

(For release 1:00 p.m.,
Central Standard Time,
November 12, 1959)

Remarks of J. L. Robertson

Member of the Board of Governors
of the
Federal Reserve System

in connection with

A Meeting of the Board of Directors of the
Nashville Branch of the Federal Reserve
Bank of Atlanta

at the

University of Tennessee, Knoxville, Tennessee

November 12, 1959

"Must We Debase the Dollar?"

This visit to Knoxville is, in a sense, a pilgrimage. It enables me to pay humble tribute to a man with whom I was privileged to spend many of the finest hours of my youth. I revere him not because of what he did for me - which was much - but because of what he did for America. I refer to that great statesman whose monument stands in the midst of your lovely Tennessee hills, Senator George W. Norris of Nebraska. It is thrilling to me to come here and view not only the great dam, the lake, and the park that commemorate the name of this great American, but to see also the growth and prosperity that are in part the fruit of the labors of Senator Norris in behalf of the Tennessee Valley.

I am also deeply impressed by the warm southern hospitality that you have extended to me. Central banks and central bankers have not always been too popular with Tennesseans. Andrew Jackson once said that he would seek asylum in the wilds of Arabia rather than live in a country with a central banking system. But we have come a long way since those days when the bankers of Tennessee would probably have preferred to break bread with Old Nick himself than with a central banker. If Old Hickory were alive today, he would have a hard time finding a refuge anywhere in the world free from the influence of central banking.

But I think that Jackson, too, would take a different view of things today. I would at least hope so, for I would be deeply worried if a man of his great talent and influence were to ally himself with some of the present-day critics of the Federal Reserve System and its objectives. However, this would be most unlikely, for Andrew Jackson would unquestionably be horrified by the economic doctrines of some of those who find fault with the monetary and fiscal policies that we are now pursuing. Jackson's policies during his second administration resulted in inflation, and ultimately in a resounding economic crash, but this was the unwitting result of his determination to smash the Bank of the United States. Jackson was no inflationist. Indeed, he disliked all paper money and was a hard money man in the most literal sense of the word.

Some modern critics of our monetary policy would themselves no doubt feel very uncomfortable around a man

who never ran a deficit in his two terms as President and who virtually succeeded in paying off the public debt. These critics would have us believe that the proper role of monetary and fiscal policy is to make money and credit cheaper and more abundant. Their argument is that physical production is the prime objective of economic policy and that the United States is falling short of producing the maximum possible. They point to the fact that despite the strong upward trend in production since the spring of 1958, over 5 per cent of the labor force is still unemployed and idle plant capacity still exists, apart from that idled by the steel strike. They say that we could and should use monetary and fiscal policy to secure much fuller utilization of our plant and labor. It is argued that all that is needed to achieve this objective is more money, which the Federal Reserve has the power to create aplenty.

The fact that we still have a substantial amount of unemployment is serious. We have a solemn obligation to do our best to see that our economic system benefits all of us not just those who are fortunate enough to be employed. At the same time, we must resist the temptation to oversimplify the problem and to expect a magic and painless solution to it. To counsel caution in the face of human suffering is to risk being denounced as subordinating human values to economic shibboleths. It is said that people cannot eat the cost-of-living index, or wear the price level, or go riding in a stable dollar. Such arguments have a strong emotional appeal. We Americans are naturally tenderhearted and we have always placed a high value on human rights and happiness.

If economic policies are available that will give the average American family two cars instead of one, a better house, better diet and clothing, better educational opportunities and recreational facilities, who could oppose those policies simply because that prosperous family would count its annual income in tens of thousands of dollars rather than in thousands? Would not it be better for a modest home here, or in my home town - Broken Bow, Nebraska - to be priced at \$150 thousand when the average family can afford that \$150 thousand house, than to hold the price of such a house at \$15 thousand by measures that make it difficult, if not

impossible, for millions of Americans to buy a house at that figure? "What price monetary stability", they ask, "in the face of these economic realities?"

Put in those terms it may seem to some that there is only one possible answer, particularly because we are all concerned about the undeniable evils of unemployment - its bad effects, material and emotional, on the unemployed worker and his family. As a result, one feels that he must be a latter-day Scrooge when a sixth sense urges him to resist the doctrine that any measures are justified in an effort to reach full employment of our labor force.

But if we can resist being swept off our feet, and if we can give just a few minutes of sober thought to realities, the sound basis for our sixth-sense reaction appears. When somebody - and he is not necessarily a demagogue - asks us to choose between a stable dollar and human happiness, he is simply presenting a very misleading option. We are not faced with a choice between monetary stability (bought with human misery) and human happiness (at the insignificant cost of a little inflation). Those who say we must choose between full employment and full production on the one hand, and a sterile maintenance of a stable dollar on the other, are offering us an unreal choice - not a real one.

I agree that a policy of unrestrained monetary ease might have the immediate (although temporary) effect of stimulating production and employment. Such effects have been observed in the past both in this country and abroad. But what is the cost?

The first cost is well known - the immediate injustice and misery that inflation causes. Temporary unemployment is hard on its victims, but if one is to be truly and effectively tenderhearted he must not forget that the victims of inflation can be even more numerous and also can be subjected to real suffering.

Thanks to the great progress in medical science and to the greater prosperity of our country, our people are living longer than ever before. The ranks of men and women

who are dependent on retirement income are growing rapidly. At the present time over ten million retired workers are receiving either social security benefits, old-age assistance, or public or private pensions. The incomes of these people, as well as the earnings of many employed people, do not adjust readily to increases in the cost-of-living index.

These citizens, who have performed valuable services for society in the past and whose welfare depends on the maintenance of a sound dollar, deserve no less consideration than the smaller number who may suffer temporary unemployment.

The second cost is not as well known in this country, at least to the younger generation. It is the cost of the aftermath of the unsustainable inflationary boom. Inflation is like a dream - it may be very pleasant for some - but it must come to an end. The end is likely to be very painful. Why cannot this pleasant state of inflationary euphoria last indefinitely? The answer is easy enough to find in the post-war experiences of a number of countries that tried the experiment. We are now beginning to get a glimpse of it in the United States.

Inflation not only raises incomes, it raises costs. If every country in the world inflated as rapidly as we, this would perhaps make no great difference, except to that part of our population that did not enjoy a corresponding rise in income. This is about what happened during the early postwar years. Inflation here did not have disastrous effects on the economy then, largely because other countries were inflating as much or more.

But this is not the situation today. Western Europe, at least, has largely stabilized, and we know from the actions of the major European countries during the past few years that they do not intend to surrender to inflationist pressures. These countries are our friendly competitors here in our own market, and in world markets. If our costs of production go up and theirs do not, we will lose business to them. It is true that our merchandise exports

represent less than 4 per cent of our gross national product, but exports are of very real importance to many American industries. Import competition is no less important; witness the mounting pressures for protection through tariffs and quotas in many industries. The inroads that have been made by foreign competition should be a matter of vital concern both to American businessmen and to the workers employed in American factories.

The large deficit in our balance of international payments in 1958, and its continuation so far this year, indicates that we have lost business to our foreign competitors - both abroad and at home. The much publicized drain on our gold stock is a reflection of our balance-of-payments deficit. We cannot sustain such a drain indefinitely, and this constitutes a very real limit on the degree to which we can inflate our costs and prices. Unfortunately, this fact does not yet seem to have seeped into the thinking of the proponents of easy money and "controlled" inflation.

Theoretically it would be possible to follow inflationary policies on a controlled basis, but it could only be done if the American people were willing to pay the price of putting up with governmental economic controls sufficiently rigorous to do the job.

The enforcement of such controls would have to go further than was the case with the price and wage controls we knew during the war. The government would have to tell us not only how much we might pay for a product or how much we could earn, but also how we could spend our money. In addition, we would likely find ourselves shackled with controls over foreign exchange like those that Western Europe, happily, is now abandoning. We would find more and more pressure to erect barriers against imports to protect our industries against foreign competition. We might be obliged to pay higher taxes to provide subsidies to enable them to export.

In this situation, the dollar would cease to be the world's soundest and most sought-after currency. Our prestige

would be impaired, and with it our ability to play our role as leader of the free world.

To make matters worse, the crippling controls and the loss of the benefits that we gain through foreign trade would injure us economically. We might have full employment, but we would be burdened with distortions in our economy and inefficient and high-cost production that would hinder rather than facilitate our long-run sustainable economic growth.

What I am saying, in other words, is that, over the long term, the very objective at which proponents of permanent monetary ease direct their efforts, with such single-minded intensity, will be more fully achieved by the stick-in-the-mud "stable dollar" policy of which I am an advocate. Viewed from the standpoint of even as little as a decade, it is my firm belief that the aggregate production and consumption of goods and services in our country will be greater if we maintain monetary stability and thereby encourage sustainable economic growth, than if we embark on a "snowball" policy of boom and inflation. The latter would surely lead to a crash at the bottom of the hill. We cannot risk such an economic catastrophe. It would not only bring great misery to the American people but would besmirch the high reputation of this country and jeopardize the free economic and political system that we champion throughout the world. If Andrew Jackson were with us today, I am sure that he would warmly endorse this warning, even if it did come from the lips of a central banker. Jackson saw it all happen, and the panic of 1837 was one of the bitterest experiences in American economic history.

I think that today Jackson would stand with the Federal Reserve System in resisting the siren song (with its myriad variations) based on the deceptively simple theme that the only worthwhile economic objective is maximum production; that this objective can be reached only by the road of permanently easy money; and that "a little inflation" (even with its cruel injustice to the fixed-income segments of our population) is a small price to pay for

this. I hope that today the great majority of Tennesseans are aware of the false notes in that song. The simple truth is that the goal we are all seeking, lasting prosperity and economic justice for all Americans, will not be achieved through policies of boom nurtured by inflation. The goal can only be achieved if the production and consumption of goods and services in this country are encouraged to grow at a rapid but steady pace which can be sustained. One of the primary prerequisites for sustainable economic growth is monetary stability - a sound currency.

The words penned by another great American, Jefferson's Secretary of the Treasury Albert Gallatin, shortly before the crash of 1837, are worth recalling today. He said, "The energy of this nation is not to be controlled; it is at present exclusively applied to the acquisition of wealth and to improvements of stupendous magnitude. Whatever has that tendency, and, of course, an immoderate expansion of credit, receives favor. The apparent prosperity and the progress of cultivation, population, commerce, and improvement are beyond expectation. But it seems to me as if general demoralization was the consequence; I doubt whether general happiness is increased; and I would have preferred a gradual, slower, and more secure progress."

The links of this historic city and state with our great past inspire one to look back and ponder the lessons of the past. We all know, but we sometimes forget the truth of the adage that those who do not study history are doomed to repeat its errors. We have had a century and a quarter of experience with boom and bust since Gallatin expressed his doubts about the wisdom of that course. How inexcusable it would be were we less wise than he!