

INFLATION

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People may choose different words to define inflation, but basically the thing we all have in mind is a decline in the value of our money. This is, of course, the same thing as a general increase in prices. Most of us can recall periods in our lifetime when prices increased quite rapidly in the United States and when they have skyrocketed in other countries.

Rapid or runaway inflation has generally been associated with major wars. During World War I, prices in the United States doubled, or conversely, the purchasing power of money was cut in half. As many readers will remember, the German mark became worthless after the war and the French franc declined to a small fraction of its prewar value. From the beginning of World War II to mid-1948, prices in this country increased about three-fourths. They moved up again rapidly, but for a comparatively brief period, when fighting broke out in Korea in 1950. The thing that concerns us all is that for almost 10 years the trend of prices has been generally upward even though we have not been engaged in any major conflict. This recent experience has led some people to the erroneous conclusion that inflation is inevitable, even in peacetime.

Fundamentally, the maintenance of a sound dollar depends on our ability to live within our means, as a nation. This does not mean that each individual, each company or even the Government itself must always have a balanced budget. It means that some

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people in the community must be saving as much as others are borrowing. Young families and growing new business enterprises, for example, will typically spend more than their current income, while other groups will spend less and add to their savings. Such saving and borrowing is a part of the process by which a free enterprise economy grows and increases its capacity to produce the goods and services that go to make up a higher standard of living.

If we add money created by bank credit expansion to the stream of real savings, this produces inflationary pressures. In a depression these pressures may be offset by other forces of a deflationary character and the net effect may be to ease the severity of the decline. But in prosperous times bank credit expansion adds to total spending without causing a comparable increase in output and the inevitable result is increased prices and a decline in the value of our dollars.

Perhaps a special word needs to be said on Government spending and particularly spending by the Federal Government. In terms of its inflationary impact, Government spending is not essentially different from any other spending. The main reason that it gives us so much concern is that the amounts involved are so large. The Federal budget runs in the neighborhood of \$80 billion and in the fiscal year 1959 we had a deficit of over \$12 billion. Even in a country as large and as rich as ours, if the Government is a substantial borrower, at the same time that demands for funds are strong from both consumers and businesses, it adds considerably

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to the pressures which push up the rate of interest for all borrowers and make it difficult to prevent the over-rapid expansion of money and credit. For this reason it is important that in prosperous times the Federal Government operate with a balanced budget, and preferably some surplus. It does not follow from this that we should not carry forward any particular program or programs, whether they are directed toward social welfare or some other worthwhile objective. We simply must not indulge in self-deception as to the cost involved and we must be prepared to finance all of our expenditures in a sound way.

Few people would contend that inflation is a good thing. The injustices to savers and those who have comparatively fixed incomes are too obvious. Some argue, however, that a little inflation is not so bad and that it may, in fact, help us grow and speed up the accomplishment of social goals that they regard as desirable. The important fact that these people overlook is that our growth as a nation and, in fact, our progress in the very areas they often have in mind, such as housing, schools, and libraries, depends basically on saving.

Anything to do which checks or tends to depreciating the value of the money they have saved is not only unfair to them but will cause people to be less willing to save in the future. In this way inflation operates to reduce the amount of money that is available to build all the things that add to the productivity of our economy and our standard of living.

The fact that we have exercised some restraint during the past year, in our expenditure programs and in our monetary policy, enhances the chances that 1960 will be a year in which neither the fact nor the expectation of inflation will be a major national problem. Certainly no one could hope for such a development more sincerely than the Board of Governors of the Federal Reserve System. But while we can all be hopeful we must also be realistic, for this is not an abstract issue but a real, practical problem. To ignore the potential threat of inflation in 1960 would be as foolhardy as to pretend that Soviet Russia did not exist.

Any presumed benefits that flow from inflation are based on self-deception. We will certainly grow fester and stronger if we do not pretend that we can enrich ourselves depreciating our currency. Stable prices and a sound currency that both we and the rest of the world can rely upon is the only goal that is morally and economically defensible. To strive for anything less would be to admit that we do not have the courage as a nation to face our financial problems honestly and deal with them realistically.

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