foremost one that the stabilizer wants to have. After that, he would like to have taxes to direct purchases in the right place. It is the total that he is more interested in than anything else. The stabilizer doesn't worry much about the price of luxuries; it is the price of necessities that he is interested in.

He would be very happy to have a tax on mink coats and diamond rings because he doesn't care if somebody does get socked if he wants to buy a diamond ring. That is not the thing the stabilizer cares about.

8/11/55
 He would rather have you spend a thousand dollars on a mink coat than spend a thousand dollars and borrow the balance for the purchase of a new home. He does care about total taxes. Am I clear to you on that?

QUESTION: I was thinking that it could be employed for other things than fur coats and diamond rings. I was thinking of washing machines.

MR. PUTNAM: I don't care whether your wife buys a fur coat or anything else with the money. The thing I don't want, however, is to have people employed in making fur coats who should be making airplanes. In that sense I would care, but that is a second step still further removed.

QUESTION: Mr. Putnam, the essence of this package that you handed us is time. Congress has historically refused the authority for timely application prior to the outbreak of war. Those in Congress act only on what their constituents tell them. What are the sources of the pressures back of Congress? Is it the National Association of Manufacturers? Is it labor? Or who is it? Can you identify it?

MR. PUTNAM: I would say it is everybody. I don't think I want to identify it. I think it is everybody because everybody hates controls that hit them and any controls hit almost everybody somewhere. There is no question that the National Association of Manufacturers has always felt that price control was undesirable, that profits out to be unlimited. There is no question that organized labor thinks wage control is pretty poor. The housewife doesn't like rationing, and she doesn't like having her husband's wages controlled either. Everybody hates controls.

I think it is impossible to get public opinion back of getting controls in ahead of time. I think there may be no great objection either to enactment in peacetime of standby controls. Somebody asked this during intermission. I said it is the things that are imminent that we are worried about. We don't mind preparing for something we don't think is going to happen. I was glad to accept the invitation to speak here last August because November seemed so far away. If I were asked to do it two weeks from now, I would say I couldn't do it.

I think Congress has often enacted laws that people didn't object to because they thought the laws were for the good of the country. I think Congress, if stimulated through the Armed Services Committee or the Banking Committee, would promote the idea that this was a very good thing, there would be few objections. But if Congress waits until the emergency when there is a host of objections, it is hard to write as good a law as could be written in times like the present. It is hard to get public support for such law even in times like this.

QUESTION: We hear a great deal about tying wages to the cost of living. To the uneducated like myself, if we up wages when the cost of living goes up, all we are doing is asking for additional cost of living and wages going up.

MR. PUTNAM: You are getting me lost in the clouds of economics that I know I don't know much about. Theoretically, you can certainly point to the fact that there could be a spiral. As a matter of fact, wages have always been tied to the cost of living even in Elizabethan times. Wages have always steadily gone ahead of the cost of living. I wouldn't dispute whether it was 2 or 3 percent a year. I don't mean there haven't been fluctuations, but average wages have steadily gone ahead because productive capacity and productivity have gone up by that much. But I don't think in wartime or any other time that we want to try to make people, if we can help it, any worse off. We want to keep them from making extra profit out of the emergency. No one should get undue advantage out of war, but they shouldn't necessarily go back. That is the philosophy of tying wages to the cost of living. It keeps the thing in the status it would be in if there hadn't been any trouble. Wages have kept pace; in fact, they have gone ahead. I am not giving you a good answer, but I don't have a good answer.

DR. KRESS: I think we have exhausted our time. On behalf of General Hovey, the faculty, and the students, I thank you very much for a frank, interesting, and stimulating discussion. Thank you very much, sir.

(5 Feb 1954--250)S/gw